

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended June 30, 1999

OR

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

For the transition period from _____ to _____

Commission file number 1-7677

LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter

DELAWARE

73-1015226

State or other jurisdiction of
incorporation or organization

I.R.S. Employer
Identification No.

16 South Pennsylvania, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES x NO

The number of shares outstanding of the Registrant's voting Common Stock, as of August 6, 1999 was 11,818,759 shares excluding 3,289,957 shares held as treasury stock.

PART I

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc. at June 30, 1999, the condensed consolidated statements of operations and cash flows for the six month and three month periods ended June 30, 1999 and 1998 have been subjected to a review, in accordance with standards established by the American Institute of Certified Public Accountants, by Ernst & Young LLP, independent auditors, whose report with respect thereto appears elsewhere in this Form 10-Q. The financial statements mentioned above are unaudited and reflect all adjustments, consisting only of adjustments of a normal recurring nature, except for the loss

provision recognized in the second quarter on firm raw material purchase commitments and a lower of cost or market adjustment as discussed in Note 10 to the Condensed Consolidated Financial Statements, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of operations for the six months ended June 30, 1999, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1998, was derived from audited financial statements as of that date. Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, for an expanded discussion of the Company's financial disclosures and accounting policies.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at June 30, 1999 is unaudited)
(dollars in thousands)

ASSETS	June 30, 1999	December 31, 1998
Current assets:		
Cash and cash equivalents	\$ 3,039	\$ 1,555
Trade accounts receivable, net	58,143	52,730
Inventories:		
Finished goods	27,708	34,236
Work in process	7,930	7,178
Raw materials	21,469	22,431
Total inventory	57,107	63,845
Supplies and prepaid items	10,626	7,809
Long-lived assets to be disposed of net (Note 9)	4,694	-
Total current assets	133,609	125,939
Property, plant and equipment, net	94,573	99,228
Other assets, net	22,523	23,480
	\$ 250,705	\$ 248,647

(continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at June 30, 1999 is unaudited)
(dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1999	December 31, 1998
Current liabilities:		
Drafts payable	\$ 296	\$ 758
Accounts payable	25,307	24,043
Accrued loss on firm purchase commitments (Note 10)	7,500	-
Accrued liabilities	16,881	19,006
Current portion of long-term debt	26,020	13,954
Total current liabilities	76,004	57,761
Long-term debt (Note 6)	155,738	155,688
Commitments and Contingencies (Note 5)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,463 shares issued and outstanding	139	139
Stockholders' equity (Notes 3 and 7):		
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, 15,108,676 shares issued	1,511	1,511
Capital in excess of par value	39,286	38,329
Accumulated other comprehensive loss	-	(1,559)
Accumulated deficit	(53,687)	(35,166)
	35,110	51,115
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 3,289,957 shares (3,202,690 in 1998)	16,086	15,856
Total stockholders' equity	18,824	35,059
	\$ 250,705	\$ 248,647

(see accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Six Months Ended June 30, 1999 and 1998
(Amounts in thousands, except per share amounts)

	1999	1998
Businesses continuing at June 30,:		
Revenues:		
Net sales	\$ 149,578	\$ 157,261
Other income (expenses)	(147)	1,361
	149,431	158,622
Costs and expenses:		
Cost of sales (Note 10)	117,385	121,124
Selling, general and administrative	28,859	29,698
Provision for losses on firm purchase		
commitments (Note 10)	7,500	-
Interest	8,834	8,602
	162,578	159,424
Loss before businesses disposed		
of or to be disposed of	(13,147)	(802)
Businesses disposed of or to be disposed of		
(Note 9):		
Revenues	6,374	8,172
Operating costs, expenses and interest	8,105	9,404
	(1,731)	(1,232)
Gain (loss) on disposal of business	(1,971)	12,993
	(3,702)	11,761
Income (loss) before provision for		
income taxes	(16,849)	10,959
Provision for income taxes	50	260
Net income (loss)	\$ (16,899)	\$ 10,699
	=====	=====
Net income (loss) applicable to		
common stock (Note 2)	\$ (18,521)	\$ 9,077
	=====	=====
Weighted average common shares		
outstanding (Note 2):		
Basic	11,856,472	12,661,182
Diluted	11,856,472	17,456,828
Income (loss) per common share (Note 2):		
Basic	\$ (1.56)	\$.72
	=====	=====
Diluted	\$ (1.56)	\$.61
	=====	=====

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended June 30, 1999 and 1998
(Amounts in thousands, except per share amounts.)

	1999	1998
Businesses continuing at June 30:		
Revenues:		
Net sales	\$ 79,389	\$ 83,972
Other income	62	259
	79,451	84,231
Costs and expenses:		
Cost of sales (Note 10)	63,310	63,585
Selling, general and administrative	14,531	14,697
Interest	4,467	3,879
Provision for losses on firm purchase commitments (Note 10)	7,500	-
	89,808	82,161
Income (loss) before business disposed or to be disposed of	(10,357)	2,070
Business disposed of or to be disposed of during 1999 (Note 9):		
Revenues	3,506	3,415
Operating costs, expenses and interest	4,267	4,084
	(761)	(669)
Loss on disposal of business	(1,971)	-
	(2,732)	(669)
Income (loss) before credit for income taxes	(13,089)	1,401
Credit for income taxes	-	(20)
Net income (loss)	\$ (13,089)	\$ 1,421
Net income (loss) applicable to common stock (Note 2)	\$ (13,895)	\$ 618
Weighted average common shares outstanding (Note 2):		
Basic	11,835,020	12,576,185
Diluted	11,835,020	12,711,735
Income (loss) per common share (Note 2):		
Basic	\$ (1.17)	\$.05
Diluted	\$ (1.17)	\$.05

(see accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
Six Months ended June 30, 1999 and 1998
(dollars in thousands)

	1999	1998
Cash flows from operations:		
Net income (loss)	\$ (16,899)	\$ 10,699
Adjustments to reconcile net income (loss) to cash flows provided(used) by operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	5,717	6,021
Other	636	677
Provision for possible losses on receivables and other assets	712	1,071
Inventory write-down and provision for losses on firm purchase commitments	9,100	-
Loss on sale of assets	23	-
Loss (gain) on businesses disposed of or to be disposed of	1,971	(12,993)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(5,669)	(4,359)
Inventories	5,429	3,786
Supplies and prepaid items	(2,807)	(1,580)
Accounts payable	1,044	(2,598)
Accrued liabilities	(87)	544
Net cash provided (used) by operations	(830)	1,268
Cash flows from investing activities:		
Capital expenditures	(4,195)	(3,837)
Principal payments on loans receivable	480	40
Proceeds from sales of equipment and real estate properties	3	63
Proceeds from sale of the Tower	-	29,266
Increase in other assets	(157)	(1,269)
Net cash provided (used) by investing activities	(3,869)	24,263
Cash flows from financing activities:		
Payments on long-term and other debt	(4,341)	(18,581)
Borrowings on term notes	2,555	-
Net change in revolving debt facilities	10,284	(3,290)
Net change in drafts payable	(463)	226
Dividends paid (Note 3):		
Preferred Stocks	(1,622)	(1,622)
Common Stocks	-	(125)
Purchases of treasury stock (Note 3)	(230)	(1,642)
Net proceeds from issuance of common stock	-	71
Net cash provided (used) by financing activities	6,183	(24,963)
Net increase in cash and cash equivalents from all activities	1,484	568
Cash and cash equivalents at beginning of period	1,555	4,934
Cash and cash equivalents at end of period	\$ 3,039	\$ 5,502

(see accompanying notes)

LSB INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

Note 1: Income Taxes At December 31, 1998, the Company had regular-tax net operating loss ("NOL") carryforwards for tax purposes of approximately \$63.8 million (approximately \$31.4 million alternative minimum tax NOLs). Certain amounts of regular-tax NOL expire beginning in 1999.

The Company's provision for income taxes for the six months ended June 30, 1999 of \$50,000 is for current state income taxes and federal alternative minimum tax.

Note 2: Earnings Per Share Net income or loss applicable to common stock is computed by adjusting net income or loss by the amount of preferred stock dividends. Basic income or loss per common share is based upon the weighted average number of common shares outstanding during each period after giving appropriate effect to preferred stock dividends. Diluted income or loss per share is based on the weighted average number of common shares and dilutive common equivalent shares outstanding and the assumed conversion of dilutive convertible securities outstanding, if any, after appropriate adjustment for interest, net of related income tax effects on convertible notes payable, as applicable. The Company has stock options, convertible preferred stock, and a convertible note payable, which are potentially dilutive. All of these potentially dilutive securities were antidilutive for the first six months of 1999 and have thus, been excluded from the computation of diluted loss per share for the six month and three month periods then ended.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

Note 2: Earnings Per Share (continued) The following table sets forth the computation of basic and diluted earnings per share:

(dollars in thousands, except per share amounts)

	Six Months		Three Months	
	1999	1998	1999	1998
Numerator:				
Numerator for 1998 diluted earnings per share - net income (loss)	\$ (16,899)	\$ 10,699	\$(13,089)	\$ 1,421
Preferred stock dividends (803)	(1,622)	(1,622)	(806)	
<hr/>				
Numerator for 1999 and 1998 basic and 1999 diluted earnings per share - income (loss) available to common stockholders	(18,521)	9,077	(13,895)	618
<hr/>				
Preferred stock dividends on preferred stock assumed to be converted	-	1,622	-	-
<hr/>				
Numerator for 1998 diluted earnings per share	\$ (18,521)	\$ 10,699	\$ (13,895)	\$ 618
<hr/>				
Denominator:				
Denominator for basic earnings per share - weighted-average shares	11,856,472	12,661,182	11,835,020	12,576,185
Effect of dilutive securities:				
Employee stock options	-	128,290	-	131,550
Convertible preferred stock	-	4,662,726	-	-
Convertible note payable	-	4,000	-	4,000
<hr/>				
Dilutive potential common shares	-	4,795,646		135,550
<hr/>				
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	11,856,472	17,456,828	11,835,020	12,711,735
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Basic earnings (loss) per share	\$ (1.56)	\$.72	\$ (1.17)	\$.05
<hr/>				
Diluted earnings (loss) per share	\$ (1.56)	\$.61	\$ (1.17)	\$.05
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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months ended June 30, 1999 and 1998

Note 3: Stockholders' Equity. The table below provides detail of activity in the stockholders' equity accounts for the six months ended June 30, 1999:

	Common Stock	Non-redeemable Preferred Stock	Capital in excess of par Value	Accumulated Other Comprehensive Loss
	Shares	Par Value		
	(In thousands)			
Balance at December 31, 1998	15,109	\$ 1,511	\$ 48,000	\$ 38,329
Net loss				\$(1,559)
Foreign currency translation adjustment				1,559
Total comprehensive income (Note 8)				
Expiration of employee stock option and related accrued compensation			957	
Dividends declared:				
Series B 12% preferred stock (\$6.00 per share)				
Series 2 preferred stock (\$1.625 per share)				
Redeemable preferred stock (\$10.00 per share)				
Purchase of treasury stock				
	(1)			
Balance at June 30, 1999	15,109	\$ 1,511	\$ 48,000	\$ 39,286
				\$ -0-
	Accumulated Deficit	Treasury Stock Common	Treasury Stock Preferred	Total
	\$(35,166) (16,899)	\$(15,856)	\$ (200)	\$35,059 (16,899)
				1,559
				(15,340)
				957
	(120)			(120)
	(1,487)			(1,487)
	(15)			(15)
		(230)		(230)
	\$(53,687)	\$(16,086)	\$ (200)	\$18,824

(1) Includes 3,290 shares of the Company's Common Stock held in treasury.

Excluding the 3,290 shares held in treasury, the outstanding shares of the Company's Common Stock at June 30, 1999 were 11,819.

Note 4: Segment Information

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands) (unaudited)			
Net sales:				
Businesses continuing:				
Chemical	\$ 69,690	\$ 69,315	\$ 38,945	\$ 40,637
Climate Control	56,025	59,257	29,326	29,321
Automotive Products	18,993	21,198	8,888	10,708
Industrial Products	4,870	7,491	2,230	3,306
Business to be disposed of - Chemical	6,374	8,208	3,506	3,461
	<u>\$ 155,952</u>	<u>\$ 165,469</u>	<u>\$ 82,895</u>	<u>\$ 87,433</u>
	=====	=====	=====	=====
Operating profit (loss):				
Businesses continuing:				
Chemical:				
Recurring operations	\$ 4,125	\$ 6,606	\$ 2,678	\$ 5,027
Inventory write-down and losses on purchase commitments	(9,100)	-	(9,100)	-
	<u>(4,975)</u>	<u>6,606</u>	<u>(6,422)</u>	<u>5,027</u>
Climate Control	5,715	6,312	3,008	3,500
Automotive Products	(299)	71	(308)	478
Industrial Products	(913)	(518)	(501)	(214)
Business to be disposed of - Chemical	(1,488)	(995)	(643)	(567)
	<u>(1,960)</u>	<u>11,476</u>	<u>(4,866)</u>	<u>8,224</u>
General corporate expenses and other	(3,841)	(4,671)	(1,667)	(2,842)
Interest expense:				
Business to be disposed of	(243)	(237)	(118)	(102)
Recurring operations	(8,834)	(8,602)	(4,467)	(3,879)
	<u>(9,077)</u>	<u>(8,839)</u>	<u>(4,585)</u>	<u>(3,981)</u>
Gain (loss) on business disposed of or to be disposed of	(1,971)	12,993	(1,971)	-
Income (loss) before pro- vision for income taxes	<u>\$ (16,849)</u>	<u>\$ 10,959</u>	<u>\$ (13,089)</u>	<u>\$ 1,401</u>
	=====	=====	=====	=====

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

Note 5: Commitments and Contingencies

Nitric Acid Project

In June 1997, two wholly owned subsidiaries of the Company, El Dorado Chemical Company ("EDC"), and El Dorado Nitrogen Company ("EDNC"), entered into a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, EDNC agreed to act as an agent to construct, and upon completion of construction, operate a nitric acid plant (the "EDNC Baytown Plant") at Bayer's Baytown, Texas chemical facility. The construction of the EDNC Baytown Plant was completed in May 1999, and EDNC began producing and delivering nitric acid to Bayer at that date. Sales by EDNC to Bayer out of the EDNC Baytown Plant production during the quarter ended June 30, 1999, were approximately \$4 million. EDC guaranteed the performance of EDNC's obligations under the Bayer Agreement. Under the terms of the Bayer Agreement, EDNC is leasing the EDNC Baytown plant pursuant to a leveraged lease from an unrelated third party with an initial lease term of ten years. Upon expiration of the initial ten-year term, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer agreement may opt against renewal. Financing of the EDNC Baytown Plant was provided by an unaffiliated lender. Neither the Company nor EDC has guaranteed any of the repayment obligations for the EDNC Baytown Plant. In connection with the leveraged lease, the Company entered into an interest rate forward agreement to fix the effective rate of interest implicit in such lease. As of June 30, 1999, the Company has deferred approximately \$2.9 million associated with such agreement which will be amortized over the initial term of the lease. See Note 7, "Changes in Accounting," for the expected accounting upon adoption of SFAS #133.

In January 1999, the contractor constructing the EDNC Baytown Plant under a turnkey agreement, informed the Company that it could not complete construction alleging a lack of financial resources. EDNC at that time demanded that the contractor's bonding company provide funds necessary for subcontractors to complete construction. A substantial portion of the costs to complete the EDNC Baytown Plant (\$12.9 million), which were to be funded by the construction contractor, have been funded by proceeds from the bonding company; however, the nonperformance by the contractor constructing the EDNC Baytown Plant increased the cost of the plant which is reflected in higher rentals under the Company's leveraged lease.

Debt Guarantee

The Company previously guaranteed up to approximately \$2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company ("Kestrel"), in exchange for a 44.9% ownership interest. At December 31, 1998, the Company had accrued the full amount of its commitment under the debt guarantees and fully reserved its investments and advances to Kestrel. In the first quarter of 1999, upon demand of the Company's guarantee, the Company assumed the obligation for a \$2.0 million term note, due in equal monthly principal payments of \$11,111, plus interest, through August 2004

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

and funded approximately \$500,000 resulting from a subsidiary's partial guarantee of Kestrel's obligation under a revolving credit facility. In connection with the demand of the Company to perform under its guarantees, the Company and the other guarantors formed a new company ("KAC") which acquired the assets of the aviation company through foreclosure.

The Company and the other shareholders of KAC are attempting to sell the assets acquired in foreclosure. Proceeds received by the Company, if any, from the sale of KAC assets will be recognized in the results of operations when and if realized.

Legal Matters

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

- A. In 1987, the U.S. Environmental Protection Agency ("EPA") 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. In 1990, the EPA added the site to the National Priorities List. Following the remedial investigation and feasibility study, in 1992 the Regional Administrator of the EPA signed the Record of Decision ("ROD") for the site. The ROD detailed EPA's selected remedial action for the site and estimated the cost of the remedy at \$3.6 million. In 1992, the Company made settlement proposals which would have entailed a collective payment by the subsidiaries of \$47,000. The site owner rejected this offer and proposed a counteroffer of \$245,000 plus a reopener for costs over \$12.5 million. The EPA rejected the Company's offer, allocating 60% of the cleanup costs to the potentially responsible parties and 40% to the site operator. The EPA estimated the total cleanup costs at \$10.1 million as of February 1993. The site owner rejected all settlements with the EPA, after which the EPA issued an order to the site owner to conduct the remedial design/remedial action approved for the site. In August 1997, the site owner issued an "invitation to settle" to various parties, alleging the total cleanup costs at the site may exceed \$22 million.

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 the estimated total cost of clean-up of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. As of June 30, 1999, the Company has accrued an amount based on a preliminary settlement proposal by the alleged potential responsible parties; however, there is no assurance such proposal will be accepted. Such amount is not material to the Company's financial position or results of operations. This estimate is subject to material change in the near term as additional information is obtained. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

- B. On February 12, 1996, the Chemical Business entered into a Consent Administrative Agreement ("Administrative Agreement") with the state of Arkansas to resolve certain compliance issues associated with nitric acid concentrators. Pursuant to the Administrative Agreement, the Chemical Business installed additional pollution control equipment to address the compliance issues. The Chemical Business was assessed \$50,000 in civil penalties associated with the Administrative Agreement. In the summer of 1996 and then on January 28, 1997, the subsidiary executed amendments to the Administrative Agreement ("Amended Agreements"). The Amended Agreements imposed a \$150,000 civil penalty, which penalty has been paid. Since the 1997 amendment, the Chemical Business has been assessed stipulated penalties of approximately \$67,000 by the Arkansas Department of Pollution Control and Ecology ("ADPC&E") for violations of certain provisions of the 1997 Amendment. The Chemical Business believes that the El Dorado Plant has made progress in controlling certain off-site emissions; however, such off-site emissions have occurred and continue to occur from time to time, which could result in the assessment of additional penalties against the Chemical Business by the ADPC&E for violation of the 1997 Amendment.

During May 1997, approximately 2,300 gallons of caustic material spilled when a valve in a storage vessel failed, which was released to a storm water drain, and according to ADPC&E records, resulted in a minor fish kill in a drainage ditch near the El Dorado Plant. In 1998, the ADPC&E issued a Consent Administrative Order ("1998 CAO") to resolve the event. The 1998 CAO includes a civil penalty in the amount of \$183,700 which includes \$125,000 to be paid over five years in the form of environmental improvements at the El Dorado Plant. The remaining \$58,700 was paid in 1998. The 1998 CAO also requires the Chemical Business to undertake a facility-wide wastewater evaluation and pollutant source control program and wastewater facility-wide wastewater minimization program. The program requires that the subsidiary complete rainwater drain-off studies including engineering design plans for additional water treatment components to be submitted to the ADPC&E by August 2000. The construction of the additional water treatment components shall be completed by August 2001 and the El Dorado plant has been mandated to be in compliance with final effluent limits on or before February 2002. The wastewater program is currently expected to require future capital expenditures of approximately \$5.0 million.

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

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

defendants, to fix prices in connection with the sale of commercial explosives. This litigation has been consolidated, for discovery purposes only, with several other actions in a multi-district litigation proceeding in Utah. Discovery in this litigation is in process. The Chemical Business intends to vigorously defend itself in this matter.

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

During the third quarter of 1997, a subsidiary of the Company was served with a lawsuit in which approximately 27 plaintiffs have sued approximately 13 defendants, including a subsidiary of the Company alleging personal injury and property damage for undifferentiated compensatory and punitive damages of approximately \$7,000,000. Specifically, the plaintiffs assert property damage to their residence and wells, annoyance and inconvenience, and nuisance as a result of daily blasting and round-the-clock mining activities. The plaintiffs are residents living near the Heartland Coal Company ("Heartland") strip mine in Lincoln County, West Virginia, and an unrelated mining operation operated by Pen Coal Inc. During 1999, the plaintiffs withdrew all personal injury claims previously asserted in this litigation. Heartland employed the subsidiary to provide blasting materials and personnel to load and shoot holes drilled by employees of Heartland. Down hole blasting services were provided by the subsidiary at Heartland's premises from approximately August 1991, until approximately August 1994. Subsequent to August 1994, the subsidiary supplied blasting materials to the reclamation contractor at Heartland's mine. In connection with the subsidiary's activities at Heartland, the subsidiary has entered into a contractual indemnity to Heartland to indemnify Heartland under certain conditions for acts or actions taken by the subsidiary for which the subsidiary failed to take, and Heartland is alleging that the subsidiary is liable thereunder for Heartland's defense costs and any losses to, or damages sustained by, the plaintiffs in this lawsuit as a result of the subsidiary's operations. Subject to final documentation, this litigation has been settled with the subsidiary's payment of approximately \$81,000, which was accrued at June 30, 1999.

The Company, including its subsidiaries, is a party to various other claims, legal actions, and complaints arising in the ordinary course of business. In

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1999 and 1998

the opinion of management after consultation with counsel, all claims, legal actions (including those described above) and complaints are not presently probable of material loss, 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 is not presently expected to have a material effect on the financial position of the Company, but could have a material impact to the net income (loss) of a particular quarter or year, if resolved unfavorably.

Note 6: Long-Term Debt

In November, 1997, the Company's wholly owned subsidiary, ClimaChem, Inc. ("ClimaChem"), completed the sale of \$105 million principal amount of 10 3/4% Senior Notes due 2007, (the "Notes"). Interest on the Notes is payable semiannually in arrears on June 1 and December 1 of each year, and the principal is payable in the year 2007. The Notes are senior unsecured obligations of ClimaChem and rank pari passu in right of payment to all existing senior unsecured indebtedness of ClimaChem and its subsidiaries. The Notes are effectively subordinated to all existing and future senior secured indebtedness of ClimaChem.

ClimaChem owns substantially all of the companies comprising the Company's Chemical and Climate Control Businesses. ClimaChem is a holding company with no assets or operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly, by ClimaChem. ClimaChem's payment obligations under the Notes are fully, unconditionally and joint and severally guaranteed by all of the existing subsidiaries of ClimaChem, except for El Dorado Nitrogen Company ("EDNC"). The assets, equity, and earnings of EDNC are currently inconsequential to ClimaChem. Separate financial statements and other disclosures concerning the guarantors are not presented herein because management has determined they are not material to investors. Summarized consolidated unaudited balance sheet information of ClimaChem and its subsidiaries as of June 30, 1999 and December 31, 1998 and the results of operations for the six month and three month periods ended June 30, 1999 and 1998 are detailed below.

	June 30, 1999	December 31, 1998
	(in thousands)	
Balance sheet data:		
Current assets (1)(2)	\$ 103,785	\$ 90,291
Property, plant and equipment, net	78,689	82,389
Income tax receivable	1,750	-
Notes receivable from LSB and affiliates, net	13,443	13,443
Other assets, net	16,083	10,480
Total assets	<u>\$ 213,750</u> =====	<u>\$ 196,603</u> =====
Current liabilities	\$ 48,540	\$ 35,794
Long-term debt	138,730	127,471
Deferred income taxes	9,755	9,580
Stockholders' equity	16,725	23,758
Total liabilities and stockholders equity	<u>\$ 213,750</u> =====	<u>\$ 196,603</u> =====

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
Operations data:				
Total revenues	\$ 132,092	\$ 137,327	\$ 71,863	\$ 73,900
Costs and expenses:				
Cost of sales	105,557	107,439	58,387	57,028
Selling, general and administrative	22,083	20,348	11,202	10,569
Loss on business to be disposed of	1,971	-	1,971	-
Provision for losses on firm purchase commitments	7,500	-	7,500	-
Interest	6,647	6,273	3,368	2,960
	<u>143,758</u>	<u>134,060</u>	<u>82,428</u>	<u>70,557</u>
Income (loss) before provision (credit) for income taxes	(11,666)	3,267	(10,565)	3,343
Provision (credit) for income taxes	(3,074)	1,700	(3,124)	1,730
Net income (loss)	<u>\$ (8,592)</u> =====	<u>\$ 1,567</u> =====	<u>\$ (7,441)</u> =====	<u>\$ 1,613</u> =====

- (1) Notes and other receivables from LSB and affiliates are eliminated when consolidated with LSB.
- (2) Current assets include receivables due from LSB which aggregate \$1.6 million and \$5.0 million at June 30, 1999, and December 31, 1998, respectively.

The Company funded a term and revolving line of credit of a total of \$18.5 million with an asset-based lender for its Automotive Products Business on May 10, 1999. This facility replaced the Automotive Products Business' previous loan agreement under the Company's Revolver and provides for a \$2.5 million term loan and a \$16.0 million revolving credit facility (an increase of borrowing ability calculated as of May 10, 1999, of \$3.5 million compared to the Automotive Products Business' availability under the replaced facility) based on eligible amounts of accounts receivable and inventory. This facility provides for interest at a bank's prime rate plus one percent (1%) per annum, or at the Company's option, the lender's LIBOR rate plus two and three-quarters percent (2.75%) per annum. The effective interest rate at June 30, 1999, was 7.93%. The term of this new facility is through May 7, 2001, and is renewable thereafter for successive twelve-month terms. As a result of the terms and conditions of this facility, outstanding borrowings under the revolving credit facility of \$9.2 million at June 30, 1999 and \$0.6 million under the term loan are classified as long-term debt due within one year (borrowings by the Automotive Products Business under the Company's revolving credit agreements were classified as long-term debt due after one year in the accompanying condensed consolidated balance sheets as of December 31, 1998). The Automotive Products Business was required to secure such loan with substantially all of its assets. The loan agreement contains various affirmative and negative covenants, including a requirement to maintain tangible net worth of not less than \$6.4 million. The Company was required to provide the lender with a \$1.0 million standby letter of credit to further secure such loan. As a result of this financing, the Company's Revolving Credit Facility, that is not available to the Automotive Products Business, now provides for the elimination of its financial covenants so long as the remaining borrowing group maintains a minimum aggregate availability under such facility of at least \$15 million. As of June 30, 1999, the remaining borrowing group had availability of \$16.4 million.

Note 7: Change in Accounting In June, 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS #133"), Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company has not yet determined when this new Statement will be adopted. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair

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value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what all of the effects of SFAS #133 will be on the earnings and financial position of the Company; however, the Company expects that the deferred charges associated with the interest rate forward agreement discussed in Note 5, "Nitric Acid Project," will be accounted for as a cash flow hedge upon adoption of SFAS #133, with the effective portion of the hedge being classified in equity in accumulated other comprehensive income or loss. The amount included in accumulated other comprehensive income or loss will be amortized to income over the initial term of the leveraged lease.

Note 8: Comprehensive Income The Company presents comprehensive income in accordance with Financial Accounting Standard No. 130 "Reporting Comprehensive Income" ("SFAS 130"). The provisions of SFAS 130 require the Company to classify items of other comprehensive income in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. Other comprehensive income for the six month and three month periods ended June 30, 1999 and 1998 is detailed below.

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Net income (loss)	\$ (16,899)	\$ 10,699	\$ (13,089)	\$ 1,421
Foreign currency translation income (loss) (616)	1,559	(606)	1,337	
Total comprehensive income (loss)	\$ (15,340)	\$ 10,093	\$ (11,752)	\$ 805

Note 9: Business Disposed of or to be Disposed of. On May 7, 1999, the Company's wholly owned subsidiary, Total Energy Systems Limited and its subsidiaries ("TES") entered into an agreement (the "Asset Sale Agreement") to sell substantially all the assets of TES ("Defined Assets"). Under the Asset Sale Agreement, TES retains its liabilities and will liquidate such liabilities from the proceeds of the sale and from the collection of its accounts receivables which were retained by TES pursuant to the Asset Sale Agreement.

The loss associated with this transaction included in the accompanying Condensed Consolidated Statements of Operations for the six months and three months ended June 30, 1999, is approximately \$1,971,000 and is comprised of disposition costs of approximately \$.3 million, the recognition in earnings of

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the cumulative foreign currency loss of approximately \$1.1 million at June 30, 1999, and approximately \$.6 million related to the resolution of certain environmental matters.

The Company received approximately \$3.4 million at closing on August 2, 1999, in net proceeds from the assets sold, exclusive of approximately \$.7 million related to an agreed to retention related to the final reconciliation of the value of the inventory sold, after paying off \$6.4 million bank debt and the purchaser assuming approximately \$1.1 million debt related to certain capitalized lease obligations. The Company expects to complete the liquidation of the assets and liabilities retained during the fourth quarter of 1999.

In March 1998, the Company closed the sale of real estate and realized proceeds of \$29.3 million net of transaction costs and a gain on the transaction of approximately \$13 million.

Note 10: Inventory Write-down and Loss on Firm Purchase Commitments

Due to decreased selling prices for certain of the Chemical Business' nitrogen-based products, the Chemical Business wrote-down the carrying value of certain inventories at June 30, 1999, by approximately \$1.6 million, representing the cost in excess of market.

At June 30, 1999, the Chemical Business has firm uncancelable commitments to purchase anhydrous ammonia pursuant to the terms of two contracts. The purchase price(s) the Chemical Business will be required to pay for anhydrous ammonia under one of these contracts, which is for a significant percentage of the Chemical Business' anhydrous ammonia requirements, currently exceeds and is expected to continue to exceed the spot market prices throughout the purchase period. Additionally, the current excess supply of nitrate-based products caused, in part, by the import of Russian nitrate, has caused a significant decline in the sales prices, with no improvement in sales prices expected in the near term. Due to the decline in sales prices, the cost to produce the nitrate-based products, including the cost of the anhydrous ammonia to be purchased under the contracts, exceeds the anticipated future sales prices of such products. As a result, the accompanying Condensed Consolidated Financial Statements include a loss provision for anhydrous ammonia required to be purchased during the remainder of the contracts of approximately \$7.5 million. The loss provision recorded as of June 30, 1999, is based on the forward contract pricing existing at June 30, 1999. This pricing can move upward or downward in future periods. Based on forward pricing existing as of August 13, 1999, the Chemical Business would be required to recognize an additional \$400,000 loss. This loss provision estimate may change in the near term.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's June 30, 1999 Condensed Consolidated Financial Statements.

Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" may be deemed forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

OVERVIEW

General

The Company is pursuing a strategy of focusing on its core businesses and concentrating on product lines in niche markets where the Company has established or believes it can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of selected assets that are on its balance sheet and on which it is not realizing an acceptable return and does not reasonably expect to do so. In this connection, the Company has come to the conclusion that its Automotive and Industrial Products Businesses are non-core to the Company and the Company is exploring various alternatives to maximize shareholder value from these assets. The Company is also considering the sale of other assets that are non-core to its Chemical and Climate Control Businesses.

The Company recently concluded its evaluation of the spin-off of its Automotive Business ("Automotive") to its shareholders as a dividend and decided that it would not be able to spin-off Automotive. The Company is continuing to evaluate other methods of reducing or eliminating its investment in Automotive. As part of its efforts, the Company has finalized a new credit facility for Automotive. See "Liquidity & Capital Resources" of this MD&A for a description of the credit facility.

The Company has further announced that it is negotiating to sell its Industrial Products Business. The terms of such sale, if any, have not been finalized, and there are no assurances that the Company will finalize its negotiations or, if such is finalized, whether the terms thereof will be acceptable to the Company.

Certain statements contained in this Overview are forward-looking statements, and future results could differ materially from such statements.

Information about the Company's operations in different industry segments for the six month and three month periods ended June 30, 1999 and 1998 is detailed below.

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands) (unaudited)			
Sales:				
Businesses continuing:				
Chemical	\$ 69,690	\$ 69,315	\$ 38,945	\$ 40,637
Climate Control	56,025	59,257	29,326	29,321
Automotive Products	18,993	21,198	8,888	10,708
Industrial Products	4,870	7,491	2,230	3,306
Business to be disposed of Chemical(1)	6,374	8,208	3,506	3,461
	<u>\$155,952</u>	<u>\$165,469</u>	<u>\$ 82,895</u>	<u>\$ 87,433</u>
	=====	=====	=====	=====
Gross profit (loss) (2):				
Businesses continuing:				
Chemical	\$ 11,227	\$ 12,150	\$ 6,270	\$ 7,725
Climate Control	17,313	17,321	8,992	8,985
Automotive Products	4,008	4,966	1,912	2,826
Industrial Products	1,247	1,700	507	851
Business to be disposed of Chemical(1)	(229)	159	(71)	(8)
	<u>\$ 33,566</u>	<u>\$ 36,296</u>	<u>\$ 17,610</u>	<u>\$ 20,379</u>
	=====	=====	=====	=====
Operating profit (loss) (3):				
Businesses continuing:				
Chemical:				
Recurring operations	\$ 4,125	\$ 6,606	\$ 2,678	\$ 5,027
Inventory write-down and losses on purchase commitments	(9,100)	-	(9,100)	-
	<u>(4,975)</u>	<u>6,606</u>	<u>(6,422)</u>	<u>5,027</u>
Climate Control	5,715	6,312	3,008	3,500
Automotive Products	(299)	71	(308)	478
Industrial Products	(913)	(518)	(501)	(214)
Businesses to be disposed of Chemical(1)	(1,488)	(995)	(643)	(567)
	<u>(1,960)</u>	<u>11,476</u>	<u>(4,866)</u>	<u>8,224</u>
General corporate expenses	(3,841)	(4,671)	(1,667)	(2,842)
Interest expense:				
Business to be disposed of				
Recurring operations	(243)	(237)	(118)	(102)
	<u>(8,834)</u>	<u>(8,602)</u>	<u>(4,467)</u>	<u>(3,879)</u>
	<u>(9,077)</u>	<u>(8,839)</u>	<u>(4,585)</u>	<u>(3,981)</u>
Gain (loss) on business disposed of or to be disposed of	(1,971)	12,993	(1,971)	-
Income (loss) before provision for income taxes	<u>\$(16,849)</u>	<u>\$ 10,959</u>	<u>\$(13,089)</u>	<u>\$ 1,401</u>
	=====	=====	=====	=====

(1) On May 7, 1999, the Company's wholly owned Australian subsidiary, TES, entered into an agreement to sell

substantially all of its assets which sale was substantially completed on August 2, 1999. See Note 9 of Notes to Condensed Consolidated Financial Statements for further information. The operating results for TES have been presented separately in the above table.

- (2) Gross profit by industry segment represents net sales less cost of sales exclusive of the \$1.6 million write-down of inventory.
- (3) Operating profit (loss) by industry segment represents revenues less operating expenses before deducting general corporate expenses, interest expense and income taxes and before gain on sale of the Tower in 1998.

Chemical Business

Sales in the Chemical Business (excluding the Australian subsidiary in which substantially all of its assets were disposed of in August, 1999) have increased from \$69.3 million in the six months ended June 30, 1998 to \$69.7 million in the six months ended June 30, 1999 and the gross profit (excluding the Australian subsidiary, the inventory write-down and provision for loss on firm purchase commitments) has decreased from \$12.2 million in 1998 to \$11.2 in 1999. The gross profit percentage (excluding the Australian subsidiary and the effect of the \$1.6 million inventory adjustment in 1999) has decreased from 17.5% in 1998 to 16.1% in 1999. The decline in sales price exceeded the decline in raw material costs resulting in a lower gross profit margin.

As of June 30, 1999, the Chemical Business has commitments to purchase approximately 200,000 tons of anhydrous ammonia under two contracts. The Company's purchase price of anhydrous ammonia under these contracts can be higher or lower than the current market spot price of anhydrous ammonia. Pricing is subject to variations due to numerous factors contained in these contracts. Based on the pricing index contained in one of these contracts, it is presently priced above the current market spot price. As of June 30, 1999, the Chemical Business has remaining purchase commitments of approximately 120,000 tons under this contract. The Chemical Business is required to purchase a minimum of 7,000 tons monthly under another contract expiring in June 2000.

As stated above, the Chemical Business has commitments to purchase anhydrous ammonia pursuant to the terms of two contracts. The purchase price(s) the Chemical Business will be required to pay for anhydrous ammonia under one of these contracts currently exceeds and is expected to continue to exceed the spot market prices throughout the purchase period. Additionally, the current excess supply of nitrate-based products, caused, in part, by the import of Russian nitrate, has caused a significant decline in the sales prices; no improvement in sales prices is expected in the near term. This decline in sales price has resulted in the cost of anhydrous ammonia purchased under these contracts when combined with manufacturing and distribution costs, to exceed anticipated future sales prices. As a result, the accompanying Condensed Consolidated Financial Statements include a loss provision for anhydrous ammonia required to be purchased during the remainder of the contracts of approximately \$7.5 million. The provision for

loss at June 30, 1999, is based on the forward contract pricing existing at June 30, 1999, and estimated market prices for products to be manufactured and sold during the remainder of the contracts. This is a forward-looking statement, and there are no assurances that such estimates will be proven to be accurate. Differences, if any, in the estimated future cost of anhydrous ammonia and the actual cost in effect at the time of purchase and differences in the estimated sales prices and actual sales prices of products manufactured could cause the Company's operating results to differ from that estimated in arriving at the loss provision recorded at June 30, 1999. The Chemical Business currently has an excess inventory of nitrogen-based products on hand. Additionally, substantial excess stocks of competing nitrogen products on the market have resulted in a cutback in the production level at the El Dorado Arkansas facility. There are no assurances that the Chemical Business will not be required to record additional loss provisions in the future. Based on the forward pricing existing as of August 13, 1999, the Chemical Business would be required to recognize an additional \$400,000 loss. See "Special Note Regarding Forward-Looking Statements."

Due to decreased selling prices for certain of the Chemical Business' nitrogen-based products, the Chemical Business also wrote down the carrying value of certain inventories at June 30, 1999, by approximately \$1.6 million, representing the cost in excess of market value.

In June, 1997, a subsidiary of the Company entered into an agreement with Bayer Corporation ("Bayer") whereby one of the Company's subsidiaries agreed to act as agent to construct a nitric acid plant located within Bayer's Baytown, Texas chemical plant complex. The construction of the plant was completed during the quarter ended June 30, 1999. This plant is being operated by the Company's subsidiary and is supplying nitric acid for Bayer's polyurethane business under a long-term supply contract. Sales from this plant were approximately \$2.8 million during the quarter ended June 30, 1999. Management estimates that, at full production capacity based on terms of the Bayer Agreement and, based on the price of anhydrous ammonia as of the date of this report, the plant should generate approximately \$35 million to \$40 million in annual gross revenues. Unlike the Chemical Business' regular sales volume, the market risk on this additional volume is much less since the contract provides for recovery of costs, as defined, plus a profit. The Company's subsidiary is leasing the nitric acid plant pursuant to a leverage lease from an unrelated third party for an initial term of ten (10) years which began on June 23, 1999. See "Special Note Regarding Forward-Looking Statements."

