UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 2001

or

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

For the transition period from _____ to _____

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	73-1015226
(State of Incorporation)	(I.R.S. Employer Identification No.)
16 South Pennsylvania Avenue Oklahoma City, Oklahoma	73107
(Address of Principal Executive Offices	(Zip Code)

Registrant's Telephone Number, Including Area Code: (405) 235-4546

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: Preferred Share Purchase Rights and

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	Over-the-Counter Bulletin Board
$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2	Over-the-Counter Bulletin Board

(Facing Sheet Continued)

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

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

As of February 28, 2002, the aggregate market value of the 7,689,394 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately $23,452,652 based on the closing sales price for the Company's common stock as reported for that date on the Over-the-Counter Bulletin Board. That amount does not include the 1,294 shares of voting Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company. An active trading market does not exist for the shares of Non-Cumulative Preferred Stock.

As of February 28, 2002, the Registrant had 11,933,583 shares of common stock outstanding (excluding 3,272,426 shares of common stock held as treasury stock).

The information required by Part III of this Form 10-K is incorporated by reference from the registrant's proxy statement to be filed pursuant to regulation 14A which involves the election of directors no later than 120 days after the end of the fiscal year covered by this Form 10-K.

FORM 10-K OF LSB INDUSTRIES, INC.
TABLE OF CONTENTS

PART I

PART I

ITEM 1. BUSINESS

GENERAL

LSB Industries, Inc. (the "Company") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. The Company is a diversified holding company which engages, through its subsidiaries, in (i) the manufacture and sale of chemical products for the explosives, agricultural and industrial acids markets (the "Chemical Business") and (ii) the manufacture and sale of a broad range of hydronic fan coils and water source heat pumps as well as other products used in commercial and residential air conditioning systems (the "Climate Control Business").

The Company is focusing on its core businesses relating to its Chemical and Climate Control Businesses. As part of this strategy, the Company sold its automotive products business in 2000. Since net sales relating to the industrial products business was approximately 2% of consolidated net sales for 2001, the industrial products business is no longer presented as a reportable segment.

The Chemical Business seeks to maximize profitability by (i) being a low cost producer, (ii) focusing on a specific geographic area where it can develop a freight and distribution advantage and establish a leading regional presence, (iii) offering value added services as a means of building customer loyalty, and (iv) continuing to alter the product mix towards higher margin products. The Company has developed a geographic advantage in the Texas, Oklahoma, Missouri, Alabama and Tennessee agricultural markets by establishing an extensive network of wholesale and retail distribution centers for nitrogen-based fertilizer tailored toward regional farming practices and by providing value added services. The Company has also developed a proprietary line of packaged explosives which is sold as a nationally recognized branded product. Given the nature of the product, the Company believes its branding strategy, emphasizing quality, safety and reliability, gives it a competitive advantage over less recognized explosive products. See "Special Note Regarding Forward-Looking Statements."

The Climate Control Business seeks to establish leadership positions in niche markets by offering extensive product lines, custom tailored products and proprietary new technologies. Under this focused strategy, the Company has developed the most extensive line of hydronic fan coils and water source heat pumps in the United States. The Company has developed flexible production to allow it to custom design units for the growing retrofit and replacement markets. Products recently developed by the Company include large custom air handlers and ultraviolet light units for bacteria removal. The Climate Control Business is a pioneer in the use of geothermal water source heat pumps in residential and commercial applications. The Company believes that an aging installed base of residential HVAC systems, coupled with relatively short payback periods of geothermal systems, will continue to increase demand for its geothermal products in the residential replacement market. See "Special Note Regarding Forward-Looking Stat ements."

The Company finances its working capital requirements for its wholly-owned subsidiary ClimaChem, Inc. ("ClimaChem") and its wholly-owned subsidiaries through borrowings under a $50 million credit facility with a lender (the "Working Capital Revolver Loan") maturing in April 2005.

In June 2001, the Company reached an agreement with its supplier of anhydrous ammonia whereby the former long-term purchase commitment was terminated effective June 30, 2001. Under the new agreement, the Chemical Business will purchase 100% of its requirements of purchased ammonia at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas through December 2002.

On October 31, 2000, subsidiaries of the Company, which are not subsidiaries of ClimaChem, acquired a chemical plant for the purpose of indirectly expanding its geographical marketing area. This plant, located at Crystal City, Missouri ("Crystal City Plant"), was shut down concurrent with the purchase thereof. In July 2001, the Crystal City Plant was dismantled for parts and the land was sold to a third party.

On November 1, 2001, El Dorado Chemical Company ("EDC") concluded the sale of a significant portion of its explosives distribution assets to a customer ("Customer") and one of its affiliates ("Affiliate").

Effective October 1, 2001, the Company's subsidiary, Cherokee Nitrogen Company ("CNC") entered into a long-term cost-plus supply agreement with the Affiliate. Under this contract, CNC will supply to the Affiliate its requirements of 83% ammonium nitrate solution from CNC's Cherokee, Alabama manufacturing plant for a term of no less than five (5) years.

On November 1, 2001, EDC entered into a long-term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with the Customer. Under the Supply Agreement, EDC will supply from it's El Dorado, Arkansas plant approximately 200,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term of no less than five (5) years. In addition to the industrial grade ammonium nitrate products, EDC's Arkansas plant has manufacturing capacity for approximately 250,000 tons per year of agricultural grade ammonium nitrate products, 90,000 tons per year of concentrated nitric acid, and 100,000 tons per year of sulfuric acid.