The results of operation of the Chemical Business' Australian subsidiary have been adversely affected due to the recent economic developments in certain countries in Asia. These economic developments

in Asia have had a negative impact on the mining industry in Australia which the Company's Chemical Business services. As these adverse economic conditions in Asia have continued, they have had an adverse effect on the Company's consolidated results of operations. On May 7, 1999, the Company's wholly owned Australian subsidiary entered into an agreement to sell substantially all of its assets. This transaction was substantially completed on August 2, 1999. Revenues of the Australian subsidiary for the six month and three month periods ended June 30, 1999, and June 30, 1998, were \$6.4 million, \$8.2 million, \$3.5 million, and \$3.5 million, respectively. For the year ended December 31, 1998, the Australian subsidiary had revenues of \$14.2 million and a net loss of \$2.9 million; \$3.7 million net loss for the six months ended June 30, 1999, including a loss on sale of \$2.0 million. See Note 9 of Notes to Condensed Consolidated Financial Statements for further information concerning this transaction.

Climate Control

The Climate Control Business manufactures and sells a broad range of hydronic 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 Climate Control Business focuses on product lines in the specific niche markets of hydronic fan coils and water source heat pumps and has established a significant market share in these specific markets.

Although sales of \$56.0 million for the six months ended June 30, 1999, in the Climate Control Business were approximately 5% less than sales of \$59.3 million in the six months ended June 30, 1998, the gross profit percentage improved from 29.2% in the first six months of 1998 to 30.9% in the first six months of 1999.

Automotive and Industrial Products Businesses

As indicated in the above table, during the six months ended June 30, 1999 and 1998, respectively, the Automotive and Industrial Products recorded combined sales of \$23.9 million and \$28.7 million, respectively, and reported operating losses (as defined above) of \$1.2 million and \$.4 million, respectively. The net investment in assets of these Businesses has decreased during the last three years and the Company expects to realize further reductions in future periods. During the quarter ended June 30, 1999, the Automotive Business converted its investment in a wholly-owned subsidiary, International Bearings, Inc. ("IBI") to a fifty percent (50%) non-controlling investment in a joint venture ("the JV") continuing the industrial bearings business formerly operated by IBI. Automotive sold its inventory, having a book value of approximately \$2.4 million to the JV for approximately \$1.5 million cash and \$.9 million in interest bearing notes. Automotive retains an equity interest in the JV which has not been assigned any value at June 30, 1999. IBI retained receivables of approximately \$600,000 which should be fully collected during the third quarter 1999.

The Company continues to eliminate certain categories of machines from the Industrial Products product line by not replacing machines when sold. The Company previously announced that it is negotiating the sale

of its Industrial Products Business. The sale of the Industrial Products Business is a forward-looking statement and is subject to, among other things, the buyer's and the Company's lending institutions agreeing to the terms of the transaction, including the purchase price, approval of the Company's Board of Directors and negotiation and finalization of definitive agreements.

RESULTS OF OPERATIONS

Six months ended June 30, 1999 vs. Six months ended June 30, 1998.

Revenues

Total revenues, excluding the gain on the disposition of a business in 1998, for the six months ended June 30, 1999 and 1998 were \$155.8 million and \$166.8 million, respectively (a decrease of \$11.0 million). Sales decreased \$9.5 million and other revenues decreased \$1.5 million. The decrease in other revenues was primarily due to nonrecurring operations of the Tower, sold in March 1998. The Company recognized a pre-tax gain on the sale of approximately \$13.0 million in the first quarter of 1998.

Net Sales

Consolidated net sales included in total revenues for the six months ended June 30, 1999, were \$156.0 million, compared to \$165.5 million for the first six months of 1998, a decrease of \$9.5 million. This decrease in sales resulted principally from: (i) decreased sales in the Climate Control Business of \$3.2 million due to decreased sales volume in this Business' Heat Pump product lines, production line changes and training time for new employees which slowed production temporarily, (ii) decreased sales in the Automotive Products Business of \$2.2 million, principally resulting from the presence in 1998 of certain bulk sales to an industrial user and initial stocking orders from a new retail chain store customer as well as customer mix, and (iii) decreased sales in the Industrial Products Business of \$2.6 million due to decreased sales of machine tools, and (iv) decreased sales in the Chemical Business of \$1.5 million primarily due to reduced sales of the Australian subsidiary and reduced selling prices on the Company's nitrogen based products due primarily to the import of Russian nitrate resulting in an over supply of nitrate-based products offset by sales of nitric acid products pursuant to the Bayer Agreements (see Note 5 of Notes to Condensed Consolidated Financial Statements).

Gross Profit

Gross profit, excluding the effect of the \$1.6 million inventory write-down discussed in Note 10 of Notes to Condensed Consolidated Financial Statements, would have been 21.5% for the first six months of 1999, compared to 21.9% for the first six months of 1998. The decrease in the gross profit percentage was primarily the result of decreases in the Chemical and Automotive Businesses. The decrease in the Chemical Business was primarily the result of reduced selling prices for the Company's nitrogen based products. See "Overview Chemical Business" elsewhere in this

"Managements Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the Chemical Business' decreased sales. The decrease in the Automotive Business was primarily due to customer mix.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from businesses continuing at June 30, 1999, were 19.3% in the six-month period ended June 30, 1999, compared to 18.9% for the first six months of 1998. This increase is primarily the result of decreased sales volume in the Climate Control Business, the Industrial Products Business and, the Automotive Business without equivalent corresponding decreases in SG&A. Additionally, costs associated with new start-up operations in 1999, by the Climate Control Business, having minimal or no sales, contributed to the increase in dollars as well as expense as a percent of sales.

Interest Expense

Interest expense for the Company was \$9.1 million in the first six months of 1999, compared to \$8.8 million for the first six months of 1998. The increase of \$.3 million primarily resulted from increased borrowings.

Income (Loss) Before Taxes

The Company had a loss before income taxes of \$16.8 million in the first six months of 1999 compared to income before income taxes of \$11.0 million in the six months ended June 30, 1998. The decreased profitability of \$27.8 million was primarily due to the gain on the sale of the Tower in 1998, the lower gross profit, the loss on disposition of the Australian subsidiary, lower sales, the inventory write-down and the provision for losses on purchase commitments, as previously discussed.

Provision for Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 1 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the six months ended June 30, 1999 and the six months ended June 30, 1998 are for current state income taxes and federal alternative minimum taxes.

Three months ended June 30, 1999 vs. Three months ended June 30, 1998.

Revenues

Total revenues for the three months ended June 30, 1999, and 1998 were \$83.0 million, and \$87.6 million, respectively (a decrease of \$4.6 million). Sales decreased \$4.5 million and other income increased \$0.1 million.

Net Sales

Consolidated net sales included in total revenue for the three months ended June 30, 1999, were \$82.9 million, compared to \$87.4 million for the three months ended June 30, 1998. The decrease in sales resulted principally from: (i) decreased sales in the Chemical Business (excluding the Australian subsidiary) of approximately \$1.7 million resulting from reduced selling prices for the Company's nitrogen based products, partially offset by sales of nitric acid to Bayer Corporation as discussed elsewhere in this report, (ii) decreased sales by the Automotive Business due to customer mix in 1999 and certain bulk sales to an industrial user and initial stocking order from a new retail chain store customer in 1998, and (iii) decreased sales in the Industrial Products Business resulting from the effects of the Company limiting the product lines that it markets as well as diminished demand for the products of the Business. Sales in the Climate Control Business was approximately the same in both periods.

Gross Profit

Gross profit, excluding the effect of the \$1.6 million inventory write-down discussed in Note 10 of Notes to Condensed Financial Statements, would have been 21.2% for the second quarter of 1999, compared to 23.3% for the comparable quarter of 1998. The decrease in the gross profit percentage was primarily the result of decreases in the Chemical and Automotive Businesses. The decrease in the Chemical Business was the result of reduced selling prices for the Company's nitrogen based products. The decrease in the Automotive Business was primarily due to customer mix.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from businesses continuing at June 30, 1999 were 18.3% in the three months ended June 30, 1999, compared to 17.5% for the three months ended June 30, 1998. The increase in SG&A as a percent of sales principally resulted from sales decreasing without a corresponding decrease in SG&A expense and increased cost of the Company sponsored medical care programs for its employees due to increased health care costs. SG&A expense decreased approximately \$0.2 million while sales decreased \$4.5 million.

Interest Expense

Interest expense for the Company was \$4.6 million in the three months ended June 30, 1999, compared to \$4.0 million for the three months ended June 30, 1998. The increase of \$.6 million primarily resulted from increased borrowings.

Income (Loss) Before Taxes

The Company had a loss before income taxes of \$13.1 million in the second quarter of 1999 compared to income before income taxes of \$1.4 million in the second quarter 1998. The decreased profitability of \$14.5 million was primarily due to an inventory write-down of \$1.6 million, the provision for losses of \$7.5 million on firm uncancelable purchase commitments, \$2.0 million loss on the sale of the Australian subsidiaries assets, and decreased gross profit from sales in the Chemical and Automotive Businesses, as previously discussed.

Liquidity and Capital Resources

Cash Flow From Operations

Historically, the Company's primary cash needs have been for operating expenses, working capital and capital expenditures. The Company has financed its cash requirements primarily through internally generated cash flow, borrowings under its revolving credit facilities, and the issuance of senior unsecured notes by its wholly owned subsidiary, ClimaChem, Inc., in November 1997.

Net cash used by operations for the six months ended June 30, 1999 was \$.8 million, after \$6.4 million for noncash depreciation and amortization, \$.7 million in provisions for possible losses on accounts receivable, provision for loss on the disposition of the Australian subsidiary of \$2.0 million, inventory write-down for \$1.6 million, provision for losses on purchase commitments of \$7.5 million and including the following changes in assets and liabilities: (i) accounts receivable increases of \$5.7 million; (ii) inventory decreases of \$5.4 million excluding the effect of the write-down; (iii) increases in supplies and prepaid items of \$2.8 million; and (iv) decreases in accounts payable and accrued liabilities of \$1.0 million. The increase in accounts receivable is primarily due to increased sales and increased days of sales outstanding in the Climate Control Business and seasonal sales of agricultural products in the Chemical Business, offset by decreased sales in the Industrial Products Business. The decrease in inventory was due primarily to a decrease at the Automotive Products Business due to liquidation of excessive inventories, including the sale of approximately \$1.6 million of current inventory in connection with the sale of the business of a subsidiary, offset by increases in the Climate Control Business in anticipation of higher sales volume in the heat pump product lines and increases in the Chemical Business due to reduced sales of the Australian subsidiary.

Inventory in the Automotive and Industrial Products Businesses decreased from \$29.0 million at December 31, 1998, to \$23.4 million at June 30, 1999.

Cash Flow From Investing And Financing Activities

Cash used by investing activities for the six months ended June 30, 1999 included \$4.2 million in capital expenditures. The capital expenditures were primarily for the benefit of the Chemical and Climate Control Businesses to enhance production and product delivery capabilities.

Net cash provided by financing activities included (i) payments on long-term debt of \$4.4 million, (ii) net increases in revolving debt of 10.3 million, (iii) the issuance of a \$2.6 million term note by the Automotive Business, (iv) decreases in drafts payable of \$.5 million, (v) dividends of \$1.6 million, and (vi) treasury stock purchases of \$.2 million.

During the first six months of 1999, the Company declared and paid the following aggregate dividends: (i) \$12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (ii) \$1.625 per share on each outstanding share of its \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; and (iii) \$10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock.

Source of Funds

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

As of June 30, 1999, the Company and certain of its subsidiaries, including ClimaChem and its subsidiaries were parties to a working capital line of credit evidenced by two separate loan agreements ("Revolving Credit Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory, and proprietary rights of the Company and the subsidiaries that are parties to the Revolving Credit Agreements and the stock of certain of the subsidiaries that are borrowers under the Revolving Credit Agreements. The Revolving Credit Agreements, as amended during the quarter ended June 30, 1999, provide for revolving credit facilities ("Revolver") for total direct borrowings up to \$65.0 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Revolving Credit Agreements, as amended, provide for interest at the lender's prime rate plus .5% per annum or, at the Company's option, at the Lender's LIBOR rate plus 2.875% per annum. At June 30, 1999, the effective interest rate was 7.93%. The term of the Revolving Credit Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen month terms. At June 30, 1999, the availability for additional borrowings, based on eligible collateral, approximated \$16.4 million. Borrowings under the

Revolver outstanding at June 30, 1999, were \$25.7 million. The Revolving Credit Agreements, as amended, requires the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations; however, with the refinancing of the Automotive Products Business loan agreement as discussed below, the Company's financial covenants are eliminated, so long as the remaining borrowing group maintains a minimum aggregate availability under the Revolving Credit Facility of \$15.0 million. Should the availability drop below \$15 million for three consecutive business days, the Company would be required to maintain the financial ratios discussed above. The annual interest on the outstanding debt under the Revolver at June 30, 1999 at the rates then in effect would approximate \$2.0 million. The Revolving Credit Agreements also require the payment of an annual facility fee of 0.5% of the unused revolver and restrict the flow of funds, except under certain conditions, to subsidiaries of the Company that are not parties to the Revolving Credit Agreements.

Under the Revolving Credit Agreements discussed above, the Company and its subsidiaries, other than ClimaChem and its subsidiaries, have the right to borrow on a revolving basis up to \$6 million, based on eligible collateral. At June 30, 1999, the Company and its subsidiaries, except ClimaChem and its subsidiaries, had borrowings under the Revolver approximately equal to then eligible collateral (\$2.3 million).

On May 7, 1999, the Company's Automotive Products Business entered into a Loan and Security Agreement (the "Automotive Loan Agreement") with an unrelated lender (the "Automotive Lender") secured by substantially all assets of the Automotive Products Business to refinance the Automotive Products Business' working capital requirements that were previously financed under the Revolver. The Company was required to provide the Automotive Lender a \$1.0 million standby letter of credit to further secure the Automotive Loan Agreement. The Automotive Loan Agreement provides a Revolving Loan Facility (the "Automotive Revolver"), Letter of Credit Accommodations and a Term Loan (the "Automotive Term Loan").

The Automotive Revolver provides for total direct borrowings up to \$16.0 million, including the issuance of letters of credit. The Automotive Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Automotive Revolver provides for interest at the rate from time to time publicly announced by First Union National Bank as its prime rate plus one percent (1%) per annum or, at the Company's option, on the Automotive Lender's LIBOR rate plus two and three-quarters percent (2.75%) per annum. The Automotive Revolver also requires the payment of a monthly servicing fee of \$3,000 and a monthly unused line fee equal to 0.5% of the unused credit facility. At June 30, 1999, the effective interest rate was 8.75% excluding the effect of the source fee and unused line fee (9.4% considering such fees). The term of the Automotive Revolver is through May 7, 2001, and is renewable thereafter for successive twelve-month terms. At June 30, 1999, outstanding borrowings under the Automotive Revolver

were \$9.2 million; in addition, the Automotive Products Business had \$1.4 million, based on eligible collateral, available for additional borrowing under the Automotive Revolver. As a result of the terms and conditions of this facility, outstanding borrowings at June 30, 1999, have been classified as long-term debt due within one year.

The Automotive Loan Agreement restricts the flow of funds, except under certain conditions, between the Automotive Products Business and the Company and its subsidiaries.

The Automotive Term Loan is in the original principal amount of \$2,550,000. The Automotive Term Loan is evidenced by a term promissory note (the "Term Promissory Note") and is secured by all the same collateral as the Automotive Revolver. The interest rate of the Automotive Term Loan is the same as the Automotive Revolver discussed above. The terms of the Term Promissory Note require sixty (60) consecutive monthly principal installments (or earlier as provided in the Term Promissory note) of which the first thirty-six (36) installments shall each be in the amount of \$48,611, the next twenty-two (22) installments shall each be in the amount of \$33,333.33, and the last installment shall be in the amount of the entire unpaid principal balance. Interest payments are also required monthly as calculated on the outstanding principal balance. On May 10, 1999, the Automotive Revolver funded approximately \$9.3 million, and the Automotive Term Loan funded \$2,550,000, the aggregate total of approximately \$11.9 million was simultaneously transferred to the lender in payment of the Automotive Products Business' balance under the Revolver.

The annual interest on the outstanding debt under the Automotive revolver and Automotive term loan at June 30, 1999, at the rates then in effect would approximate \$1.1 million.

In addition to the credit facilities discussed above, as of June 30, 1999, the Company's wholly owned subsidiary, DSN Corporation ("DSN"), is a party to several loan agreements with a financial company (the "Financing Company") for three projects. At June 30, 1999, DSN had outstanding borrowings of \$9.6 million under these loans. The loans have repayment schedules of 84 consecutive monthly installments of principal and interest through maturity in 2002. The interest rate on each of the loans is fixed and range from 8.2% to 8.9%. Annual interest, for the three notes as a whole, at June 30, 1999, at the agreed to interest rates would approximate \$.8 million. The loans are secured by the various DSN property and equipment. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. In April 1999, DSN obtained a waiver of the covenants through June 2000.

As previously discussed, the Company is a holding company and, accordingly, its ability to pay dividends on its outstanding Common Stock and Preferred Stocks is dependent in large part on its ability to obtain funds from its subsidiaries. The ability of the Company's wholly owned subsidiary, ClimaChem (which owns all of the stock of substantially all of the Company's subsidiaries comprising

the Chemical Business and the Climate Control Business) and its subsidiaries to transfer funds to the Company is restricted by certain covenants contained in the Indenture to which they are parties. Under the terms of the Indenture, ClimaChem and its subsidiaries cannot transfer funds to the Company, except for (i) the amount of income taxes that they would be required to pay if they were not consolidated with the Company, (ii) an amount not to exceed fifty percent (50%) of ClimaChem's consolidated net income for the year in question, and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem and ClimaChem's subsidiaries pursuant to a certain services agreement and a certain management agreement to which the companies are parties. During 1998 and the first six months of 1999, ClimaChem reported a consolidated net loss of approximately \$2.6 million and \$8.6 million, respectively. Accordingly, ClimaChem and its subsidiaries were unable to transfer funds to the Company in 1998 and the first six months of 1999, except for reimbursement of costs and expenses incurred by the Company on their behalf or in connection with certain agreements.

Due to ClimaChem's net losses for the year 1998 and the Company's (other than ClimaChem and its subsidiaries) limited borrowing ability under the Revolver, management recommended to the Board of Directors and such recommendation was approved, that the Company discontinue payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. In addition, as of the date of this report, after consideration of the losses reported in the accompanying Condensed Consolidated Statements of Operations for the six months ended June 30, 1999, management has concluded that the Company does not have adequate liquidity to pay the next regular quarterly dividend of \$.8125 per share on its outstanding \$3.25 Convertible Exchangeable Class C Preferred Stock Series 2 and will recommend to the Board of Directors that such dividend not be declared at this time.

Future cash requirements (other than cash dividends) include working capital requirements for anticipated sales increases in the Company's core Businesses and funding for future capital expenditures. Funding for the higher accounts receivable and higher inventory requirements resulting from anticipated sales increases will be provided by cash flow generated by the Company and the revolving credit facilities discussed elsewhere in this report. Inventory reductions in the Industrial Products and Automotive Products Businesses should generate cash to supplement those Businesses' availability under their respective revolving credit facilities. In addition, the Company is also considering the sale of certain assets which it does not believe are critical to its Chemical and Climate Control Businesses. In 1999, the Company has planned capital expenditures of approximately \$10 million, primarily in the Chemical and Climate Control Businesses, a certain amount of which it anticipates will be financed by equipment finance contracts on a term basis and in a manner allowed under its various loan agreements. Such capital expenditures include approximately \$1.5 million (\$.6 million in the six months ended June 30, 1999), which the Chemical Business anticipates spending

related to environmental control facilities at its El Dorado Facility, as previously discussed in this report. The Company currently has no material commitments for capital expenditures.

As previously noted, the Company and its subsidiaries, other than ClimaChem and subsidiaries of ClimaChem, are primarily dependent upon their availability under the Revolver, and funds available from ClimaChem, for their working capital. As described above, both sources of working capital are limited. As a result, management has discontinued the repurchase of the Company's stock until such time as the liquidity and capital resources improves and will recommend to the Board of Directors that the next regular quarterly dividend on its preferred stock not be declared. Management believes that with these actions, and the effect of certain cost reductions being undertaken, that the Company will have adequate cash flow to meet its presently anticipated working capital and debt service requirements. The last sentence of this paragraph is a forward-looking statement and is subject to the "Special Note Regarding Forward-Looking Statements."

Subsequent to June 30, 1999, the Company announced it had decided to discontinue the spin-off of the Automotive Business to its shareholders. The decision was due primarily to the Automotive Business' inability to raise additional equity capital as a stand alone business. The Company has decided to aggressively pursue consideration of a number of alternative approaches to separate the Automotive Business from LSB.

During 1998 and pursuant to the Company's previously announced repurchase plan, the Company purchased 909,300 shares of Common Stock, for an aggregate purchase price of \$3,567,026. From January 1, 1999, through June 30, 1999, the Company has purchased under its repurchase plan a total of 87,267 shares of Common Stock for an aggregate amount of \$230,233.

Foreign Subsidiary

As previously discussed in this report, on August 2, 1999, the Company substantially completed an agreement to sell substantially all of the assets of TES, effectively disposing of this portion of the Chemical Business. Under the terms of the Indenture to which ClimaChem is bound, the net cash proceeds from the sale of TES, are required (i) within 270 days from the date of the sale to be applied to the redemption of the notes issued under the Indenture or to the repurchase of such notes, or (ii) within 240 days from the date of such sale, the amount of the net cash proceeds be invested in a related business of ClimaChem or the Australian subsidiary or used to reduce indebtedness of ClimaChem. All of the proceeds received by the Company, through the date of this report (approximately US\$3.5 million), have been applied to reduce the indebtedness of ClimaChem. The Company expects that the remaining net proceeds from the disposition of TES will be reinvested in related businesses of ClimaChem or used to retire additional indebtedness of ClimaChem.

Joint Ventures and Options to Purchase

Prior to 1997, the Company, through a subsidiary, loaned \$2.8 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Climate Control Business in the USA. Under the loan agreement, the Company has the option, which expires June 15, 2005, to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. During 1997 the Company advanced an additional \$1 million to the French manufacturer bringing the total of the loan to \$3.8 million. The \$3.8 million loan, less a \$1.5 million valuation reserve, is carried on the books as a note receivable in other assets. As of the date of this report, the decision has not been made to exercise its option to acquire the stock of the French manufacturer.

In 1995, a subsidiary of the Company invested approximately \$2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project had been awarded a contract to retrofit residential housing units at a US Army base which it completed during 1996. The completed contract was for installation of energy-efficient equipment (including air conditioning and heating equipment), which would reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent (77%) of all energy and maintenance savings during the twenty (20) year contract term. The Project spent approximately \$17.5 million to retrofit the residential housing units at the US Army base. The Project received a loan from a lender to finance approximately \$14.0 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project.

During 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company"), which owns the remaining fifty percent (50%) equity interest in the Project discussed above, to enhance the marketing of the Company's air conditioning products. The Company has decided not to exercise the Option and has allowed the term of the Option to lapse. Through the date of this report the Company has made option payments aggregating \$1.3 million (\$1.0 million of which is refundable) and has loaned the Optioned Company approximately \$1.4 million. The Company has recorded reserves of \$1.5 million against the loans and option payments. The loans and option payments are secured by the stock and other collateral of the Optioned Company.

Debt Guarantee

At December 31, 1998, the Company and one of its subsidiaries had outstanding guarantees of approximately \$2.6 million of indebtedness of a startup aviation company in exchange for an ownership interest in the aviation company of approximately 45%.

During the first quarter of 1999, the Company was called upon to perform on both guarantees. The Company paid approximately \$500,000 to a lender and assumed an obligation for a \$2.0 million note, which is due in equal monthly principal payments, plus interest, through August 2004, in satisfaction of the guarantees. In connection with the demand on the Company to perform under its guarantee, the Company and the other guarantors formed a new company ("KAC") which acquired the assets of the aviation company through foreclosure.

The Company and the other shareholders of KAC are attempting to sell the assets acquired in foreclosure. Proceeds received by the Company, if any, from the sale of KAC assets will be recognized in the results of operations when and if realized.

Availability of Company's Loss Carry-overs

The Company anticipates that its cash flow in future years will benefit from its ability to use net operating loss ("NOL") carry-overs 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. Such benefit, if any is dependent on the Company's ability to generate taxable income in future periods, for which there is no assurance. Such benefit if any, will be limited by the Company's reduced NOL for alternative minimum tax purposes which is approximately \$35 million at June 30, 1999. As of December 31, 1998, the Company had available regular tax NOL carry-overs of approximately \$63.8 million based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1998. These NOL carry-overs will expire beginning in the year 1999. Due to its recent history of reporting net losses, the Company has established a valuation allowance on a portion of its NOLs and thus has not recognized the full benefit of its NOLs in the accompanying Condensed Consolidated Financial Statements.

The amount of these carry-overs has not been audited or approved by the Internal Revenue Service and, accordingly, no assurance can be given that such carry-overs will not be reduced as a result of audits in the future. In addition, the ability of the Company to utilize these carry-overs 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.

Year 2000 Issues

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs or hardware that have date-sensitive software or embedded chips may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in a system failure or miscalculations causing disruptions

of operations, including, among other things, a temporary inability to process transactions, create invoices, or engage in similar normal business activities.

Beginning in 1996, the Company undertook a project to enhance certain of its Information Technology ("IT") systems and install certain other technologically advanced communication systems to provide extended functionality for operational purposes. A major part of the Company's program was to implement a standardized IT system purchased from a national software distributor at all of the Company and subsidiary operations, and to install a Local Area Network ("LAN"). The IT system and the LAN necessitated the purchase of additional hardware, as well as software. The process implemented by the Company to advance its systems to be more "state-of-the-art" had an added benefit in that the software and hardware changes necessary to achieve the Company's goals are Year 2000 compliant.

Starting in 1996 through June 30, 1999, the Company has capitalized approximately \$1.2 million in costs to accomplish its enhancement program. The capitalized costs include \$.4 million in external programming costs, with the remainder representing hardware and software purchases. The Company anticipates that the remaining cost to complete this IT systems enhancement project will be less than \$50,000, and such costs will be capitalized.

The Company's plan to identify and resolve the Year 2000 Issue involved the following phases: assessment, remediation, testing, and implementation. To date, the Company has fully completed its assessment of all systems that could be significantly affected by the Year 2000. Based on assessments, the Company determined that it was required to modify or replace certain portions of its software and hardware so that those systems will properly utilize dates beyond December 31, 1999. For its IT exposures which include financial, order management, and manufacturing scheduling systems, the Company is 100% complete on the assessment and remediation phases. As of the date of this report, the Company has completed its testing and has implemented its remediated systems for all of its businesses. The assessments also indicated that limited software and hardware (embedded chips) used in production and manufacturing systems ("operating equipment") also are at limited risk. The Company has completed its assessment and identified remedial action which will be completed in the third quarter 1999. In addition, the Company has completed its assessment of its product line and determined that the products it has sold and will continue to sell do not require remediation to be Year 2000 compliant. Accordingly, based on the Company's current assessment, the Company does not believe that the Year 2000 presents a material exposure as it relates to the Company's products.

The Company has queried its significant suppliers, subcontractors, distributors and other third parties (external agents). The Company does not have any direct system interfaces with external agents. To date, the Company is not aware of any external agent with a Year 2000 Issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that

external agents will be Year 2000 ready. The inability of external agents to complete their Year 2000 resolution process in a timely fashion could materially impact the Company. The effect of non-compliance by external agents is not determinable at this time.

Management of the Company believes it has an effective program in place to resolve the remaining aspects of the Year 2000 Issue applicable to its businesses in a timely manner. If the Company does not complete the remaining phases of its program, the Year 2000 Issue could have a negative impact on the operations of the Company; however, management does not believe that, under the most reasonably likely worst case scenario, such potential impact would be material.

The Company is creating contingency plans for certain critical applications. These contingency plans will involve, among other actions, manual workarounds, increasing inventories, and adjusting staffing strategies. In addition, disruptions in the economy generally resulting from Year 2000 Issues could also materially adversely affect the Company. See "Special Note Regarding Forward-Looking Statements".

Contingencies

The Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome. The preceding sentence is a forward-looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, among other factors, the following: the EIL Insurance does not provide coverage to the Company and the Chemical Business for any material claims made by the claimants, the claimants alleged damages are not covered by the EIL Policy which a court may find the Company and/or the Chemical Business liable for, such as punitive damages or penalties, a court finds the Company and/or the Chemical Business liable for damages to such claimants for a material amount in excess of the limits of coverage of the EIL Insurance or a court finds the Chemical Business liable for a material amount of damages in the antitrust lawsuits pending against the Chemical Business in a manner not presently anticipated by the Company. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Quantitative and Qualitative Disclosures about Market Risk

General

The Company's results of operations and operating cash flows are impacted by changes in market interest rates and raw material prices for products used in its manufacturing processes. The Company also has a wholly owned subsidiary in Australia, for which the Company has foreign currency translation exposure. The derivative contracts used by the Company are entered into to hedge

these risks and exposures and are not for trading purposes. All information is presented in U. S. dollars. See Note 9 of Notes to Consolidated Financial Statements for a discussion of the Australian subsidiary in 1999.

Interest Rate Risk

The Company's interest rate risk exposure results from its debt portfolio which is impacted by short-term rates, primarily prime rate-based borrowings from commercial banks, and long-term rates, primarily fixed-rate notes, some of which prohibit prepayment or require substantial prepayment penalties.

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 1998, for an expanded analysis of expected maturities of long-term debt and its weighted average interest rates and discussion related to raw material price risk.

As of June 30, 1999, the Company's variable rate and fixed rate debt which aggregated \$181.8 million exceeded the debt's fair market value by approximately \$5.3 million. The fair value of the Company's Senior Notes was determined based on a market quotation for such securities.

Foreign Currency Risk

At June 30, 1999, the Company had a wholly owned subsidiary located in Australia, for which the functional currency is the local currency, the Australian dollar. Since the Australian subsidiary accounts are converted into U.S. dollars upon consolidation using the end of the period exchange rate, declines in value of the Australian dollar to the U.S. dollar result in translation loss to the Company. As a result of the commitment to sell the Australian subsidiary, which was closed on August 2, 1999, the cumulative foreign currency translation loss of approximately \$1.1 million has been included in the loss on disposal of the Australian subsidiary at June 30, 1999.

SPECIAL NOTE REGARDING
FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", "will", and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein relate to, among other things, (i) ability to improve operations and become profitable on an annualized basis, (ii) establishing a position as a market leader, (iii) payment of dividends on Preferred Stock, (iv) the amount of the loss provision for anhydrous ammonia required to be purchased, (v) declines in the price of anhydrous ammonia, (vi) availability of net operating loss carry-overs, (vii) amount to be spent in 1999 relating to compliance with federal, state and local Environmental laws at the El Dorado Facility, (viii) Year 2000 issues, (ix) improving liquidity and profits through liquidation of assets or realignment of assets, (x) the Company's ability to develop or adopt new and existing technologies in the conduct of its operations, (xi) anticipated financial performance, (xii) ability to comply with the Company's general working capital and debt service requirements, (xiii) ability to be able to continue to borrow under the Company's revolving line of credit, (xiv) sale of the Industrial Products Business, (xv) adequate cash flows to meet its presently anticipated capital requirements, and (xvi) ability of the EDNC Baytown Plant to generate \$35 to \$40 million in annual gross revenues once operational. While the Company believes the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, (i) decline in general economic conditions, both domestic and foreign, (ii) material reduction in revenues, (iii) material increase in interest rates; (iv) inability to collect in a timely manner a material amount of receivables, (v) increased competitive pressures, (vi) inability to meet the "Year 2000" compliance of the computer system by the Company, its key suppliers, customers, creditors, and financial service organization, (vii) changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending (viii) additional releases (particularly air emissions into the environment), (ix) material increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company, (x) the requirement to use internally generated funds for purposes not presently anticipated, (xi) ability to become profitable, or if unable to become profitable, the inability to secure additional liquidity in the form of additional equity or debt, (xii) the effect of additional production capacity of anhydrous ammonia in the western hemisphere, (xiii) the cost for the purchase of anhydrous ammonia increasing or

the Company's inability to purchase anhydrous ammonia on favorable terms when a current supply contract terminates, (xiv) changes in competition, (xv) the loss of any significant customer, (xvi) changes in operating strategy or development plans, (xvii) inability to fund the working capital and expansion of the Company's businesses, (xviii) adverse results in any of the Company's pending litigation, (xix) inability to obtain necessary raw materials, (xx) inability to recover the Company's investment in the aviation company, (xxi) Bayer's inability or refusal to purchase all of the Company's production at the new Baytown nitric acid plant; (xxii) continuing decreases in the selling price for the Chemical Business' nitrogen based end products, and (xxiii) other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report. Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Independent Accountants' Review Report

Board of Directors
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of June 30, 1999, and the related condensed consolidated statements of operations for the six-month and three-month periods ended June 30, 1999 and 1998, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 1999 and 1998. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 19, 1999, except for paragraphs (A) and (C) of Note 5 and Note 14, as to which the date is April 14, 1999, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 19, 1999

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the fiscal period ended December 31, 1998, which Item 3 is incorporated by reference herein.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

At the Company's 1999 Annual Meeting of Shareholders held on June 24, 1999, the following nominees to the Board of Directors were elected as directors of the Company:

Name	Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
Raymond B. Ackerman	9,724,111	1,652,357	0
Gerald G. Gagner	9,895,048	1,481,420	0
Bernard G. Ille	9,724,425	1,652,043	0
Donald W. Munson	9,724,411	1,652,057	0
Tony M. Shelby	9,894,144	1,481,524	0

Messrs. Ackerman, Ille, Munson and Shelby had been serving on the Board of Directors at the time of the Annual Meeting and were reelected for a term of three (3) years. Mr. Gagner had been serving as a director of the Company at the time of the Annual Meeting and was elected for a term of one (1) year. The following are the directors whose terms of office continued after such Annual Meeting: Robert C. Brown, M.D., Charles H. Burtch, Horace G. Rhodes and Jerome D. Shaffer, M.D.

At the Annual Meeting, Ernst & Young, LLP, Certified Public Accountants, was appointed as independent auditors of the Company for 1999, as follows:

Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
10,819,787	547,402	9,279

At the Annual Meeting, the Company's 1998 Employee Stock Option and Incentive Plan was approved as follows:

Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
6,209,998	1,916,119	3,250,351

At the Annual Meeting, the Company's Outside Directors Stock Purchase Plan was approved, as follows:

Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
6,364,697	1,763,541	3,248,230

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

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

4.1 Sixth Amendment dated May 10, 1999, to Amended and Restated Loan and Security Agreement between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation.

4.2 Second Amended and Restated Loan and Security Agreement dated May 10, 1999, by and between Bank of America National Trust and Savings Association and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation.

4.3 Loan and Security Agreement dated May 7, 1999, by and between Congress Financial Corporation and L&S Automotive Products Company.

10.1 LSB Industries, Inc. 1998 Stock Option and Incentive Plan which the Company hereby incorporates by reference from Exhibit "B" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders.

10.2 LSB Industries, Inc. Outside Directors Stock Option Plan which the Company hereby incorporates by reference from Exhibit "C" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders to be held June 24, 1999.

15.1 Letter Re: Unaudited Interim Financial Information.

27.1 Financial Data Schedule

- (B) Reports of Form 8-K. The Company did not file any reports on Form 8-K during the quarter ended June 30, 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 23rd day of August 1999.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

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

By: /s/ Jim D. Jones

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

SIXTH AMENDMENT
TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS SIXTH AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of May 10, 1999, and entered into by and between BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION ("Lender") and CLIMATE MASTER, INC. ("Climate Master"), INTERNATIONAL ENVIRONMENTAL CORPORATION ("IEC"), EL DORADO CHEMICAL COMPANY ("EDC") and SLURRY EXPLOSIVE CORPORATION ("Slurry") (Climate, IEC, EDC, and Slurry being collectively referred to herein as "Borrower").

WHEREAS, Lender and Borrower have entered into that certain Amended and Restated Loan and Security Agreement dated as of November 21, 1997 as amended by that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of March 12, 1998, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of June 30, 1998, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 1998, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of November 19, 1998, and that certain Fifth Amendment to Amended and Restated Loan and Security Agreement dated as of April 8, 1999 (as so amended, the "Agreement");

WHEREAS, LSB Industries, Inc. ("LSB") has refinanced its automotive group of subsidiaries identified as L&S Bearing Co., an Oklahoma corporation, L&S Automotive Products Co., a Delaware corporation, LSB Extrusion Co., an Oklahoma corporation, Rotex Corporation, an Oklahoma corporation, Tribonetics Corporation, an Oklahoma corporation, and International Bearings, Inc., an Oklahoma corporation (collectively, the "Automotive Group");

WHEREAS, the Automotive Group has entered into a financing arrangement with Congress Financial Corporation ("Congress") for a line of credit and term loan of up to \$18,550,000 which funds were used to pay off Lender's working capital loans to the Automotive Group and, in addition, upon Borrower's request Lender has issued a one-year letter of credit for the benefit of Congress with LSB as "account debtor";

WHEREAS, Lender and each member of the Automotive Group have executed mutual releases;

WHEREAS, the Borrower desires that the Lender amend the Agreement in certain respects; and

WHEREAS, the Lender is willing to amend the Agreement subject to the terms and conditions contained herein;

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 The following definitions are hereby amended in their entirety to read as follows:

"LSB Borrower Subsidiaries" means LSB, Morey Machinery Manufacturing Corporation and Summit Machine Tool Manufacturing Corp.

"LSB Consolidated Borrowing Group" means the LSB Borrower Subsidiaries and the CCI Consolidated Borrowing Group.

"LSB-Related Loan Agreements" means the following loan agreements: (i) this Agreement; and (ii) the Second Amended and Restated Loan and Security Agreement dated of even date herewith between Lender and the LSB Borrower Subsidiaries.

"Springing Covenant Event" means three consecutive Business Days when the aggregate Availability of the LSB Consolidated Borrowing Group under all of the LSB-Related Loan Agreements is less than Fifteen Million Dollars (\$15,000,000) (with Availability calculated for this purpose without taking into account any then outstanding Overadvance Amount) on each such Business Day.

Section 2.02 The following new definition is hereby added to the Agreement:

"Overadvance Amount" means the following amounts which are taken into account in calculating Availability under the other LSB-Related Loan Agreement: \$500,000 before October 31, 1999; \$333,334 between October 31, 1999 and November 29, 1999; and \$166,668 between November 30, 1999 and December 30, 1999.

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 4.02. 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 since March 31, 1999, 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":

CLIMATE MASTER, INC.

By: _____

Name: _____

Title: _____

INTERNATIONAL ENVIRONMENTAL CORPORATION

By: _____

Name: _____

Title: _____

EL DORADO CHEMICAL COMPANY

By: _____

Name: _____

Title: _____

SLURRY EXPLOSIVE CORPORATION

By: _____

Name: _____

Title: _____

"LENDER"

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By: _____

Michael J. Jasaitis, Vice President

CONSENTS AND REAFFIRMATIONS

The undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Sixth Amendment to Amended and Restated Loan and Security Agreement dated as of May 10, 1999, between Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Corporation, Slurry Explosive Corporation and Bank of America National Trust and Savings Association ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty (the "Guaranty") dated as of November 21, 1997, 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 May 10, 1999.

CLIMACHEM, INC.

By:

David Goss, Vice Chairman

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Sixth Amendment to Amended and Restated Loan and Security Agreement dated as of May 10, 1999, between Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Corporation, Slurry Explosive Corporation and Bank of America National Trust and Savings Association ("Creditor") and each reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of November 21, 1997, and acknowledges and agrees that such Guaranty remains in full force and effect and each Guaranty is hereby ratified and confirmed.

Dated as of May 10, 1999.

LSB INDUSTRIES, INC.
SUMMIT MACHINE TOOL MANUFACTURING
CORP
MOREY MACHINERY MANUFACTURING
CORPORATION

By:

Name:

Title:

SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

by and between

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION
as Lender

and

LSB INDUSTRIES, INC.,
SUMMIT MACHINE TOOL MANUFACTURING CORP.,
and
MOREY MACHINERY MANUFACTURING CORPORATION
jointly and severally as Borrowers

Dated: May 10, 1999

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SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT is dated May 10, 1999, and is entered into by and between BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION (successor-in-interest to BankAmerica Business Credit, Inc.), a Delaware corporation, with offices at 55 South Lake Avenue, Suite 900, Pasadena, California 91101 (the "Lender"), and LSB INDUSTRIES, INC. ("LSB"), a Delaware corporation, SUMMIT MACHINE TOOL MANUFACTURING CORP. ("Summit"), an Oklahoma corporation, MOREY MACHINERY MANUFACTURING CORPORATION ("Morey"), an Oklahoma corporation, each with offices at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107 (each individually a "Borrower" and collectively the "Borrowers").

W I T N E S S E T H

WHEREAS, Lender, LSB and Morey, in addition to other related parties, entered into a Loan and Security Agreement dated December 12, 1994 (which as thereafter amended from time to time is referred to as the "Original LSB Loan Agreement"); and

WHEREAS, Lender and Summit entered into a Loan and Security Agreement dated December 12, 1994 (which as thereafter amended from time to time is referred to as the "Original Summit Loan Agreement"); and

WHEREAS, on November 21, 1997 the parties to the Original LSB Loan Agreement entered into an Amended and Restated Loan and Security Agreement (which as thereafter amended from time to time is referred to as the "First Amended LSB Loan Agreement"); and

WHEREAS, on November 21, 1997 the parties to the Original Summit Loan Agreement entered into an Amended and Restated Loan and Security Agreement (which as thereafter amended from time to time is referred to as the "First Amended Summit Loan Agreement"); and

WHEREAS, on May 10, 1999 LSB obtained alternative financing for several of its subsidiaries, including several parties to the First Amended LSB Loan Agreement, and L&S Bearing Co. which was party to a separate but related Amended and Restated Loan and Security Agreement with Lender; and

WHEREAS, on November 21, 1997 Lender entered into a related amended and restated loan transaction with Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company, and Slurry Explosive Corporation (collectively, the "CCI Borrower Subsidiaries", which, along with Borrowers and certain Subsidiaries of the CCI Borrower Subsidiaries, are referred to as the "LSB Consolidated Borrowing Group"); and

WHEREAS, Lender and the Borrowers have agreed to consolidate the First Amended LSB Loan Agreement and the First Amended Summit Loan Agreement into a single loan agreement, the "Second Amended and Restated Loan and Security Agreement"; and

WHEREAS, the aggregate amount of all loans and letters of credit to be made by Lender to the LSB Consolidated Borrowing Group will not exceed Sixty-Five Million and No/100 Dollars (\$65,000,000) in the aggregate at any time outstanding;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the Borrowers and the Lender hereby agree as follows:

1. DEFINITIONS.

1.1 As used herein:

"Account" means each Borrower's right to payment for a sale or lease and delivery of goods or rendition of services.

"Account Debtor" means each Person obligated to a Borrower on an Account.

"Affiliate" means: a Person who, directly or indirectly, controls, is controlled by or is under common control with LSB, which includes the LSB Consolidated Borrowing Group. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person in question.

"Applicable Interest Rate" has the meaning given to such term in Section 3.1(a).

"Acquisition" means the investment in or purchase of a corporation, association, business, entity, partnership or limited liability company by Borrower by means of the purchase of stock, assets, memberships, partnership interests or otherwise.

"Availability" means at any time the lesser of:

- A. The Maximum Revolving Credit Line; or
- B. The lesser of \$6,000,000 less the Availability Reductions; or
- C. The sum of:
 - (1) eighty percent (80%) of the Eligible Accounts ("Accounts Availability"), plus
 - (2) the lesser of (a) the Maximum Inventory Advance Amount or (b) the sum of (i) sixty percent (60%) of the value of Eligible Inventory other than vertical boring machines ("VBM's") and machine tools acquired in trade in connection with the sale of other Inventory ("Trade-in-Inventory"), plus (ii) twenty-five percent (25%) of the value of Eligible

Inventory consisting of VBM's, plus (iii) twenty-five percent (25%) of the value of Eligible Inventory consisting of Trade-in-Inventory; provided, however, that advances against the Trade-in-Inventory shall not exceed \$500,000 in the aggregate at any one time; plus

(3) until the Overadvance Facility Termination Date, the Overadvance Amount; less

(4) the Availability Reductions.

"Availability Reductions" means the sum of the following amounts:

(i) the unpaid balance of outstanding Revolving Loans at such time;

(ii) one hundred percent (100%) of the aggregate undrawn face amount of all outstanding Letters of Credit at such time which the Lender has, or has caused to be, issued or obtained for the account of any Borrower;

(iii) reserves for accrued interest on the Revolving Loans which is past due;

(iv) the Environmental Compliance Reserve; and

(v) all other reasonable reserves which the Lender in its reasonable discretion deems necessary or desirable to maintain with respect to any Borrower's account, including, without limitation, any amounts which the Lender could reasonably be obligated to pay within a six-month period for the account of any Borrower.

"Bond Debt" means Debt owed by any member of the CCI

Consolidated

Group on Senior Notes due 2007 (the "Notes") in the principal amount not to exceed \$125,000,000 issued pursuant to the Bond Indenture.

"Bond Indenture" means that certain Indenture dated as of November 26, 1997 by and among CCI and other members of the CCI Consolidated Group and Bank One, NA relating to the Bond Debt.

"Borrower Subsidiaries" means LSB, Morey, Summit Machine Tool Manufacturing Corp., El Dorado Chemical Company, Slurry Explosive Corporation, Climate Master, Inc., and International Environmental Corporation.

"Business Day" means any day that is not a Saturday, Sunday, or day on which banks in Los Angeles, California are required or permitted to close.

"Capital Expenditures" means all costs incurred, whether payable in the Fiscal Year incurred or thereafter, (including financing costs required to be capitalized under GAAP) for purchases made during a Fiscal Year for any fixed asset or improvement, or replacement, substitution, or addition thereto, which has a useful life of more than one year, including, without limitation, those costs arising in connection with the direct or indirect acquisition of such assets by way of increased product or service charges or offset items or in connection with Capital Leases.

"Capital Lease" means any lease of Property that, in accordance with GAAP, should be reflected as a liability on a Person's balance sheet.

"CCI" means ClimaChem, Inc., an Oklahoma corporation, and a wholly-owned Subsidiary of LSB.

"CCI Borrower Subsidiaries" means Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company, and Slurry Explosive Corporation.

"CCI Consolidated Borrowing Group" means the CCI Borrower Subsidiaries and the CCI Guarantor Subsidiaries.

"CCI Consolidated Group" means CCI and all of its Subsidiaries, including the CCI Borrower Subsidiaries and the CCI Guarantor Subsidiaries.

"CCI Guarantor Subsidiaries" means Climate Mate, Inc., LSB Chemical Corp., Universal Tech Corporation, The Environmental Group, Inc., CHP Corporation, Koax Corp. and APR Corporation.

"Closing Date" means November 21, 1997.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" has the meaning given to such term in Section 6.1.

"Debt" means all liabilities, obligations and indebtedness of any Borrower to any Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, as would be shown on the balance sheet of such Borrower prepared in accordance with GAAP.

"Distribution" means, in respect of any corporation: (a) the payment or making of any dividend or other distribution of Property in respect of capital stock of such corporation, other than distributions in capital stock; and (b) the redemption or other acquisition of any capital stock of such corporation

"Dollars" and "\$" means lawful money of the United States of America.

"Early Termination Fee" means a single fee of \$500,000 which shall be jointly and severally due and owing from the LSB Consolidated Borrowing Group if, prior to December 31, 2000, any of the LSB-Related Loan Agreements are terminated other than in accordance with their terms.

"EDC" means El Dorado Chemical Company, a CCI Borrower Subsidiary.

"Eligible Accounts" means all Accounts of any Borrower which are not ineligible. Accounts shall be ineligible as the basis for Revolving Loans based on the following criteria. Eligible Accounts shall not include any Account:

(i) where such Account is "Past Due". For the purposes of this provision, "Past Due" means: (a) where the Account has terms of payment of less than ninety-one (91) days from the invoice date, the payment thereof is more than 90 days past due; and (b) where the Account has terms of payment of ninety-one to three hundred sixty (91 to 360) days from the invoice date, the payment thereof is more than 30 days past due;

(ii) where, with respect to such Account, any of the representations, warranties, covenants and agreements contained in Sections 6.9 and 8.2 of this Agreement are not or have ceased to be complete and correct or have been breached;

(iii) where such Account represents a progress billing or as to which the Borrower has extended the time for payment after issuance of the invoice relating to such Account. For the purpose hereof, "progress billing" means any invoice for goods sold or leased or services rendered under a contract or agreement pursuant to which the Account Debtor's obligation to pay such invoice is expressly conditioned upon the completion by Borrower of any further performance under the contract or agreement, provided, however, that performance required under a warranty claim or provision shall not make such Account a "progress billing";

(iv) where Borrower has become aware that any one or more of the following events has occurred with respect to an Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, or

winding up of affairs of, the Account Debtor; the sale, assignment, or transfer of all or any material part of the assets of the Account Debtor; or the cessation of the business of the Account Debtor as a going concern;

(v) where an Account is not a valid, legally enforceable obligation of the Account Debtor thereunder or is subject to offset, counterclaim or other defenses on the part of such Account Debtor denying liability thereunder in whole or in part;

(vi) where the Borrower does not have good and marketable title to such Account, free and clear of all Liens, other than Liens arising under this Agreement and the documents delivered in connection herewith;

(vii) which is owed by an Account Debtor which:
(i) does not maintain its chief executive office in the United States or territory thereof or Canada; or (ii) is not organized under the laws of the United States or any state or territory thereof or Canada; or (iii) is the government of any foreign country or any state, province, municipality or other political subdivision thereof (all of the foregoing being referred to as "Foreign Accounts"); except that, to the extent that such Foreign Accounts are secured or payable by letters of credit or bank guarantees reasonably acceptable to Lender, such Foreign Accounts shall be considered Eligible Accounts. Notwithstanding the foregoing, Lender has agreed that Foreign Accounts, if they otherwise meet all eligibility requirements, will be Eligible Accounts even though such Foreign Accounts are not secured or payable by letters of credit or bank guarantees reasonably acceptable to Lender up to an amount not to exceed at any one time more than five percent (5%) of the Gross LSB Accounts Availability (without taking into account such Foreign Accounts);

(viii) which is owed by an Account Debtor which is an Affiliate;

(ix) which is owed by the government of the United States of America, or any department, agency, or other instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended, or any other steps necessary to perfect the Lender's Security Interest therein, have been complied with to the Lender's reasonable satisfaction with respect to such Account;

(x) which is owed by any state or municipality, or any department, agency, or other instrumentality thereof, and as to which the Lender's Security Interest therein is not or cannot be perfected;

(xi) which arises out of a sale to an Account Debtor on a bill and hold, guaranteed sale, sale or return, sale on approval, consignment, or other repurchase or return basis;

(xii) which is evidenced by a promissory note or other instrument (unless such note or instrument is part of chattel paper in which Lender has a first priority perfected Security Interest) or by chattel paper (unless Lender has a first priority perfected Security Interest therein);

(xiii) where the goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor (provided, however, that where the Account Debtor has agreed in writing to accept billings for such goods, with a copy of such writing being provided to Lender, then such Account shall be an Eligible Account if it otherwise qualifies) or the services giving rise to such Account have not been performed by the Borrower and accepted by the Account Debtor;

(xiv) if Lender believes in its reasonable credit judgment that the prospect of collection of such Account is impaired;

(xv) which Account is owing from an Account Debtor in which fifty percent (50%) or more of the Accounts owing from whom are Past Due as set forth in subsection (i) of this definition of Eligible Accounts;

(xvi) as to which either the perfection, enforceability, or validity of the Security Interest in such Account, or the Lender's right or ability to obtain direct payment to the Lender of the Proceeds of such Account, is governed by any federal, state, or local statutory requirements other than those of the UCC; or

(xvii) with respect to which the Account Debtor is located in any state requiring the filing of a Business Activities Report or similar document in order to permit the Borrower to seek judicial enforcement in such state of payment of such Account, unless Borrower has qualified to do business in such state, or has filed a Notice of Business Activities Report or equivalent report with the applicable state office for the then current year.

"Eligible Inventory" means Inventory of any Borrower valued at the lower of cost or market on a "first in-first out" ("FIFO") basis that constitutes (i) raw materials (including raw materials stored or held by any Borrower in the work-in-progress area and fifty percent (50%) of Inventory classified as components) and (ii) first quality finished goods and that (a) is not obsolete or unmerchantable, (b) upon which the Lender has a first priority perfected Security Interest, and (c) the Lender otherwise deems eligible as the basis for Revolving Loans based on such other credit and collateral considerations as the Lender may from time to time establish in its reasonable discretion. Without intending to limit the Lender's discretion to establish other reasonable criteria of eligibility, no work-in-progress, service or spare parts, packaging, used parts, shipping materials, supplies, containers, defective Inventory, Inventory consisting of machines being rebuilt, Inventory acquired in trade in connection with the sale of other Inventory, slow-moving Inventory, Inventory in transit (except for Inventory in

transit owned by Borrower, covered by insurance, and in which Lender has a Security Interest), fifty percent (50%) of Inventory classified as components, or Inventory delivered to Borrower on consignment shall constitute Eligible Inventory. Eligible Inventory shall not include Inventory stored at locations other than those locations either owned by the Borrower or locations for which a landlord's waiver acceptable to Lender or a consignment agreement (with appropriate UCC filings) has been signed by the owner of such location and delivered to Lender. In addition, the amount of all finished goods reserves (excluding reserves for "last-in-first-out" valuation) shown on the books of Borrowers shall be deducted from the value of the Eligible Inventory as used in computing Availability, except to the extent that any such reserve has already been taken into account in connection with any of the above criteria.

"Environmental Compliance Reserve" means all reserves which the Lender from time to time establishes for amounts that are liabilities required to be paid by any Borrower within 180 days in order to correct any violation by the Borrower or the operations or Property of Borrower with respect to Environmental Laws.

"Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, and consent decrees relating to hazardous substances, and environmental matters applicable to the business and facilities of Borrowers (whether or not owned by any Borrower). Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., as amended; the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., as amended; the Clean Water Act, 33 U.S.C. Section 466 et seq., as amended; the Clean Air Act, 42 U.S.C. Section 7401 et seq., as amended; state and federal superlien and environmental cleanup programs; and U.S. Department of Transportation regulations.

"Equipment" means, with respect to any Borrower, all of the now owned and hereafter acquired machinery, equipment, furniture, furnishings, fixtures, and other tangible personal property (except Inventory), including, without limitation, data processing hardware and software, motor vehicles, aircraft, dies, tools, jigs, and office equipment, as well as all of such types of property which are leased and all of the rights and interests with respect thereto under such leases (including, without limitation, options to purchase); together with all present and future additions and accessions thereto, replacements therefor, component and auxiliary parts and supplies used or to be used in connection therewith, and all substitutes for any of the foregoing, and all manuals, drawings, instructions, warranties and rights with respect thereto wherever any of the foregoing is located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Business Day" means any Business Day in which commercial banks are open for international business (including dealings in dollar deposits) in London, England and Los Angeles, California.

"Eurodollar Base Rate" means, for any Interest Period, an interest rate determined by the Lender to be the rate per annum at which deposits in Dollars are offered to Lender in the London interbank market at 11:00 a.m. (London time) two (2) Business Days before the first day of such Interest Period for delivery on the first day of such Interest Period in an amount substantially equal to the Eurodollar Rate Loans requested for such Interest Period and for a period equal to such Interest Period.

"Eurodollar Interest Payment Date" means the first day of each month during any Interest Period and the last day of such Interest Period.

"Eurodollar Interest Rate Determination Date" means each date of calculating the Eurodollar Rate for purposes of determining the interest rate with respect to an Interest Period. The Eurodollar Interest Rate Determination Date for any Eurodollar Rate Loan shall be the second Business Day prior to the first day of the related Interest Period for such Eurodollar Rate Loan.

"Eurodollar Rate" means, for any Interest Period, a per annum interest rate (rounded upward to the next 1/100th of 1%) equal to the quotient of (a) the Eurodollar Base Rate for such Interest Period, divided by (b) one hundred percent (100%) minus the Eurodollar Rate Reserve Percentage for such Interest Period.

"Eurodollar Rate Loan" means a Revolving Loan during any period in which it bears interest at the rate provided in Section 3.1(a)(ii), as such amount may be adjusted pursuant to Section 3.1(b).

"Eurodollar Rate Reserve Percentage" for any Interest Period means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Event" means any event or condition which, with notice, the passage of time, the happening of any other condition or event, or any combination thereof, would constitute an Event of Default.

"Event of Default" has the meaning given to such term in Section 11.1.

"Financial Statements" means, according to the context in which it is used, the financial statements attached hereto as Exhibit G-1, and the Latest Forecasts attached hereto as Exhibit G-2, and any other financial statements required to be given by the Borrower to the Lender under this Agreement.

"Fiscal Quarter" means any three-month period ending March 31, June 30, September 30 or December 31.

"Fiscal Year" means LSB's fiscal year for financial accounting purposes. The current Fiscal Year of LSB will end on December 31, 1999.

"GAAP" means at any particular time generally accepted accounting principles as in effect at such time.

"Gross Availability Reductions" means the sum of all "Availability Reductions" as such term is defined in and calculated under the LSB-Related Loan Agreements.

"Gross LSB Accounts Availability" means the sum of the amounts calculated as "Accounts Availability" as such term is defined in and as calculated under all of the LSB-Related Loan Agreements.

"Guaranty" by any Person means all obligations of such Person which in any manner directly or indirectly guarantee the payment or performance of any indebtedness or other obligation of any other Person (the "guaranteed obligations"), or assure or in effect assure the holder of the guaranteed obligations against the loss in respect thereof, including, without limitation, any such obligations incurred through an agreement, (a) to purchase the guaranteed obligations or any Property constituting security therefor or (b) to advance or supply funds for the purchase or payment of the guaranteed obligations or to maintain a working capital or other balance sheet condition.

"Intercompany Accounts" means all assets and liabilities, however arising, which are due to the Borrower from, which are due from the Borrower to, or which otherwise arise from any transaction by the Borrower with, any Affiliate.

"Interest Period" means, with respect to each Eurodollar Rate Loan the 90-day interest period applicable to such Eurodollar Rate Loan as determined pursuant to Section 3.3(b).

"Inventory" means all of each Borrower's now owned and hereafter acquired inventory, wherever located, to be held for sale or lease, all raw materials, work-in-process, finished goods, returned and repossessed goods, and materials and supplies of any kind, nature or description which are or might be used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such inventory, and all documents of title or other documents representing them.

"IRS" means the Internal Revenue Service or any successor agency.

"Latest Forecasts" means, (a) the forecasts of the Borrower's monthly financial condition, results of operations, and cash flows through the year ending December 31, 1999, attached hereto as Exhibit G-2; and (b) thereafter, the forecasts most recently received by the Lender pursuant to Section 7.2.

"Letter of Credit" has the meaning specified in Section 2.3.

"Letter of Credit Agreement" has the meaning specified in Section 2.3.

"Letter of Credit Fee" means the commissions charged under the Letter of Credit Agreement on the outstanding amount of each Letter of Credit.

"Lien" means: any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute, or contract, and including without limitation, a security interest, charge, claim, or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, or conditional sale, or a lease, consignment or bailment for security purposes.

"Loans" means, collectively, all loans and advances by the Lender to or on behalf of the Borrowers provided for in Article 2.

"Loan Documents" means all documents executed by the Borrowers, including this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Guaranties, the Collateral Assignment of Notes and Liens, and all other agreements, instruments, and documents heretofore, now or hereafter evidencing, securing or guaranteeing the Obligations under this Agreement, the Collateral or the Security Interest, as the same may hereafter be amended, modified, restated and/or extended.

"LSB" means LSB Industries, Inc., a Delaware corporation, a Borrower under this Agreement.

"LSB Adjusted Tangible Assets" means all of the assets of the LSB Consolidated Borrowing Group, on a consolidated basis, except: (a) goodwill; (b) unamortized debt discount and expense; (c) assets constituting Intercompany Accounts; (d) fixed assets to the extent of any write-up in the book value thereof resulting from a revaluation effective after the Closing Date; and (e) any intangibles, as determined in accordance with GAAP.

"LSB Adjusted Tangible Net Worth" means, at any date: (a) the book value (after deducting related depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with GAAP) at which the LSB Adjusted Tangible Assets would be shown on a consolidated balance sheet of the LSB Consolidated Borrowing Group at such date prepared in accordance with GAAP less (b) (i) the amount

at which the LSB Consolidated Borrowing Group's liabilities would be shown on such balance sheet prepared in accordance with GAAP, and (ii) LSB's redeemable preferred stock which was valued at \$146,000 as of the Closing Date.

"LSB Borrower Subsidiaries" means LSB, Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation.

"LSB Consolidated Borrowing Group" means the LSB Borrower Subsidiaries and the CCI Consolidated Borrowing Group.

"LSB-Related Loan Agreements" means all of the following loan agreements: (i) this Agreement; and (ii) the Amended and Restated Loan and Security Agreement dated November 21, 1997 between Lender, El Dorado Chemical Company, Slurry Explosive Corporation, Climate Master, Inc., and International Environmental Corporation.

"Maximum Inventory Advance Amount" means the lesser of (a) \$32,500,000 less all then outstanding revolving loans, advances, and outstanding letters of credit based on the "Eligible Inventory" (as defined in each of the LSB-Related Loan Agreements) of the LSB Consolidated Borrowing Group under the LSB-Related Loan Agreements, or (b) \$5,000,000 less all then outstanding Revolving Loans, advances, and outstanding Letters of Credit based on the Eligible Inventory under this Agreement.

"Maximum Revolving Credit Line" means Sixty-Five Million Dollars (\$65,000,000) less the Gross Availability Reductions.

"Morey" means Morey Machinery Manufacturing Corporation, a Borrower under this Agreement.

"Multi-employer Plan" means a Plan which is described in Section 3(37) of ERISA.

"Obligations" means all present and future loans, advances, liabilities, obligations, covenants, duties and Debts owing by the Borrowers to the Lender, arising under this Agreement or any other Loan Document, whether or not evidenced by any note, or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, loan, guaranty, indemnification (including any indemnity by Lender in connection with the Swap Transactions or otherwise for the benefit of the Borrowers), whether direct or indirect (including, without limitation, those acquired by assignment from others relating to Swap Transactions), absolute or contingent, due or to become due, primary or secondary, as principal or guarantor, and including, without limitation, all interest, charges, expenses, fees, attorneys' fees, filing fees and any other sums chargeable to the Borrowers hereunder or under another Loan Document, or under any other agreement or instrument with Lender relating to the Swap Transactions. "Obligations" includes, without limitation, (a) all debts, liabilities, and obligations now or hereafter owing from Borrowers to Lender under or in connection with the Letters of

Credit and the Letter of Credit Agreement, (b) all debts, liabilities, and obligations now or hereafter owing from any Borrower to the Lender arising from or related to the Swap Transactions, and (c) all debts, liabilities, and obligations owing by the Borrowers to the Lender under the original "Continuing Guaranty with Security Agreement" documents executed by each of the Borrowers as of the Closing Date, as amended from time to time and of even date herewith.

"Offering Memorandum" means that certain Offering Memorandum dated November 21, 1997, as amended or supplemented, issued by CCI describing CCI and the CCI Consolidated Group, the Bond Debt, and the Bond Indenture.

"Overadvance Amount" means \$500,000 before October 31, 1999; \$333,334 between October 31, 1999 and November 29, 1999; and \$166,668 between November 30, 1999 and December 30, 1999.

"Overadvance Facility" means the Revolving Loans then outstanding in an amount not to exceed the Overadvance Amount from May __, 1999 until the Overadvance Facility Termination Date.

"Overadvance Facility Termination Date" means December 31, 1999.

"Participating Lender" means any Person who shall have been granted the right by the Lender to participate in the Revolving Loans and who shall have entered into a participation agreement in form and substance satisfactory to the Lender.

"Patent and Trademark Assignments" means the Patent Security Agreement and the Trademark and Trade Names Security Agreement dated as of December 12, 1994, executed and delivered by the Borrowers to the Lender to evidence and perfect the Lender's Security Interest in the Borrowers' present and future patents, trademarks, trade names and related licenses and rights, each as amended and modified from time to time.

"Payment Account" means each blocked bank account, established pursuant to Section 6.10, to which Proceeds of Accounts and other Collateral are deposited or credited, and which is maintained in the name of the Borrowers on terms acceptable to the Lender.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to the functions thereof.

"Pension Plan" means any employee benefit plan, including a Multiemployer Plan, which is subject to Title IV of ERISA, where either (a) the Plan is maintained by the Borrower or any Related Company; or (b) Borrower or any Related Company contributes or is required to contribute to it; or (c) Borrower or any Related Company has incurred or may incur liability, including contingent liability, under Title IV of ERISA, either to it, or to the PBGC with respect to it.

"Permitted Debt" means: (i) the Obligations; (ii) Debt set forth in the most recent Financial Statements delivered to the Lender, or the notes

thereto; (iii) Debt incurred since the date of such Financial Statements to finance Capital Expenditures permitted hereby; (iv) Debt issued or assumed by any Borrower in connection with an Acquisition permitted under Section 9.14 hereof; (v) Debt resulting from a judgment having been rendered against any Borrower that is being appealed by the Borrower in good faith and in a timely manner, for which an adequate reserve has been recorded on Borrower's books, and which is not fully covered by insurance; (vi) Subordinated Debt; (vii) Debt resulting from the refinancing of any other Permitted Debt as long as (a) such Debt does not exceed the amount of the refinanced Debt, and (b) such Debt does not result in payment acceleration of the refinanced Debt; (viii) Debt resulting from trade payables and other obligations arising in the ordinary course of business, (ix) other Debt not otherwise permitted by this definition in an amount not to exceed \$6,000,000 at any one time; (x) Debt of the Borrowers (a) to CCI (i) existing as of November 26, 1997 and (ii) thereafter in an amount not to exceed \$2,000,000 per annum, or (b) to a member of the LSB Consolidated Borrowing Group, or (c) to a member of the CCI Consolidated Borrowing Group, or (d) to an Affiliate in accordance with Section 9.9 hereof, or (e) to any other Subsidiary of LSB that is not CCI, a member of the CCI Consolidated Borrowing Group or the LSB Consolidated Borrowing Group, provided however that the aggregate amount of Debt outstanding to all such other Subsidiaries under (e) shall at no time exceed \$200,000 in the aggregate; (xi) the Bond Debt; and (xii) the SBL Debt. Notwithstanding the foregoing, Permitted Debt described in subsection (ix) of this definition, when combined with Permitted Debt allowed under subsection (ix) of the definition of Permitted Debt under the other LSB-Related Loan Agreement, shall not exceed \$11,000,000 at any one time. In addition to the foregoing, Permitted Debt shall include the letter of credit in the original amount of \$1,000,000 issued by Lender for the account of LSB and for the benefit of Congress Financial Corporation.

"Permitted Liens" means: (a) Liens for taxes not yet payable or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements, and further provided that, with respect to the Collateral, a stay of enforcement of any such Lien is in effect; (b) Liens in favor of the Lender; (c) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting the Real Property; (d) Liens or deposits under workmen's compensation, unemployment insurance, social security and other similar laws, (e) Liens relating to obligations with respect to surety, appeal bonds, performance bonds, bids, tenders and other obligations of a like nature, (f) Liens existing as of the Closing Date and granted after the date hereof in connection with the Equipment, Real Property or other fixed assets, provided that such Liens attach only to such Property and the proceeds thereof, and so long as the indebtedness secured thereby does not exceed 100% of the fair market value of such Property at the time of acquisition; (g) Liens on goods consigned to the Borrower or not owned by Borrower so long as such Lien attaches only to such goods and so long as Lender has been given notice of such Lien, (h) mechanic,

materialmen and other like Liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings and adequately reserved against, (i) statutory Liens in favor of landlords, (j) Liens against any life insurance policy or the cash surrender value thereof which relate to borrowings incurred to finance the premiums made under such policy; (k) Liens not to exceed \$1,000,000 at any one time in amounts secured, which are junior in priority to the Security Interest and which arise or are placed inadvertently against the assets of Borrowers and are removed within ten (10) days from receipt of notice by the Borrowers of such Lien; and (l) Liens reflected on Exhibit A hereto.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, Public Authority, or any other entity.

"Plan" means, individually and collectively, all Pension Plans, all additional employee benefit plans as defined in Section 3(3) of ERISA, and all other plans, programs, agreements, arrangements, and methods of contribution or compensation providing any material remuneration or benefits, other than the cash payment of wages or salary, to any current or former employee(s) of the Borrower.

"Proceeds" means all products and proceeds of any Collateral, and all proceeds of such products and products, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty, or guaranty payable with respect to any Collateral, all proceeds of fire or other insurance, and all money and other Property obtained as a result of any claims against third parties or any legal action or proceeding with respect to Collateral.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Proprietary Rights" means all of each Borrower's now owned and hereafter arising or acquired: licenses, franchises, permits, patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, trade names, trade styles, patent and trademark applications and licenses and rights thereunder, including without limitation those patents, trademarks and copyrights set forth on Exhibit B hereto, and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present, and future infringement of any of the foregoing; inventions, trade secrets, formulae, processes, compounds, drawings, designs, blueprints, surveys, reports, manuals, and operating standards, goodwill, customer and other lists in whatever form maintained, and trade secret rights, copyright rights, right in works of authorship, and contract rights relating to computer software programs, in whatever form created or maintained.

"Public Authority" means the government of any country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or any department, agency, public corporation or other instrumentality of any of the foregoing.

"Real Property" means all of each Borrower's rights, title, and interest in real property now owned or hereafter acquired by such Borrower, including, without limitation, the real property more particularly described in Exhibit H attached hereto, including all rights and easements in connection therewith and all buildings and improvements now or hereafter constructed thereon.

"Receivables" means all of each Borrower's now owned or hereafter arising or acquired: Accounts (whether or not earned by performance), including Accounts owed to the Borrower by any of its Subsidiaries or Affiliates (but excluding Accounts arising solely from the sale of Equipment, Real Property or other fixed assets), together with all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; proceeds of any letters of credit naming the Borrower as beneficiary; contract rights, chattel paper, instruments, documents, general intangibles (including, without limitation, choses in action, causes of action, tax refunds, tax refund claims, Reversions and other amounts payable to the Borrower from or with respect to any Plan, rights and claims against shippers and carriers, rights to indemnification and business interruption insurance), and all forms of obligations owing to Borrower (including, without limitation, obligations owing to the Borrower by its Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; and rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

"Reference Rate" means the per annum rate of interest publicly announced from time to time by the Lender at its San Francisco, California main office as its reference rate. It is a rate set by Lender based upon various factors including Lender's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans; however, Lender may price loans at, above or below the Reference Rate. Any change in the Reference Rate shall take effect on the day specified in the public announcement of such change.

"Reference Rate Loan" means a Revolving Loan during any period in which it bears interest at the rate provided in Section 3.1(a)(i).

"Reference Rate Margin" has the meaning specified in Section 3.1(a)(i).

"Related Company" means any member of any controlled group of corporations including, or under common control with, Borrower (as defined in Section 414(b) or (c) of the Code or Section 4001(a)(14) of ERISA).

"Reportable Event" means, with respect to a Pension Plan, a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4062(e) of ERISA.

"Restricted Investment" means any acquisition of Property by any Borrower in exchange for cash or other Property, whether in the form of an acquisition of stock, indebtedness or other obligation, or by loan, advance, capital contribution, or otherwise, except the following: (a) Property to be used in the business of any Borrower; (b) assets arising from the sale or lease of goods or rendition of services in the ordinary course of business of the Borrower; (c) direct obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof; (d) certificates of deposit maturing within one year from the date of acquisition, bankers acceptances, Eurodollar bank deposits, or overnight bank deposits, in each case issued by, created by, or with a bank or trust company organized under the laws of the United States or any state thereof having capital and surplus aggregating at least \$100,000,000; and (e) commercial paper given the highest rating by a national credit rating agency and maturing not more than 270 days from the date of creation thereof.

"Reversions" means any funds which may become due to the Borrower in connection with the termination of any Plan.

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

"SBL Debt" means the \$3 Million Dollar loan made by SBL Corporation to LSB and/or the other Subsidiaries of LSB during the month of October, 1997.

"Security Interest" means collectively the Liens granted by Borrowers to the Lender in the Collateral pursuant to this Agreement or the other Loan Documents.

"Springing Covenant Event" means three consecutive Business Days when the aggregate Availability of the LSB Consolidated Borrowing Group under all of the LSB-Related Loan Agreements is less than Fifteen Million Dollars (\$15,000,000) (with Availability calculated for this purpose without taking into account any then outstanding Overadvance Amount) on each such Business Day.

"Subordinated Debt" shall mean Debt that is unsecured and is subordinated to the payment of the Obligations.

"Subsidiary" or "Subsidiaries" means any present or future corporation or corporations of which LSB owns, directly or indirectly, more than 50% of the voting stock.

"Summit Adjusted Tangible Assets" means all of the assets of Summit, except: (a) goodwill; (b) unamortized debt discount and expense; (c) assets constituting Intercompany Accounts; (d) fixed assets to the extent of any write-up in

the book value thereof resulting from a revaluation effective after the Closing Date; and (e) any intangibles, as determined in accordance with GAAP.

"Summit Adjusted Tangible Net Worth" means, at any date: (a) the book value (after deducting related depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with GAAP) at which the Summit Adjusted Tangible Assets would be shown on a balance sheet of Summit at such date prepared in accordance with GAAP less (b) (i) the amount at which Summit's liabilities would be shown on such balance sheet prepared in accordance with GAAP, and (ii) LSB's redeemable preferred stock which was valued at \$146,000 as of the Closing Date.

"Swap Transaction Reserves" means all reserves which the Lender from time to time establishes for amounts that are liabilities owed by EDC to the Lender.

"Swap Transactions" means interest rate swaps, treasury locks, and all other forward rate agreements entered into by the Lender for the account of or otherwise for the benefit of EDC.

"Termination Event" means: (a) a Reportable Event (other than a Reportable Event described in Section 4043 of ERISA which is not subject to the provision for 30-day notice to the PBGC under applicable regulations); or (b) the withdrawal of the Borrower or any Related Company from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA with respect to such Pension Plan; or (c) the filing of a notice of intent to terminate a Pension Plan or the treatment of a Pension Plan amendment as a termination under Section 4041 of ERISA; or (d) the institution of proceedings by the PBGC to terminate or have a trustee appointed to administer a Pension Plan; or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan, or (f) the partial or complete withdrawal of Borrower or any Related Company from a Multi-employer Plan, or (g) the withdrawal of Borrower from any state workers' compensation system.

"UCC" means the Uniform Commercial Code (or any successor statute) of the State of Oklahoma or of any other state the laws of which are required by Section 9-103 thereof to be applied in connection with the issue of perfection of security interests.

1.2 Accounting Terms. Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the Financial Statements.

1.3 Other Terms. All other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein. Wherever appropriate in the context,

terms used herein in the singular also include the plural, and vice versa, and each masculine, feminine, or neuter pronoun shall also include the other genders.

1.4 Exhibits. All references in this Agreement to Exhibits are, unless otherwise specified, references to exhibits attached hereto, and all such exhibits are hereby deemed incorporated herein by this reference.

2. LOANS AND LETTERS OF CREDIT.

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon any Borrower's request from time to time, make revolving loans (the "Revolving Loans") to the Borrowers 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 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. The Borrowers 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 for a Revolving Loan shall be conclusively presumed to be made by a person authorized by the Borrowers to do so and the crediting of a Revolving Loan to the Borrowers' deposit account, or transmittal to such Person as the Borrowers shall direct, shall conclusively establish the 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 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 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.

2.2 Availability Determination. Availability will be determined by the Lender in accordance with the terms of this Agreement, each day on the basis of such relevant information as the Lender deems appropriate to consider, including the collateral summary reports and such other information regarding the Accounts and the Inventory as the Lender shall obtain from the Borrower.

2.3 Letters of Credit. The Lender will, subject to the terms and conditions of this Agreement and the Letter of Credit Agreement as hereafter defined, and upon any Borrower's request from time to time, cause merchandise letters of credit (the "Merchandise L/C's") or standby letters of credit (the "Standby L/C's") to be issued for the Borrowers' account (the Merchandise L/C's and the Standby L/C's being referred to collectively as the "Letters of Credit"). The Lender will not cause to be opened any Letter of Credit if: (a) the maximum face amount of the requested Letter of Credit, plus the aggregate undrawn face amount of all

outstanding Letters of Credit under this Agreement and the other LSB-Related Loan Agreements, would exceed Eleven Million and No/100 Dollars (\$11,000,000); or (b) the maximum face amount of the requested Letter of Credit, and all commissions, fees, and charges due from Borrower to Lender in connection with the opening thereof, would cause the Availability to be exceeded at such time. In addition, with respect to any Merchandise L/C, the requested term of such Letter of Credit may not exceed 180 days, and no Merchandise L/C may by its terms be scheduled to be outstanding on the Termination Date. Standby L/C's may have terms that extend beyond the Termination Date but upon termination of this Agreement, all Letters of Credit must be either terminated with the consent of the beneficiary thereof, replaced with a letter of credit provided by a financial institution acceptable to Lender, collateralized by cash or cash equivalent, or otherwise satisfied in a manner acceptable to Lender. The Letters of Credit shall be governed by a Letter of Credit Financing Agreement - Supplement to Loan and Security Agreement between the Lender and the Borrower ("Letter of Credit Agreement"), in the form attached hereto as Exhibit "0" and made a part hereof, in addition to the terms and conditions hereof. All payments made and expenses incurred by the Lender pursuant to or in connection with the Letters of Credit and the Letter of Credit Agreement will be charged to the Borrower's loan account as Revolving Loans.

2.4 Swap Transactions. EDC has requested and the Lender has, in its sole and absolute discretion, arranged for EDC to obtain Swap Transactions in amounts to be agreed to between EDC and Lender. Each Borrower agrees to indemnify and hold the Lender harmless from any and all obligations now or hereafter owing arising from or related to such Swap Transactions. EDC has agreed to pay the Lender all amounts owing to the Lender pursuant to the Swap Transactions. In the event EDC shall not have paid to the Lender such amounts, such amounts shall constitute a Revolving Loan of EDC which shall be deemed to have been requested by EDC.