As of October 15, 2001, Prime Financial Corporation ("Prime"), a subsidiary of the Company, had a note with an outstanding principal balance of $1,350,000 (the "Note") owed to SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company. The Company guaranteed payment of the Note under a limited guarantee and pledged 1,973,461 shares of the Company's common stock owned by Prime to the lender to secure its guarantee. In conjunction with the transaction discussed below, the number of shares of the Company's common stock pledged to the lender has been reduced to 973,461.

On October 18, 2001, the Company and Prime entered into an agreement (the "Agreement") whereby the Company issued to SBL 1,000,000 shares of a newly created series of Series D Convertible Preferred Stock in the Company ("Series D Preferred Stock") as payment of $1,000,000 against the Note, with each share of Series D Preferred Stock having, among other things, .875 votes and voting as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of six percent (6%) per annum, and convertibility into LSB common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends on the Series D Preferred Stock will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 $3.25 Preferred Stock. At December 31, 2001, there was $5.1 million in accrued but unpaid dividends due on the Series 2 $3.25 Preferred Stock. At

December 31, 2001, $350,000 remains outstanding under the Note which is payable on demand. The Company also reduced its limited guarantee to such lender to $350,000.

During the year ended December 31, 2001, the Company repurchased Senior Unsecured Notes having a face value of approximately $4.7 million.

Due to certain alleged violations of explosives storage and related regulations in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms ("BATF"), has issued an order revoking the manufacturing license of Slurry Explosive Corporation ("Slurry"), a subsidiary of the Company, for its Hallowell, Kansas facility ("Hallowell Facility") to produce certain explosives products. The license revocation order was upheld by an administrative law judge after an administrative trial. Slurry is currently reviewing its legal alternatives regarding the license revocation. In addition, Slurry and the Company have received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of Slurry. Slurry is complying with such subpoena. A different subsidiary of the Company in the explosive business has filed an application with the BATF to obtain a manufacturing license for the Hallowell Facility. There is no assurance that t he subsidiary will be able to obtain such license. Since February 2002, Slurry continued to manufacture certain non-explosive products at its Hallowell Facility. The Company has other production facilities where it can produce some explosives products to service its customers. Slurry's sales for the years ended December 31, 2001, 2000 and 1999 were approximately $21.8, $18.2 and $15.8 million, respectively, which were approximately 6% of consolidated net sales for each such year.

SEGMENT INFORMATION AND FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Schedules of the amounts of sales, operating profit and loss, and identifiable assets attributable to each of the Company's lines of business and of the amount of export sales of the Company in the aggregate and by major geographic area for each of the Company's last three fiscal years appear in Note 20 of the Notes to Consolidated Financial Statements included elsewhere in this report.

All discussions below are that of the Businesses continuing and accordingly exclude the discontinued operations of the automotive products business and the Australian subsidiary's operations sold in 2000 and 1999, respectively. See Notes 4 and 5 of the Notes to the Consolidated Financial Statements.

CHEMICAL BUSINESS

GENERAL

The Company's Chemical Business manufactures three principal product lines that are derived from anhydrous ammonia: (1) fertilizer grade ammonium nitrate and urea ammonia nitrate ("UAN") for the agricultural industry, (2) explosive grade ammonium nitrate and solutions for the mining industry and (3) concentrated, blended and mixed nitric acid and sulfuric acid for industrial applications. The Chemical Business' principal manufacturing facilities are located in El Dorado, Arkansas ("El Dorado Facility") and Cherokee, Alabama, ("Cherokee Facility"). The other manufacturing operations are located in Hallowell, Kansas, Wilmington, North Carolina, and Baytown,

Texas. The following discussion is that of the Businesses continuing and accordingly excludes the business disposed of in 1999.

For each of the years 2001, 2000 and 1999, approximately 32%, 27% and 26% of the respective sales of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 18%, 14% and 13% of the Company's consolidated sales for each respective year. For each of the years 2001, 2000, and 1999, approximately 40%, 35% and 40% of the respective sales of the Chemical Business consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 23%, 18% and 20% of the Company's 2001, 2000, and 1999 consolidated sales, respectively. For each of the years 2001, 2000, and 1999, approximately 28%, 38% and 34% of the respective sales of the Chemical Business consisted of the

industrial acids for sale in the food, paper, chemical and electronics industries, which represented approximately 16%, 19% and 17% of the Company's 2001, 2000, and 1999 consolidated sales, respectively. Sales of the Chemical Business accounted for approximately 57%, 51% and 50% of the Company's 2001, 2000 and 1999 consolidated sales, respectively. For 2001, agricultural and explosives product sales include sales associated with the Cherokee Facility which was acquired by the Company on October 31, 2000.

AGRICULTURAL PRODUCTS

The Chemical Business produces ammonium nitrate, a nitrogen-based fertilizer, at the El Dorado Facility and the Cherokee Facility and produces UAN at the Cherokee Facility. Ammonium nitrate and UAN are two of several forms of nitrogen-based fertilizers which include anhydrous ammonia. Although, to some extent, the various forms of nitrogen-based fertilizers are interchangeable, each has its own characteristics which produce agronomic preferences among end users. Farmers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. The Company sells these agricultural products to farmers, fertilizer dealers and distributors located primarily in the South Central and Southeastern United States.

The Chemical Business' markets are in close proximity to its El Dorado, Arkansas and Cherokee, Alabama facilities and include a high concentration of pasture land and row crops which favor the Company's products. The Company develops its market position in these areas by emphasizing high quality products, customer service and technical advice. Using a proprietary prilling process, the El Dorado Facility produces a high performance ammonium nitrate fertilizer that, because of its uniform size, is easier to apply than many competing nitrogen-based fertilizer products. The Company believes that its "E-2" brand ammonium nitrate fertilizer is recognized as a premium product within its primary market. See "Special Note Regarding Forward - Looking Statements". In addition, the El Dorado Facility establishes long-term relationships with end users through its network of 22 wholesale and retail distribution centers and the Cherokee Facility sells directly to agricultural cooperative customers.