2.5 Overadvance Facility. Subject to all of the terms and conditions of this Agreement, the Lender agrees to provide to Borrowers the Overadvance Facility.

3. INTEREST AND OTHER CHARGES

3.1 Interest.

(a) Interest Rates. All amounts charged as Revolving Loans shall bear interest on the unpaid principal amount thereof from the date made until paid in full in cash at the Applicable Interest Rate as described in Sections 3.1(a)(i) and (ii) but not to exceed the maximum rate permitted by applicable law. Subject to the provisions of Section 3.2, any of the Revolving Loans may be converted into, or continued as, Reference Rate Loans or Eurodollar Rate Loans in the manner provided in Section 3.2. If at any time Revolving Loans are outstanding with respect to which notice has not been delivered to Lender in accordance with the terms of this Agreement specifying the basis for determining the interest rate applicable thereto, then those Revolving Loans

shall be Reference Rate Loans and shall bear interest at a rate determined by reference to the Reference Rate until notice to the contrary has been given to the Lender and such notice has become effective. Except as otherwise provided herein, the amounts charged as Revolving Loans shall bear interest at the following rates (the "Applicable Interest Rate"):

(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-half percent (.50%) 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 two and seven-eighths percent (2.875%) per annum (the "Eurodollar Margin") plus the Eurodollar Rate determined for the applicable Interest Period.

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 (2) interest accrued on the Reference Rate Loans will be payable in arrears on the first day of each month hereafter.

(b) Default Rate. If any Event of Default occurs, then, while any such Event of Default is continuing, all Loans shall bear interest at an increased rate of interest equal to the Applicable Interest Rate thereto plus two percent (2.0%) per annum, and the Letter of Credit Fee shall be increased to three percent (3%) per annum.

3.2 Eurodollar Borrowings: Conversion or Continuation.

(a) Subject to the provisions of Section 3.3, the Borrowers shall have the option: (i) to request the Lender to make a Revolving Loan as a Eurodollar Rate Loan; (ii) to convert all or any part of the outstanding Revolving Loans from Reference Rate Loans to Eurodollar Rate Loans, (iii) to convert all or any part of the outstanding Revolving Loans from Eurodollar Rate Loans to Reference Rate Loans on the expiration of the Interest Period applicable thereto; (iv) upon the expiration of any Interest Period applicable to any outstanding Eurodollar Rate Loan, to continue all or any portion of such Eurodollar Rate Loan as a Eurodollar Rate Loan; provided, however, that no outstanding Loans may be converted into or continued as, Eurodollar Rate Loans when any Event or Event of Default has occurred and is continuing.

(b) Whenever the Borrowers elect to borrow, convert into or continue Eurodollar Rate Loans under this Section 3.2, the Borrower shall notify the Lender in writing or telephonically no later than 11:00 a.m. (Los Angeles, California time) two (2) Business Days in advance of the requested borrowing/conversion/continuation date. The Borrowers shall specify (1) the borrowing/conversion/continuation date (which shall be a Business Day), (2) the amount and type of the Revolving Loans to be borrowed/converted/continued, and (3) the nature of the requested borrowing/ conversion/continuation. In the event that the Borrowers should fail to timely notify the Lender to continue to convert any existing Eurodollar Rate Loan, such Loan shall, on the last day of the Interest Period with respect to such Revolving Loan, convert to a Reference Rate Loan.

(c) The officer of the Borrowers authorized by the Borrowers to request Revolving Loans on behalf of the Borrowers shall also be authorized to request a conversion/continuation on behalf of the Borrowers. The Lender shall be entitled to rely on such officer's authority until the Lender is notified to the contrary in writing. The Lender shall have no duty to verify the authenticity of the signature appearing on any written notification or request and, with respect to an oral notification or request, the Lender shall have no duty to verify the identity of any individual representing himself as one of the officers authorized to make such notification or request on behalf of the Borrowers. The Lender shall incur no liability to any Borrower in acting upon any telephonic notice or request referred to in this Section 3.2, which the Lender believes in good faith to have been given by an officer authorized to do so on behalf of the Borrowers, or for otherwise acting in good faith under this Section 3.2 and, upon lending/conversion/continuation by the Lender in accordance with this Agreement pursuant to any such telephonic notice, the Borrowers shall have effected the borrowing/conversion/continuation of the applicable Loans hereunder.

(d) Any written or telephonic notice of conversion to, or borrowing or continuation of, Revolving Loans made pursuant to this Section 3.2 shall be irrevocable and the Borrowers shall be bound to borrow, convert or continue in accordance therewith.

3.3 Special Provisions Governing Eurodollar Rate Loans. Notwithstanding any other provisions to the contrary contained in this Agreement, the following provisions shall govern with respect to Eurodollar Rate Loans as to the matters covered:

(a) Amount of Eurodollar Rate Loans. Each election of, continuation of, or conversion to a Eurodollar Rate Loan, shall be in a minimum amount of Five Million Dollars (\$5,000,000) and in integral multiples of One Million Dollars (\$1,000,000) in excess of that amount.

(b) Determination of Interest Period. The Interest Period for each Eurodollar Rate Loan shall be for a three (3) month period. The determination of Interest Periods shall be subject to the following provisions:

(i) In the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on which the next preceding Interest Period expires.

(ii) If any Interest Period would otherwise expire on a day which is not a Business Day, the Interest Period shall be extended to expire on the next succeeding Business Day; provided, however, that if the next succeeding Business Day occurs in the following calendar month, then such Interest Period shall expire on the immediately preceding Business Day.

(iii) The Borrowers may not select an Interest Period for any Eurodollar Rate Loan, which Interest Period expires later than the Stated Termination Date.

(iv) There shall be not more than two (2) Interest Periods in effect at any one time, and no more than two (2) Interest Periods may begin during any calendar month.

(v) If an Interest Period starts on a date for which no numerical correspondent exists in the month in which such Interest Period ends, such Interest Period will end on the last Business Day of such month.

(c) Determination of Interest Rate. As soon as practicable after 11:00 a.m. (Los Angeles, California time) on the Eurodollar Interest Rate Determination Date, the Lender shall determine (which determination shall, absent manifest error, be presumptively correct) the Interest Rate for the Eurodollar Rate Loans for which an Interest Rate is then being determined and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to the Borrower.

(d) Substituted Rate of Borrowing. In the event that on any Eurodollar Interest Rate Determination Date the Lender shall have determined (which determination shall, absent manifest error, be presumptively correct and binding upon all parties) that:

(i) by reason of any changes arising after the date of this Agreement affecting the interbank Eurodollar market or affecting the position of Lender in such market, adequate and fair means do not exist for ascertaining the applicable interest rates by reference to which the Eurodollar Rate then being determined is to be fixed; or

(ii) by reason of (1) any change after the date of this Agreement in any applicable law or governmental rule, regulation or order (or any interpretation thereof and including the introduction of any new law or governmental rule, regulation or order) or (2) any other circumstances affecting Lender or the interbank Eurodollar market or the position of Lender in such market (such as, for example, but not limited to, official reserve requirements required by Regulation D of the Board of Governors of the Federal Reserve System to the extent not given effect in the Eurodollar Rate), the Eurodollar Rate shall not represent the effective pricing to Lender for Dollar deposits of comparable amounts for the relevant period;

then, and in any such event, the right of the Borrowers to request application of the Eurodollar Rate to some or all of the Loans shall be suspended until the Lender shall notify the Borrowers that the circumstances causing such suspension no longer exist, and such Loans shall be Reference Rate Loans.

(e) Illegality. In the event that on any date Lender shall have reasonably determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties) that the making of, conversion into, or the continuation

of, Lender's Eurodollar Rate Loans has become unlawful as the result of compliance by Lender in good faith with any law, governmental rule, regulation or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, and in any such event, Lender shall promptly give notice (by telephone confirmed in writing) to the Borrowers of such determination. In such case and except as provided in Section 3.3(f), the obligation of Lender to make or maintain any Eurodollar Rate Loans during any such period shall be terminated at the earlier of the termination of the Interest Period then in effect or when required by law, and the Borrowers shall, no later than the earlier of the termination of the Interest Period in effect at the time any such determination pursuant to this Section 3.3(e) is made, or when required by law, repay the Eurodollar Rate Loans, together with all interest accrued thereon.

(f) Options of the Borrower. In lieu of prepaying the Eurodollar Rate Loans as required by Section 3.3(e), the Borrowers may exercise either of the following options:

(i) Upon written notice to the Lender, the Borrowers may release Lender from its obligations to make or maintain Loans as Eurodollar Rate Loans and in such event, the Borrowers shall, at the end of the then current Interest Period (or at such earlier time as prepayment is otherwise required), convert all of the Eurodollar Rate Loans into Reference Rate Loans in the manner contemplated by Section 3.2, but without satisfying the advance notice requirements therein; or

(ii) The Borrowers may, by giving notice (by telephone confirmed immediately by telecopy) to Lender require Lender to continue to maintain its outstanding Reference Rate Loans as Reference Rate Loans, but without satisfying the advance notice requirements set forth in such Section 3.2.

(g) Compensation. In addition to such amounts as are required to be paid by the Borrowers pursuant to the other Sections of this Article 3, the Borrowers agree to compensate the Lender for all expenses and liabilities, including, without limitation, any loss or expense incurred by Lender by reason of the liquidation or reemployment of deposits or other funds acquired by Lender to fund or maintain the Lender's Eurodollar Rate Loans to the Borrowers, which Lender sustains (i) if due to the fault of the Borrowers a funding of any Eurodollar Rate Loans does not occur on a date specified therefor by Borrowers in a telephonic or written request for borrowing or conversion/continuation, or a successive Interest Period does not commence after notice therefor is given pursuant to Section 3.2, (ii) if any voluntary or mandatory prepayment of any Eurodollar Rate Loans occurs for any reason on a date which is not the last scheduled day of an Interest Period, or (iii) as a consequence of any other failure by the Borrowers to repay Eurodollar Rate Loans when required by the terms of this Agreement.

(h) Quotation of Eurodollar Rate. Anything herein to the contrary notwithstanding, if on any Eurodollar Interest Rate Determination Date no Eurodollar Rate is available by reason of the failure of to be offered quotations in accordance with the definition of "Eurodollar Base Rate," the Lender shall give the Borrowers prompt notice thereof and (i) any Eurodollar Rate Loan requested to be made at the Eurodollar Rate to be determined on any Eurodollar Interest Rate Determination Date shall be made as a

Reference Rate Revolving Loan, and (ii) any notice given by the Borrowers to convert any Loans into or to continue any Loans as Eurodollar Rate Loans at the Eurodollar Rate to be determined on any such Eurodollar Interest Rate Determination Date shall be ineffective.

(i) Eurodollar Rate Taxes. The Borrowers agree that they will pay, prior to the date on which penalties attach thereto, all present and future income, stamp and other taxes, levies, or costs and charges whatsoever imposed, assessed, levied or collected on or from the Lender on or in respect of the Borrowers' Loans from the Lender solely as a result of the interest rate being determined by reference to the Eurodollar Rate and/or the provisions of this Agreement relating to the Eurodollar Rate and/or the recording, registration, notarization or other formalization of any of the foregoing and/or any payments of principal, interest or other amounts made on or in respect of the Loans from the Lender when the interest rate is determined by reference to the Eurodollar Rate (all such taxes, levies, cost and charges being herein collectively called "Eurodollar Rate Taxes"); provided, however, that Eurodollar Rate Taxes shall not include taxes imposed on or measured by the overall net income of the Lender by the United States of America or any political subdivision or taxing authority thereof or therein, or taxes on or measured by the overall net income by any foreign branch or subsidiary of the Lender by any foreign country or subdivision thereof in which that branch or subsidiary is doing business. Promptly after the date on which payment of any such Eurodollar Rate Tax is due pursuant to applicable law, the Borrowers will, at the request of the Lender, furnish to the Lender evidence, in form and substance satisfactory to the Lender, that the Borrowers have met their obligation under this Section 3.3(i), in addition, the Borrowers will indemnify the Lender against, and reimburse Lender on demand for, any Eurodollar Rate Taxes for which the Lender is or may be liable by reason of the making or maintenance of any Eurodollar Rate Loans hereunder, as determined by the Lender in its discretion exercised in good faith and pursuant to standards of commercial reasonableness. The Lender shall provide Borrowers with appropriate receipts for any payments or reimbursements made by Borrowers pursuant to this Section 3.3(i).

(j) Booking of Eurodollar Rate Loans. The Lender may make, carry or transfer Eurodollar Rate Loans at, to, or for the account of, any of its branch offices or the office of any of its Affiliates.

(k) Increased Costs. If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Reserve Percentage) in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other Public Authority (whether or not having the force of law), there shall be any increase in the cost to the Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Loans, then the Borrowers agree that they shall, from time to time, upon demand by the Lender in writing to the Borrowers, within sixty (60) days from the date of such increased cost, pay to the Lender additional amounts sufficient to compensate the Lender for such increased cost relating to the outstanding Eurodollar Rate Loans made to the Borrowers. A certificate as to the amount of such increased cost and the method of determination thereof, submitted to the Borrowers by the Lender, shall be rebuttably presumptive evidence of the correctness of such amount. Notwithstanding the above, the Lender shall promptly advise Borrowers of any increased costs covered by this paragraph

(k) of which Lender is aware that have been made or which are proposed to be made which may require the Borrowers to be required to pay the increased cost under this paragraph (k) prior to or at the time that Borrowers request additional Eurodollar Rate Loans.

3.4 Maximum Interest Rate.

(a) Notwithstanding the foregoing provisions of Sections 3.1 through 3.3 regarding the rates of interest applicable to the Loans, if at any time the amount of such interest computed on the basis of the Applicable Interest Rate would exceed the amount of such interest computed upon the basis of the maximum rate of interest permitted by applicable state or federal law in effect from time to time hereafter, after taking into account, to the extent required by applicable law, any and all fees, payments, charges and calculations provided for in this Agreement or in any other agreement between any Borrower and Lender (the "Maximum Legal Rate"), the interest payable under this Agreement shall be computed upon the basis of the Maximum Legal Rate, but any subsequent reduction in the Reference Rate or the Eurodollar Rate shall not reduce such interest thereafter payable hereunder below the amount computed on the basis of the Maximum Legal Rate until the aggregate amount of such interest accrued and payable under this Agreement equals the total amount of interest which would have accrued if such interest had been at all times computed solely on the basis of the Applicable Interest Rate.

(b) No agreements, conditions, provisions or stipulations contained in this Agreement or any other instrument, document or agreement between any Borrower and the Lender or default of any Borrower, or the exercise by the Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Agreement or any other agreement between any Borrower and the Lender, or the arising of any contingency whatsoever, shall entitle the Lender to collect, in any event, interest exceeding the Maximum Legal Rate and in no event shall any Borrower be obligated to pay interest exceeding such Maximum Legal Rate and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel such Borrower to pay a rate of interest exceeding the Maximum Legal Rate, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such Maximum Legal Rate. In the event any interest is charged in excess of the Maximum Legal Rate ("Excess"), each Borrower acknowledges and stipulates that any such charge shall be the result of an accidental and bona fide error, and such Excess shall be, first, applied to reduce the principal then unpaid hereunder; second, applied to reduce the Obligations; and third, returned to the Borrowers, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Each Borrower recognizes that, with fluctuations in the Applicable Interest Rate and the Maximum Legal Rate, such an unintentional result could inadvertently occur. By the execution of this Agreement, each Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by such Borrower of such Excess, and (ii) the Borrower shall not seek or pursue any other remedy, legal or equitable, against Lender, based in whole or in part upon the charging or receiving of any interest in excess of the maximum authorized by applicable law. For the purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by the Lender in

connection with this Agreement shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

(c) The provisions of Section 3.4 shall be deemed to be incorporated into every document or communication relating to the Obligations which sets forth or prescribes any account, right or claim or alleged account, right or claim of the Lender with respect to the Borrowers (or any other obligor in respect of Obligations), whether or not any provision of Section 3.4 is referred to therein. All such documents and communications and all figures set forth therein shall, for the sole purpose of computing the extent of the liabilities and obligations of the Borrowers (or other obligor) asserted by the Lender thereunder, be automatically recomputed by any Borrower or obligor, and by any court considering the same, to give effect to the adjustments or credits required by Section 3.4.

(d) If the applicable state or federal law is amended in the future to allow a greater rate of interest to be charged under this Agreement or any other Loan Documents than is presently allowed by applicable state or federal law, then the limitation of interest under Section 3.4 shall be increased to the maximum rate of interest allowed by applicable state or federal law as amended, which increase shall be effective hereunder on the effective date of such amendment, and all interest charges owing to the Lender by reason thereof shall be payable upon demand.

3.5 Capital Adequacy. If as a result of any regulatory change directly or indirectly affecting Lender or any of Lender's affiliated companies there shall be imposed, modified or deemed applicable any tax, reserve, special deposit, minimum capital, capital ratio, or similar requirement against or with respect to or measured by reference to loans made or to be made to Borrowers hereunder, or to Letters of Credit issued on behalf of Borrowers pursuant to the Letter of Credit Agreement, and the result shall be to increase the cost to Lender or to any of Lender's affiliated companies of making or maintaining any Revolving Loan or Letter of Credit hereunder, or reduce any amount receivable in respect of any such Revolving Loan and which increase in cost, or reduction in amount receivable, shall be the result of Lender's or Lender's affiliated company's reasonable allocation among all affected customers of the aggregate of such increases or reductions resulting from such event, then, within ten (10) days after receipt by Borrowers of a certificate from Lender containing the information described in this Section 3.5 which shall be delivered to Borrowers, each Borrower agrees from time to time to pay Lender such additional amounts as shall be sufficient to compensate Lender or any of Lender's affiliated companies for such increased costs or reductions in amounts which Lender determines in Lender's reasonable discretion are material. Notwithstanding the foregoing, all such amounts shall be subject to the provisions of Section 3.4. The certificate requesting compensation under this Section 3.5 shall identify the regulatory change which has occurred, the requirements which have been imposed, modified or deemed applicable, the amount of such additional cost or reduction in the amount receivable and the way in which such amount has been calculated.

4. PAYMENTS AND PREPAYMENTS.

4.1 Revolving Loans. The Borrowers shall repay, and be jointly and severally liable for, the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest

thereon, upon the termination of this Agreement. In addition, the Borrowers shall pay to the Lender, on demand, the amount by which the unpaid principal balance of the Revolving Loans at any time exceeds the Availability at such time (with Availability for this purpose determined as if the amount of the Revolving Loans were zero).

4.2 Place and Form of Payments: Extension of Time. All payments of principal, interest, and other sums due to the Lender shall be made at the Lender's address set forth in Section 13.10. Except for Proceeds received directly by the Lender, all such payments shall be made in immediately available funds. If any payment of principal, interest, or other sum to be made hereunder becomes due and payable on a day other than a Business Day, the due date of such payment shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable interest rate during such extension.

4.3 Apportionment, Application and Reversal of Payments. Except as otherwise expressly provided hereunder, the Lender shall determine in its discretion the order and manner in which proceeds and other payments that the Lender receives are applied to the Revolving Loans, interest thereon, and the other Obligations, and each Borrower hereby irrevocably waives the right to direct the application of any payment or proceeds; provided, however, unless so directed by the Borrowers, the Lender shall not apply any such payments which it receives to any Eurodollar Rate Loan, except: (a) on the expiration date of the Interest Period applicable to any such Eurodollar Rate Loan; or (b) in the event, and only to the extent, that there are not outstanding Reference Rate Loans. Following an Event of Default that is continuing, the Lender shall have the continuing and exclusive right to apply and reverse and reapply any and all such proceeds and payments to any portion of the Obligations subject to the terms of this Section 4.3 and the Borrowers' right to direct prepayments of Eurodollar Rate Loans.

4.4 INDEMNITY FOR RETURNED PAYMENTS. IF AFTER RECEIPT OF ANY PAYMENT OF, OR PROCEEDS APPLIED TO THE PAYMENT OF, ALL OR ANY PART OF THE OBLIGATIONS, THE LENDER IS FOR ANY REASON REQUIRED TO SURRENDER SUCH PAYMENT OR PROCEEDS TO ANY PERSON, BECAUSE SUCH PAYMENT OR PROCEEDS IS INVALIDATED, DECLARED FRAUDULENT, SET ASIDE, DETERMINED TO BE VOID OR VOIDABLE AS A PREFERENCE, OR A DIVERSION OF TRUST FUNDS, OR FOR ANY OTHER REASON, THEN: THE OBLIGATIONS OR PART THEREOF INTENDED TO BE SATISFIED SHALL BE REVIVED AND CONTINUE AND THIS AGREEMENT SHALL CONTINUE IN FULL FORCE AS IF SUCH PAYMENT OR PROCEEDS HAD NOT BEEN RECEIVED BY THE LENDER AND THE BORROWERS SHALL BE LIABLE TO PAY TO THE LENDER, AND HEREBY DOES INDEMNIFY THE LENDER AND HOLD THE LENDER HARMLESS FOR THE AMOUNT OF SUCH PAYMENT OR PROCEEDS SURRENDERED. The provisions of this Section 4.4 shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment or Proceeds, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Agreement and shall be deemed to have been conditioned upon such payment or Proceeds having become final and irrevocable. The provisions of this Section 4.4 shall survive the termination of this Agreement.

5. LENDER'S BOOKS AND RECORDS: MONTHLY STATEMENTS. The Borrowers agree that the Lender's books and records showing the Obligations and the transactions pursuant to this Agreement and the other Loan Documents shall be admissible in any action or proceeding arising therefrom irrespective of whether any Obligation is also evidenced by a promissory note or other instrument, and shall constitute presumptive proof thereof until such time as Borrowers have reviewed the monthly statement as hereinafter provided. The Lender will provide to the Borrowers a monthly statement of Loans, payments, and other transactions pursuant to this Agreement. Such statement shall be deemed correct, accurate, and binding on the Borrowers and as an account stated and shall constitute prima facie proof thereof (except for reversals and reapplications of payments made as provided in Section 4.3 and corrections of errors discovered by the Lender), unless the Borrowers notify the Lender in writing to the contrary within thirty (30) days after such statement is rendered. In the event a timely written notice of objections is given by the Borrowers, only the items to which exception is expressly made will be considered to be disputed by the Borrowers.

6. COLLATERAL.

6.1 Grant of Security Interest.

(a) As security for the Obligations, each Borrower hereby grants to the Lender a continuing security interest in, lien on, and assignment of: (i) all Receivables, Inventory, Proprietary Rights, and Proceeds, wherever located and whether now existing or hereafter arising or acquired; (ii) all moneys, securities and other property and the Proceeds thereof, now or hereafter held or received by, or in transit to, the Lender from or for such Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including, without limitation, all of such Borrower's deposit accounts, credits and balances with the Lender and all claims of the Borrower against the Lender at any time existing; (iii) all of Borrower's deposit accounts containing Collateral with any financial institutions with which Borrower maintains deposits; and (iv) all books, records, ledger cards, data processing records, computer software and other property and general intangibles at any time evidencing or relating to the Receivables, Inventory, Proprietary Rights, Proceeds, and other property referred to above (all of the foregoing, together with all other property in which Lender may at any time be granted a Lien, being herein collectively referred to as the "Collateral"). The Lender shall have all of the rights of a secured party with respect to the Collateral under the UCC and other applicable laws.

(b) All Obligations shall constitute a single loan secured by the Collateral. The Lender may, in its sole discretion, (i) exchange, waive, or release any of the Collateral, (ii) after the occurrence of an Event of Default that is continuing, apply Collateral and direct the order or manner of sale thereof as the Lender may determine, and (iii) after the occurrence of an Event of Default that is continuing, settle, compromise, collect, or otherwise liquidate any Collateral in any manner, all without affecting the Obligations or the Lender's right to take any other action with respect to any other Collateral.

6.2 Perfection and Protection of Security Interest.

Each Borrower shall, at its expense, perform all steps requested by the Lender at any time to perfect, maintain, protect, and enforce

the Security Interest in the Collateral including, without limitation: (a) executing and recording of the Patent and Trademark Assignments and executing and filing financing or continuation statements, and amendments thereof, relating to the Collateral in form and substance satisfactory to the Lender; (b) delivering to the Lender, upon Lender's request therefor, the originals of all instruments, documents, and chattel paper, and all other Collateral of which the Lender determines it should have physical possession in order to perfect and protect the Security Interest therein, duly endorsed or assigned to the Lender without restriction; (c) delivering to the Lender warehouse receipts covering any portion of the Collateral located in warehouses and for which warehouse receipts are issued; (d) after an Event of Default that is continuing, causing notations to be placed on each Borrower's books of account to disclose the Security Interest; (e) delivering to the Lender, upon Lender's request therefor, all letters of credit on which any Borrower is a named beneficiary; (f) after an Event of Default that is continuing transferring Inventory to warehouses designated by the Lender; and (g) taking such other steps as are deemed necessary by the Lender to maintain the Security Interest. The Lender may file, without any Borrower's signature, one or more financing statements disclosing the Security Interest. Each Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of the agents or processors of any Borrower, then such Borrower shall notify the Lender thereof and shall notify such Person of the Security Interest in such Collateral and, upon the Lender's request following an Event of Default that is continuing, instruct such Person to hold all such Collateral for the Lender's account subject to the Lender's instructions. If at any time any Collateral is located on any premises that are not owned by a Borrower, then the Borrowers shall obtain written waivers, in form and substance reasonably satisfactory to the Lender, of all present and future Liens to which the owner or lessor of such premises may be entitled to assert against the Collateral. From time to time, the Borrowers shall, upon Lender's request, cause to be executed and delivered confirmatory written instruments pledging to the Lender the Collateral, but the Borrowers' failure to do so shall not affect or limit the Security Interest. So long as this Agreement is in effect and until all Obligations have been fully satisfied, the Security Interest shall continue in full force and effect in all Collateral (whether or not deemed eligible for the purpose of calculating the Availability or as the basis for any advance, loan, or other financial accommodation). Upon termination of this Agreement and payment of all Obligations, the Lender shall release all Security Interests held by the Lender.

6.3 Location of Collateral. Each Borrower represents and warrants to the Lender that: (a) Exhibit D hereto is a correct and complete List of each Borrower's chief executive office, the location of its books and records as well as the locations of the Collateral and the locations of all of its other places of business; and (b) Exhibit H correctly identifies any of such facilities and locations that are not owned by a Borrower and sets forth the names of the owners and lessors of, and, to the best of each Borrower's knowledge, the holders of any mortgages on such facilities and locations. Except for Inventory that is consigned by a Borrower to a customer or warehouse, each Borrower agrees that it will not maintain any Collateral at any location other than those listed on Exhibit D, and it will not otherwise change or add to any of such locations, unless it gives the Lender at least

thirty (30) days prior written notice and executes or has executed, such financing statements and other documents that the Lender requests in connection therewith.

6.4 Title to, Liens on, and Sale and Use of Collateral. Each Borrower represents and warrants to the Lender that: (a) all Collateral is and will continue to be owned by the Borrower free and clear of all Liens whatsoever, except for the Security Interest and other Permitted Liens; (b) the Security Interest will not be subject to any prior Lien except the Permitted Liens; (c) the Borrower will use, store, and maintain the Collateral with all reasonable care and will use the Collateral for lawful purposes only; and (d) the Borrower will not, without the Lender's prior written approval, sell, or dispose of or permit the sale or disposition of any Collateral, except for (i) sales of Inventory in the ordinary course of business, and (ii) as otherwise provided or allowed by this Agreement or any of the other Loan Documents. The inclusion of Proceeds in the Collateral shall not be deemed the Lender's consent to any sale or other disposition of the Collateral except as expressly permitted herein.

6.5 Appraisals. Following the occurrence of an Event of Default that is continuing, each Borrower shall, at the request of the Lender, provide the Lender, at the Borrower's expense, with appraisals or updates thereof of any or all of the Collateral from an appraiser satisfactory to the Lender.

6.6 Access and Examination. The Lender may at all reasonable times have access to, examine, audit, make extracts from and inspect each Borrower's records, files, and books of account, as well as the Collateral and may discuss the Borrower's affairs with the Borrower's officers and management. The Borrower will deliver to the Lender any instrument necessary for the Lender to obtain records from any service bureau maintaining records for the Borrower. The Lender may, at any time when an Event of Default exists and at the Borrowers' expense, make copies of all of the Borrowers' books and records, or require the Borrower to deliver such copies to the Lender. After the occurrence of an Event of Default that is continuing, the Lender may, without expense to the Lender, use such of the Borrowers' personnel, supplies, and premises as may be reasonably necessary for maintaining or enforcing the Security Interest. Lender shall have the right, at any time, in Lender's name or in the name of a nominee of the Lender, to verify the validity, amount or any other matter relating to the Accounts, by mail, telephone, or otherwise.

6.7 Insurance. Each Borrower shall insure the Collateral and Equipment against loss or damage by fire with extended coverage, theft, burglary, pilferage, loss in transit, and such other hazards as the Lender shall specify, in amounts, under policies and by insurers acceptable to the Lender. Each Borrower shall also maintain flood insurance, in the event of a designation of the area in which any Real Property is located as "flood prone" or a "flood risk area," as defined by the Flood Disaster Protection Act of 1973, in an amount to be reasonably determined by Lender, and shall comply with the additional requirements of the National Flood Insurance Program as set forth therein. Each Borrower shall cause the Lender to be named in each such policy as secured party of the Inventory that constitutes part of the Collateral and loss payee or additional insured, in a manner acceptable to the Lender, as to the Collateral. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than

thirty (30) days prior written notice to the Lender in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Lender shall not be impaired or invalidated by any act or neglect of the Borrower or the owner of any premises where Collateral is located nor by the use of such premises for purposes more hazardous than are permitted by such policy. All premiums for such insurance shall be paid by the Borrower when due, and certificates of insurance and, if requested, photocopies of the policies shall be delivered to the Lender. If the Borrower fails to procure such insurance or to pay the premiums therefor when due, the Lender may (but shall not be required to) do so and charge the costs thereof to the Borrower's loan account. After becoming aware of any loss, damage or destruction to Collateral, the Borrower shall promptly notify the Lender of any such loss, damage, or destruction that exceeds \$200,000, whether or not covered by insurance. The Lender is hereby authorized to collect all insurance proceeds directly following the occurrence of an Event of Default that is continuing. After deducting from such proceeds the expenses, if any, incurred by Lender in the collection or handling thereof, if an Event of Default has occurred and is continuing, the Lender may apply such proceeds to the reduction of the Obligations, in such order as Lender determines, or at the Lender's option may permit or require the Borrower to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction. If no Event of Default has occurred and is continuing, Lender hereby authorizes Borrower to collect all such insurance proceeds and to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction.

6.8 Collateral Reporting. The Borrowers will provide the Lender with the following documents at the following times in form satisfactory to the Lender: (a) on a daily basis, a schedule of Accounts created since the last such schedule, a schedule of remittance advices, credit memos and reports and a schedule of collections of Accounts since the last such schedule; (b) no later than fifteen (15) days after the last day of each month, monthly summary and detailed agings of Accounts aged by due date and by invoice date; (c) no later than twenty (20) days after the last day each month, monthly reconciliations of Accounts balances per the aging to the general ledger accounts receivable balance and to the financial statements provided to Lender under Section 7.2(c); (d) no later than twenty (20) days after the last day each month, monthly Inventory reports by category and by location; (e) no later than twenty (20) days after the last day each month, monthly reconciliations of the detailed Inventory reports to the general ledger and to the financial statements provided to Lender under Section 7.2(c); (f) upon request, copies of invoices, credit memos, shipping and delivery documents, purchase orders; (g) such other reports as to the Collateral as the Lender shall request from time to time; and (h) certificates of an officer of the Borrower certifying as to the foregoing. If any of the Borrower's records or reports of the Collateral are prepared by an accounting service or other agent, the Borrower hereby authorizes such service or agent to deliver such records, reports, and related documents to the Lender.

6.9 Accounts. The following apply to each Borrower:

- (a) The Borrower hereby represents and warrants to the Lender that:
 - (i) each existing Account represents, and each future Account will

represent, a bona fide sale or lease and delivery of goods by the Borrower, or rendition of services by the Borrower, in the ordinary course of business; (ii) each existing Account is, and each future Account will be, for a liquidated amount payable by the Account Debtor thereon on the terms set forth in the invoice therefor or in the schedule thereof delivered to the Lender, without offset, deduction, defense, or counterclaim (other than claims relating to warranty issues); (iii) no payment will be received with respect to any Account, and no credit, discount, or extension, or agreement therefor will be granted to any Account, except as reported to or otherwise agreed to by the Lender in accordance with this Agreement; (iv) each copy of an invoice requested by and delivered to the Lender by the Borrower will be a genuine copy of the original invoice sent to the Account Debtor named therein; and (v) all goods described in each invoice will have been delivered to the Account Debtor and all services described in each invoice will have been performed, except where the Account Debtor has previously agreed in writing to accept billings for such goods.

(b) The Borrower shall not re-date any invoice or sale or make sales on extended dating beyond that customary in the business of the applicable Borrower or extend or modify any Account which alters its eligibility status, or, with respect to ineligible Accounts, which are inconsistent with prudent business practice and industry standards. If any Borrower becomes aware of any matter adversely affecting any Account in an amount in excess of \$100,000, including information regarding the Account Debtor's creditworthiness, the Borrower will promptly so advise the Lender.

(c) The Borrower shall not accept any note or other instrument (except a check or other instrument for the immediate payment of money) with respect to any Eligible Account without the Lender's written consent. If the Lender consents to the acceptance of any such instrument, it shall be considered as evidence of the Account and not payment thereof and the Borrower will upon Lender's request, promptly deliver such instrument to the Lender appropriately endorsed. Regardless of the form of presentment, demand, notice of dishonor, protest, and notice of protest with respect thereto, the Borrower will remain liable thereon until such instrument is paid in full.

(d) The Borrower shall notify the Lender promptly of all disputes and claims with an Account Debtor relating to an Eligible Account that exceeds \$100,000 and when no Event of Default exists hereunder, may settle or adjust them at no expense to the Lender, but no discount, credit or allowance in excess of \$100,000 shall be granted to any Account Debtor without the Lender's consent, except for discounts, credits and allowances made or given in the ordinary course of the business of the applicable Borrower. The Borrower shall send the Lender a copy of each credit memorandum in excess of \$100,000 as soon as issued. The Lender may, at all times when an Event of Default exists hereunder, settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which the Lender considers advisable and, in all cases, the Lender will credit the Borrower's loan account with only the net amounts received by the Lender in payment of any Accounts.

6.10 Collection of Accounts. (a) Until the occurrence of an Event of Default that is continuing, each Borrower shall collect all Accounts, shall receive all payments relating to Accounts, and

shall promptly deposit all such collections into a Payment Account established for the account of the Borrowers at a bank acceptable to the Borrowers and the Lender. All collections relating to Accounts received in any such Payment Account or directly by the Borrowers or the Lender, and all funds in any Payment Account or other account to which such collections are deposited, shall be the sole property of the Lender and subject to the Lender's sole control. After the occurrence of an Event of Default that is continuing, the Lender may, at any time, notify obligors that the Accounts have been assigned to the Lender and of the Security Interest therein, and may collect them directly and charge the collection costs and expenses to the Borrowers' loan account. After the occurrence of an Event of Default that is continuing, each Borrower, at Lender's request, shall execute and deliver to the Lender such documents as the Lender shall require to grant the Lender access to any post office box in which collections of Accounts are received.

(a) If sales of Inventory are made for cash, each Borrower shall immediately deliver to the Lender the identical checks, cash, or other forms of payment which the Borrower receives.

(b) All payments received by the Lender on account of Accounts or as Proceeds of other Collateral will be the Lender's sole property and will be credited to the Borrowers' loan account (conditional upon final collection) after allowing one (1) Business Day for collection.

(c) In the event the Borrowers repay all of the Obligations upon the termination of this Agreement, other than through the Lender's receipt of payments on account of Accounts or Proceeds of other Collateral, such payment will be credited (conditional upon final collection) to the Borrowers' loan account one (1) Business Day after the Lender's receipt thereof.

6.11 Inventory. Each Borrower represents and warrants to the Lender that all of the Inventory is and will be held for sale or lease, or to be furnished in connection with the rendition of services, in the ordinary course of business, and is and will be fit for such purposes. The Borrowers will cause the Inventory to be kept in good and marketable condition, at their own expense. Each Borrower agrees that all Inventory produced by the Borrowers in the United States will be produced in accordance with the Federal Fair Labor Standards Act of 1938. The Borrowers will conduct a physical count of the Inventory at least once per Fiscal Year, except as otherwise agreed to between the Lender and the Borrowers, and will, upon request of the Lender, supply the Lender with a copy of such count accompanied by a report of the value of such Inventory (valued at the lower or cost, on a first-in, first-out basis, or market value). The Borrowers will not, without the Lender's written consent, allow any Inventory to be sold on a bill and hold basis (except as provided in subsection (xiii) of the definition of Eligible Accounts set forth in this Agreement), guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis.

6.12 Documents and Instruments. Each Borrower represents and warrants to the Lender that: (a) all Documents and Instruments describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete,

valid, and genuine and (b) all goods evidenced by such Documents and Instruments were, at the time of their sale, owned by the Borrower free and clear of all Liens other than Permitted Liens.

6.13 Right to Cure. The Lender may in its sole discretion pay any amount or do any act required of any Borrower hereunder in order to preserve, protect, maintain or enforce the Obligations, the Collateral or the Security Interest, and which the Borrower fails to pay or do, including, without limitation, payment of any judgment against the Borrower, any insurance premium, any warehouse charge, processing charge, any landlord's claim, and any other Lien upon the Collateral. All payments that the Lender makes under this Section 6.13 and all out-of-pocket costs and expenses that the Lender pays or incurs in connection with any action, taken by it hereunder shall be charged to the Borrowers' loan account; provided that Lender will make a good faith effort to notify the Borrowers and provide the Borrowers with a written, itemized invoice covering such charge. Any payment made or other action taken by the Lender under this Section 6.13 shall be without prejudice to any right Lender may have to assert an Event of Default hereunder and to proceed accordingly.

6.14 Power of Attorney. Each Borrower appoints the Lender and the Lender's designees as the Borrower's attorney, with power: (a) to endorse the Borrower's name on any checks, notes, acceptances, money orders, or other forms of payment or security that come into the Lender's possession; (b) to sign the Borrower's name on any invoice, bill of lading, or other document of title relating to any Collateral, on drafts against customers, on assignments of Accounts, on notices of assignment, financing statements and other public records and on verifications of Accounts to Account Debtors; (c) to notify the post office authorities, when an Event of Default exists, to change the address for delivery of the Borrower's mail to an address designated by the Lender and to receive, open and dispose of all mail addressed to the Borrower; (d) to send requests for verification of Accounts to Account Debtors; and (e) to do all things necessary to carry out this Agreement. The Borrower ratifies and approves all acts of such attorney. Neither the Lender nor the attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable until this Agreement has been terminated and the Obligations have been fully satisfied.

6.15 Lender's Rights, Duties, and Liabilities. Each Borrower assumes all responsibility and liability arising from or relating to the use, sale or other disposition of the Collateral. Neither the Lender nor any of its officers, directors, employees, and agents shall be liable or responsible in any way for the safekeeping of any of the Collateral, or for any act or failure to act with respect to the Collateral, or for any loss or damage thereto, or for any diminution in the value thereof, or for any act of default by any warehouseman, carrier, forwarding agency or, other person whomsoever, all of which shall be at the Borrower's sole risk. The Obligations shall not be affected by any failure of the Lender to take any steps to perfect the Security Interest or to collect or realize upon the Collateral, nor shall loss of or damage to the Collateral release the Borrower from any of the Obligations. After the occurrence of an Event of Default that has not been cured or otherwise waived by Lender, the Lender may (but shall not be required to), without notice to or consent from any Borrower, sue upon or otherwise collect, extend the time for payment of, modify or amend the terms of, compromise or settle for cash or credit, grant other indulgences, extensions, renewals, compositions, or

releases, and take or omit to take other action with respect to the Collateral, any security therefor, any agreement relating thereto, any insurance applicable thereto, or any Person liable directly or indirectly in connection with any of the foregoing, without discharging or otherwise affecting the liability of the Borrower for the Obligations.

6.16 Release of Collateral and Borrower.

(a) If LSB sells any LSB Borrower Subsidiary or any LSB Borrower Subsidiary sells all or substantially all of its assets, then such LSB Borrower Subsidiary shall be allowed to prepay, without penalty or prepayment premium, all of the outstanding Revolving Loans applicable to such LSB Borrower Subsidiary, plus the accrued interest relating to such Revolving Loans, and upon payment of such Revolving Loans, the Lender shall release and terminate its Security Interest as to the Collateral of such LSB Borrower Subsidiary and release such LSB Borrower Subsidiary from any further liability and responsibility under the Loan Documents.

(b) If LSB or any LSB Borrower Subsidiary obtains alternative financing for its working capital needs at any time during the term of this Agreement and indefeasibly repays all Loans and Letter of Credit obligations applicable to LSB or such LSB Borrower Subsidiary under this Agreement, then Lender will release and terminate its Security Interest as to the Collateral of LSB or such LSB Borrower Subsidiary and will release LSB or the LSB Borrower Subsidiary from all Obligations arising under the Loan Documents with the exception that LSB shall remain liable under its Continuing Guaranty with Security Agreement dated as of November 21, 1997, provided, however, that Lender shall release any and all Collateral pledged by LSB pursuant to such Guaranty.

(c) Upon payment in full of all Obligations, Lender shall immediately release its Security Interest in and to all of the Collateral.

7. BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.

7.1 Books and Records. Each Borrower shall maintain, at all times, correct and complete books, records and accounts in which complete, correct and timely entries are made of its transactions in accordance with GAAP. The Borrower shall, by means of appropriate entries, reflect in such accounts and in all Financial Statements proper liabilities and reserves for all taxes and proper provision for depreciation and amortization of Property and bad debts, all in accordance with GAAP. The Borrower shall maintain at all times books and records pertaining to the Collateral in such detail, form, and scope as the Lender shall reasonably require, including without limitation records of: (a) all payments received and all credits and extensions granted with respect to the Accounts; (b) the return, repossession, stoppage in transit, loss, damage, or destruction of any Inventory; and (c) all other dealings affecting the Collateral.

7.2 Financial Information. Each Borrower shall promptly furnish to the Lender all such financial information as the Lender shall reasonably request, and notify its auditors and accountants that the Lender is authorized to obtain such information directly from them. Without limiting the foregoing, Borrower will furnish to the Lender, in such detail as the Lender shall request, the following:

(a) As soon as available, but in any event not later than ninety (90) days after the close of each Fiscal Year, audited consolidated and unaudited consolidating balance sheet, statement of income and expense, retained earnings, and statement of cash flows and stockholders' equity for the LSB Consolidated Borrowing Group for such Fiscal Year, and the accompanying notes thereto, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position and the results of operations of the LSB Consolidated Borrowing Group as at the date thereof and for the Fiscal Year then ended, and prepared in accordance with GAAP. The audited statements shall be examined in accordance with generally accepted auditing standards by, and accompanied by a report thereon unqualified as to scope of, independent certified public accountants selected by LSB and reasonably satisfactory to the Lender.

(b) As soon as available, but in any event not later than forty-five (45) days after the close of each Fiscal Quarter other than the fourth quarter of a Fiscal Year, unaudited consolidated and consolidating balance sheets of the LSB Consolidated Borrowing Group as at the end of such quarter, and consolidated and consolidating unaudited statements of income and expense and consolidated statements of cash flows for the LSB Consolidated Borrowing Group for such quarter and for the period from the beginning of the Fiscal Year to the end of such quarter, together with a report of Capital Expenditures for such Fiscal Quarter, all in reasonable detail, fairly presenting the financial position and results of operation of the LSB Consolidated Borrowing Group as at the date thereof and for such periods, prepared in accordance with GAAP consistent with the audited Financial Statements required pursuant to Section 7.2(a). Such statements shall be certified to be correct by the chief financial officer or an executive officer of LSB, subject to normal year-end adjustments.

(c) As soon as available, but in any event not later than thirty (30) days after the end of each month, unaudited consolidated balance sheets of the LSB Consolidated Borrowing Group as at the end of such month, and consolidated and consolidating unaudited statements of income and expenses for the LSB Consolidated Borrowing Group for such month and for the period from the beginning of the Fiscal Year to the end of such month, all in reasonable detail (although not as detailed as the reports required under Sections 7.2(a) and 7.2(b)), fairly presenting the financial position and results of operation of the LSB Consolidated Borrowing Group as at the date thereof and for such periods, and prepared in accordance with GAAP consistent with the audited Financial Statements required pursuant to Section 7.2(a). Such statements shall be certified to be correct by the chief financial officer, treasurer or chief accounting officer of LSB, subject to normal year end adjustments.

(d) With each of the audited Financial Statements delivered pursuant to Section 7.2(a), a certificate of the independent certified public accountants that examined such statements to the effect that they have reviewed and are familiar with the Loan Documents and that, in examining such Financial Statements, they did not become aware of any fact or condition which then constituted an Event of Default, except for those, if any, described in reasonable detail in such certificate.

(e) With each of the annual audited and quarterly unaudited Financial Statements delivered pursuant to Sections 7.2(a) and 7.2(b), a certificate of the chief financial officer, treasurer or chief accounting officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish (i) that the LSB Consolidated Borrowing Group was in compliance with the covenants set forth in Sections 9.16 and 9.17 hereof and (ii) that Summit was in compliance with the covenants set forth in Sections 9.18 and 9.19 hereof, in each instance as of the end of the Fiscal Year and most recent Fiscal Quarter covered in such Financial Statements; and, (ii) stating that, except as explained in reasonable detail in such certificate, (A) nothing has come to the attention of such officer that would lead such officer to believe that all of the representations, warranties and covenants of the Borrowers contained in this Agreement and the other Loan Documents are not correct and complete as of the date of such certificate and (B) no Event of Default then exists or existed during the period covered by such Financial Statements. If such certificate discloses that a representation or warranty is not correct or complete, or that a covenant has not been complied with, or that an Event of Default existed or exists, such certificate shall set forth what action the Borrower has taken or proposes to take with respect thereto.

(f) No sooner than ninety (90) days and no less than thirty (30) days prior to the beginning of each Fiscal Year, projected consolidated and consolidating balance sheets, statements of income and expense, and statements of cash flow for the Borrowers and Subsidiaries as at the end of and for each Fiscal Quarter of such Fiscal Year.

(g) Promptly upon their becoming available, copies of each proxy statement, financial statement and report which LSB sends to its stockholders or files with the Securities and Exchange Commission.

(h) Promptly after filing with the PBGC and the IRS a copy of each annual report or other filing filed with respect to each Plan of the Borrower or any Related Company.

(i) Such additional, reasonable information as the Lender may from time to time reasonably request regarding the financial and business affairs of the Borrowers or the Subsidiaries.

7.3 Notices to Lender. Each Borrower shall notify the Lender in writing of the following matters at the following times:

(a) Within two Business Days after becoming aware of the existence of any Event of Default.

(b) Within two Business Days after becoming aware that the holder of any Debt in excess of \$1,000,000 has given notice or taken any action with respect to a claimed default.

(c) Within five Business Days after a responsible officer of LSB becomes aware of any change which LSB deems to be a material adverse change in the Borrower's Property, business, operations, or condition (financial or otherwise).

(d) Within five Business Days after a responsible officer of LSB becomes aware of any pending or threatened action, proceeding, or counterclaim by any Person, or any pending or threatened investigation by a Public Authority, which, in the opinion of such officer, would materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, or condition (financial or otherwise).

(e) Within two Business Days after becoming aware of any pending or threatened strike, work stoppage, material unfair labor practice claim, or other material labor dispute affecting the Borrower.

(f) Within five Business Days after a responsible officer of LSB becomes aware of any violation of any law, statute, regulation, or ordinance of a Public Authority applicable to Borrower, which, in the opinion of such officer, would materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, or condition (financial or otherwise).

(g) Within five Business Days after a responsible officer of LSB becomes aware of any violation or any investigation of a violation by the Borrower of Environmental Laws which, in the opinion of such officer, would materially and adversely affect the Borrower's Property, Collateral, business, operation or condition (financial or otherwise).

(h) Within five Business Days after a responsible officer of LSB becomes aware of any Termination Event, accompanied by any materials required to be filed with the PBGC with respect thereto; immediately after the Borrower's receipt of any notice concerning the imposition of any withdrawal liability under Section 4042 of ERISA with respect to a Plan; immediately upon the establishment of any Pension Plan not existing at the Closing Date or the commencement of contributions by the Borrower to any Pension Plan to which the Borrower was not contributing at the Closing Date; and immediately upon becoming aware of any other event or condition regarding a Plan or the Borrower's or a Related Company's compliance with ERISA, which, in the opinion of such officer, would materially and adversely affect the Borrower's Property, business, operation or condition (financial or otherwise).

(i) Thirty (30) days prior to the Borrower changing its name.

Each notice given under this Section 7.3 shall describe the subject matter thereof in reasonable detail and shall set forth the action that the Borrower has taken or proposes to take with respect thereto.

8. GENERAL WARRANTIES AND REPRESENTATIONS.

EACH BORROWER continuously warrants and represents to the Lender, at all times during the term of this Agreement and until all Obligations have been satisfied, that, except as hereafter disclosed to and accepted by the Lender in writing in the exercise of its reasonable discretion:

8.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents. The Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the other Loan Documents, to incur the Obligations, and to grant the Security Interest. The Borrower has taken all necessary corporate action to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents. No consent, approval, or authorization of, or filing with, any Public Authority, and no consent of, any other Person, is required in connection with the Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents, except for (a) those already duly obtained, (b) those required to perfect the Lender's Security Interest, and (c) the compliance with any of the conditions precedent set forth in Sections 10.4 and 10.10 hereof. This Agreement and the other Loan Documents have been duly executed and delivered by the Borrower and constitute the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms without defense, setoff, or counterclaim. The Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents do not and will not conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any Lien upon the Property of the Borrower (except as contemplated by this Agreement and the other Loan Documents) by reason of the terms of (a) any material mortgage, lease, agreement, or instrument to which the Borrower is a party or which is binding upon it, (b) any judgment, law, statute, rule or governmental regulation applicable to the Borrower, or (c) the Certificate or Articles of Incorporation or By-Laws of the Borrower.

8.2 Validity and Priority of Security Interest. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in the Lender's favor and when all proper filings, recordings, and other actions necessary to perfect such Liens have been made or taken such Liens will constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for Permitted Liens, securing all the Obligations and enforceable against the Borrower and all third parties.

8.3 Organization and Qualification. Borrower is duly incorporated and organized and validly existing in good standing under the laws of the state of its incorporation; (ii) is qualified to do business as a foreign corporation and is in good standing in each state where, because of the nature of its activities or properties, such qualification is required, except where the failure to so qualify would not have a material adverse effect on the Borrower; and (iii) has all requisite corporate power and authority to conduct its business and to own its Property.

8.4 Corporate Name; Prior Transactions. The Borrower has not, during the past five years, been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its Property out of the ordinary course of business, except as set forth on Exhibit E.

8.5 Subsidiaries and Affiliates. Exhibit F is a correct and complete list of the name and relationship to the Borrower of each and all of the Borrower's Subsidiaries and other Affiliates, which list may be amended by Borrower from time to time as LSB adds new or additional Subsidiaries or Affiliates. Each Subsidiary is

(a) duly incorporated and organized and validly existing in good standing under the laws of its state of incorporation set forth on Exhibit F and (b) qualified to do business as a foreign corporation and in good standing in the states set forth opposite its name on Exhibit F, which are the only states in which such qualification is necessary in order for it to own or lease its Property and conduct its business, except where the failure to so qualify would not have a material adverse effect on the LSB Borrowing Group taken as a whole.

8.6 Financial Statements and Projections.

(a) LSB has delivered to the Lender the audited consolidated balance sheet and related statements of income, retained earnings, statements of cash flows, and changes in stockholders' equity for LSB, as of December 31, 1998 and for the Fiscal Year then ended, accompanied by the report thereon of LSB's independent certified public accountants. LSB has also delivered to the Lender the unaudited consolidated balance sheets and related statements of income and cash flows for LSB, as at _____, 1999 and for the ____ months then ended. Such financial statements are attached hereto as Exhibit G-1. All such financial statements have been prepared in accordance with GAAP and present accurately and fairly the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

(b) The Latest Forecasts, attached hereto as Exhibit G-2, represent the Borrower's best estimate of the Borrower's future financial performance for the periods set forth therein. The Latest Forecasts have been or will be prepared on the basis of certain assumptions, which the Borrower believes are fair and reasonable in light of current and reasonably foreseeable business conditions; provided, however, that although such forecasts represent the Borrower's best estimate, the Borrower makes no representation that it will achieve such forecasts.

8.7 Capitalization. LSB's authorized capital stock consists of (i) 75,000,000 shares of Common Stock, par value \$.10 per share; (ii) 250,000 shares of Preferred Stock, par value \$100 per share; and (iii) 5,000,000 shares of Class C Preferred Stock, no par value.

8.8 Solvency. Each Borrower is solvent prior to and after giving effect to the making of the Revolving Loans, and after taking into account Intercompany Accounts. If at any time any Borrower, other than LSB, becomes insolvent, LSB shall have a period of up to ten (10) Business Days after LSB learns of Borrower's insolvency within which to recapitalize Borrower in order to restore Borrower to a solvent state.

8.9 Title to Property. Except for Permitted Liens, and except for Property which the Borrower leases, the Borrower has, to its knowledge, good and marketable title in fee simple to the real property listed in Exhibit H and good, indefeasible, and merchantable title to all of its other Property free of all Liens except Permitted Liens.

8.10 Real Property; Leases. Exhibit H hereto is a correct and complete list of all real property owned by the

Borrower, and all leases and subleases of real property by the Borrower as lessee or sublessee where Collateral is located. Each of such leases and subleases is valid and enforceable in accordance with its terms and is in full force and effect and no material default by any party to any such lease or sublease exists.

8.11 Proprietary Rights. Exhibit B hereto is a correct and complete list of all of the Proprietary Rights owned by Borrower. None of the Proprietary Rights is subject to any licensing agreement or similar arrangement except as set forth on Exhibit B. To the Borrower's knowledge, none of the Proprietary Rights infringes on or conflicts with any other Person's Property. The Proprietary Rights described on Exhibit B constitute all of the Property of such type necessary to the current and anticipated future conduct of the Borrower's business.

8.12 Trade Names and Terms of Sale. All trade names or styles under which the Borrower will sell Inventory or create Accounts, or to which instruments in payment of Accounts may be made payable, are listed on Exhibit I hereto. The terms of sale on which such sales of Inventory will be made are set forth on Exhibit I.

8.13 Litigation. Except as set forth on Exhibit J or as described in the reports filed by LSB with the Securities and Exchange Commission or in the Offering Memorandum, there is no pending or, to the Borrower's knowledge, threatened suit, proceeding, or counterclaim by any Person, or investigation by any Public Authority, or any basis for any of the foregoing, which would have a material adverse effect on the LSB Consolidated Borrowing Group, taken as a whole, or (ii) involve damages or a claim for damages in excess of \$1,000,000 and not fully covered by insurance.

8.14 Labor Disputes. Except as set forth on Exhibit K or as described in reports filed by LSB with the Securities and Exchange Commission: (a) there is no collective bargaining agreement or other labor contract covering employees of the Borrower; (b) no such collective bargaining agreement or other labor contract is scheduled to expire during the term of this Agreement; (c) no union or other labor organization is seeking to organize, or to be recognized as, a collective bargaining unit of employees of the Borrower; and (d) there is no pending or, to the Borrower's knowledge, threatened strike, work stoppage, material unfair labor practice claims, or other material labor dispute which would have a material adverse effect on the LSB Consolidated Borrowing Group, taken as a whole.

8.15 Environmental Laws. Except as disclosed on Exhibit M hereto, and or as described in reports filed by LSB prior to the Closing Date with the Securities and Exchange Commission or in the Offering Memorandum, and as hereafter disclosed by Borrower to Lender in writing, and to the Borrower's knowledge:

(a) All environmental permits, certificates, licenses, approvals, registrations and authorizations ("Permits") required under all Environmental Laws in connection with the business of the Borrower have been obtained, unless the failure to obtain such Permits would not have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole;

(b) No notice, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any

governmental entity with respect to any generation, treatment, storage, recycling, transportation or disposal of any hazardous or toxic waste (including petroleum products and radioactive materials) generated or used ("Hazardous Substances") by the Borrower, which would have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole;

(c) No Borrower has received any request for information that is likely to lead to a claim, any notice of claim, demand or other notification that the Borrower is or may be potentially responsible with respect to any clean up of any threatened or actual release of any Hazardous Substance;

(d) There are no underground storage tanks, active or abandoned, at any property now owned, operated or leased by the Borrower.

(e) Borrower has not knowingly transported any Hazardous Substances to any location which is listed on the National Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), which is the subject of any federal or state enforcement actions which may lead to claims against Borrower for clean up costs, remedial work, damages to natural resources or for personal injury claims, including, but not limited to, claims under CERCLA which would have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole.

(f) No written notification of a release of Hazardous Substance has been filed by or on behalf of the Borrower or in relation to any Property now owned, operated or leased by the Borrower or previously owned, operated or leased by the Borrower at the time such property was so owned, operated or leased. No such Property is listed or proposed for listing on the National Priority List promulgated pursuant to CERCLA, or on any similar state list of sites requiring investigation or clean up.

(g) There are no environmental Liens on any material properties owned or leased by the Borrower and no governmental actions have been taken or are in process or pending which could subject any of such Properties to such Liens.

(h) The Borrower shall promptly forward a copy to Lender of any environmental written inspections, investigations or studies prepared by or to be prepared by the Borrower relating to Properties now owned, operated or leased by the Borrower; provided, however, that Borrower makes no representation or warranty with respect to environmental inspections, investigations, studies, audits, tests, reviews or other analyses conducted by or on behalf of Lender.

8.16 No Violation of Law. Except as disclosed in Exhibit J or in reports filed by LSB prior to the Closing Date with the Securities and Exchange Commission or in the Offering Memorandum, to the Borrower's knowledge, the Borrower is not in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it which violation would have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole.

8.17 No Default. The Borrower is not in default with respect to any note, loan agreement, mortgage, lease, or other agreement to which the Borrower is a party or bound, where the amount owed by Borrower under such note, loan agreement, mortgage, lease, or other agreement exceeds \$750,000.

8.18 Plans. Each Plan has been maintained at all times in compliance, in all material respects, with its provisions and applicable law, including, without limitation, compliance with the applicable provisions of ERISA and the Code. All Pension Plans are listed on Exhibit L, and those, if any, which are a Multi-employer Plan are designated as such, and a copy of each such Pension Plan which has been requested in writing by Lender has been furnished to Lender. Except as set forth on Exhibit L, no Pension Plan has incurred any accumulated funding deficiency, as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, which would have a material adverse effect on the LSB Borrowing Group, taken as a whole. Except as set forth on Exhibit L, each Pension Plan, which is intended to be a qualified Pension Plan under Section 401(a) of the Code, as currently in effect has received a favorable determination letter from the Internal Revenue Service finding that the current form of the Plan is qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code. The Borrower has not incurred any liability to the PBGC other than the payment of premiums, and there are no premium payments which have become due, are unpaid, and the non-payment of which would have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole. Neither LSB nor any of its Subsidiaries, nor any fiduciary of or trustee to any Plan has breached any of the responsibilities, obligations or duties imposed on it under the terms of the Plan or by ERISA with respect to any Plan the breach of which would have a material adverse effect on the LSB Borrower Subsidiaries, taken as a whole. LSB has established reserves on its books to provide for the benefits earned and other liabilities accrued under each such Plan in amounts sufficient to substantially provide for such benefits and liabilities which have not been funded through the trust, if any, established for such Plan.

8.19 Taxes. The Borrower has filed all tax returns and other reports which it was required by law to file on or prior to the date hereof and has paid all taxes, assessments, fees, and other governmental charges, and penalties and interest, if any, against it or its Property, income, or franchise, that are due and payable, except such Taxes which are being contested in good faith and for which appropriate reserves have been established in connection therewith, or for which an extension as to the date of filing has been authorized.

8.20 Use of Proceeds. None of the transactions contemplated in this Agreement (including, without limitation, the use of certain proceeds from such loans) will violate or result in the violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), 12 C.F.R., Chapter II. Borrower does not own or intend to carry or purchase any "margin stock" within the meaning of said Regulation U. None of the proceeds of the loans will be used, directly or indirectly, to purchase or carry (or refinance any borrowing, the

proceeds of which were used to purchase or carry) any "security" within the meaning of the Securities Exchange Act of 1934, as amended.

8.21 Private Offerings. Borrower has not, directly or indirectly, offered the Revolving Loans for sale to, or solicited offers to buy part thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser other than Lender. Borrower hereby agrees that neither it nor anyone acting on its behalf has offered or will offer the Revolving Loan or any part thereof or any similar securities for issue or sale to or solicit any offer to acquire any of the same from anyone so as to bring the issuance thereof within the provisions of Section 5 of the Securities Act of 1933, as amended.

8.22 Broker's Fees. Borrower represents and warrants to Lender that, with respect to the financing transaction herein contemplated, no Person is entitled to any brokerage fee or other commission as a result of acts by the Borrower and Borrower agrees to indemnify and hold Lender harmless against any and all such claims if such claim is due to the acts of the Borrower.

8.23 No Material Adverse Change. No material adverse change has occurred in the Property, business, operations, or conditions (financial or otherwise) of the LSB Consolidated Borrowing Group, taken as a whole, since the date of the most recent Financial Statements delivered to the Lender, except as otherwise disclosed in the reports filed by LSB with the Securities and Exchange Commission, if any.

8.24 Debt. After giving effect to the making of each Revolving Loan, the Borrower has no Debt except Permitted Debt.

9. AFFIRMATIVE AND NEGATIVE COVENANTS. EACH BORROWER covenants that, so long as any of the Obligations remain outstanding or this Agreement is in effect:

9.1 Taxes and Other Obligations. The Borrower, no later than ten 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 the Lender, 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 the Borrower 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.

9.2 Corporate Existence and Good Standing. The Borrower shall maintain its corporate existence and its qualification and good standing in all states necessary to conduct its business and own its Property, except where the failure to so qualify would not

have a material adverse effect on the Borrower, and shall obtain and maintain all licenses, permits, franchises and governmental authorizations necessary to conduct its business and own its Property.

9.3 Maintenance of Property and Insurance. The Borrower shall: (a) maintain all of its Property necessary and material in its business in good operating condition and repair, ordinary wear and tear excepted, provided, however, that Borrower shall have a period of ten (10) days after learning that repair is necessary within which to repair any Property which has not been so maintained before an Event of Default shall be deemed to have occurred; and (b) in addition to the insurance required by Section 6.7, maintain with financially sound and reputable insurers such other insurance with respect to its Property and business against casualties and contingencies of such types (including, without limitation, business interruption, public liability, product liability, and larceny, embezzlement or other criminal misappropriation), and in such amounts as is customary for Persons of established reputation engaged in the same or a similar business and similarly situated, naming the Lender, at its request, as additional insured under each such policy as to the Collateral.

9.4 Environmental Laws. Except as disclosed to Lender in writing prior to the Closing Date in connection with Section 8.15, the Borrower will use all reasonable efforts to conduct its 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. The Borrower shall take prompt and appropriate action to respond to any noncompliance with Environmental Laws and shall regularly report to the Lender on such response. Without limiting the generality of the foregoing, whenever there is potential noncompliance with any Environmental Laws, the Borrower shall, at the Lender's request and the Borrower's expense: (a) cause an independent environmental engineer acceptable to the Lender to conduct such tests of the site where the Borrower's noncompliance or alleged noncompliance with Environmental Laws has occurred and prepare and deliver to the Lender 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 the Lender a Supplemental report of such engineer whenever the scope of the environmental problems, or the Borrower's response thereto or the estimated costs thereof, shall materially change.

9.5 Mergers, Consolidations, Acquisitions, or Sales. The Borrower shall not enter into any transaction of merger, reorganization, or consolidation in which Borrower is not the survivor, 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 (i) sales of Inventory in the ordinary course of its business, or (ii) after thirty (30) days prior written notice to Lender, mergers or consolidations of the Borrower into any of the Borrower Subsidiaries or a merger of a Borrower Subsidiary into the Borrower or the sale of all or substantially all of the assets of the Borrower to any of the Borrower Subsidiaries or the sale of all or substantially all of the assets of a Borrower Subsidiary to the Borrower.

9.6 Guaranties. The Borrower shall not make, issue, or become liable on any secured Guaranty, except Guaranties in favor of the Lender and endorsements of instruments for deposit.

9.7 Debt. Borrower shall not incur or maintain any Debt other than Permitted Debt.

9.8 Prepayment. The Borrower shall not voluntarily prepay any Debt, except the Obligations in accordance with the terms of this Agreement and as provided in Section 10.8 hereof.

9.9 Transactions with Affiliates. Except (a) as set forth below, or (b) as set forth in Section 9.14 hereof, or (c) transactions described in the "Certain Relationships and Related Transactions" section of the Offering Memorandum, or (d) as otherwise provided in this Agreement, the Borrower 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 secured Guaranty of the indebtedness, dividends, or other obligations of any Affiliate, except nothing contained herein shall limit or restrict the Borrower from (i) performing any agreements entered into with an Affiliate prior to the date hereof, or (ii) engaging in other transactions with Affiliates in the normal course of business, in amounts and upon terms disclosed to the Lender, and which are no less favorable to the Borrower than would be obtainable in a comparable arm's length transaction with a third party who is not an Affiliate. Subject to applicable law, Borrowers may borrow any amounts from each other and repay such amounts on terms agreed to between them without limitations.

9.10 Plans and Compensation. The Borrower shall not take any action, or shall fail to take any action, that will cause or be reasonably expected to cause any representation or warranty contained in Section 8.18 (other than the listing of Pension Plans on Exhibit L), if made on and again as of any date on or after the date of this Agreement, to not be true and, without limitation and without excusing such violation, if such a prohibited action or inaction occurs or fails to occur, Borrower shall notify Lender in writing of the nature of the resulting consequences or expected consequences, and a description of the action Borrower is taking or proposing to take with respect thereto and, when known, any action taken by the Internal Revenue Service of the Department of Labor, or the PBGC, with respect thereto.

9.11 Reserved.

9.12 Liens. The Borrower shall not create, incur, assume, or permit to exist any Lien on any Property now owned or hereafter acquired by the Borrower, except Permitted Liens.

9.13 New Subsidiaries. The Borrower shall not, directly or indirectly, organize or acquire any new subsidiary which would have an interest in the Collateral.

9.14 Distributions and Restricted Investments. No Borrower shall (a) directly or indirectly declare or make, or incur any liability to make, any Distribution, or (b) make any Restricted Investments, except: (i) Borrowers may make Distributions and Restricted Investments to CCI and the other members of the LSB Consolidated Borrowing Group; (ii) so long as no Event of Default has occurred and is continuing, currently scheduled

Dividends by LSB and performance of all of the terms, provisions and conditions by LSB, relating to or in connection with or arising out of any and all series of LSB's preferred stock issued and outstanding as of the date hereof and the payments of an annual cash dividend on its Common Stock in an amount equal to \$.06 a share payable on a semi-annual basis; (iii) in addition to (i) above, Borrowers may make Restricted Investments to any Subsidiary of LSB other than to CCI and the members of the LSB Consolidated Borrowing Group, provided, however, that the sum of all such Restricted Investments from Borrowers and all other members of the LSB Consolidated Borrowing Group shall not exceed \$200,000 in the aggregate per annum; (iv) Borrowers may make Restricted Investments in Affiliates outstanding as of the date hereof; (v) Borrowers may make other Restricted Investments constituting Acquisitions not otherwise permitted above in this Section as long as such Restricted Investments when aggregated with all other Restricted Investments for the same Acquisition from all members of the LSB Consolidated Borrowing Group do not exceed \$2,000,000 in cash investments and issued and/or assumed interest-bearing debt per Acquisition and \$10,000,000 in cash investments and issued and/or assumed interest-bearing debt in the aggregate for all such Acquisitions per annum; provided, however, that interest-bearing debt of the acquired company which Lender in its sole and absolute discretion agrees to refinance as a working capital facility shall not be included in the \$2,000,000 and the \$10,000,000 limitations; and further provided that nothing in this subsection (v) shall be construed to imply Lender's willingness in advance to provide any such refinancing; (vi) CCI may make the Distributions described on Schedule 10.8; and (vii) LSB may purchase up to \$6,000,000 in the aggregate of its treasury stock from January 1, 1998 through the termination of this Agreement provided that, at the time of and immediately following any such purchase thereof Borrower Subsidiaries' aggregate Availability is at least \$3,000,000. Notwithstanding any provision to the contrary contained herein, the Account currently owing to EDC by its Affiliate, TES, may be converted to preferred stock to be owned and controlled by EDC.

9.15 Capital Expenditures. No Borrower shall make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Consolidated Borrowing Group during the Fiscal Year would exceed \$10,000,000.

9.16 LSB Adjusted Tangible Net Worth. At all times after a Springing Covenant Event has occurred whereafter such financial covenant shall remain in effect until the termination of this Agreement, the following financial covenant shall be in effect:

The LSB Adjusted Tangible Net Worth increased by an amount equal to the purchase price paid by LSB for its treasury stock for purchases from January 1, 1998 through termination of this Agreement, which amount shall not exceed \$6,000,000, 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 Quarter during Fiscal Year Ending December 31, 1999	\$21,300,000	\$23,600,000	\$24,000,000	\$23,500,000

First Fiscal Quarter during Fiscal Year Ending December 31, 2000 The LSB Adjusted Tangible Net Worth as of December 31, 1999 less \$4,500,000 and less all dividends paid by LSB in cash from January 1, 2000 until the date of calculation.

Second Fiscal Quarter during Fiscal Year Ending December 31, 2000 The LSB Adjusted Tangible Net Worth as of March 31, 2000 plus fifty percent (50%) of the profits for the fiscal quarter then ending, if any, with no deductions for losses, less all dividends paid by LSB in cash from January 1, 2000 until the date of calculation

Third Fiscal Quarter during Fiscal Year Ending December 31, 2000 and each Fiscal Quarter during each Fiscal Quarter ending thereafter: The LSB Adjusted Tangible Net Worth as of June 30, 2000 plus fifty percent (50%) of the profits for the fiscal quarter then ending, if any, with no deductions for losses, less all dividends paid by LSB in cash from January 1, 2000 until the date of calculation

9.17 LSB Debt Ratio. At all times after a Springing Covenant Event has occurred whereafter such financial covenant shall remain in effect until the termination of this Agreement, the following financial covenant shall be in effect:

The ratio of Debt of the LSB Consolidated Borrowing Group to the LSB Adjusted Tangible Net Worth increased by an amount equal to the purchase price paid by LSB for its treasury stock for purchases from January 1, 1998 through termination of this Agreement, which amount shall not exceed \$6,000,000, will not be greater than the following ratios 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, 1999	9.3:1	8.4:1	8.1:1	8.1:1
Fiscal Year Ending December 31, 2000	8.1:1	8.1:1	8.1:1	8.1:1

Each Fiscal Quarter during each Fiscal Year ending thereafter: 8.1:1

9.18 Summit Adjusted Tangible Net Worth. At all times after a Springing Covenant Event has occurred whereafter such financial covenant shall remain in effect until the termination of this Agreement, the Summit Adjusted Tangible Net Worth (without taking into account any purchases of treasury stock) will not be less than \$7,200,000 at the end of each Fiscal Quarter during each Fiscal Year.

9.19 Summit Debt Ratio. At all times after a Springing Covenant Event has occurred whereafter such financial covenant shall remain in effect until the termination of this Agreement, the ratio of Debt of Summit to the Summit Adjusted Tangible Net Worth will not be greater than 1.0 to 1.0 at the end of each Fiscal Quarter during each Fiscal Year.

9.20 Further Assurances. The Borrowers shall execute and deliver, or cause to be executed and delivered, to the Lender such documents and agreements, and shall take or cause to be taken such actions, as the Lender may, from time to time, reasonably request to carry out the terms and conditions of this Agreement and the other Loan Documents.

10. CONDITIONS PRECEDENT TO EACH LOAN. The obligation of the Lender to make each Revolving Loan or to provide for the issuance of any Letter of Credit shall be subject to the conditions precedent that on the date of any such extension of credit, the following statements shall be true, and the acceptance by any Borrower of any extension of credit shall be deemed to be a statement to the effect set forth in clauses (i) and (ii), with the same effect as the delivery to the Lender of a certificate signed by the chief executive officer and chief financial officer of the Borrower, dated the date of such extension of credit, stating that:

(i) The representations and warranties contained in this Agreement and the other Loan Documents are correct in all material respects on and as of the date of such extension of credit as though made on and as of such date, except to the extent the Lender has been notified by the Borrower that any representation or warranty is no longer correct and the reason therefor and the Lender has explicitly accepted in writing such disclosure in the exercise of its reasonable discretion; and

(ii) No Event has occurred and is continuing, or would result from such extension of credit, which constitutes an Event of Default.

11. DEFAULT; REMEDIES.

11.1 Events of Default. It shall constitute an event of default ("Event of Default") if any one or more of the following shall occur for any reason:

(a) any failure by any Borrower to make payment of principal, interest, fees or premium on any of the Obligations when due;

(b) any representation or warranty made by any Borrower in this Agreement, any of the other Loan Documents, any Financial Statement, or any certificate furnished by any Borrower at any time to the Lender shall prove to be untrue in any material respect as of the date when made or furnished;

(c) default shall occur in the observance or performance of any of the covenants and agreements contained in this Agreement, or in any of the other Loan Documents, or if any such agreement or document shall terminate (other than in accordance with its terms or the terms hereof or with the written consent of the Lender) or become void or unenforceable without the written consent of the Lender other than as a direct result of any conduct solely on the part of the Lender;

(d) any default by any Borrower under any material agreement or instrument (other than an agreement or instrument evidencing the lending of money), which default would have a

material adverse effect on the LSB Borrower Subsidiaries, taken as a whole, and such default continues for thirty (30) days after such breach first occurs; provided, however, that such grace period shall not apply, and an Event of Default shall exist, promptly upon such breach, if such breach may not, in Lender's reasonable determination, be cured by Borrower during such thirty (30) day grace period;

(e) any default by any Borrower in any payment of principal of or interest on any indebtedness (other than the Obligations) for borrowed money where the then outstanding amount exceeds \$500,000 beyond any period of grace provided with respect thereto or in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if (i) the effect of such default is to cause or permit the holder or holders of such obligation to cause, such obligation to become due prior to its stated maturity, and (ii) the effect of such default would have a material adverse effect on the Borrower.

(f) any Borrower shall make a general assignment for benefit of creditors; or any proceeding shall be instituted by any Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or seeking entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property or any Borrower shall take any corporate action to authorize any of the actions set forth above in this Subsection 11.1(f).

(g) an involuntary petition shall be filed or an action or proceeding otherwise commenced against any Borrower seeking reorganization, arrangement or readjustment of the Borrower's debts or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing and remain undismissed or unvacated for a period of sixty (60) days;

(h) a receiver, assignee, liquidator, trustee or similar officer for any Borrower for all or substantially all of its Property shall be appointed involuntarily;

(i) any Borrower shall file a certificate of dissolution under applicable state law or shall be liquidated, dissolved or wound-up or shall commence or have commenced against it any action or proceeding for dissolution, winding-up or liquidation, or shall take any corporate action in furtherance thereof, except if one Borrower merges or consolidates with another Borrower;

(j) any guaranty of the Obligations shall be terminated, revoked or declared void or invalid other than by an action undertaken by Lender;

(k) one or more final judgments for the payment of money aggregating in excess of \$1,000,000 (not covered by insurance) shall be rendered against any of the LSB Borrower Subsidiaries, and LSB or any Borrower shall fail to discharge the same within thirty (30) days from the date of notice of entry thereof or to appeal therefrom or reach a negotiated settlement in connection therewith;

(l) any loss, theft, damage or destruction of any item or items of Collateral occurs which: (i) materially and adversely affects the operation of the Borrowers' business taken as a whole; or (ii) is material in amount and is not adequately covered by insurance;

(m) any event or condition shall occur, or exist with respect to a Plan that would, in the Lender's reasonable judgment, subject the Borrower or any Subsidiary to any tax, penalty or other liabilities under the terms of the Plan, under ERISA or under the Code which in the aggregate are material in relation to the business, operations, Property or financial or other condition of the LSB Borrower Subsidiaries taken as a whole;

(n) there occurs after the date hereof an Ownership Change (as defined below) in LSB. For purposes of this Agreement, an "Ownership Change" in LSB is deemed to have occurred if any Person (except Jack E. Golsen, members of his Immediate Family [as defined below] and any entity controlled by Jack E. Golsen or members of his Immediate Family), together with such Person's affiliates and associates, is or becomes the beneficial owner, directly or indirectly, of more than fifty percent (50%) of the outstanding Common Stock of LSB. The term "Immediate Family" of any Person means the spouse, siblings, children, mothers and mothers-in-law, fathers and fathers-in-law, sons and daughters-in-law, daughters and sons-in-law, nieces, nephews, brothers and sisters-in-law, sisters and brothers -in-law;

(o) an event of default exists under any of the other LSB-Related Loan Agreements or under any of the Loan Documents;

(p) any "event of default" (as such term is defined in the Bond Indenture) occurs under the Bond Indenture or any of the Notes issued in connection therewith; and

(q) if any one or more of the LSB-Related Loan Agreements terminates prior to the termination of the other LSB-Related Loan Agreements without the Lender's prior consent thereto, unless as otherwise provided in Section 6.16.

11.2 Remedies.

(a) If an Event of Default exists, the Lender may, without notice to or demand on any Borrower, do one or more of the following at any time or times and in any order: (i) reduce the amount of or refuse to make Revolving Loans and restrict or refuse to arrange for Letters of Credit; (ii) terminate this Agreement; (iii) declare any or all Obligations to be immediately due and payable (provided however that upon the occurrence of any Event of Default described in Sections 11.1(f), 11.1(g), or 11.1(h), all

Obligations shall automatically become immediately due and payable); and (iv) pursue its other rights and remedies under the Loan Documents and applicable law. The foregoing shall not be construed to limit the Lender's discretion to take the actions described in clause (i) of this subparagraph (a) at any other time.