EXPLOSIVES

The Chemical Business manufactures low density ammonium nitrate-based explosives. In addition, the Company manufactures and sells a branded line of packaged explosives used in construction, quarrying and other applications,

particularly where controlled explosive charges are required. Packaged explosives are used for applications requiring controlled explosive charges and typically command a premium price and produce higher margins. The Company's Slurry packaged explosive products are sold nationally and internationally to other explosive companies and end-users.

INDUSTRIAL ACIDS

The Chemical Business manufactures and sells industrial acids, primarily to the food, paper, chemical and electronics industries. The Company is a major supplier to third parties of concentrated nitric acid, which is a special grade of nitric acid used in the manufacture of plastics, pharmaceuticals, herbicides, explosives, and other chemical products. In addition, the Company produces and sells regular, blended and mixed nitric acid and a variety of grades of sulfuric acid. The Company competes on the basis of price and service, including on-time reliability and distribution capabilities. The Company provides inventory management as part of the value-added services it offers to its customers.

Subsidiaries within the Company's Chemical Business entered into a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, El Dorado Nitric Company ("EDNC") operates a nitric acid plant (the "EDNC Baytown Plant") at Bayer's Baytown, Texas chemical facility. Under the terms of the Bayer Agreement, Bayer will purchase from EDNC all of its requirements for nitric acid to be used by Bayer at its Baytown, Texas facility for an initial ten-year term ending May 2009. EDNC will purchase from Bayer its requirements for anhydrous ammonia for the manufacture of nitric acid as well as utilities and other services.

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.

EDNC and Bayer may terminate the Bayer Agreement upon the occurrence of certain events of default if not cured. Bayer retains the right of first refusal with respect to any bona fide third-party offer to purchase any voting stock of EDNC or any portion of the EDNC Baytown Plant.

MAJOR CUSTOMER

Sales to one customer, Bayer, of the Company's Chemical Business segment represented approximately 13% of the Company's total revenues for 2000. There were no customers with sales of more than 10% of the Company's total revenues for 2001 and 1999. As discussed above, under the terms of the Bayer Agreement, Bayer will purchase from a subsidiary of the Company all of its requirements for nitric acid to be used at its Baytown, Texas facility for an initial ten-year term ending May 2009.

RAW MATERIALS

Anhydrous ammonia and natural gas represents the primary component in the production of most of the products of the Chemical Business. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of the acquisition of the Cherokee Facility on October 31, 2000, the Chemical Business became a purchaser of natural gas.

Under the Company's ammonia supply agreement, the Chemical Business will purchase 100% of its requirements of purchased ammonia at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas through December 2002. The Company's natural gas feed stock requirements are purchased at spot market price for delivery at its Cherokee Facility. The Company believes that it could obtain anhydrous ammonia from other sources in the event of a termination of the above-referenced contract. See "Special Note Regarding Forward-Looking Statements," and Note 13 of Notes to Consolidated Financial Statements.

SEASONALITY

The Company believes that the only seasonal products of the Chemical Business are fertilizer and related chemical products sold to the agricultural industry. The selling seasons for those products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of the Company's agricultural products are distributed. As a result, the Chemical Business increases its inventory of ammonium nitrate and UAN prior to the beginning of each planting season.

Sales to the agricultural markets depend upon weather conditions and other circumstances beyond the control of the Company. The agricultural markets serviced by the Chemical Business sustained a drought resulting in a lack of demand for the Chemical Business' fertilizer products during the 1999 and 2000 fall and spring planting seasons, which had a material adverse effect on the Company.

REGULATORY MATTERS

Each of the Chemical Business' packaged explosive products facilities must be licensed by the Bureau of Alcohol, Tobacco and Firearms in order to manufacture and distribute blasting products. The Chemical Business is also subject to extensive federal, state and local environmental laws, rules and regulations. See "Environmental Matters" and "Legal Proceedings".

Due to certain alleged violations of explosives storage and related regulations in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms, has issued an order revoking the manufacturing license of Slurry Explosive Corporation ("Slurry"), a subsidiary of the Company, for its Hallowell, Kansas facility ("Hallowell Facility") to produce certain explosives products. See "Business General" and "Legal Proceedings".

COMPETITION

The Chemical Business competes with other chemical companies in its markets, many of whom have greater financial and other resources than the Company. In 2000, there were plant closures due to the high cost of natural gas and other economic factors in the nitrogen business within the market the Company serves. The Company believes that competition within the markets served by the Chemical Business is primarily based upon price, service, warranty and product performance.

CLIMATE CONTROL BUSINESS

GENERAL

The Company's Climate Control Business manufactures and sells a broad range of standard and custom designed hydronic fan coils and water source heat pumps as well as other niche products for use in commercial and residential heating ventilation and air conditioning ("HVAC") systems. The construction of commercial, institutional and residential buildings, the renovation of existing buildings and the replacement of existing systems drive the demand for the Climate Control Business' products. The Climate Control Business' commercial products are used in a wide variety of buildings, such as: hotels, motels, office buildings, schools, universities, apartments, condominiums, hospitals, nursing homes, extended care facilities, industrial and high tech manufacturing facilities, food and chemical processing facilities, and pharmaceutical manufacturing facilities. The Company targets many of its products to meet increasingly stringent indoor air quality and energy efficiency standards. The Climate Control Business accounted for approximately 41%, 45% and 46% of the Company's 2001, 2000, and 1999 consolidated sales, respectively.