(b) If an Event of Default exists: (i) the Lender shall have, in addition to all other rights, the rights and remedies of a secured party under the UCC; (ii) the Lender may, at any time, take possession of the Collateral and keep it on the Borrower's premises, at no cost to the Lender, or remove any part of it to such other place or places as the Lender may desire, or, the Borrower shall, upon the Lender's demand, at the Borrower's cost, assemble the Collateral and make it available to the Lender at a place reasonably convenient to the Lender; and (iii) the Lender may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as the Lender deems advisable, in its sole discretion, and may, if the Lender deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, each Borrower agrees that any notice by the Lender of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable notice to the Borrowers if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or is delivered personally against receipt, at least five (5) days prior to such action to the Borrower's address specified in or pursuant to Section 13.10. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Lender receives payment, and if the buyer defaults in payment, the Lender may resell the Collateral without further notice to the Borrowers. In the event the Lender seeks to take possession of all or any portion of the Collateral by judicial process, each Borrower irrevocably waives: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required; (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (c) any requirement that the Lender retain possession and not dispose of any Collateral until after trial or final judgment. Each Borrower agrees that the Lender has no obligation to preserve rights to the Collateral or marshal any Collateral for the benefit of any Person. Following the occurrence of an Event of Default that is continuing, the Lender is hereby granted a license or other right to use, without charge, each Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter or any similar property, in completing production of, advertising or selling any Collateral, and the Borrower's rights under all licenses and all franchise agreements shall inure to the Lender's benefit, as long as such does not violate in any manner such other loan agreements that may be in place at such time. The proceeds of sale shall be applied first to all expenses of sale, including attorneys' fees, and second, in whatever order the Lender elects, to all Obligations. The Lender will return any excess to the Borrowers and the Borrowers shall remain liable for any deficiency.

(c) If an Event of Default occurs and is continuing, each Borrower hereby waives: (i) all rights to notice and hearing prior to the exercise by the Lender of the Lender's rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing, and (ii) all rights of set-off and counterclaim against Lender.

(d) If the Lender terminates this Agreement upon an Event of Default that has not been cured or otherwise waived to Lender's satisfaction, the Borrowers shall pay the Lender, immediately upon termination, an early termination penalty equal to the early termination fee that would have been payable under Article 12 if this Agreement had been terminated on that date pursuant to the Borrower's election.

12. TERM AND TERMINATION. The term of this Agreement shall extend until December 31, 2000 (the "Termination Date"). This Agreement shall automatically be renewed thereafter for successive terms of thirteen (13) months each, unless this Agreement is terminated as provided below. The Lender and the Borrowers shall each have the right to terminate this Agreement, without premium or penalty, (i) at the end of the initial term or at the end of any renewal term by giving the other written notice not less than sixty (60) days prior to the end of such term by registered or certified mail, or (ii) as provided in Section 6.16. The Borrowers may also terminate this Agreement at any time during its initial term or any renewal periods if: (a) they give the Lender sixty (60) days prior written notice of termination by registered or certified mail; (b) they pay all Revolving Loans and reimburse Lender for all Letter of Credit obligations under this Agreement on or prior to the effective date of termination; and (c) except as otherwise provided herein, they pay the Lender, on or prior to the effective date of termination, the Early Termination Fee if such termination is made prior to the Termination Date. The Lender may also terminate this Agreement without notice upon an Event of Default that has not been cured or otherwise waived to Lender's satisfaction. Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations shall become immediately due and payable. Notwithstanding the termination of this Agreement, until all Obligations are paid and performed in full, the Lender shall retain all its rights and remedies hereunder (including, without limitation, in all then existing and after-arising Collateral) except as otherwise provided in Section 6.16 of this Agreement.

13. MISCELLANEOUS.

13.1 Cumulative Remedies; No Prior Recourse to Collateral. The enumeration herein of the Lender's rights and remedies is not intended to be exclusive, and such rights and remedies are in addition to and not by way of limitation of any other rights or remedies that the Lender may have under the UCC or other applicable law. The Lender shall have the right, in its sole discretion, to determine which rights and remedies are to be exercised and in which order. The exercise of one right or remedy shall not preclude the exercise of any others, all of which shall be cumulative. The Lender may, without limitation, proceed directly against the Borrower to collect the Obligations without any prior recourse to the Collateral.

13.2 No Implied Waivers. No act, failure or delay by the Lender shall constitute a waiver of any of its rights and remedies. No single or partial waiver by the Lender of any provision of this Agreement, or any other Loan Document, or of breach or default hereunder or thereunder, or of any right or remedy which the Lender

may have, shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion. No waiver by the Lender shall affect its rights to require strict performance of this Agreement.

13.3 Severability. If any provision of this Agreement shall be prohibited or invalid, under applicable law, it shall be effective only to such extent, without invalidating the remainder of this Agreement.

13.4 Governing Law. THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF SUCH STATE EXCEPT THAT NO DOCTRINE OF CHOICE OF LAW SHALL BE USED TO APPLY THE LAWS OF ANY OTHER STATE OR JURISDICTION.

13.5 Consent to Jurisdiction and Venue; Service of Process. Each Borrower agrees that, in addition to any other courts that may have jurisdiction under applicable laws, any action or proceeding to enforce or arising out of this Agreement or any of the other Loan Documents may be commenced in the appropriate court of the State of Oklahoma for Oklahoma County, or in the United States District Court for the Western District of Oklahoma, and each Borrower consents and submits in advance to such jurisdiction and agrees that venue will be proper in such courts on any such matter. Each Borrower hereby waives personal service of process and agrees that a summons and complaint commencing an action or proceeding in any such court shall be properly served and shall confer personal jurisdiction if served by registered or certified mail to the Borrower. Should the Borrower fail to appear or answer any summons, complaint, process or papers so served within thirty (30) days after the mailing or other service thereof, it shall be deemed in default and an order or judgment may be entered against it as demanded or prayed for in such summons, complaint, process or papers. The choice of forum set forth in this section shall not be deemed to preclude the enforcement of any judgment obtained in such forum, or the taking of any action under this Agreement to enforce the same, in any appropriate jurisdiction.

13.6 Survival of Representations and Warranties. All of each Borrower's representations and warranties contained in this Agreement shall survive the execution, delivery, and acceptance thereof by the parties, notwithstanding any investigation by the Lender or its agents, but after the Closing Date it is recognized that such representations and warranties may be amended from time to time during the term of this Agreement by written agreement between the Borrowers to the Lender due to changes in circumstances.

13.7 Indemnification. EACH BORROWER HEREBY INDEMNIFIES, DEFENDS AND HOLDS LENDER, AND ITS DIRECTORS, OFFICERS, AGENTS, EMPLOYEES AND COUNSEL, HARMLESS FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES, DEFICIENCIES, JUDGMENTS, PENALTIES OR EXPENSES IMPOSED ON, INCURRED BY OR ASSERTED AGAINST ANY OF THEM, WHETHER DIRECT, INDIRECT OR CONSEQUENTIAL ARISING OUT OF OR BY REASON OF ANY LITIGATION, INVESTIGATIONS, CLAIMS, OR

PROCEEDINGS (WHETHER BASED ON ANY FEDERAL, STATE OR LOCAL LAWS OR OTHER STATUTES OR REGULATIONS, INCLUDING, WITHOUT LIMITATION, SECURITIES, ENVIRONMENTAL, OR COMMERCIAL LAWS AND REGULATIONS, UNDER COMMON LAW OR AT EQUITABLE CAUSE, OR ON CONTRACT OR OTHERWISE) COMMENCED OR THREATENED, WHICH ARISE OUT OF OR ARE IN ANY WAY BASED UPON THE NEGOTIATION, PREPARATION, EXECUTION, DELIVERY, ENFORCEMENT, PERFORMANCE OR ADMINISTRATION OF THIS AGREEMENT, ANY OTHER LOAN DOCUMENT, OR ANY UNDERTAKING OR PROCEEDING RELATED TO ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY ACT, OMISSION TO ACT, EVENT OR TRANSACTION RELATED OR ATTENDANT THERETO, INCLUDING, WITHOUT LIMITATION, AMOUNTS PAID IN SETTLEMENT, COURT COSTS, AND THE FEES AND EXPENSES OF COUNSEL REASONABLY INCURRED IN CONNECTION WITH ANY SUCH LITIGATION, INVESTIGATION, CLAIM OR PROCEEDING, EXCEPT THAT THIS INDEMNIFICATION SHALL NOT APPLY TO ANY LOSSES, CLAIMS, DAMAGES, LIABILITIES, JUDGMENTS, PENALTIES OR EXPENSES IMPOSED ON, INCURRED BY OR ASSERTED AGAINST THE LENDER, AND ITS DIRECTORS, OFFICERS, AGENTS, EMPLOYEES, OR COUNSEL IF SUCH IS DUE TO AND ARISES FROM OR IN CONNECTION WITH THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF ANY OF THEM OR THE INTENTIONAL AND WRONGFUL BREACH OF THIS AGREEMENT BY LENDER. Without limiting the foregoing, if, by reason of any suit or proceeding of any kind, nature, or description against any Borrower, or by Borrower or any other party against Lender, which in Lender's sole discretion makes it advisable for Lender to seek counsel for protection and preservation of its liens and security assets, or to defend its own interest, such reasonable expenses and counsel fees shall be allowed to Lender. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 13.7 may be unenforceable because it is violative of any law or public policy, Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all indemnified matters incurred by Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.

13.8 Other Security and Guaranties. The Lender may, without, notice or demand and without affecting any Borrower's obligations hereunder, from time to time: (a) take from any Person and hold collateral (other than the Collateral) for the payment of all or any part of the Obligations and exchange, enforce or release such collateral or any part thereof; and (b) accept and hold any endorsement or guaranty of payment of all or any part of the Obligations and release any such endorser or guarantor, or any Person who has given any Lien in any other collateral as security for the repayment of all or any part of the Obligations, or any other Person in any way obligated to pay all or any part of the Obligations.

13.9 Fees and Expenses. The Borrowers shall pay to the Lender on demand all costs and expenses that the Lender pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement and the other Loan Documents, including, without limitation: (a) attorneys' and paralegals' fees and disbursements

of counsel to the Lender (including, without limitation, a reasonable estimate of the allocable cost of in-house counsel); (b) costs and expenses (including attorneys' and paralegals' fees and disbursements, including, without limitation, a reasonable estimate of the allocable cost of in-house counsel) for any amendment, supplement, waiver, consent, or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien and title searches and title insurance; (d) fees and other charges for recording and filing financing statements and continuations, and other actions to perfect, protect, and continue the Security Interest; (e) sums paid or incurred to pay any amount or take any action required of the Borrowers under the Loan Documents that any Borrower was obligated to pay or take under the Loan Documents but failed to pay or take; (f) the expenses of \$500 per Lender's auditor per audit day plus actual costs of appraisals, inspections, and verifications of the Collateral, including, without limitation, travel, lodging, and meals, for inspections of the Collateral and the Borrower's operations by the Lender's agents up to three times per year and whenever an Event of Default exists; (g) costs and expenses of forwarding loan proceeds, collecting checks and other items of payment, and establishing and maintaining Payment Accounts and lock boxes; (h) all amounts that any Borrower is required to pay under the Letter of Credit Agreement; (i) costs and expenses of preserving and protecting the Collateral; and (j) costs and expenses (including attorneys' and paralegals' fees and disbursements and including, without limitation, a reasonable estimate of the allocable cost of in-house counsel) paid or incurred to obtain payment of the Obligations, enforce the Security Interest, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents, or to defend any claims made or threatened against the Lender arising out of the transactions contemplated hereby (including without limitation, preparations for and consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid by the Borrower. All of the foregoing costs and expenses shall be charged to the Borrowers' loan account as Revolving Loans.

13.10 Notices. All notices, demands and requests that either party is required or elects to give to the other shall be in writing, shall be delivered personally against receipt, or sent by recognized overnight courier service, or mailed by registered or certified mail, return receipt requested, postage prepaid, and shall be addressed to the party to be notified as follows:

If to the Lender: Bank of America National Trust and Savings Association
55 South Lake Avenue, Suite 900
Pasadena, California 91101
Attn: Ms. Joyce White
Executive Vice President, West Division
Manager

with a copy to: Bank of America National Trust and Savings Association
10124 Old Grove Road
San Diego, California 92131
Attn: Thomas G. Montgomery, Esq.
Assistant General Counsel

and with a copy to: Jenkens & Gilchrist, A
Professional Corporation
1445 Ross Avenue, Suite 3200
Dallas, Texas 75201
Attn: Linda D. Sartin, Esq.

If to the Borrower: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: Mr. Jack E. Golsen
President

with a copy to: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: Mr. Tony M. Shelby
Senior Vice President

with a copy to: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: David M. Shear, Esq.
General Counsel

and with a copy to: Conner & Winters
One Leadership Square
211 North Robinson, Suite 1700
Oklahoma City, Oklahoma 73102-7101
Attn: Irwin H. Steinhorn, Esq.

or to such other address as each party may designate for itself by like notice. Any such notice, demand, or request shall be deemed given when received if personally delivered or sent by overnight courier, or when deposited in the United States mails, postage paid, if sent by registered or certified mail.

13.11 Waiver of Notices. Unless otherwise expressly provided herein, each Borrower waives presentment, protest and notice of demand or dishonor and protest as to any instrument, notice of intent to accelerate and notice of acceleration, as well as any and all other notices to which it might otherwise be entitled. No notice to or demand on the Borrower which the Lender may elect to give shall entitle the Borrower to any further notice or demand in the same, similar or other circumstances.

13.12 Binding Effect; Assignment; Disclosure. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors and assigns of the parties hereto: provided, however, that no interest herein may be assigned by any Borrower without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any

interest in the Obligations or any part thereof. Each Borrower agrees that the Lender may use the Borrower's name in advertising and promotional materials and in conjunction therewith disclose the general terms of this Agreement.

13.13 Modification. THIS AGREEMENT IS INTENDED BY EACH BORROWER AND THE LENDER TO BE THE FINAL, COMPLETE, AND EXCLUSIVE EXPRESSION OF THE AGREEMENT BETWEEN THEM. THIS AGREEMENT SUPERSEDES ANY AND ALL PRIOR ORAL OR WRITTEN AGREEMENTS RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE, OR AMENDMENT OF ANY PROVISION OF THIS AGREEMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY SUCH BORROWER AND A DULY AUTHORIZED OFFICER OF THE LENDER.

13.14 Counterparts. This Agreement may be executed in any number of counterparts, and by the Lender and the Borrowers in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

13.15 Captions. The captions contained in this Agreement are for convenience only, are without substantive meaning and should not be construed to modify, enlarge, or restrict any provision.

13.16 Right of Set-Off. Whenever an Event of Default exists the Lender is hereby authorized at any time and from time to time, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by Lender or any affiliate of the Lender and other indebtedness at any time owing by the Lender or any affiliate of the Lender to or for the credit or the account of the Borrowers against any and all of the Obligations, whether or not then due and payable. Lender agrees promptly to notify Borrowers after any such set-off and application made by Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

13.17 Participating Lender's Security Interests. If a Participating Lender shall at any time with the Borrowers' knowledge participate with the Lender in the Loans, each Borrower hereby grants to such Participating Lender, and the Lender and such Participating Lender shall have and are hereby given, a continuing lien on and security interest in any money, securities and other property of the Borrower in the custody or possession of the Participating Lender, including, the right of set-off, to the extent of the Participating Lender's participation in the Obligations, and such Participating Lender shall be deemed to have the, same right of set-off, to the extent of the Participating Lender's participation in the Obligations under this Agreement, as it would have if it were a direct lender.

13.18 WAIVER OF JURY TRIAL. LENDER AND EACH BORROWER ACKNOWLEDGE AND AGREE THAT ANY CONTROVERSY WHICH MAY ARISE UNDER

THIS AGREEMENT OR THE RELATIONSHIP ESTABLISHED HEREBY WOULD BE BASED UPON DIFFICULT AND COMPLEX ISSUES, AND THEREFORE, THE PARTIES AGREE THAT ANY LAWSUIT GROWING OUT OF ANY SUCH CONTROVERSY WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT JURY. TRIAL BY A JUDGE SITTING WITHOUT A JURY WILL FURTHER RESULT IN THE AVOIDANCE OF DELAYS, A STREAMLINING OF THE PROCEEDINGS INVOLVED AND, AS A RESULT, WILL MINIMIZE THE EXPENSE OF ANY SUCH LAWSUIT FOR THE BENEFIT OF BORROWERS AND LENDER. EACH BORROWER HEREBY WAIVES TRIAL BY JURY, RIGHTS OF SET-OFF, AND THE RIGHT TO IMPOSE COUNTERCLAIMS (EXCEPT FOR COMPULSORY COUNTERCLAIMS) IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, THE OBLIGATIONS OR THE COLLATERAL, OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO OR THERETO, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING, BETWEEN THE BORROWER, AND THE LENDER. EACH BORROWER HEREBY CONFIRMS THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

13.19 AMENDMENT AND RESTATEMENT; LIMITATIONS OF SUBSIDIARY LIABILITY; WAIVERS OF CLAIMS. THIS AGREEMENT AMENDS, EXTENDS AND RESTATES IN ITS ENTIRETY THE FIRST AMENDED LSB LOAN AGREEMENT AND THE FIRST AMENDED SUMMIT LOAN AGREEMENT. THE EXECUTION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HERewith DOES NOT EXTINGUISH THE INDEBTEDNESS OUTSTANDING IN CONNECTION THEREWITH NOR DOES IT CONSTITUTE A NOVATION WITH RESPECT TO THE INDEBTEDNESS OUTSTANDING IN CONNECTION WITH THE FIRST AMENDED LSB LOAN AGREEMENT OR THE FIRST AMENDED SUMMIT LOAN AGREEMENT. EACH BORROWER REPRESENTS AND WARRANTS THAT AS OF THE CLOSING DATE THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO ITS OBLIGATIONS UNDER THE FIRST AMENDED LSB LOAN AGREEMENT AND THE FIRST AMENDED SUMMIT LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENTS. EACH BORROWER WAIVES ANY AND ALL SUCH CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE CLOSING DATE.

13.20 CROSS-COLLATERALIZATION AND CROSS-GUARANTIES. EACH BORROWER UNDER THIS AGREEMENT HEREBY IRREVOCABLY, ABSOLUTELY, AND UNCONDITIONALLY GUARANTEES THE FULL AND PROMPT PAYMENT TO LENDER WHEN DUE, WHETHER BY ACCELERATION OR OTHERWISE, OF ANY AND ALL OBLIGATIONS OF EACH OTHER BORROWER UNDER THIS AGREEMENT, WHETHER SUCH OBLIGATIONS EXIST NOW OR ARE HEREAFTER INCURRED. IN ADDITION ALL INDEBTEDNESS, OBLIGATIONS, AND LIABILITIES OWING AND

WHICH MAY HEREAFTER BE OWING TO LENDER UNDER THIS AGREEMENT, BY ANY OF THE LSB BORROWER SUBSIDIARIES, JOINTLY AND SEVERALLY OR BY ANY INDIVIDUAL MEMBER OF THE LSB BORROWER SUBSIDIARIES UNDER THIS AGREEMENT, SHALL BE SECURED BY ALL OF THE COLLATERAL FROM TIME TO TIME GRANTED TO LENDER PURSUANT TO THIS AGREEMENT OR ANY OTHER DOCUMENT OR INSTRUMENT EXECUTED AND/OR DELIVERED IN CONNECTION HERewith, AND LENDER MAY HOLD AND APPLY AND REAPPLY ALL MONEY, PROPERTY AND OTHER SUCH COLLATERAL AT ANY TIME RECEIVED BY LENDER IN PAYMENT OF ANY INDEBTEDNESS, OBLIGATIONS OR LIABILITIES OF THE LSB BORROWER SUBSIDIARIES OR ANY MEMBER THEREOF UNDER THIS AGREEMENT OR UNDER ANY OTHER DOCUMENT OR INSTRUMENT EXECUTED AND/OR DELIVERED IN CONNECTION HERewith TO ANY INDEBTEDNESS OWING BY ANY OF THE LSB BORROWER SUBSIDIARIES.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the date first above written.

"BORROWERS":

LSB INDUSTRIES, INC.

By: _____

Name: _____

Title: _____

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By: _____

Name: _____

Title: _____

MOREY MACHINERY MANUFACTURING CORPORATION

By: _____

Name: _____

Title: _____

"LENDER":

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By:

Name:

Title:

EXHIBITS TO LOAN AGREEMENT

EXHIBIT A	-	Permitted Liens
EXHIBIT B	-	Proprietary Rights
EXHIBIT D	-	List of Borrowers' Locations
EXHIBIT F	-	Subsidiaries and Affiliates
EXHIBIT G-1	-	Financial Statements
EXHIBIT G-2	-	Pro Forma Financial Statements
EXHIBIT H	-	Real Property Descriptions: Premises
EXHIBIT I	-	Trade Names, Trade Styles, Terms of Sale
EXHIBIT J	-	Pending Litigation
EXHIBIT K	-	Labor Matters
EXHIBIT L	-	ERISA Matters
EXHIBIT M	-	Schedule of Environmental Matters
EXHIBIT O	-	Letter of Credit Financing Agreement - Supplement to Second Amended and Restated Loan and Security Agreement
EXHIBIT P	-	Notice of Borrowing
SCHEDULE 10.8		Use of Bond Proceeds

Loan and Security Agreement

by and between

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)

as Lender

and

L&S AUTOMOTIVE PRODUCTS CO.
TRIBONETICS CORPORATION
L&S BEARING CO.
LSB EXTRUSION CO.
ROTEX CORPORATION

AND

INTERNATIONAL BEARINGS, INC.

as Borrowers

Dated: May 7, 1999

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT dated May 7, 1999, is entered into by and between Congress Financial Corporation (Southwest), a Texas corporation ("Lender") and L&S Automotive Products Co. ("LSAP"), a Delaware corporation, International Bearings, Inc. ("IBI"), an Oklahoma corporation, L&S Bearing Co. ("L&SB"), an Oklahoma corporation, LSB Extrusion Co. ("LSBE"), an Oklahoma corporation, Rotex Corporation ("Rotex"), an Oklahoma corporation, and Tribonetics Corporation ("Tribonetics"), an Oklahoma corporation (LSAP, IBI, L&SB, LSBE, Rotex and Tribonetics are individually, collectively and jointly and severally herein referred to as "Borrower" or the "Borrowers").

W I T N E S S E T H:

WHEREAS, Borrowers have requested that Lender enter into certain financing arrangements with Borrowers pursuant to which Lender may make loans and provide other financial accommodations to each Borrower; on the terms and conditions set forth herein; and

WHEREAS, Lender is willing to make such loans and provide such financial accommodations on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Borrowers and Lender pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words "hereof", "herein", "hereunder", "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement. Any reference to this Agreement or any other Financing Agreement shall mean such agreement as now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word "including" when used in this Agreement shall mean "including, without limitation". An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 11.3, is cured pursuant to the terms of this Agreement, or is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured as determined by Lender. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 "Accounts" shall mean all present and hereafter arising rights of each Borrower to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 "Adjusted Eurodollar Rate" shall mean, with respect to each Interest Period for any Eurodollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) determined by dividing (a) the Eurodollar Rate for such Interest Period by (b) a percentage equal to: (i) one (1) minus (ii) the Reserve Percentage. For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of United States dollars in a non-United States or an international banking office of Reference Bank used to fund a Eurodollar Rate Loan or any Eurodollar Rate Loan made with the proceeds of such deposit, whether or not the Reference Bank actually holds or has made any such deposits or loans. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

1.3 "Availability Reserves" shall mean, as of any date of determination, such amounts as Lender may from time to time establish and revise in good faith reducing the amount of Revolving Loans and Letter of Credit Accommodations which would otherwise be available to Borrowers under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Lender in good faith, adversely affect or may adversely affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets or business of Borrowers or any Obligor when taken as a whole, or (iii) the security interests and other rights of Lender in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Lender's good faith belief that any collateral report or financial information furnished by or on behalf of Borrowers or any Obligor to Lender is or may have been incomplete, inaccurate or misleading in any material respect or (c) to reflect outstanding Letter of Credit Accommodations as provided in Section 2.2 hereof or (d) in respect of any state of facts which Lender determines in good faith constitutes an Event of Default, or may, with notice or passage of time or both, constitute an Event of Default.

1.4 "Blocked Accounts" shall have the meaning set forth in Section 6.3 hereof.

1.5 "Business Day" shall mean any day other than a Saturday, Sunday, or other day on which commercial banks are authorized or required to close under the laws of the State of New York or the State of North Carolina, and a day on which the Reference Bank and Lender are open for the transaction of business, except that if a determination of a Business Day shall relate to any Eurodollar Rate Loans, the term Business Day shall also exclude any day on which banks are closed for dealings in dollar deposits in the London interbank market or other applicable Eurodollar Rate market.

1.6 "Code" shall mean the Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.7 "Collateral" shall have the meaning set forth in Section 5 hereof.

1.8 "Collateral Letter of Credit" shall mean the standby letter of credit dated on or about the date hereof issued for the account of LSB Industries, Inc. ("LSB") by Bank America Los Angeles (or another issuer acceptable to Lender) in the amount of \$1,000,000 for the benefit of Lender substantially in the form of Exhibit B.

1.9 "Distribution Agreement" shall mean (a) a fully executed Distribution Agreement substantially in the form of the draft of Distribution Agreement attached hereto as Schedule 1.9 between Guarantor and LSB, and (b) all attachments and exhibits to such agreement and all other agreements, leases and other documents, executed in connection therewith in substantially the same form as the attachments, exhibits, agreements, leases and other documents attached hereto as Schedule 1.9.

1.10 "Eligible Accounts" shall mean Accounts created by any Borrower which are and continue to be acceptable to Lender based on the criteria set forth below. In general, Accounts shall be Eligible Accounts if:

(a) such Accounts arise from the actual and bona fide sale and delivery of goods by Borrowers or rendition of services by Borrowers in the ordinary course of their business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts (i) are Accounts of Advance Stores Co., Inc. ("Advance"), Western Auto Supply Co., Inc. ("Western"), or other account debtors approved by Lender (such Accounts being hereinafter collectively referred to as the "Advance Auto Accounts") which are not unpaid more than one-hundred eighty (180) days after the date of the original invoice for them or thirty (30) days after the due date for them, whichever is earlier, or (ii) such Accounts are not Advance Accounts and are not unpaid more than one-hundred twenty (120) days after the date of the original invoice for them or sixty (60) days after the due date for them, whichever is earlier;

(c) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;

(d) the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, Puerto Rico or Canada; or, if the chief executive office of account debtor is located outside the United States of America, Puerto Rico or Canada either: (i) the account debtor has delivered to Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable only in the United States of America and in U.S. dollars, sufficient to cover such Account, in form and substance satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or

(ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

(e) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Lender shall have received an agreement in writing from the account debtor, in form and substance satisfactory to Lender, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;

(f) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have any right of setoff against such Accounts (but the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by Borrower to such account debtor or claimed owed by such account debtor may be deemed Eligible Accounts);

(g) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;

(h) such Accounts are subject to the first priority, valid and perfected security interest of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;

(i) the account debtor with respect to such Accounts is not affiliated with any Borrower directly or indirectly by virtue of family membership, ownership, control, management or otherwise;

(j) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request, the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Lender;

(k) there are no proceedings or actions to the knowledge of Borrowers or Lender which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;

(l) (i) for Accounts which are not Advance Auto Accounts or Accounts described in subsection (iii) hereof, such Accounts of a single account debtor or its affiliates do not constitute more than ten percent (10%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts, in Lender's discretion); (ii) for Accounts which are Advance Auto Accounts, such Accounts do not constitute more than fifty percent (50%) of all otherwise Eligible

Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts, in Lender's discretion); and (iii) for Accounts of Dexter Axle, a division of Tomkins Industries, and FMC Corporation, the Accounts of each such account debtor do not constitute more than fifteen percent (15%) of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts, in Lender's discretion);

(m) (i) for Accounts which are not Advance Auto Accounts, such Accounts are not owed by an account debtor who has Accounts unpaid more than one hundred twenty (120) days after the date of the original invoice for them or sixty (60) days after the due date for them, whichever is earlier and which such Accounts constitute more than fifty percent (50%) of the total Accounts of such account debtor; (ii) for Advance Auto Accounts, such Accounts are not owed by an account debtor who has Accounts unpaid more than one-hundred eighty (180) days after the date of the original invoice for them or thirty (30) days after the due date for them, whichever is earlier and which such Accounts constitute more than twenty-five percent (25%) of the total Accounts of such account debtor;

(n) such Accounts are owed by account debtors whose total indebtedness to Borrower does not exceed the credit limit with respect to such account debtors as determined by Lender from time to time (but the portion of the Accounts not in excess of such credit limit may be deemed Eligible Accounts);

(o) such Accounts are owed by account debtors deemed creditworthy at all times by Lender, as determined by Lender; and

(p) the principal office, assets or place of business of the account debtors with respect to such Accounts are not outside the United States, Puerto Rico or Canada (or as otherwise provided in the Section 1.11(d)).

General criteria for Eligible Accounts may be established and revised from time to time by Lender in good faith. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.11 "Eligible Inventory" shall mean Inventory consisting of finished goods held for resale in the ordinary course of the business of any Borrower and raw materials for such finished goods, (including raw materials stored or held by any Borrower in the work in progress area of such Borrower but which are not characterized as work in progress for accounting purposes) which are acceptable to Lender based on the criteria set forth below. In general, Eligible Inventory shall not include (a) work-in-process; (b) components which are not part of finished goods and which are not otherwise acceptable to Lender; (c) spare parts for Equipment; (d) packaging and shipping materials; (e) supplies used or consumed in Borrower's business; (f) Inventory at premises other than those owned and controlled by any Borrower, except if Lender shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in

form and substance satisfactory to Lender acknowledging Lender's first priority security interest in the Inventory, waiving security interests and claims by such person against the Inventory and permitting Lender access to, and the right to remain on, for a reasonable period of time, the premises so as to exercise Lender's rights and remedies and otherwise deal with the Collateral; (g) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement; (h) bill and hold goods; (i) unserviceable, obsolete or slow moving Inventory; (j) Inventory which is not subject to the first priority, valid and perfected security interest of Lender; (k) defective returned, damaged and/or defective Inventory; and (l) Inventory purchased or sold on consignment. General criteria for Eligible Inventory may be established and revised from time to time by Lender in good faith. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.12 "Environmental Laws" shall mean all foreign, Federal, State and local laws (including common law), legislation, rules, codes, licenses, permits (including any conditions imposed therein), authorizations, judicial or administrative decisions, injunctions or agreements between any Borrower and any governmental authority, (a) relating to pollution and the protection, preservation or restoration of the environment (including air, water vapor, surface water, ground water, drinking water, drinking water supply, surface land, subsurface land, plant and animal life or any other natural resource), or to human health or safety, (b) relating to the exposure to, or the use, storage, recycling, treatment, generation, manufacture, processing, distribution, transportation, handling, labeling, production, release or disposal, or threatened release, of Hazardous Materials, or (c) relating to all laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials. The term "Environmental Laws" includes (i) the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Federal Superfund Amendments and Reauthorization Act, the Federal Water Pollution Control Act of 1972, the Federal Clean Water Act, the Federal Clean Air Act, the Federal Resource Conservation and Recovery Act of 1976 (including the Hazardous and Solid Waste Amendments thereto), the Federal Solid Waste Disposal and the Federal Toxic Substances Control Act, the Federal Insecticide, Fungicide and Rodenticide Act, and the Federal Safe Drinking Water Act of 1974, (ii) applicable state counterparts to such laws, and (iii) any common law or equitable doctrine that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Materials.

1.13 "Equipment" shall mean all of each Borrower's now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.14 "ERISA" shall mean the United States Employee Retirement Income Security Act of 1974, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.15 "ERISA Affiliate" shall mean any person required to be aggregated with any Borrower or any of its subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code.

1.16 "Eurodollar Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Adjusted Eurodollar Rate in accordance with the terms hereof.

1.17 "Eurodollar Rate" shall mean with respect to the Interest Period for a Eurodollar Rate Loan, the interest rate per annum equal to the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one percent (1%)) at which Reference Bank is offered deposits of United States dollars in the London interbank market (or other Eurodollar Rate market selected by Borrowers and approved by Lender) on or about 9:00 a.m. (New York time) two (2) Business Days prior to the commencement of such Interest Period in amounts substantially equal to the principal amount of the Eurodollar Rate Loans requested by and available to Borrowers in accordance with this Agreement, with a maturity of comparable duration to the Interest Period selected by Borrowers.

1.18 "Event of Default" shall mean the occurrence or existence of any event or condition described in Section 10.1 hereof.

1.19 "Excess Availability" shall mean the amount, as determined by Lender, calculated at any time, equal to: (a) the lesser of: (i) the amount of the Revolving Loans available to Borrowers as of such time based on the applicable lending formulas multiplied by the Net Amount of Eligible Accounts and the Value of Eligible Inventory, as determined hereunder, and subject to the sublimits and Availability Reserves from time to time established by Lender hereunder, and (ii) the Maximum Credit (less the then outstanding principal amount of the Term Loan), minus (b) the sum of: (i) the amount of all then outstanding and unpaid Obligations (but not including for this purpose the then outstanding principal amount of the Term Loan), plus (ii) the aggregate amount of all then outstanding and unpaid trade payables of Borrowers which are more than sixty (60) days past due as of such time, plus (iii) the amount of checks issued by Borrowers to pay trade payables, but not yet sent, plus (iv) the book overdraft of Borrowers (in the aggregate), in excess of \$750,000.

1.20 "Financing Agreements" shall mean, collectively, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrowers or any Obligor in connection with this Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.21 "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the circumstances as of the date of determination consistently applied, except that, for purposes of Section 9.15 hereof, GAAP shall be determined on the basis of such principles in effect on the date

hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

1.22 "Guarantor" shall mean LSA Technologies Inc., a Delaware corporation.

1.23 "Guaranty" shall mean that certain Guarantee, of even date with this Agreement, from the Guarantor guaranteeing the Obligations of each and every Borrower to the Lender, as amended, modified, supplemented, extended, renewed, restated or replaced.

1.24 "Hazardous Materials" shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (including any that are or become classified as hazardous or toxic under any Environmental Law).

1.25 "Information Certificate" shall mean the Information Certificate of Borrowers constituting Exhibit A hereto containing material information with respect to Borrowers, their business and assets provided by or on behalf of Borrowers to Lender in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.26 "Interest Period" shall mean for any Eurodollar Rate Loan, a period of approximately one (1), two (2), or three (3) months duration as Borrowers may elect, the exact duration to be determined in accordance with the customary practice in the applicable Eurodollar Rate market; provided, that, Borrowers may not elect an Interest Period which will end after the last day of the then-current term of this Agreement.

1.27 "Interest Rate" shall mean, as to Prime Rate Loans, a rate of one percent (1%) per annum in excess of the Prime Rate and, as to Eurodollar Rate Loans, a rate of two and three-quarters percent (2.75%) per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrowers as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrowers for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrowers); provided, that, the Interest Rate shall mean the rate of three percent (3%) per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of four and three-quarters percent (4.75%) per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Lender's option, without notice, (a) for the period (i) from and after the date of termination until Lender has received full and final payment of all Obligations (notwithstanding entry of a judgment against Borrowers) and (ii) from and after the date of the occurrence of an Event of Default

for so long as such Event of Default is continuing as determined by Lender, and (b) on the Revolving Loans at any time outstanding in excess of the amounts available to Borrowers under Section 2 (whether or not such excess(es), arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default).

1.28 "Inventory" shall mean all of each Borrower's now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.29 "LSB" shall mean LSB Industries, Inc., a Delaware corporation.

1.30 "Letter of Credit Accommodations" shall mean the letters of credit, merchandise purchase or other guaranties which are from time to time either (a) issued or opened by Lender for the account of any Borrower or Borrowers or any Obligor or (b) with respect to which Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by any Borrower or Borrowers of its or their obligations to such issuer.

1.31 "Loans" shall mean the Revolving Loans and the Term Loan.

1.32 "Maximum Credit" shall mean the amount of \$18,550,000.

1.33 "Maximum Legal Rate" shall have the meaning set forth in Section 3.1 hereof.

1.34 "Net Amount of Eligible Accounts" shall mean the gross amount of Eligible Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits (including unissued credits) and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.

1.35 "Net Worth" shall mean as to any Person, at any time, in accordance with GAAP (except as otherwise specifically set forth below), on a consolidated basis for such Person and its subsidiaries (if any), the amount equal to: (a) the difference between: (i) the aggregate net book value of all assets of such Person and its subsidiaries, calculating the book value of inventory for this purpose on a first-in-first-out basis, after deducting from such book values all appropriate reserves in accordance with GAAP (including all reserves for doubtful receivables, obsolescence, depreciation and amortization) and (ii) the aggregate amount of the indebtedness and other liabilities of such Person and its subsidiaries (including tax and other proper accruals) less (b) the value of any asset of such Person arising from the conversion of any indebtedness or other liability of such Person to equity.

1.36 "Obligations" shall mean any and all Revolving Loans, the Term Loan, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by each and every Borrower to Lender and/or its affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety,

endorser, guarantor or otherwise, whether arising under the Financing Agreements, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any case with respect to any such Borrower under the United States Bankruptcy Code or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured.

1.37 "Obligor" shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than any Borrower.

1.38 "Payment Account" shall have the meaning set forth in Section 6.3 hereof.

1.39 "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.40 "Prime Rate" shall mean the rate from time to time publicly announced by First Union National Bank or its successors, at its office in Charlotte, North Carolina, as its prime rate, whether or not such announced rate is the best rate available at such bank.

1.41 "Prime Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Prime Rate in accordance with the terms thereof.

1.42 "Records" shall mean all of each Borrower's present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of such Borrower with respect to the foregoing maintained with or by any other person).

1.43 "Reference Bank" shall mean First Union National Bank, or such other bank as Lender may from time to time designate.

1.44 "Revolving Loans" shall mean the loans now or hereafter made by Lender to or for the benefit of each Borrower on a revolving basis (involving advances, repayments and readvances) as set forth in Section 2.1 hereof.

1.45 "Subordination Agreements" shall mean the Subordination Agreement, of even date herewith, between LSB, Guarantor and Borrowers, as amended, modified, supplemented, extended, renewed, restated or replaced, subordinating the obligations owed by and among Borrowers to Guarantor and LSB, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.46 "Term Loan" shall mean the term loan made by Lender to Borrowers as provided for in Section 2.3 hereof.

1.47 "Term Promissory Note" shall have the meaning set forth in Section 2.3 hereof.

1.48 "Value" shall mean, as determined by Lender in good faith, with respect to Inventory, the lower of (a) cost computed on a first-in-first-out basis in accordance with GAAP or (b) market value.