HYDRONIC FAN COILS

As a leading provider of hydronic fan coils, the Climate Control Business targets the commercial and institutional markets in the United States. Hydronic fan coils use heated or chilled water, provided by a centralized chiller or boiler through a water pipe system, to condition the air and allow individual room control. Hydronic fan coil systems are quieter and have longer lives and lower maintenance costs than other comparable systems used where individual room control is required. Important components of the Company's strategy for competing in the commercial and institutional renovation and replacement markets include the breadth of its product line coupled with customization capability provided by a flexible manufacturing process.

WATER SOURCE HEAT PUMPS

The Company is the leading United States provider of water source heat pumps to the commercial construction and renovation markets. These highly efficient heating and cooling products enable individual room climate control through the transfer of heat through a water pipe system which is connected to a centralized cooling tower or heat injector. Water source heat pumps enjoy a broad range of commercial applications, particularly in medium to large sized buildings with many small, individually controlled spaces. The Company believes the market for commercial water source heat pumps will continue to grow due to the relative efficiency and long life of such systems as compared to other air conditioning and heating systems, as well as to the emergence of the replacement market for those systems. See "Special Note Regarding Forward-Looking Statements".

GEOTHERMAL PRODUCTS

The Climate Control Business has pioneered the use of geothermal water source heat pumps in residential and commercial applications. Geothermal systems, which circulate water or antifreeze through an underground heat exchanger, are among the most energy efficient systems available. The Company believes the longer life, lower cost to operate, and relatively short payback

periods of geothermal systems, as compared with air-to-air systems, will continue to increase demand for its geothermal products. The Company specifically targets new residential construction of homes exceeding $200,000 in value. See "Special Note Regarding Forward-Looking Statements."

HYDRONIC FAN COIL AND WATER SOURCE HEAT PUMP MARKET

The Company pursues a strategy of specializing in hydronic fan coils and water source heat pump products. The annual United States market for hydronic fan coils and water source heat pumps is in excess of $300 million. Levels of repair, replacement, and new construction activity generally drive demand in these markets. The United States market for fan coils and water source heat pump products has grown on average 7% per year over the last 5 years. This growth is primarily a result of new construction, the aging of the installed base of units, the introduction of new energy efficient systems, upgrades to central air conditioning and increased governmental regulations restricting the use of ozone depleting refrigerants in HVAC systems.

PRODUCTION AND BACKLOG

Most of the Climate Control Business production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes and configurations, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. As of December 31, 2001, the backlog of confirmed orders for the Climate Control Business was approximately $22 million as compared to approximately $26.7 million at December 31, 2000. See discussion in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations". A customer generally has the right to cancel an order prior to the order being released to production. Past experience indicates that customers generally do not cancel orders after the Company receives them. As of the date of this report, the Climate Control Business had released substantially all of the December 31, 2001 backlog to production. All of the December 31, 2001 backlog is expected to be filled by December 31, 2002. See "Special Note Regarding Forward-Looking Statements."

MARKETING AND DISTRIBUTION

DISTRIBUTION

The Climate Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturers' representatives, who also represent complementary product lines not manufactured by the Company. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Climate Control Business in competition with the Company. Sales to original equipment manufacturers accounted for approximately 22% of the sales of the Climate Control Business in 2001 and approximately 9% of the Company's 2001 consolidated sales.

MARKET

The Climate Control Business depends primarily on the commercial construction industry, including new construction and the remodeling and

renovation of older buildings. This Business also depends primarily on the residential construction industry for both new and replacement markets relating to their geothermal products.

RAW MATERIALS

Numerous domestic and foreign sources exist for the materials used by the Climate Control Business, which materials include aluminum, copper, steel, electric motors and compressors. The Company does not expect to have any difficulties in obtaining any necessary materials for the Climate Control Business. See "Special Note Regarding Forward-Looking Statements."

COMPETITION

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

EMPLOYEES

As of December 31, 2001, the Company employed 1,527 persons. As of that date, (i) the Chemical Business employed 591 persons, with 91 represented by unions under agreements expiring in July and October of 2004 and (ii) the Climate Control Business employed 875 persons, none of whom are represented by a union.

RESEARCH AND DEVELOPMENT

The Company incurred approximately $450,000 in 2001, $391,000 in 2000, and $713,000 in 1999 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are expensed by the Company.

ENVIRONMENTAL MATTERS

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

to make additional significant site or operational modifications at the El Dorado Facility, involving substantial expenditures. See "Special Note Regarding Forward-Looking Statements"; "Management's Discussion and Analysis of Financial Condition and Results of Operations-Chemical Business" and"Legal Proceedings. "

The Chemical Business entered into a consent administrative order with the Arkansas Department of Environmental Quality ("ADEQ") in August 1998 (the "Wastewater Consent Order"). The Wastewater Consent Order recognized the presence of nitrate contamination in the shallow groundwater and required installation of an interim groundwater bioremediation treatment system. The bioremediation was not successful in achieving denitrification. The Chemical Business prepared a report to the ADEQ regarding field testing of the shallow groundwater with a plan for quarterly sampling of the monitor wells. Upon completion of the waste minimization activities referenced below, a final remedy for groundwater contamination will be selected, based on an evaluation of risk. There are no known users of groundwater in the area, and preliminary risk assessments have not identified any risk that would require additional remediation. There can be no assurance that the risk assessment will be approved by the ADEQ, or that further work w ill not be required. The Wastewater Consent Order included a $183,700 penalty assessment, of which $125,000 is being satisfied over five years at expenditures of $25,000 per year for waste minimization activities.

The Wastewater Consent Order also required certain improvements in the wastewater collection and treatment system to be completed by October 2001. In September 2001, ADEQ proposed and the Company's subsidiary agreed that in lieu of the Wastewater Consent Order, ADEQ would issue a renewal permit establishing new, more restrictive effluent limits. The Company believes that the new permit will establish new deadlines, which the Company's subsidiary believes will allow a minimum of three years for the El Dorado plant to come into compliance with the new limits. Alternative methods for meeting these requirements are continuing to be examined by the Chemical Business. The Company believes, although there can be no assurance, that any such new effluent limits would not have a material adverse effect on the Company; however, should the facility be unable to operate in compliance with the new limits, such would have a material adverse effect upon the financial position and operating results of the Company and may re sult in the recognition of impairment of certain long-lived assets. The wastewater program is not yet finally determined but is currently expected to require future capital expenditures of approximately $2 to $3 million over a period of years. Discussions for securing financing are currently underway. See "Special Note Regarding Forward-Looking Statements."

In September, 2001, the large equalization pond located at the Chemical Business' El Dorado, Arkansas manufacturing facility was drained to accommodate repairs to a corroded underground discharge pipe. This event began when a hole developed in the pond's discharge pipe, allowing the release of water up stream of the permitted outfall. It was determined to allow water to be released through the valve into the permitted discharge to avoid erosion of a levy, to permit monitoring and sampling of discharged water, and to direct the discharge to the permitted outfall. No adverse environmental conditions were noted at the discharge, however, the sustained discharge was allegedly out of compliance with the mass effluent limits contained in the permit. The ADEQ has offered a civil penalty for this event of $190,000 by means of a proposed Consent Administrative Order. The Chemical Business believes that the proposed penalty amount is far in excess

of the amount warranted and has requested further discussions with the ADEQ regarding a proposed civil penalty applicable to this discharge event.

In February, 2002, Slurry Explosive Corporation ("Slurry") received a proposed consent administrative order ("Slurry Consent Order") from the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The proposed Slurry Consent Order states that there exists soil and groundwater contamination, and there exists surface water contamination in the lake adjacent to the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent lake is used for fishing. The Slurry Consent Order also provides that Slurry has not verified the presence of such contaminants. Under the terms of the draft Slurry Consent Order, Slurry would be required a) to submit an environmental assessment work plan to the KDHE for review and approval, b) to agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility, and c) to provide reports to the KDHE, all of the preceding in accordance with the time frames and formats required in the Slurry Consent Order. The Co mpany believes, although there can be no assurance, that compliance by Slurry with the anticipated Slurry Consent Order would not have a material adverse effect on the Company.

From March, 2001, through January, 2002, the Chemical Business experienced eleven alleged air emissions violations. One of the alleged violations involved a malfunctioning continuous air emissions monitor, one of the alleged violations was based on a typographical error, six of the alleged violations involved air emissions point source tests that were allegedly performed in a manner not in compliance with testing procedures, two of the alleged violations involved tests that failed to meet emissions criteria, and one of the alleged violations involved the simultaneous operation of two boilers which is not permitted under the air permit. The Chemical Business and the ADEQ have been in negotiations regarding applicable penalties for certain of these violations. On March 5, 2002, the Chemical Business received a letter from the ADEQ outlining the above alleged violations, which based on past experience, is a preliminary step to proposing a Consent Administrative Order. The Chemical Business anticipates that it will enter into a Consent Administrative Order with the ADEQ to resolve the above alleged violations. The Chemical Business also anticipates requesting administrative changes to its air permit to avoid future difficulties in complying with testing procedures.

ITEM 2. PROPERTIES

CHEMICAL BUSINESS

The Chemical Business primarily conducts manufacturing operations (i) on 150 acres of a 1,400 acre tract of land located in El Dorado, Arkansas (the "El Dorado Facility"), (ii) on 120 acres of a 1,300 acre tract of land located in Cherokee, Alabama ("Cherokee Facility"), (iii) in a facility of approximately 85,000 square feet located on ten acres of land in Hallowell, Kansas ("Kansas Facility"), (iv) in a mixed acid plant in Wilmington, North Carolina ("Wilmington Plant"), and (v) in a nitric acid plant in Baytown, Texas ("Baytown Plant"). The Chemical Business owns all of its manufacturing facilities except the Baytown Plant. The Wilmington Plant and the DSN Plant (located at the El Dorado Facility) are subject to mortgages. The Baytown Plant is being leased pursuant to a leveraged lease from an unrelated third party. As of December 31, 2001, the El Dorado Facility and Cherokee Facility

were utilized at approximately 82% and 55% of capacity, respectively, based on continuous operation. The Chemical Business operates its Kansas Facility from buildings located on an approximate ten acre site in southeastern Kansas, and a research and testing facility comprising approximately ten acres, including buildings and equipment thereon, located in southeastern Kansas, which it owns.

Due to certain alleged violations of explosives storage and related regulations in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms, has issued an order revoking the manufacturing license of Slurry Explosive Corporation, a subsidiary of the Company, for its Hallowell, Kansas facility to produce certain explosives products. See Item 1 "Business General" and "Legal Proceedings".

In addition, the Chemical Business distributes its agricultural products through 22 distribution centers, with 16 of the centers located in Texas (10 of which the Company owns and 6 of which it leases); 3 centers located in Missouri (1 of which the Company owns and 2 of which it leases); 2 centers located in Tennessee (owned); and 1 center located in Illinois (leased). The Chemical Business currently operates 2 domestic explosives distribution centers located in Hallowell, Kansas (owned) and Pryor, Oklahoma (leased).

CLIMATE CONTROL BUSINESS

The Climate Control Business conducts its fan coil manufacturing operations in a facility located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet. The Company owns this facility subject to a mortgage. As of December 31, 2001, the Climate Control Business was using the productive capacity of the above referenced facility to the extent of approximately 89%, based on three, eight-hour shifts per day and a five-day week in one department and one and one half eight-hour shifts per day and a five-day week in all other departments.