SECTION 2. CREDIT FACILITIES

2.1 Revolving Loans.

(a) Subject to and upon the terms and conditions contained herein, Lender agrees to make Revolving Loans to Borrowers from time to time in amounts requested by such Borrower or Borrowers up to the amount equal to the sum of:

(i) eighty-five percent (85%) of the Net Amount of Eligible Accounts of such Borrower or Borrowers; provided, however, the amount of Revolving Loans outstanding with respect to Advance Auto Accounts which are not fully insured by credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender shall not exceed \$3,000,000, and provided further, subject to the provisions of Section 9.7, with respect to IBI, the amount of Revolving Loans outstanding at any time with respect to Eligible Accounts shall not exceed \$1,600,000; plus

(ii) the lesser of: (A) the sum of forty percent (40%) of the Value of Eligible Inventory consisting of finished goods plus thirty percent and (30%) of the Value of Eligible Inventory consisting of raw materials for such finished goods or (B) \$7,500,000; provided, however, subject to the provisions of Section 9.7, with respect to IBI, the amount of Revolving Loans outstanding at any time with respect to Eligible Inventory shall not exceed \$1,000,000.; less

(iii) any Availability Reserves.

The unused portion of the sublimits available to IBI may be utilized by the other Borrowers.

(b) Lender may, in its discretion, from time to time, upon not less than five (5) days prior notice to Borrowers, (i) reduce the lending formula for with respect to Eligible Accounts to the extent that Lender determines in good faith that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may reasonably be anticipated to increase in any material respect, above historical levels or (B) the general creditworthiness of account debtors of Borrowers has declined or (ii) adjust the lending formula(s) for Borrowers with respect to Eligible Inventory to the extent that Lender determines that: (A) the number of days of the turnover of the Inventory for any period has changed in any material respect or (B) the liquidation value of the Eligible Inventory, or any category thereof, has decreased, or (C) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the lending formula(s), Lender may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory or in establishing Availability Reserves.

(c) Except in Lender's discretion, the aggregate amount of the Loans and the Letter of Credit Accommodations outstanding to all Borrowers at any time shall not exceed the Maximum Credit. In the event that the outstanding amount of any component of the Loans, or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations, exceed the amounts available under the lending formulas, the sublimits for Letter of Credit Accommodations set forth in Section 2.2(d) or the Maximum Credit, as applicable, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and any Borrower shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of any such excess(es) for which payment is demanded.

(d) For purposes only of applying the sublimit on Revolving Loans based on Eligible Inventory pursuant to Section 2.1(a)(ii)(B), Lender may treat the then undrawn amounts of outstanding Letter of Credit Accommodations for the purpose of purchasing Eligible Inventory as Revolving Loans to the extent Lender is in effect basing the issuance of the Letter of Credit Accommodations on the Value of the Eligible Inventory being purchased with such Letter of Credit Accommodations. In determining the actual amounts of such Letter of Credit Accommodations to be so treated for purposes of the sublimit, the outstanding Revolving Loans and Availability Reserves shall be attributed first to any components of the lending formulas in Section 2.1(a) that are not subject to such sublimit, before being attributed to the components of the lending formulas subject to such sublimit.

2.2 Letter of Credit Accommodations.

(a) Subject to and upon the terms and conditions contained herein, at the request of any Borrower, Lender agrees to provide or arrange for Letter of Credit Accommodations for the account of Borrowers containing terms and conditions acceptable to Lender and the issuer thereof. Any payments made by Lender to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to Borrowers pursuant to this Section 2.

(b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Borrowers shall pay to Lender a letter of credit fee at a rate equal to one and one-half percent (1.5%) per annum on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that Borrowers shall pay to Lender such letter of credit fee, at Lender's option, without notice, at a rate equal to three and one-half percent (3 1/2%) per annum on such daily outstanding balance for: (i) the period from and after the date of termination hereof until Lender has received full and final payment of all Obligations (notwithstanding entry of a judgment against any Borrower) and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Lender. Such letter of credit fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Borrowers to pay such fee shall survive the termination or non-renewal of this Agreement.

(c) No Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, the Revolving Loans available to any Borrowers (subject to the Maximum Credit and any Availability Reserves) are equal to or greater than: (i) if the proposed Letter of Credit Accommodation is for the purpose of purchasing Eligible Inventory, the sum of (A) seventy percent (70%) of the cost of such Eligible Inventory, plus (B) freight, taxes, duty and other amounts which Lender estimates must be paid in connection with such Inventory upon arrival and for delivery to one of such Borrower's locations for Eligible Inventory within the United States of America and (ii) if the proposed Letter of Credit Accommodation is for any other purpose, an amount equal to one hundred (100%) percent of the face amount thereof and all other commitments and obligations made or incurred by Lender with respect thereto. Effective on the issuance of each Letter of Credit Accommodation, an Availability Reserve shall be established in the applicable amount set forth in Section 2.2(c)(i) or Section 2.2(c)(ii).

(d) Except in Lender's discretion, the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Lender in connection therewith shall not at any time exceed \$3,000,000 with respect to all Borrowers; provided, however, that no Letter of Credit Accommodations shall be made with respect to IBI. At any time an Event of Default exists or has occurred and is continuing, upon Lender's request, Borrowers will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Lender for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise available to Borrowers shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.

(e) Each Borrower shall jointly and severally indemnify and hold Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Lender may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating

thereto, including any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation. Each Borrower assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed such Borrower's agent. Each Borrower assumes all risks for, and agrees to pay, all foreign, Federal, State and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Each Borrower hereby releases and holds Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by any Borrower, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2(e) shall survive the payment of Obligations and the termination of this Agreement.

(f) Nothing contained herein shall be deemed or construed to grant any Borrower any right or authority to pledge the credit of Lender in any manner. Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Lender unless Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Each Borrower shall be bound by any reasonable interpretation made in good faith by Lender, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of such or any Borrower. Lender shall have the sole and exclusive right and authority to: (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, and (ii) at all times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Lender may take such actions either in its own name or in any Borrower's name.

(g) Any rights, remedies, duties or obligations granted or undertaken by any Borrower to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by any Borrower to Lender. Any duties or obligations undertaken by Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Lender in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been undertaken by any Borrower to Lender and to apply in all respects to such Borrower.

2.3 Term Loan.

(a) Lender is making a Term Loan to Borrowers in the original principal amount of \$2,550,000. The Term Loan is (i) evidenced by a Term Promissory Note, substantially in the form of

Exhibit C attached hereto, in such original principal amount (the "Term Promissory Note") duly executed and delivered by Borrowers to Lender concurrently herewith; (ii) to be repaid, together with interest and other amounts, in accordance with this Agreement, the Term Promissory Note, and the other Financing Agreements and (a) secured by all of the Collateral; provided, however, no amount of the Term Loan shall be made available to IBI.

(b) Lender shall on at least thirty (30) days prior written request (the "Release Request") from Borrowers and at Borrowers' expense, release Lender's security interest in the Equipment upon the payment in full of the Term Loan and satisfaction of all of the following terms and conditions:

(i) Borrowers, on a consolidated basis, shall have net income (exclusive of extraordinary gains and losses) in an aggregate amount of not less than \$2,000,000 for the fiscal year of Borrowers immediately preceding the date of the Release Request as shown on the financial statements of Borrowers furnished to Lender pursuant to Section 9.6(a)(ii) hereof and there shall not have been any material adverse change since the date of such statement;

(ii) Excess Availability at the date of the Release Request and at the time of the final release agreement shall be in an amount of not less than \$5,000,000;

(iii) Borrowers shall have received a bonafide written offer from a third party financial institution with respect to such Equipment to provide secured refinancing of the Equipment;

(iv) No Event of Default or any Event which with notice or lapse of time, will constitute an Event of Default shall have occurred and be continuing at the Release Date; and

(v) Borrowers shall provide a certificate from an officer of each Borrower representing that all the foregoing conditions are satisfied on the Release Date;

(vi) Notwithstanding that Borrowers have satisfied the foregoing conditions, Lender shall have the right (but not the obligation) to exercise a right of first refusal to finance such Equipment in accordance with the provisions of Section 2.7 hereof as if such Equipment were "Option Equipment" thereunder. The Release Request shall be treated as the Option Notice for purposes of applying the provisions of Section 2.7 hereof.

2.4 Availability Reserves. All Revolving Loans otherwise available to any Borrower pursuant to the lending formulas and subject to the Maximum Credit and other applicable limits hereunder shall be subject to Lender's continuing right to establish and revise Availability Reserves as provided herein.

2.5 Joint and Several Liability; Rights of Contribution.

(a) Each Borrower states and acknowledges that: (i) pursuant to this Agreement, such Borrower desires to utilize its borrowing potential on a consolidated basis to the same extent possible if it was merged into a single corporate entity with all other Borrowers and that this Agreement reflects the establishment of credit facilities which would not otherwise be available to such Borrower if such Borrower were not jointly and severally liable for payment of all of the Obligations; (ii) it has determined that it will benefit specifically and materially from the advances of credit contemplated by this Agreement; (iii) it is both a condition precedent to the obligations of Lender hereunder and a desire of the Borrowers that each Borrower execute and deliver to Lender this Agreement; and (iv) Borrowers have requested and bargained for the structure and terms of and security for the advances contemplated by this Agreement.

(b) Each Borrower hereby irrevocably and unconditionally: (i) agrees that it is jointly and severally liable to Lender for the full and prompt payment of the Obligations and the performance by each Borrower of its obligations hereunder in accordance with the terms hereof; (ii) to the extent provided herein agrees to fully and promptly perform all of its obligations hereunder with respect to each advance of credit hereunder as if such advance had been made directly to it; and (iii) agrees as a primary obligation to indemnify Lender on demand for and against any loss incurred by Lender as a result of any of the Obligations of any one or more of the Borrowers being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to Lender or any Person, the amount of such loss being the amount which Lender would otherwise have been entitled to recover, without duplication, from any one or more of the Borrowers.

(c) It is the intent of each Borrower that the indebtedness, obligations and liability hereunder of no one of them be subject to challenge on any basis, including, without limitation, pursuant to any applicable fraudulent conveyance or fraudulent transfer laws. Accordingly, as of the date hereof, the liability of each Borrower under this section, together with all of its other liabilities to all Persons as of the date hereof and as of any other date on which a transfer or conveyance is deemed to occur by virtue of this Agreement, calculated in amount sufficient to pay its probable net liabilities on its existing indebtedness as the same become absolute and matured ("Dated Liabilities") is, and is to be, less than the amount of the aggregate of a fair valuation of its property as of such corresponding date ("Dated Assets"). To this end, each Borrower under this section, (i) grants to and recognizes in each other Borrower, ratably, rights of subrogation and contribution in the amount, if any, by which the Dated Assets of such Borrower, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Liabilities of such Borrower or, as the case may be, (ii) acknowledges receipt of and recognizes its right to subrogation and contribution ratably from each of the other Borrowers in the amount, if any, by which the Dated Liabilities of such Borrower, but for the aggregate of subrogation and contribution in its favor recognized herein, would exceed the Dated Assets of such Borrower under this section. In recognizing the value of the Dated Assets and the Dated Liabilities, it is understood that Borrowers will recognize, to at least the same extent of their aggregate recognition of liabilities hereunder, their rights to subrogation and contribution hereunder. It is a material objective of this section that each Borrower recognizes rights to subrogation and contribution rather than be deemed to be insolvent (or in contemplation thereof) by reason of an arbitrary interpretation of

its joint and several obligations hereunder. In addition to and not in limitation of the foregoing provisions of this section, the Borrowers and Lender hereby agree and acknowledge that it is the intent of each Borrower and of Lender that the obligations of each Borrower hereunder be in all respects in compliance with, and not be voidable pursuant to, applicable fraudulent conveyance and fraudulent transfer laws.

2.6 Structure of Credit Facility. Each Borrower agrees and acknowledges that the present structure of the credit facilities detailed in this Agreement is based in part upon the financial and other information presently known to Lender regarding each Borrower, the corporate structure of Borrowers, and the present financial condition of each Borrower. Each Borrower hereby agrees that Lender shall have the right, in Lender's good faith credit judgment, to require that any or all of the following changes be made to these credit facilities: (i) restrict loans and advances between Borrowers, (ii) establish separate lockbox and dominion accounts for each Borrower, and (iii) establish such other procedures as shall be reasonably deemed by Lender to be useful in tracking where the Revolving Loans are made under this Agreement and the source of payments received by Lender on such Revolving Loans.

2.7 Right of First Refusal. Pursuant to the provisions of Section 9.9(e), each time any Borrower proposes to refinance all or any part of its Equipment listed on Attachment I hereto (the "Option Equipment"), Lender shall have the right (but not the obligation) to exercise a right of first refusal to finance such Option Equipment in accordance with the following provisions:

(a) Option Notice. Such Borrower shall deliver a written notice ("Option Notice") to Lender stating (i) such Borrower's bona fide intention to obtain financing for the Option Equipment from a third party (each an "Equipment Lender") (which may be a party existing and providing financing on the date hereof) with respect to such Option Equipment (each such financing by any financing party including the Lender being a "Refinancing"), (ii) the terms and conditions of the proposed financing in reasonable detail, including, without limitation, (A) the applicable interest or other pricing, including financing fees, (B) the term of the financing, and (C) and any covenants affecting such Borrower, and (iii) the name and address of the proposed Equipment Lender and other information reasonably requested by Lender (including an executed copy of a written proposal or commitment of the proposed Equipment Lender).

(b) Lender Financing Right. Within twenty (20) days after receipt of the Option Notice, Lender shall have the right, but not the obligation, to elect to provide financing for the Option Equipment upon the price and terms of the applicable Refinancing designated in the Option Notice, by providing a written term sheet in a customary form for Lender containing terms substantially identical to the terms provided to such Borrower by the Equipment Lender for such Refinancing.

(c) Closing of Transfer. If Lender elects to provide the Refinancing in place of the Equipment Lender as set forth in the Option Notice, then the closing of such purchase shall occur as soon as practicable, but in any event thirty (30) days after receipt of such notice, and such Borrower, each other Borrower, the Guarantor and other parties to the Financing Agreements which may be affected thereby and Lender shall execute such documents and

instruments, provide such due diligence, take such actions and make such deliveries as may be reasonably required by Lender to close and fund such Refinancing.

(d) Equipment Lender's Refinancing Right. If Lender elects not to provide the Refinancing designated in the Option Notice, then such Borrower may complete the such proposed Refinancing within sixty (60) days after the expiration of Lender's right described in clause (b) above to provide such Refinancing with the Equipment Lender on the terms presented to Lender under this section. If such Refinancing by the Equipment Lender is not completed within such sixty (60) day period, then the procedures set forth in this section must be followed again as if any prior Option Notice had not been given with respect to such Refinancing or the Option Equipment.

SECTION 3. INTEREST AND FEES

3.1 Interest.

(a) Each Borrower shall pay to Lender interest on the outstanding principal amount of the non-contingent Obligations at the Interest Rate. All interest accruing hereunder on and after the date of any Event of Default or termination hereof shall be payable on demand.

(b) Borrowers may from time to time request that Prime Rate Loans be converted to Eurodollar Rate Loans or that any existing Eurodollar Rate Loans continue for an additional Interest Period. Such request from Borrowers shall specify the amount of the Prime Rate Loans which will constitute Eurodollar Rate Loans (subject to the limits set forth below) and the Interest Period to be applicable to such Eurodollar Rate Loans. Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Lender of such a request from Borrowers, such Prime Rate Loans shall be converted to Eurodollar Rate Loans or such Eurodollar Rate Loans shall continue, as the case may be, provided, that, (i) no Event of Default, or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing, (ii) no party hereto shall have sent any notice of termination or non-renewal of this Agreement, (iii) Borrowers shall have complied with such customary procedures as are established by Lender and specified by Lender to Borrowers from time to time for requests by Borrowers for Eurodollar Rate Loans, (iv) no more than four (4) Interest Periods may be in effect at any one time, (v) the aggregate amount of the Eurodollar Rate Loans must be in an amount not less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, (vi) the maximum amount of the Eurodollar Rate Loans at any time requested by Borrowers shall not exceed the amount equal to (A) the principal amount of the Term Loan which it is anticipated will be outstanding as of the last day of the applicable Interest Period plus (B) eighty percent (80%) of the lowest principal amount of the Revolving Loans which it is anticipated will be outstanding during the applicable Interest Period, in each case as determined by Lender (but with no obligation of Lender to make such Revolving Loans) and (vii) Lender shall have determined that the Interest Period or Adjusted Eurodollar Rate is available to Lender through the Reference Bank and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrowers. Any request by Borrowers to convert Prime Rate Loans to Eurodollar Rate Loans or to continue any existing Eurodollar Rate Loans shall be irrevocable.

Notwithstanding anything to the contrary contained herein, Lender and Reference Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable Eurodollar Rate market to fund any Eurodollar Rate Loans, but the provisions hereof shall be deemed to apply as if Lender and Reference Bank had purchased such deposits to fund the Eurodollar Rate Loans.

(c) Any Eurodollar Rate Loans shall automatically convert to Prime Rate Loans upon the last day of the applicable Interest Period, unless Lender has received and approved a request to continue such Eurodollar Rate Loan at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any Eurodollar Rate Loans shall, at Lender's option, upon notice by Lender to Borrowers, convert to Prime Rate Loans in the event that (i) an Event of Default or event which, with the notice or passage of time, or both, would constitute an Event of Default, shall exist, (ii) this Agreement shall terminate, or (iii) the aggregate principal amount of the Prime Rate Loans which have previously been converted to Eurodollar Rate Loans or existing Eurodollar Rate Loans continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed either (A) the aggregate principal amount of the Loans then outstanding, or (B) the sum of the then outstanding principal amount of the Term Loan plus the Revolving Loans then available to Borrowers under Section 2 hereof. Borrowers shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of Borrowers) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person, as a result of the conversion of Eurodollar Rate Loans to Prime Rate Loans pursuant to any of the foregoing.

(d) Interest shall be payable by Borrowers to Lender monthly in arrears not later than the first day of each calendar month and shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. The interest rate on non-contingent Obligations (other than Eurodollar Rate Loans) shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such Prime Rate is announced based on the Prime Rate in effect on the last day of the month in which any such change occurs.

(e) No agreements, conditions, provisions or stipulations contained in this Agreement or any other instrument, document or agreement between one or more Borrowers and Lender or default of such Borrower(s), or the exercise by Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Agreement or any other Financing Agreement, or the arising of any contingency whatsoever, shall entitle Lender to contract for, charge, or receive, in any event, interest exceeding the maximum rate of interest permitted by applicable state or federal law in effect from time to time (hereinafter "Maximum Legal Rate"). In no event shall any Borrower be obligated to pay interest exceeding such Maximum Legal Rate and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel such Borrower to pay a rate of interest exceeding the Maximum Legal Rate, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such Maximum Legal Rate. In the event any interest is contracted for, charged or received in excess of the Maximum Legal Rate ("Excess"), each Borrower

acknowledges and stipulates that any such contract, charge, or receipt shall be the result of an accident and bona fide error, and that any Excess received by Lender shall be applied, first, to reduce the principal then unpaid hereunder; second, to reduce the other Obligations; and third, returned to such Borrower, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Each Borrower recognizes that, with fluctuations in the Prime Rate, the LIBOR Rate and the Maximum Legal Rate, such a result could inadvertently occur. By the execution of this Agreement, each Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by such Borrower of such Excess, and (ii) such Borrower shall not seek or pursue any other remedy, legal or equitable, against Lender, based in whole or in part upon contracting for, charging or receiving of any interest in excess of the maximum authorized or receiving of any interest in excess of the maximum authorized by applicable law (so long as any Excess is returned to Borrower). For the purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by Lender in connection with this Agreement shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

3.2 Closing Fee. Borrowers shall pay to Lender as a closing fee the amount of \$135,000, which shall be fully earned as of and payable on the date hereof.

3.3 Servicing Fee. Borrowers shall pay to Lender monthly a servicing fee in an amount equal to \$3,000 in respect of Lender's services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of and payable in advance on the date hereof and on the first day of each month hereafter.

3.4 Unused Line Fee. Borrowers shall pay to Lender monthly an unused line fee at a rate equal to one-half percent (.5%) per annum calculated upon the amount by which \$16,000,000 exceeds the average daily principal balance of the outstanding Revolving Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

3.5 Changes in Laws and Increased Costs of Loans.

(a) Notwithstanding anything to the contrary contained herein, all Eurodollar Rate Loans shall, upon notice by Lender to Borrowers, convert to Prime Rate Loans in the event that (i) any change in applicable law or regulation (or the interpretation or administration thereof) shall either (A) make it unlawful for Lender, Reference Bank or any participant to make or maintain Eurodollar Rate Loans or to comply with the terms hereof in connection with the Eurodollar Rate Loans, or (B) shall result in the increase in the costs to Lender, Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans by an amount deemed by Lender to be material, or (C) reduce the amounts received or receivable by Lender in respect thereof, by an amount deemed by Lender to be material or (ii) the cost to Lender,

Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans shall otherwise increase by an amount deemed by Lender to be material. Each Borrower shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of such Borrower) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person as a result of the foregoing, including, without limitation, any such loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain the Eurodollar Rate Loans or any portion thereof. A certificate of Lender setting forth the basis for the determination of such amount necessary to compensate Lender as aforesaid shall be delivered to Borrowers and shall be conclusive, absent manifest error.

(b) If any payments or prepayments in respect of the Eurodollar Rate Loans are received by Lender other than on the last day of the applicable Interest Period (whether pursuant to acceleration, upon maturity or otherwise), including any payments pursuant to the application of collections under Section 6.3 or any other payments made with the proceeds of Collateral, each affected Borrower shall pay to Lender upon demand by Lender (or Lender may, at its option, charge any loan account of such Borrower) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any additional loss (including loss of anticipated profits), cost or expense incurred by such person as a result of such prepayment or payment, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain such Eurodollar Rate Loans or any portion thereof.

SECTION 4. CONDITIONS PRECEDENT

4.1 Conditions Precedent to Initial Loans and Letter of Credit Accommodations. Each of the following is a condition precedent to Lender making the initial Loans and providing the initial Letter of Credit Accommodations hereunder:

(a) Lender shall have received evidence, in form and substance satisfactory to Lender, that Lender has valid perfected and first priority security interests in and liens upon the Collateral, subject only to the security interests and liens permitted herein or in the other Financing Agreements;

(b) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Lender, and Lender shall have received all information and copies of all documents, including records of requisite corporate action and proceedings which Lender may have reasonably requested in connection therewith, such documents where requested by Lender or its counsel to be certified by appropriate corporate officers or governmental authorities;

(c) no material adverse change shall have occurred in the assets, business or prospects of Borrowers as taken as a whole since the date of Lender's latest field examination and no change or event shall have occurred which would materially impair the

ability of the Borrowers when taken as a whole to perform their obligations hereunder or under any of the other Financing Agreements to which they are a party or of Lender to enforce the Obligations or realize upon the Collateral;

(d) Lender shall have completed a field review of the Records and such other information with respect to the Collateral as Lender may require to determine the amount of Revolving Loans available to Borrowers, the results of which shall be satisfactory to Lender, not more than three (3) Business Days prior to the date hereof;

(e) Lender shall have received, in form and substance satisfactory to Lender, all consents, waivers, acknowledgments and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect its security interests in and liens upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including acknowledgments by lessors, mortgagees and warehousemen of Lender's security interests in the Collateral, waivers by such persons of any security interests, liens or other claims by such persons to the Collateral and agreements permitting Lender access to, and the right to remain on for a reasonable period of time, the premises to exercise its rights and remedies and otherwise deal with the Collateral;

(f) Lender shall have received evidence of insurance (including credit insurance on Advance Auto Accounts in amounts satisfactory to Lender) and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Lender, and certificates of insurance policies and/or endorsements naming Lender as loss payee;

(g) Lender shall have received, in form and substance satisfactory to Lender, such opinion letters of in-house counsel to Borrowers with respect to the Financing Agreements and such other matters as Lender may request;

(h) the other Financing Agreements and all instruments and documents hereunder and thereunder shall have been duly executed and delivered to Lender, in form and substance satisfactory to Lender; and

(i) the Excess Availability as determined by Lender, as of the date hereof, shall be not less than \$3,500,000 after giving effect to the initial Loans made or to be made and Letter of Credit Accommodations issued or to be issued in connection with the initial transactions hereunder.

(j) the Lender shall have received in form and substance satisfactory to Lender, an appraisal of the Collateral;

(k) Lender shall have received the Collateral Letter of Credit;

(l) Lender shall have received, in form and substance satisfactory to Lender, the Subordination Agreement;

(m) Lender shall have received, in form and substance satisfactory to Lender, a Guaranty from Guarantor of the Obligations;

(n) Lender shall have received a payment in cash in the amount of \$550,000.00, in the form of a wire transfer from Borrower or any affiliate of Borrower for the credit of Borrower; and

(o) Lender shall have received such other agreements and documents which Lender shall requested.

4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations. Each of the following is an additional condition precedent to Lender making Loans and/or providing Letter of Credit Accommodations to Borrowers, including the initial Loans and Letter of Credit Accommodations and any future Loans and Letter of Credit Accommodations:

(a) all representations and warranties contained herein and in the other Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and

(b) no Event of Default and no event or condition which, with notice or passage of time or both, would constitute an Event of Default, shall exist or have occurred and be continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto.

SECTION 5. GRANT OF SECURITY INTEREST

To secure payment and performance of all Obligations, each Borrower hereby grants to Lender a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Lender as security, the following property and interests in property of any Borrower, whether now owned or hereafter acquired or existing, and wherever located (collectively, the "Collateral"):

5.1 Accounts;

5.2 all present and future contract rights, general intangibles (including tax and duty refunds), registered and unregistered patents, patent rights, patent applications, trademarks, trademark registrations, trademark applications, service marks, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and hereinafter arising leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, securities and other investment property (other than the equity shares of stock of any of the Borrowers), letters of credit, bankers' acceptances and guaranties;

5.3 all present and future monies, securities, credit balances, deposits, deposit accounts and other property of such Borrower now or hereafter held or received by or in transit to Lender or its affiliates or at any other depository or other institution from or for the account of such Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including (a) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral, (b) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (c) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including returned, repossessed and reclaimed goods, and (d) rights of Borrowers in deposits by and property of account debtors or other persons securing the obligations of account debtors to Borrowers or any Borrower;

5.4 Inventory;

5.5 Equipment, excluding the Equipment identified on Attachment I attached hereto and incorporated herein by this reference if and to the extent a lien has been granted by any Borrower in respect of such Equipment and obligations remain outstanding with respect to such lien and Equipment).

5.6 Records; and

5.7 all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims and proceeds of any claims against third parties for loss or damage to or destruction of any or all of the foregoing.

SECTION 6. COLLECTION AND ADMINISTRATION

6.1 Borrowers' Loan Account. With respect to all Borrowers other than IBI, Lender shall maintain one or more loan account(s) on its books as it deems appropriate in which shall be recorded (a) all Loans, Letter of Credit Accommodations and other Obligations and the Collateral, (b) all payments made by or on behalf of Borrowers and (c) all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest. With respect to IBI, Lender shall use reasonable efforts to maintain one or more loan account(s) on its books in which shall be recorded (d) all Loans, Letter of Credit Accommodations and other Obligations and the Collateral of IBI reflecting sublimits imposed herein on Loans or Letter of Credit Accommodations that may be made to IBI, (e) all payments made by or on behalf of IBI, and (f) all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest or IBI. All entries in the loan account(s) shall be made in accordance with Lender's customary practices as in effect from time to time.

6.2 Statements. Lender shall render to Borrowers each month a statement setting forth the balance in the Borrowers' loan account(s) maintained by Lender for Borrowers pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Lender but shall, absent manifest errors or omissions, be considered correct and deemed accepted by Borrowers and conclusively binding upon any Borrower as an account stated except to the extent that Lender receives a written notice from any Borrower of any specific exceptions of any Borrower thereto within one hundred eighty (180) days after the date such statement has been mailed by Lender. Until such time as Lender shall have rendered to Borrowers a written statement as provided above, the balance in Borrowers' loan account(s) shall be presumptive evidence of the amounts due and owing to Lender by Borrowers.

6.3 Collection of Accounts.

(a) LSAP shall establish and maintain, at its expense, blocked accounts or lockboxes and related blocked accounts (in either case, "Blocked Accounts"), as Lender may specify, with such banks as are acceptable to Lender into which Borrowers shall promptly deposit and direct their account debtors to directly remit all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form in which such payments are made, whether by cash, check or other manner. The banks at which the Blocked Accounts are established shall enter into an agreement, in form and substance satisfactory to Lender, providing that all items received or deposited in the Blocked Accounts are the property of Lender, that the depository bank has no lien upon, or right to setoff against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein and that the depository bank will wire, or otherwise transfer, in immediately available funds, on a daily basis, all funds received or deposited into the Blocked Accounts to such bank account of Lender as Lender may from time to time designate for such purpose ("Payment Account"). Borrowers agree that all payments made to such Blocked Accounts or other funds received and collected by Lender, whether on the Accounts or as proceeds of Inventory or other Collateral shall be the property of Lender.

(b) For purposes of calculating the amount of the Loans available to Borrowers, such payments will be applied (conditional upon final collection) to the Obligations on the Business Day of receipt by Lender of immediately available funds in the Payment Account provided such payments and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit Borrower's loan account on such day, and if not, then on the next Business Day. For the purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final collection) to the Obligations one (1) Business Day following the date of receipt of immediately available funds by Lender in the Payment Account provided such payments or other funds and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit Borrowers' loan account on such day, and if not, then on the next Business Day.

(c) Each Borrower and all of its affiliates, subsidiaries, shareholders, directors, employees or agents shall,

acting as trustee for Lender, receive, as the property of Lender, any monies, checks, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral which come into its possession or under its control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts of such Borrower, or remit the same or cause the same to be remitted, in kind, to Lender. In no event shall the same be commingled with such Borrower's own funds. Each Borrower agrees to reimburse Lender on demand for any amounts owed or paid to any bank at which a Blocked Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts arising out of Lender's payments to or indemnification of such bank or person. The obligation of each Borrower to reimburse Lender for such amounts pursuant to this Section 6.3 shall survive the termination or non-renewal of this Agreement.

6.4 Payments. All Obligations shall be payable to the Payment Account as provided in Section 6.3 or such other place as Lender may designate from time to time. Lender may apply payments received or collected from any Borrower or for the account of Borrowers (including the monetary proceeds of collections or of realization upon any Collateral) to such of the Obligations, whether or not then due, in such order and manner as Lender determines. At Lender's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged directly to the loan account(s) of Borrowers. Each Borrower shall make all payments to Lender on the Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Each Borrower shall be liable to pay to Lender, and does hereby indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 6.4 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 6.4 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

6.5 Authorization to Make Loans. Lender is authorized to make the Loans and provide the Letter of Credit Accommodations to any Borrower based upon telephonic or other instructions received from anyone purporting to be an authorized officer of such Borrower or other authorized person or, at the discretion of Lender, if such Loans are necessary to satisfy any Obligations. All requests for Loans or Letter of Credit Accommodations hereunder shall specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a Business Day) and the amount of the requested Loan. Requests received after 11:30 a.m. Dallas, Texas time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrowers when deposited to the credit of Borrowers or otherwise disbursed or established in accordance with the instructions of any Borrower or in accordance with the terms and conditions of this Agreement.

6.6 Use of Proceeds. Borrowers shall use the initial proceeds of the Loans provided by Lender to Borrowers hereunder only for: (a) payments to each of the persons listed in the disbursement direction letter furnished by LSAP to Lender on or about the date hereof and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements. All other Loans made or Letter of Credit Accommodations provided by Lender to Borrowers pursuant to the provisions hereof shall be used by any Borrower only for general operating, working capital and other proper corporate purposes of any Borrower not otherwise prohibited by the terms hereof. None of the proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation U or X of the Board of Governors of the Federal Reserve System, as amended.

SECTION 7. COLLATERAL REPORTING AND COVENANTS

7.1 Collateral Reporting. LSAP shall provide Lender with the following documents in a form satisfactory to Lender: (a) on a regular basis as required by Lender, a schedule of Accounts, sales made, credits issued and cash received; (b) on a monthly basis (or after a Default or Event of Default more frequently as Lender may request), (i) perpetual inventory reports by mix, category and locations, (ii) agings of accounts receivable, and (ii) agings of accounts payable, (c) within sixty (60) days after the end of each fiscal quarter of Advance quarterly financial statements of Advance (including in each case balance sheets, statements of income and loss, statements of cash flow, and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of Advance and its subsidiaries as of the end of and through such period, the Lender acknowledging that such financial statements of Advance shall be obtained through industry sources, such as MEMA Financial Services Group, Inc. or any regular securities filings of Advance, to the extent such filings are available, (d) upon Lender's request, (i) copies of customer statements and credit memos, remittance advices and reports, and copies of deposit slips and bank statements, (ii) copies of shipping and delivery documents, and (iii) copies of purchase orders, invoices and delivery documents for Inventory and Equipment acquired by any Borrower; and (d) such other reports as to the Collateral as Lender shall reasonably request from time to time.

7.2 Accounts Covenants.

(a) Each Borrower shall notify Lender promptly of (i) any material delay in such Borrower's performance of any of its obligations to any account debtor or the assertion of any claims, offsets, defenses or counterclaims by any account debtor for an amount in excess of \$100,000, or any disputes with account debtors for an amount in excess of \$100,000, or any settlement, adjustment or compromise thereof for an amount in excess of \$100,000, (ii) all material adverse information relating to the financial condition of any account debtor and (iii) any event or circumstance which, to such Borrower's knowledge would cause Lender to consider any then existing Accounts as no longer constituting Eligible Accounts. No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Lender's consent, except in the ordinary course of such Borrower's business in accordance with practices and policies previously disclosed in writing to Lender (if applicable). So long as no Event of Default exists or has occurred and is continuing, Borrowers shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Lender shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.

(b) Without limiting the obligation of any Borrower to deliver any other information to Lender, Borrowers shall promptly report to Lender any return of Inventory by any one account debtor if either the Inventory so returned in such case has a value in excess of \$75,000 for all Borrowers in the aggregate or if the Inventory so returned is not an exchange of substantially similar and merchantable Inventory for other merchantable Inventory of a similar value. At any time that Inventory is returned, reclaimed or repossessed, the portion of the Account which arose from the sale of such returned, reclaimed or repossessed Inventory shall not be deemed an Eligible Account. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, each Borrower shall, upon Lender's request, (i) hold the returned Inventory in trust for Lender, (ii) segregate all returned Inventory from all of its other property, (iii) dispose of the returned Inventory solely according to Lender's instructions, and (iv) not issue any credits, discounts or allowances with respect thereto without Lender's prior written consent.

(c) With respect to each Account: (i) the amounts shown on any invoice delivered to Lender or schedule thereof delivered to Lender shall be true and complete, (ii) no payments shall be made thereon except payments immediately delivered to Lender pursuant to the terms of this Agreement, (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Lender in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of any Borrower's business in accordance with practices and policies previously disclosed to Lender, (iv) there shall be no setoffs, deductions, contra, defenses, counterclaims or disputes existing or asserted with respect thereto except as reported to Lender or in accordance with the terms of this Agreement, (v) none of the transactions giving rise thereto will violate any applicable State or Federal laws or regulations, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

(d) Lender shall have the right at any time or times, in Lender's name or in the name of a nominee of Lender, to verify the validity, amount or any other matter relating to any Account or other Collateral of any Borrower, by mail, telephone, facsimile transmission or otherwise.

(e) To the extent that any Borrower or Borrowers have knowledge thereof, each Borrower shall deliver or cause to be delivered to Lender, within a reasonable time, with appropriate endorsement and assignment, all chattel paper and instruments which such Borrower now owns or may at any time acquire, except as Lender may otherwise agree.

(f) Lender may, at any time or times that an Event of Default exists or has occurred and is continuing, (i) notify any or all account debtors that the Accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all accounts debtors to make payment of Accounts directly to Lender, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (iv) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Borrower shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

7.3 Inventory Covenants. With respect to the Inventory: (a) Borrowers shall at all times maintain inventory records reasonably satisfactory to Lender, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrowers' cost therefor and daily withdrawals therefrom and additions thereto; (b) Borrowers shall conduct a physical count of the Inventory at least once each year, but at any time or times as Lender may request on or after an Event of Default and promptly following such physical inventory, Borrowers shall supply Lender with a report in the form and with such specificity as may be reasonably satisfactory to Lender concerning such physical count; (c) Borrowers shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Lender, except for sales of Inventory in the ordinary course of Borrowers' business and except to move Inventory directly from one location set forth or permitted herein to another such location; (d) upon Lender's request, Borrowers shall, at their expense, no more than twice in any twelve (12) month period, but at any time or times as Lender may request on or after an Event of Default that is continuing; deliver or cause to be delivered to Lender written reports or appraisals as to the Inventory in form, scope and

methodology acceptable to Lender and by an appraiser acceptable to Lender, addressed to Lender or upon which Lender is expressly permitted to rely; (e) Borrowers shall produce, use, store and maintain the Inventory with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto); (f) each Borrower assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (g) Borrower shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may obligate Borrower to repurchase such Inventory, except in the ordinary course of business; (h) Borrower shall keep the Inventory in good and marketable condition; and (i) Borrower shall not, without prior written notice to Lender, acquire or accept any Inventory on consignment or approval.

7.4 Equipment Covenants. With respect to the Equipment: (a) upon Lender's request, Borrowers shall, at their expense, at any time or times as Lender may request on or after an Event of Default that is continuing, deliver or cause to be delivered to Lender written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Lender and by an appraiser acceptable to Lender; (b) Borrowers shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted and excluding Equipment which is (i) obsolete and can or will no longer be used in the ordinary course of Borrowers' business; (ii) not repairable or useful for any purpose, (iii) damaged beyond repair or constitutes a total loss or constructive total loss, (iv) other than the Equipment on Attachment I hereto; (c) Borrowers shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (d) the Equipment is and shall be used in Borrowers' business and not for personal, family, household or farming use; (e) Subject to the provisions of Section 9.7 hereof, Borrowers shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of any Borrower or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of any Borrower in the ordinary course of business; (f) the Equipment is now and shall remain personal property and no Borrowers shall permit any of the Equipment to be or become a part of or affixed to real property; (g) Borrowers assume all responsibility and liability arising from the use of the Equipment.

7.5 Power of Attorney. Each Borrower hereby irrevocably designates and appoints Lender (and all persons designated by Lender) as such Borrower's true and lawful attorney-in-fact, and authorizes Lender, in such Borrower's or Lender's name, to: (a) at any time an Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing (i) demand payment on Accounts or other proceeds of Inventory or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of such Borrower's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as the Lender deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign such Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor,

(viii) notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Lender, and open and dispose of all mail addressed to Borrower, (ix) take control in any manner of any item of payment or proceeds thereof, (x) have access to any lockbox or postal box into which such Borrower's mail is deposited, (xi) do all acts and things which are necessary, in Lender's determination, to fulfill such Borrower's obligations under this Agreement and the other Financing Agreements, and (b) at any time to (i) endorse such Borrower's name upon any items of payment or proceeds thereof and deposit the same in the Lender's account for application to the Obligations, (ii) endorse such Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral, (iii) sign such Borrower's name on any verification of Accounts and notices thereof to account debtors, and (iv) execute in such Borrower's name and file any UCC financing statements or amendments thereto. Such Borrower hereby releases Lender and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Lender's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

7.6 Right to Cure. After the occurrence of an Event of Default, Lender may, at its option, (a) cure any default by any Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against such Borrower, (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (c) pay any amount, incur any expense or perform any act which, in Lender's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Lender with respect thereto. Lender may add any amounts so expended to the Obligations and charge Borrowers' account therefor, such amounts to be repayable by Borrowers on demand. Lender shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of such Borrower. Any payment made or other action taken by Lender under this section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

7.7 Access to Premises. From time to time as requested by Lender, at the cost and expense of Borrowers, (a) Lender or its designee shall have complete access to all of Borrowers' premises during normal business hours and after notice to Borrowers, or at any time and without notice to Borrowers if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrowers' books and records, including the Records, and (b) Borrowers shall promptly furnish to Lender such copies of such books and records or extracts therefrom as Lender may request, and (c) use during normal business hours such of any Borrower's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

SECTION 8. REPRESENTATIONS AND WARRANTIES

Each Borrower hereby jointly and severally represents and warrants to Lender the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations by Lender to any Borrower:

8.1 Corporate Existence, Power and Authority; Subsidiaries. Each Borrower is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on such Borrower's financial condition, results of operation or business or the rights of Lender in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within such Borrower's corporate powers, have been duly authorized and are not in contravention of law or the terms of such Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which such Borrower is a party or by which such Borrower or its property is bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of such Borrower enforceable in accordance with their respective terms. Such Borrower does not have any subsidiaries except as set forth on the Information Certificate.

8.2 Financial Statements; No Material Adverse Change. All financial statements relating to Borrowers which have been or may hereafter be delivered by Borrowers to Lender have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of Borrowers as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Borrowers to Lender prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of Borrowers, taken as a whole since the date of the most recent audited financial statements furnished by Borrowers to Lender prior to the date of this Agreement.

8.3 Chief Executive Office; Collateral Locations. The chief executive office of each Borrower and such Borrower's Records concerning Accounts are located only at the address set forth below and its only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of such Borrower to establish new locations in accordance with Section 9.2 below. The Information Certificate correctly identifies any of such locations which are not owned by such Borrower and sets forth the owners and/or operators thereof. The holders of any mortgages on such locations of which any Borrower is aware are identified on Schedule 8.3.

8.4 Priority of Liens; Title to Properties. The security interests and liens granted to Lender under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral when all proper filing, recordings and other actions necessary to perfect such liens have been taken subject only to the liens

indicated on Schedule 8.4 hereto and the other liens permitted under Section 9.8 hereof. To the best of its knowledge, each Borrower has good and marketable title to all of its material properties and assets subject to no liens, mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Lender and such others as are specifically listed on Schedule 8.4 hereto or permitted under Section 9.8 hereof.

8.5 Tax Returns. Borrowers have filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Lender). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Borrowers have paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrowers and with respect to which adequate reserves have been set aside on their books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

8.6 Litigation. Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of any Borrower's knowledge threatened, against or affecting such Borrower, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of such Borrower's knowledge threatened, against any Borrower or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against such Borrower would result in a material adverse change in the assets, business or prospects of Borrowers as taken as a whole or would impair the ability of Borrowers to perform their obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce any Obligations or realize upon any Collateral.

8.7 Compliance with Other Agreements and Applicable Laws. No Borrower is in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which they or any of its assets are bound and each Borrower is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority the failure to comply with which would have a material adverse effect on the Borrowers or any Borrower.

8.8 Employee Benefits.

(a) No Borrower has engaged in any transaction in connection with which such Borrower or any of its ERISA Affiliates could be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code, including any accumulated funding deficiency described in Section 8.8(c) hereof and any deficiency with respect to vested accrued benefits described in Section 8.8(d) hereof.

(b) No liability to the Pension Benefit Guaranty Corporation has been or is expected by any Borrower to be incurred with respect to any employee benefit plan of such Borrower or any of its ERISA Affiliates. There has been no reportable event (within the meaning of Section 4043(b) of ERISA) or any other event or condition with respect to any employee pension benefit plan of any Borrower or any of its ERISA Affiliates which presents a risk of termination of any such plan by the Pension Benefit Guaranty Corporation.

(c) Full payment has been made of all amounts which such Borrower or any of its ERISA Affiliates is required under Section 302 of ERISA and Section 412 of the Code to have paid under the terms of each employee benefit plan as contributions to such plan as of the last day of the most recent fiscal year of such plan ended prior to the date hereof, and no accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any employee benefit plan, including any penalty or tax described in Section 8.8(a) hereof and any deficiency with respect to vested accrued benefits described in Section 8.8(d) hereof.

(d) The current value of all vested accrued benefits under all employee benefit plans maintained by any Borrower that are subject to Title IV of ERISA does not exceed the current value of the assets of such plans allocable to such vested accrued benefits, including any penalty or tax described in Section 8.8(a) hereof and any accumulated funding deficiency described in Section 8.8(c) hereof. The terms "current value" and "accrued benefit" have the meanings specified in ERISA.

(e) Neither any Borrower nor any of its ERISA Affiliates is or has ever been obligated to contribute to any "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA) that is subject to Title IV of ERISA.

8.9 Bank Accounts. All of the deposit accounts, investment accounts or other accounts in the name of or used by each Borrower maintained at any bank or other financial institution are set forth on Schedule 8.9 hereto, subject to the right of such Borrower to establish new accounts in accordance with Section 9.13 below.

8.10 Environmental Compliance.

(a) Except as set forth on Schedule 8.10 hereto and the Information Certificate, no Borrower has not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law or any license, permit, certificate, approval or similar authorization thereunder and the operations of Borrowers comply in all material respects with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.

(b) Except as set forth on Schedule 8.10 hereto and the Information Certificate, there has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any governmental authority or any other person nor is any pending or to the best of any Borrower's knowledge threatened, with respect to any non-compliance with or violation of the requirements of any Environmental Law by Borrower or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects any Borrower or its business, operations or assets or any properties at which any Borrower has transported, stored or disposed of any Hazardous Materials which would have a material adverse effect on any Borrower.

(c) Except as set forth on Schedule 8.10 hereto and the Information Certificate, no Borrower has any material liability (contingent or otherwise) in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.

(d) Each Borrower has all licenses, permits, certificates, approvals or similar authorizations ("Permits") required to be obtained or filed in connection with the operations of Borrower under any Environmental Law and all of which such Permits are valid and in full force and effect unless the failure to obtain such Permits would not have a material adverse effect on any Borrower.

8.11 Accuracy and Completeness of Information. All information furnished by or on behalf of each Borrower in writing to Lender in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. Since the date of the last financial statements delivered to Lender, no event or circumstance has occurred which has had or could reasonably be expected to have a material adverse effect on the business, assets or prospects of Borrowers, taken as a whole, which has not been fully and accurately disclosed to Lender in writing.

8.12 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation hereunder and shall be conclusively presumed to have

been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which any Borrower shall now or hereafter give, or cause to be given, to Lender.

8.13 Year 2000 Issues. Each Borrower shall, and shall cause any subsidiary to, take all actions which may be required so that its computer-based information systems, including, without limitation, all of its proprietary computer hardware and software and all computer hardware and software leased or licensed from third parties (and whether supplied by others) are able to operate effectively and correctly process data using dates on or after January 1, 2000. Compliance with the foregoing shall mean that the Borrower's systems will operate and correctly process data without human intervention such that (a) there is correct century recognition, (b) calculations properly accommodate same century and multi-century formulas and date values, (c) all leap years shall be calculated correctly and (d) the information systems shall otherwise comply with applicable industry standards and regulatory guidelines regarding the change of the century and year 2000 compliance. Such Borrower shall, by no later than September 30, 1999, certify to Lender in writing that its information systems have been modified, updated and reprogrammed as required by this section. On and after September 30, 1999, the computer-based information systems of such Borrower shall be, and with ordinary course upgrading and maintenance, will continue to be sufficient to permit such Borrower to conduct its business without any material adverse effect as a result of the year 2000.

SECTION 9. AFFIRMATIVE AND NEGATIVE COVENANTS

9.1 Maintenance of Existence. Except as otherwise permitted pursuant to the Distribution Agreement and the provisions of this section, each Borrower shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Each Borrower shall give Lender thirty (30) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and such Borrower shall deliver to Lender a copy of the amendment to the Certificate of Incorporation of such Borrower providing for the name change certified by the Secretary of State of the jurisdiction of incorporation of such Borrower as soon as it is available.

9.2 New Collateral Locations. Any Borrower may open any new location within the continental United States provided such Borrower (a) gives Lender thirty (30) days prior written notice of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including, without limitation, UCC financing statements.

9.3 Compliance with Laws, Regulations, Etc.

(a) Each Borrower shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it, and duly observe all requirements of any Federal, State or local governmental authority, including the Employee Retirement Security Act of 1974, as amended, the Occupational Safety and Health Act of 1970, as amended, the Fair Labor Standards Act of 1938, as amended, and all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws, (except to the extent the failure to so comply would not have a material adverse effect on any Borrower).

(b) Each Borrower shall establish and maintain, at its expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by employees or agents of Borrower who are familiar with the requirements of the Environmental Laws. Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations which are performed or received after the date hereof shall be promptly furnished, or caused to be furnished, by Borrower to Lender. Borrower shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Lender on such response.

(c) Borrowers shall give both oral and written notice to Lender immediately upon any Borrower's receipt of any notice of, or any Borrower's otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material or (ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by Borrower or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or (D) any other environmental, health or safety matter, all which has or may be expected to have a material adverse effect on any Borrower or its businesses, operations or assets or any properties at which such Borrower transported, stored or disposed of any Hazardous Materials.

(d) Without limiting the generality of the foregoing, whenever Lender reasonably determines that there is non-compliance, or any condition which requires any action by or on behalf of Borrower in order to avoid any material non-compliance, with any Environmental Law, Borrowers shall, at Lender's request and Borrowers' expense: (i) cause an independent environmental engineer acceptable to Lender to conduct such tests of the site where any Borrower's non-compliance or alleged non-compliance with such Environmental Laws has occurred as to such non-compliance and prepare and deliver to Lender a report as to such non-compliance 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 (ii) provide to Lender a supplemental report of such engineer whenever the scope of such non-compliance, or Borrower's response thereto or the estimated costs thereof, shall change in any material respect.

(e) Each Borrower shall indemnify and hold harmless Lender, its directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including attorneys' fees and legal expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of Borrower and the preparation and implementation of any closure, remedial or other required plans. All representations, warranties, covenants and indemnifications in this Section 9.3 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.4 Payment of Taxes and Claims. Borrowers shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against them or their properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Borrower and with respect to which adequate reserves have been set aside on its books. Borrowers shall be liable for any tax or penalties imposed on Lender as a result of the financing arrangements provided for herein and Borrowers agree to jointly and severally indemnify and hold Lender harmless with respect to the foregoing, and to repay to Lender on demand the amount thereof, and until paid by Borrowers such amount shall be added and deemed part of the Loans, provided, that, nothing contained herein shall be construed to require Borrowers to pay any income or franchise taxes attributable to the income of Lender from any amounts charged or paid hereunder to Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.5 Insurance. Borrowers shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Lender as to form, amount and insurer. Lender acknowledges that the insurance amounts, carriers and policies set forth in Schedule 9.5 are satisfactory to Lender as of the time of Closing hereof. Borrowers shall furnish certificates, policies or endorsements to Lender as Lender shall require as proof of such insurance, and, if Borrowers fail to do so, Lender is authorized, but not required, to obtain such insurance at the expense of Borrowers. All policies shall provide for at least thirty (30) days prior written notice to Lender of any cancellation or reduction of coverage and that Lender may act as attorney for any and every Borrower in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Borrowers shall cause Lender to be named as a loss payee and an additional insured as its interest may appear (but without any liability for any premiums) under such insurance policies and Borrowers shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Lender. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Lender as its interests may appear and further specify that Lender shall be paid regardless of any act or omission by any or every Borrowers or any of its or their affiliates. At its option, Lender may apply any insurance proceeds received by Lender at any time to the cost of repairs or replacement of Collateral and/or to

payment of the Obligations, whether or not then due, in any order and in such manner as Lender may determine or hold such proceeds as cash collateral for the Obligations.

9.6 Financial Statements and Other Information.

(a) Borrowers shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Borrowers and their subsidiaries (if any) in accordance with GAAP and LSAP and its subsidiaries shall furnish or cause to be furnished to Lender: (i) within forty-five (45) days after the end of each fiscal month, monthly unaudited consolidated financial statements (including balance sheets, statements of income and loss, statements of cash flow, and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of LSAP and its subsidiaries as of the end of and through such fiscal month; (ii) within one hundred (100) days after the end of each fiscal year, audited consolidated financial statements of LSAP and its subsidiaries (including in each case balance sheets, statements of income and loss, and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of LSAP and its subsidiaries as of the end of and for such fiscal year, together with either the unqualified opinion of independent certified public accountants or if the opinion is qualified, such qualifications are acceptable to Lender in its sole discretion, in either case, which accountants shall be an independent accounting firm selected by LSAP and reasonably acceptable to Lender, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of LSAP and its subsidiaries as of the end of and for the fiscal year then ended; and (iii) as soon as available, a copy of each regular, periodic or special report, registration statement, or prospectus filed by LSA Technologies, Inc. with any securities exchange or the Securities and Exchange Commission or any successor agency.

(b) Each Borrower shall promptly notify Lender in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or which would result in any material adverse change in Borrowers' business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Event of Default or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.

(c) Borrowers shall promptly after the sending or filing thereof furnish or cause to be furnished to Lender copies of all reports which Guarantor or such Borrower sends to its stockholders generally and copies of all reports and registration statements which Guarantor or any Borrower files with the Securities and Exchange Commission, any national securities exchange or the National Association of Securities Dealers, Inc.

(d) Borrowers shall furnish or cause to be furnished to Lender such budgets, forecasts, projections and other information respecting the Collateral and the business of Borrowers, as Lender may, from time to time, reasonably request. Lender is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Borrowers to any

court or other government agency or to any participant or assignee or prospective participant or assignee. If at any time, (i) an Event of Default occurs and is continuing, or (ii) for any reason, Ernst & Young LLP no longer prepares the financial statements of Borrower, Borrower hereby authorizes and directs all accountants or auditors to deliver to Lender, at Borrower's expense, copies of the financial statements of Borrower and any reports or management letters prepared by such accountants or auditors on behalf of Borrower and to disclose to Lender such information as they may have regarding the business of Borrower. Any documents, schedules, invoices or other papers delivered to Lender may be destroyed or otherwise disposed of by Lender one (1) year after the same are delivered to Lender, except as otherwise designated by any Borrower to Lender in writing.

(e) Borrowers shall furnish no later than sixty (60) days prior to the expiry date of the Collateral Letter of Credit, written confirmation of the extension, or notice of expiration, of the Collateral Letter of Credit at such expiry date. Borrowers shall cause the issuer of such Collateral Letter of Credit not later than sixty (60) days prior to such expiry date, to furnish, if applicable, a notice that such Collateral Letter of Credit will not be renewed or extended.

9.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Except as provided in the Distribution Agreement, no Borrower will, directly or indirectly, (a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it except for the merger of any Borrower with any other Borrower upon the prior consent of Lender, or (b) sell, assign, lease, transfer, abandon or otherwise dispose of any stock or indebtedness to any other Person or any of its assets to any other Person except (i) as between Borrowers, in the ordinary course of and pursuant to the reasonable requirements of such Borrowers' businesses; (ii) for sales of Inventory in the ordinary course of business, or other sale, assignment, lease, transfer or other disposal in an amount not to exceed \$100,000 per calendar year; (iii) for the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of any Borrower so long as (A) if an Event of Default exists or has occurred and is continuing, any proceeds are paid to Lender and (B) for all Borrowers, in the aggregate, such sales do not involve Equipment having an aggregate fair market value in excess of \$100,000 for all such Equipment disposed of in any fiscal year; (iv) for sales of Accounts of any Borrower, the principal office, assets or place of business of the account debtors with respect to such Accounts are outside either the United States Canada or Puerto Rico provided (A) such Accounts are not Eligible Accounts; (B) the Excess Availability at the time of the sale of such Accounts is less than \$1,000,000 and (C) the sales price for such Accounts is not less than 100% of the original invoice for such Accounts); (v) sale of capital stock with respect to a Borrower to the extent such transactions do not cause a Change of Control (as hereinafter defined) of such Borrower; or (vi) sale of Inventory of IBI pursuant to an Operating Agreement, an Inventory Purchase Agreement and other related agreements substantially in the form of the drafts of the Operating Agreement and Inventory Purchase Agreement, dated as of April 16, 1999 previously provided to Lender, provided; (A) Lender shall have received a payment equal to the amount of Revolving Loans outstanding at any time with respect to Eligible Inventory of IBI pursuant to Section 2.1(a)(ii) hereof plus undrawn amounts available to IBI pursuant to section 2.1(a)(ii) hereof and an additional amount of \$500,000, and (B) after the sale of Inventory pursuant to this subsection, no further amounts will be made available with respect to IBI pursuant to this Agreement; or

(c) form or acquire any subsidiaries, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing. For any sale of assets of any Borrowers pursuant to subsections 9.7(b)(iii) or (iv) hereof, Lender shall upon such sale and at the expense of Borrowers, release its security interest in such assets. As used in this section, "Change of control" shall mean the acquisition by any Person or group of Persons acting together, of a direct interest in more than fifty-one percent (51%) of the voting power of the voting stock of or membership interests in, any Borrower, including by way of merger or consolidation, or otherwise.

9.8 Encumbrances. No Borrower shall create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Lender; (b) liens in favor of warehouseman, landlords, carriers, mechanics, materialmen, laborers or suppliers; (c) liens arising from deposits made in connection with obtaining workers' compensation or other unemployment insurance; (d) liens arising by reason of security for surety, appeal bonds or performance bonds; (e) liens resulting from any judgment or award that would not have a material adverse effect on the Borrowers taken as a whole; (f) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to such Borrower and with respect to which adequate reserves have been set aside on its books; (g) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of such Borrower's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to such Borrower, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (h) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of such Borrower as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (i) purchase money security interests in Equipment (including capital leases) arising after the date hereof and purchase money mortgages on real estate not to exceed \$1,500,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of such Borrower other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; (j) the security interests and liens set forth on Schedule 8.4 hereto; (k) security interests and liens created pursuant to the refinancing of obligations and indebtedness pursuant to Section 9.9(e) hereof; (l) liens arising from operating leases and (m) liens against any life insurance policy or the cash surrender value thereof which relate to borrowings incurred to finance the premiums made under such policy. Lender shall upon the acquisition of Equipment as provided pursuant to subsection (i) above, release its security interest in such Equipment so acquired if so required under the terms of the financing arrangements governing such acquisition.

9.9 Indebtedness. No Borrower shall incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except:

(a) the Obligations;

(b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which such Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to such Borrower, and with respect to which adequate reserves have been set aside on its books;

(c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement;

(d) the indebtedness set forth on Schedule 9.9; or as set forth in the latest financial statements of any Borrower submitted to Lender on or prior to the date hereof, to the extent that there has been no change in or modification of terms of the indebtedness described on such financial statements provided, that, (i) such Borrower may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof, (ii) such Borrower shall not, directly or indirectly (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof as such may (1) increase the amounts payable thereunder, (2) increase the amount or rate of interest payable thereon (3) cause any payment thereon to be due on any earlier date, or (4) provide additional collateral therefor (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) such Borrower shall furnish to Lender all notices of default or demands in connection with such indebtedness either received by any Borrower or on its behalf, promptly after the receipt thereof, or sent by such Borrower or on its behalf, concurrently with the sending thereof, as the case may be. No Borrower is, or will be rendered, insolvent as a result of any Revolving Loan or any other advance of credit by Lender to such Borrower;

(e) indebtedness incurred as a result of the refinancing of Option Equipment pursuant to the terms of Section 2.7, provided that, (i) the terms, conditions and amount of any such refinancing shall be on terms no less favorable to any Borrower than the indebtedness being refinanced up to the original principal amount of such indebtedness, or otherwise satisfactory to Lender in its sole discretion; (ii) Excess Availability at the time of such refinancing, and after giving effect to such refinancing, is greater than \$2,000,000

(f) other indebtedness not to exceed \$1,500,000;

(g) indebtedness described in the Subordination Agreement;

(h) indebtedness resulting from a judgment having been rendered against any Borrower that is being appealed in good faith and in a timely manner for which adequate reserves acceptable to Lender have been recorded and which is not covered by insurance;

(i) Borrowings based on the cash value of life insurance policies, the proceeds of which are used to pay life insurance premiums;

(j) other indebtedness approved by Lender in its sole discretion; and

(k) indebtedness described in Section 9.10(e) and as otherwise permitted hereunder.

9.10 Loans, Investments, Guarantees, Etc. Except as set out in the Distribution Agreement and as otherwise provided herein, no Borrower shall directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or indebtedness or all or a substantial part of the assets or property of any person, or assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) loans to employees of Borrowers not to exceed at any one time \$75,000, in the aggregate; (b) the endorsement of instruments for collection or deposit in the ordinary course of business; (c) investments in: (i) short-term direct obligations of the United States Government, (ii) negotiable certificates of deposit issued by any bank satisfactory to Lender, payable to the order of such Borrower or to bearer and delivered to Lender, and (iii) commercial paper rated A1 or P1; provided, that, as to any of the foregoing, unless waived in writing by Lender, such Borrower shall take such actions as are deemed necessary by Lender to perfect the security interest of Lender in such investments; (d) the loans, advances and guarantees set forth on Schedule 9.10 hereto; provided, that, as to such loans, advances and guarantees, (i) such Borrowers shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose, and (ii) such Borrower shall furnish to Lender all notices of default or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by such Borrower or on its behalf, promptly after the receipt thereof, or sent by such Borrower or on its behalf, concurrently with the sending thereof, as the case may be; and (e) loans, advances or investments in the ordinary course of each such Person's business operations, as presently existing, among LSAP, L&SB, LSBE, Rotex and Tribonetics.

9.11 Dividends and Redemptions. Except for dividends duly declared and paid by L&SB, LSBE, Rotex and Tribonetics to LSAP, Borrowers shall not, directly or indirectly, declare or pay any dividends on account of any shares of class of capital stock of such Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than common

stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing other than the distribution to Guarantor of actual franchise and related taxes owing by Borrowers and otherwise, as may be permitted herein.

9.12 Transactions with Affiliates. Except as set out in Schedule 9.12 hereto, and as otherwise provided herein, no Borrower shall, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, (i) any officer, director, agent or other person affiliated with such Borrower; (ii) any other Borrower; or (iii) any officer, director, agent or other person affiliated with any other Borrower, except in the ordinary course of and pursuant to the reasonable requirements of such Borrower's business and upon fair and reasonable terms no less favorable to such Borrower than such Borrower would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to (i) any officer, employee, shareholder, director or other person affiliated with such Borrower; (ii) any other Borrower; or (iii) any officer, employee, shareholder, director or other person affiliated with any other Borrower. except (w) reasonable compensation to officers, employees and directors for services rendered to such Borrower in the ordinary course of business (x) fees (i) for services and expenses actually incurred by the provider of such services, (ii) for services performed by the provider of such services in the ordinary course of business of such provider and pursuant to the reasonable requirements of any Borrower or Guarantor pursuant to either (A) the Services Agreement (in the form substantially similar to the draft Services Agreement attached to the Distribution Agreement) in an amount not to exceed \$250,000 per calendar year and (B) the Services and Consulting Agreement (in the form substantially similar to the draft Services and Consulting Agreement attached to the Distribution Agreement) for administrative services offered by LSB in an amount not to exceed \$750,000 per calendar year; (y) payments made pursuant to the Tax Sharing Agreement (in the form substantially similar to the draft Tax Sharing Agreement attached to the Distribution Agreement) in an amount not to exceed \$100,000 per calendar year, or \$250,000 in the aggregate, during the term hereof; and (z) payments made pursuant to the Indemnity Agreement (in the form substantially similar to the draft Indemnification Agreement attached to the Distribution Agreement) in an amount not to exceed \$100,000 per calendar year, or \$500,000 in the aggregate, during the term hereof.

9.13 Additional Bank Accounts. No Borrowers shall directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in Schedule 8.9 hereto, except: (a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Lender and subject to such conditions thereto as Lender may establish and (b) as to any accounts used by any Borrower to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Lender.

9.14 Compliance with ERISA.

(a) No Borrower shall, with respect to any "employee benefit plans" maintained by such Borrower or any of its ERISA Affiliates: (i) terminate any of such employee benefit plans so as to incur any liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA, (ii) allow or suffer to exist any prohibited transaction involving any of such employee benefit plans or any trust created thereunder which would subject such Borrower or such ERISA Affiliate to a tax or penalty or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA, (iii) fail to pay to any such employee benefit plan any contribution which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such plan, (iv) allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any such employee benefit plan, (v) allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any such employee benefit plan that is a single employer plan, which termination could result in any liability to the Pension Benefit Guaranty Corporation or (vi) incur any withdrawal liability with respect to any multiemployer pension plan.

(b) As used in this Section 9.14, the terms "employee benefit plans", "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Section 4975 of the Code and ERISA.

9.15 Net Worth. LSAP shall, at all times, maintain Net Worth of not less than \$6,400,000.

9.16 Costs and Expenses. Borrowers shall pay to Lender on demand all reasonable costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) costs, expenses and fees for insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, together with Lender's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (g) all out-of-pocket expenses and costs heretofore and from time

to time hereafter incurred by Lender during the course of periodic field examinations of the Collateral and Borrowers' operations, plus a per diem charge at the rate of \$650.00 per person per day for Lender's examiners in the field and office; and (h) the reasonable fees and disbursements of outside counsel (including legal assistants) to Lender in connection with any of the foregoing.

9.17 Further Assurances. At the request of Lender at any time and from time to time, each Borrower shall, at its expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Within three day's after Lender's request, such Borrower shall provide a certificate from an officer of such Borrower representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. Where permitted by law, each Borrower hereby authorizes Lender to execute and file one or more UCC financing statements signed only by Lender.

SECTION 10. EVENTS OF DEFAULT AND REMEDIES

10.1 Events of Default. The occurrence or existence of any one or more of the following events are referred to herein individually as an "Event of Default", and collectively as "Events of Default":

(a) (i) any Borrower fails to pay any of its Obligations within two (2) Business Days after the same becomes due and payable or (ii) such Borrower or any Obligor fails to perform any of the covenants contained in Sections 9.1, 9.2, 9.3, 9.4, 9.6, 9.14, 9.16 and 9.17 of this Agreement and such failure shall continue for ten (10) days; provided, that, such ten (10) day period shall not apply in the case of: (A) any failure to observe any such covenant which is not capable of being cured at all or within such ten (10) day period or which has been the subject of a prior failure within a six (6) month period or (B) an intentional breach of such Borrower or any Obligor of any such covenant or (iii) such Borrower fails to perform any of the terms covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements other than those described in Sections 10.1(a)(i) and 10.1(a)(ii) above;

(b) any representation, warranty or statement of fact made by any Borrower to Lender in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;

(c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of Lender;

(d) any final judgment for the payment of money is rendered against any Borrower or any Obligor in excess of \$100,000 in any one case or in excess of \$500,000 in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against any Borrower or any Obligor or any of their assets;

(e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or any Borrower or any Obligor, which is a partnership, limited liability company, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business;

(f) any Borrower or any Obligor becomes insolvent (however defined or evidenced), makes an assignment for the benefit of creditors, makes or sends notice of a bulk transfer or calls a meeting of its creditors or principal creditors;

(g) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against any Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty (30) days after the date of its filing or any Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;

(h) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by any Borrower or any Obligor or for all or any part of its property; or

(i) any default by any Borrower or Borrowers or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Lender, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favor of any person other than Lender, in any case in an amount, individually or in the aggregate in excess of \$250,000, which default continues for more than the applicable cure period, if any, with respect thereto, or any default by any Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Lender, which default continues for more than the applicable cure period, if any, with respect thereto;

(j) any change in the controlling ownership of any Borrower;

(k) the indictment of any Borrower or any Obligor under any criminal statute, or commencement or threatened commencement of

criminal or civil proceedings against any Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of such Borrower or such Obligor;

(l) there shall be a material adverse change in the business or assets of any Borrower or any Obligor individually or of Borrowers (in the aggregate) after the date hereof;

(m) there shall be an event of default under any of the other Financing Agreements;

(n) (i) the Collateral Letter of Credit shall not be in full force and effect at any time prior to the termination of the Financing Agreements; or (ii) any drawing or renewal of the Collateral Letter of Credit shall be subject to dispute or actual legal challenge by LSB or the issuer thereof; or (iii) Lender shall have received notice from the issuer of the Collateral Letter of Credit that such Collateral Letter of Credit will not be renewed or extended; or (iv) such Collateral Letter of Credit shall not be renewed effective on or before its expiry date; or (v) Borrower shall fail to furnish, or cause to be furnished, the notices pursuant to Section 9.6(e); provided, however, that any such Event of Default shall be deemed cured upon the indefeasible payment in full by the issuer of the Collateral Letter of Credit to Lender of the face amount of the Collateral Letter of Credit.

10.2 Remedies.

(a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the Uniform Commercial Code and other applicable law, all of which rights and remedies may be exercised without notice to or consent by any Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the Uniform Commercial Code or other applicable law, are cumulative, not exclusive and enforceable, in Lender's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by any Borrower of this Agreement or any of the other Financing Agreements. Lender may, at any time or times, proceed directly against any Borrower (or any group of Borrowers) or any Obligor to collect the Obligations without prior recourse to the Collateral and without prejudice, waiver or impairment of any other rights and remedies against, or with respect to, another Borrower Obligor or other Person.

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation, (i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (provided, that, upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h), all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require one or more Borrowers, at any Borrowers' expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender, (iv)

collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with the Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of any Borrower, which right or equity of redemption is hereby expressly waived and released by such Borrower and/or (vii) terminate this Agreement. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, five (5) days prior notice by Lender to such Borrower designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and such Borrower waives any other notice. In the event Lender institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, such Borrower waives the posting of any bond which might otherwise be required.

(c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Borrowers shall remain jointly and severally liable to Lender for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

(d) Without limiting the foregoing, upon the occurrence of an Event of Default or an event which with notice or passage of time or both would constitute an Event of Default, Lender may, at its option, without notice, (i) cease making Loans or arranging for Letter of Credit Accommodations or reduce the lending formulas or amounts of Revolving Loans and Letter of Credit Accommodations available to any Borrower or all Borrowers and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Lender to any Borrower.

(e) Upon the occurrence of any Event of Default that is continuing. Lenders may draw on the Collateral Letter of Credit and apply the proceeds thereof to the repayment of the Obligations.

SECTION 11. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS;
GOVERNING LAW

11.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Texas (without giving effect to principles of conflicts of law).

(b) Each Borrower and Lender irrevocably consent and submit to the non-exclusive jurisdiction of the State of Texas and the United States District Court for the Northern District of Texas and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against such Borrower or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against such Borrower or its property).

(c) Each Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Lender's option, by service upon Such Borrower in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Such Borrower shall appear in answer to such process, failing which Such Borrower shall be deemed in default and judgment may be entered by Lender against Such Borrower for the amount of the claim and other relief requested.

(d) EACH BORROWER AND LENDER HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH BORROWER AND LENDER HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT SUCH

BORROWER OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Lender shall not have any liability to any Borrower (whether in tort, contract, equity or otherwise) for losses suffered by such Borrowers in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender, that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement.

11.2 Waiver of Notices. Each Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on such Borrower which Lender may elect to give shall entitle such Borrower to any other or further notice or demand in the same, similar or other circumstances.

11.3 Amendments and Waivers. Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of each Borrower. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

11.4 Indemnification. EACH BORROWER SHALL JOINTLY AND SEVERALLY INDEMNIFY AND HOLD LENDER, AND ITS DIRECTORS, AGENTS, EMPLOYEES AND COUNSEL (THE "INDEMNIFIED PARTIES"), HARMLESS FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES, COSTS OR EXPENSES IMPOSED ON, INCURRED BY OR ASSERTED AGAINST ANY OF THEM IN CONNECTION WITH ANY LITIGATION, INVESTIGATION, CLAIM OR PROCEEDING COMMENCED OR THREATENED RELATED TO THE NEGOTIATION, PREPARATION, EXECUTION, DELIVERY, ENFORCEMENT, PERFORMANCE OR ADMINISTRATION OF THIS AGREEMENT, ANY OTHER FINANCING AGREEMENTS, OR ANY UNDERTAKING OR PROCEEDING RELATED TO ANY OF THE TRANSACTIONS

CONTEMPLATED HEREBY OR ANY ACT, OMISSION, EVENT OR TRANSACTION (INCLUDING LENDER'S OWN NEGLIGENCE) RELATED OR ATTENDANT THERETO, INCLUDING AMOUNTS PAID IN SETTLEMENT, COURT COSTS, AND THE FEES AND EXPENSES OF COUNSEL OTHER THAN THOSE ARISING SOLELY OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF ANY INDEMNIFIED PARTY. TO THE EXTENT THAT THE UNDERTAKING TO INDEMNIFY, PAY AND HOLD HARMLESS SET FORTH IN THIS SECTION MAY BE UNENFORCEABLE BECAUSE IT VIOLATES ANY LAW OR PUBLIC POLICY, EACH BORROWER SHALL PAY THE MAXIMUM PORTION WHICH IT IS PERMITTED TO PAY UNDER APPLICABLE LAW TO LENDER IN SATISFACTION OF INDEMNIFIED MATTERS UNDER THIS SECTION. THE FOREGOING INDEMNITY SHALL SURVIVE THE PAYMENT OF THE OBLIGATIONS AND THE TERMINATION OR NON-RENEWAL OF THIS AGREEMENT.

SECTION 12. TERM OF AGREEMENT; MISCELLANEOUS

12.1 Term.

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the date two (2) years from the date hereof (the "Renewal Date"), and from year to year thereafter, unless sooner terminated pursuant to the terms hereof. Lender or Borrowers may terminate this Agreement and the other Financing Agreements effective on the Renewal Date or on the anniversary of the Renewal Date in any year by giving to the other party at least sixty (60) days prior written notice; provided, that, this Agreement and all other Financing Agreements must be terminated simultaneously. Upon the effective date of termination of the Financing Agreements, Borrowers shall pay to Lender, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender, as Lender may, in its discretion, designate in writing to Borrowers for such purpose. Interest shall be due until and including the next Business Day, if the amounts so paid by Borrowers to the bank account designated by Lender are received in such bank account later than 12:00 noon, Dallas, Texas time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge any Borrowers of its respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Lender's continuing security interest in the Collateral and the rights and remedies of Lender hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid and

Lender shall have no further obligations to make Loans or Letter of Credit Accommodations available to any Borrower.

(c) Upon the payment in full, in cash, of all Obligations and termination of the Financing Agreements, Lender shall, at Borrowers' expense, release the Collateral from the security interest granted herein and make such filings as may be reasonably necessary in connection herewith.

(d) If for any reason this Agreement is terminated prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof, Borrowers agree to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	<u>Amount</u>	<u>Period</u>
(i)	2% of Maximum Credit	From the date hereof to and including May 7, 2000
(ii)	1% of Maximum Credit	After May 7, 2000 to and including the Renewal Date.
(iii)	.5% of Maximum Credit	From the Renewal Date and to but not including the next occurring anniversary of this Agreement after the Renewal Date

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and each Borrower agrees that it is reasonable under the circumstances currently existing. In addition, Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to any Borrower or permit the use of cash collateral under the United States Bankruptcy Code. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations.

12.2 Notices. All notices, requests and demands hereunder shall be in writing and (a) made to Lender at its address set forth below and to Borrowers at their chief executive offices set forth below, or to such other address as each party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next Business Day, one (1) Business Day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

12.3 Partial Invalidity. If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

12.4 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Lender, Borrowers and their respective successors and assigns, except that no Borrower may assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Lender. Lender may, after notice to Borrowers, assign its rights and delegate its obligations under this Agreement and the other Financing Agreements and further may assign, or sell participations in, all or any part of the Loans, the Letter of Credit Accommodations or any other interest herein to another financial institution or other person, in which event, the assignee or participant shall have, to the extent of such assignment or participation, the same rights and benefits as it would have if it were the Lender hereunder, except as otherwise provided by the terms of such assignment or participation.

12.5 Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

12.6 NONAPPLICABILITY OF ARTICLE 5069-15.01 ET SEQ. BORROWER AND LENDER HEREBY AGREE THAT, EXCEPT FOR SECTION 15.10(B) THEREOF, THE PROVISIONS OF TEX. REV. CIV. STAT. ANN. ART. 5069-15.01 ET SEQ. (VERNON 1987) (REGULATING CERTAIN REVOLVING CREDIT LOANS AND REVOLVING TRI-PARTY ACCOUNTS) SHALL NOT APPLY TO THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS.

12.7 WAIVER OF CONSUMER RIGHTS. BORROWERS HEREBY WAIVE THEIR RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES - CONSUMER PROTECTION ACT, SECTION 17.41 ET. SEQ. BUSINESS & COMMERCE CODE, A

LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY OF THE BORROWERS' OWN SELECTION, THE BORROWERS VOLUNTARILY CONSENT TO THIS WAIVER. BORROWERS EXPRESSLY WARRANT AND REPRESENT THAT THE BORROWERS (a) ARE NOT IN A SIGNIFICANTLY DISPARATE BARGAINING POSITION RELATIVE TO LENDER, AND (b) HAS BEEN REPRESENTED BY LEGAL COUNSEL IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

BORROWERS HAVE READ AND UNDERSTAND SECTION 12.7: _____

(INITIALS OF AUTHORIZED OFFICER OF BORROWERS)

12.8 ORAL AGREEMENTS INEFFECTIVE. THIS AGREEMENT AND THE OTHER FINANCING AGREEMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND THE SAME MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BORROWERS AND LENDER EACH READ AND UNDERSTAND THIS SECTION 12.8:

____ (INITIALS OF AUTHORIZED OFFICER OF BORROWER)
____ (INITIALS OF AUTHORIZED OFFICER OF BORROWER)
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____ (INITIALS OF AUTHORIZED OFFICER OF BORROWER)
____ (INITIALS OF AUTHORIZED OFFICER OF LENDER)

IN WITNESS WHEREOF, Lender and Borrowers have caused these presents to be duly executed as of the day and year first above written.

LENDER

CONGRESS FINANCIAL CORPORATION
(SOUTHWEST)

By: _____
Name:

Title: _____

Address:

1201 Main Street, Ste. 1625
Dallas, TX 75250

BORROWERS

L&S AUTOMOTIVE PRODUCTS CO.

By: _____
Name:

Title: _____

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

L&S BEARING CO.

By: _____
Name:

Title: _____

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

LSB EXTRUSION CO.

By: _____
Name:

Title: _____

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

ROTEX CORPORATION

By: _____
Name: _____
Title: _____

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

TRIBONETICS CORPORATION

By: _____
Name: _____
Title: _____

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

INTERNATIONAL BEARINGS, INC.

By: _____
Name: _____
Title: _____

Chief Executive Office:

1775 Airways Boulevard
Memphis, Tennessee 38114

Letter of Acknowledgment RE: Unaudited Financial Information

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans, the Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan, the Registration Statements (Forms S-8 No. 333-62831, No. 333-62835, No. 333-62839, No. 333-62843, and No. 333-62841) pertaining to the registration of an aggregate 225,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for various employees and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our report dated August 19, 1999, relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc., which are included in its Form 10-Q for the quarter ended June 30, 1999.

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

/s/ Ernst & Young LLP

Ernst & Young LLP

Oklahoma City, Oklahoma
August 19, 1999

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JUN-30-1999
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