The Climate Control Business manufactures most of its heat pump products in a 270,000 square foot facility ("Building") in Oklahoma City, Oklahoma. Climate Master leases the Building with an option to buy the Building through May 2016, with the options to renew for additional

five-year periods. The lease currently provides for payment of rent in the amount of $56,750 per month. The option price for Climate Master to purchase the Building, if exercised, is to be based on the amount of the mortgage on the Building outstanding at the time the option is exercised plus up to $200,000 less the amount of an unsecured promissory note ("Note") in the principal amount of $1.6 million issued by the owner of the Building to Prime Financial Corporation, a wholly-owned subsidiary of the Company. The parties do not anticipate payment of the principal amount of the Note. As of December 31, 2001, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 71%, based on two nine-hour shifts per day and a five-day week in one department and one eight-hour shift per day and a five-day week in all other departments.

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

ITEM 3. LEGAL PROCEEDINGS

In 1987, the U.S. Environmental Protection Agency ("EPA") notified one of

the Company's former 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's subsidiary 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 subsidiary'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 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 former subsidiary of the Company. This liability was assumed as of May 4, 2000, by the purchaser of the Automotive Business, and certain of the Company's subsidiaries received an indemnification by the purchaser of the Automotive Business. In March 2001, the Company sold to the purchaser of the Automotive Business all of the stock of the corporate entity that formerly comprised the Automotive Business. Accordingly, the Company believes that to the extent that its former Automotive Business is ultimately determined to be a contributor to the site, if at all, the Company may again become a responsible party.

In September, 2001, the large equalization pond located at the Chemical Business' El Dorado, Arkansas manufacturing facility was drained to accommodate repairs to a corroded underground discharge pipe. This event began when a hole developed in the pond's discharge pipe, allowing the release of water up stream of the permitted outfall. It was determined to allow water to be released through the valve into the permitted discharge to avoid erosion of a levy, to permit monitoring and sampling of discharged water, and to direct the discharge to the permitted outfall. No adverse environmental conditions were noted at the discharge, however, the sustained discharge was allegedly out of compliance with the mass effluent limits contained in the permit. The ADEQ has offered a civil penalty for this event of $190,000 by means of a proposed Consent Administrative Order. The Chemical Business believes that the proposed penalty amount is far in excess of the amount warranted and has requested further discussions with the ADEQ regarding a proposed civil penalty applicable to this discharge event.

Due to certain alleged violations of explosives storage and related regulations in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms ("BATF"), has issued an order revoking the manufacturing license of Slurry Explosive Corporation ("Slurry"), a subsidiary of the Company, for its Hallowell, Kansas facility ("Hallowell Facility") to produce certain explosives products. The license revocation order was upheld by an administrative law judge after an administrative trial. Slurry is currently reviewing its legal alternatives

regarding the license revocation. In addition, Slurry and the Company have received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of Slurry. Slurry is complying with such subpoena. A different subsidiary of the Company in the explosive business has filed an application with the BATF to obtain a manufacturing license for the Hallowell Facility. There is no assurance that the subsidiary will be able to obtain such license.

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

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

IDENTIFICATION OF EXECUTIVE OFFICERS

The following table identifies the executive officers of the Company.

Name	Age	Position and Offices with the Company	Served as an Officer from
Jack E. Golsen	73	Board Chairman and President	December, 1968
Barry H. Golsen	51	Board Vice Chairman and President of the Climate Control Business	August, 1981
David R. Goss	61	Senior Vice President of Operations and Director	March, 1969
Tony M. Shelby	60	Senior Vice President - Chief Financial Officer, and Director	March, 1969
Jim D. Jones	60	Vice President - Treasurer and Corporate Controller	April, 1977
David M. Shear	42	Vice President and General Counsel	March, 1990

The Company's officers serve one-year terms, renewable on an annual basis by the Board of Directors. All of the individuals listed above have served in substantially the same capacity with the Company and/or its subsidiaries for the last five years. In March 1996, the Company executed an employment agreement (the "Agreement") with Jack E. Golsen for an initial term of three years followed by two additional three-year terms. The Agreement automatically renews for each successive three-year term unless terminated by either the Company or Jack E. Golsen giving written notice at least one year prior to the expiration of the then three-year term.

FAMILY RELATIONSHIPS

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

PART II

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

MARKET INFORMATION

Currently the Company's Common Stock trades on the Over-the-Counter Bulletin Board ("OTC"). The following table shows, for the periods indicated, the high and low bid information for the Company's Common Stock which reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

	Fiscal Year Ended December 31,			
	2001		2000	
Quarter	High	Low	High	Low
First	3.56	2.06	1.50	.75
Second	3.85	3.15	1.00	.63
Third	3.75	2.65	1.44	.81
Fourth	3.10	2.40	2.44	.69

STOCKHOLDERS

As of February 28, 2002, the Company had 884 record holders of its Common Stock.

SALE OF UNREGISTERED SECURITIES

On October 17, 1997, Prime Financial Corporation ("Prime"), a subsidiary of the Company, borrowed from SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company, the principal amount of $3,000,000 (the "Prime Loan") on an unsecured basis and payable on demand, with interest payable monthly in arrears at a variable interest rate equal to the Wall Street Journal Prime Rate plus 2% per annum. The purpose of the loan was to assist the Company by providing additional liquidity. On October 15, 2001, the unpaid principal balance on the Prime Loan was $1,350,000.

In order to make the Prime Loan to Prime, SBL and certain of its affiliates borrowed the $3,000,000 from a bank (collectively, "SBL Borrowings"), and as part of the collateral pledged by SBL to the bank in connection with such loan, SBL pledged, among other things, its note from Prime. Effective April 21, 2000, Prime guaranteed on a limited basis the obligations of SBL and its affiliates relating to the unpaid principal amount due to the bank in connection with the SBL borrowings, and, in order to secure its obligations under the guarantees, it pledged to the bank 1,973,461 shares of the Company's Common Stock that it holds as treasury stock.

On October 18, 2001, the Company and Prime entered into an agreement (the "Agreement") whereby the Company issued to SBL, 1,000,000 shares of a newly created series of its Class C Preferred Stock designated as "Series D Cumulative Convertible Class C Preferred Stock", no par value ("Preferred Stock") as payment of $1,000,000 against the Prime Loan, with each share of

such new series of Preferred Stock having, among other things, .875 votes and voting as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of six percent (6%) per annum, and convertibility, at any time at the option of the holder, into the Company's common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 $3.25 Preferred Stock. The issuance of Preferred Stock to SBL was exempt from registration under the Securities Act of 1933 (the "Act"), as amended, pursuant to Section 4(2) of the Act and Regulation D under this Act, as a private offering to an accredited investor.

As of the date of this report, $350,000 remains outstanding from Prime to SBL, which is payable on demand. In connection with the Agreement, the Company's limited guaranty to the bank has been reduced to $350,000, and the number of shares of Company common stock pledged by Prime to the lender to secure its guaranty has been reduced to 973,461 shares.

The transaction represented by the Agreement was reviewed, negotiated and approved by a Special Committee of the Board of Directors of the Company comprised of three outside and independent directors. The Special Committee retained its own counsel and investment banker.

DIVIDENDS

The Company is a holding company and, accordingly, its ability to pay cash dividends on its Preferred Stock and its Common Stock depends in large part on its ability to obtain funds from its subsidiaries. The ability of the Company's wholly-owned subsidiary ClimaChem, Inc. ("ClimaChem") (which owns substantially all of the companies comprising the Chemical Business and the Climate Control Business) and its wholly-owned subsidiaries to pay dividends and to make distributions to the Company is restricted by certain covenants contained in the Indenture of Senior Unsecured Notes to which they are parties.

Under the terms of the Indenture of 10-3/4% Senior Unsecured Notes due 2007 ("Senior Unsecured Notes"), and a loan agreement to which ClimaChem and its subsidiaries are party to, ClimaChem cannot transfer funds to the Company in the form of cash dividends or other distributions or advances, except for (i) the amount of taxes that ClimaChem would be required to pay if they were not consolidated with the Company and (ii) an amount not to exceed fifty percent (50%) of ClimaChem's cumulative net income from January 1, 1998 through the end of the period for which the calculation is made for the purpose of proposing a payment, and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem pursuant to a certain services agreement and a certain management agreement to which ClimaChem and the Company are parties. See Note 3 of Notes to Consolidated Financial Statements and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Holders of the Company's Common Stock are entitled to receive dividends only when, as, and if declared by the Board of Directors. No cash dividends may be paid on the Company's Common Stock until all required dividends are paid on the outstanding shares of the Company's Preferred Stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. As of December 31, 2001, the Company has issued and outstanding, 623,550 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,000,000 shares of Series D Cumulative Convertible Class C Preferred Stock ("Series D Preferred"), 1,462 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of Preferred Stock is entitled to receive an annual dividend, if, as and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferre d at the annual rate of $3.25 a share payable quarterly in arrears on March 15, June 15, September 15 and December 15, which dividend is cumulative, (ii) Series D Preferred at the rate of $.06 a share payable on a date fixed by the Board of Directors, which dividend is cumulative but will be paid only after accrued and unpaid dividends are paid on the Series 2 Preferred, (iii) Non Cumulative Preferred Stock at the rate of $10.00 a share payable April 1, and (iv) Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative. Due to previous operating losses sustained by the Company and the Company's subsidiaries limited borrowing ability under the credit facility then in effect, the Company's Board of Directors discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. Also due to the Company's previous operating losses and the Company's liquidity position, the Company has not decla red or paid regular quarterly dividend of $.8125 on its outstanding Series 2 Preferred since June 15, 1999. In addition, the Company did not declare or pay the regular annual dividend of $12.00 on the Series B Preferred since 1999. No dividends or other distributions, other than dividends payable in Common Stock, shall be declared or paid, and no purchase, redemption or other acquisition shall be made, by the Company of or in connection with any shares of Common Stock until all cumulative and unpaid dividends on the Series 2 Preferred and Series B Preferred shall have been paid. As of the date of this report, the aggregate amount of unpaid dividends in arrears on the Company's Series 2 Preferred and Series B Preferred totaled approximately $5.6 million and $.7 million, respectively. The Company does not anticipate having funds available to pay dividends on its stock (Common or Preferred) for the foreseeable future. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operati ons - Liquidity and Capital Resources" for further discussion of the Company's payment of cash dividends. Also see Notes 3, 11 and 12 of Notes to Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

Years ended December 31

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales (1) (2)	$ 336,630	$ 290,620	$ 254,236	$ 255,858	$ 251,948
Total revenues (1) (3)	$ 346,631	$ 296,250	$ 259,655	$ 261,756	$ 254,699
Interest expense (1)	$ 14,114	$ 15,377	$ 15,115	$ 14,504	$ 11,435
Income (loss) from continuing operations before extraordinary gain (charge)	$ 5,981	$ (10,790)	$ (31,646)	$ 2,439	$ (8,755)
Net income (loss) (4)	$ 8,557	$ 6,195	$ (49,767)	$ (1,920)	$ (23,065)
Net income (loss) applicable to common stock	$ 6,290	$ 3,424	$ (52,995)	$ (5,149)	$ (26,294)
Income (loss) per common share:					
Basic:					
Income (loss) from continuing operations before extraordinary gain (charge)	$ .31	$ (1.14)	$ (2.95)	$ (.07)	$ (.93)
Net loss from discontinued operations	$ -	$ (.26)	$ (1.53)	$ (.35)	$ (.75)
Net income (loss)	$ .53	$ .29	$ (4.48)	$ (.42)	$ (2.04)
Diluted:					
Income (loss) from continuing operations before extraordinary gain (charge)	$ .30	$ (1.14)	$ (2.95)	$ (.07)	$ (.93)
Net loss from discontinued operations	$ -	$ (.26)	$ (1.53)	$ (.35)	$ (.75)
Net income (loss)	$ .50	$ .29	$ (4.48)	$ (.42)	$ (2.04)

1. Amounts are shown excluding balances related to Businesses disposed of and discontinued operations.
2. Net sales for 2001 include $35.9 million associated with a subsidiary's operation of the Cherokee Facility acquired in October 31, 2000.
3. Total revenues for 2001 include gains on sales of property and equipment of $6.6 million.
4. Net income for 2001 and 2000 includes extraordinary gains on extinguishment of debt, net of income taxes of $2.6 million and $20.1 million, respectively.

ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)(1)

	Years ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars in thousands, except per share data)				
Selected Balance Sheet Data:					
Total assets	$ 178,985	$ 192,895	$ 188,635	$ 223,250	$ 244,600
Long-term debt, including current portion	$ 131,711	$ 136,005	$ 158,072	$ 150,506	$ 160,903
Redeemable preferred stock	$ 123	$ 139	$ 139	$ 139	$ 146
Stockholders' equity (deficit)	$ (1,962)	$ (9,442)	$ (14,173)	$ 35,059	$ 44,496
Selected other data:					
Cash dividends declared per common share	$ - -	$ - -	$ - -	$ .02	$ .06

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's December 31, 2001 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA" and Item 1 "BUSINESS" included

elsewhere in this report.

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

All discussions below are that of the Businesses continuing and accordingly exclude the discontinued operations of the automotive products business sold in 2000 and the Australian subsidiary's operations sold in 1999. See Notes 4 and 5 of the Notes to the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingent liabilities. The more significant areas of financial reporting impacted by management's judgment, estimates and assumptions include the following:

Impairment of Long Lived Assets including Goodwill The Company has addressed the question of impairment related to its Chemical operations as a result of unfavorable operating results over the last several years. The Company has made an estimate of the future net cash flows associated with its Chemical facility in El Dorado, Arkansas. These estimates include the assumption that the Company will be able to achieve a gross margin from sales from this plant in the 7-10% range over the estimated remaining life of this facility of at least 15 years. The Company presently believes that it will be able to recover its net investment in its long lived assets associated with the Hallowell Facility for which its manufacturing license was revoked in February 2002; however, as discussed elsewhere, in this report, it is not presently known if the Company will be able to recover its net investment. The Company's belief is based on the Company's intent to continue to operate its non explosives business and its belief t hat it has a reasonable likelihood of obtaining a new license in the name of another operating subsidiary to resume its manufacture of explosives grade materials. If the Company is not successful in obtaining a new manufacturing license, it believes these assets can be sold at an amount in excess of its net carrying cost. Should the above assumptions not be achieved, a portion of the Company's net carrying cost of $59 million as of December 31, 2001 may be impaired in the near term.

Compliance with Long - Term Debt Covenants The revolving credit facility agreement of ClimaChem, Inc. and its subsidiaries ("ClimaChem") require that ClimaChem meet certain EBITDA and interest coverage ratios on a quarterly and/or annual basis. ClimaChem was in compliance with these covenants in 2001. ClimaChem's revolving credit agreement, for which outstanding borrowings aggregated $36.3 million as of December 31, 2001, requires ClimaChem and the Climate Control subsidiaries to maintain EBITDA of at least $21.35 million and $10 million, respectively, on a trailing twelve month basis measured quarterly. ClimaChem forecasts for 2002 indicate that

ClimaChem's operating results will be very close to this covenant in the second quarter of 2002. Should ClimaChem not achieve the minimum amount, the lender has the option of waiving the requirement or demanding payment. ClimaChem does not currently have the ability to fund such amount if they do not achieve the minimum requirements and repayment is demanded by the lenders.

Environmental and Regulatory Compliance The Company operates in the Chemical Business that is subject to specific Federal and state regulatory and environmental compliance laws and guidelines. The Company has developed policies and procedures related to environmental and regulatory compliance. The Company must continually monitor whether it has maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. The Company believes it will be successful in addressing the Arkansas Department of Environmental Quality ("ADEQ") Wastewater Consent Order through various site modification projects currently underway and other projects acceptable to the ADEQ. The Company currently estimates that the site modification projects currently underway will cost approximately $2 to $3 million.

Contingencies The Company is a party to various litigation and other contingencies, the ultimate outcome of which is not presently known. These contingencies include a matter in which a former operating subsidiary of the Company has been notified of potential responsibility for clean up of a waste disposal site in Oklahoma. See Note 13 Commitments and Contingencies of Notes to Consolidated Financial Statements. Should the ultimate outcome of these contingencies be adverse and the Company be required to fund a significant judgment, that may represent an event of default under the ClimaChem's and LSB's revolving credit facilities and may adversely impact the Company's liquidity and capital resources.

Management's judgment and estimates in these areas are based on information available from internal and external resources at that time. Actual results could differ materially from these estimates and judgments, as additional information becomes known. The Company's significant accounting policies are discussed in greater detail in Note 2 of Notes to Consolidated Financial Statements.

OVERVIEW

GENERAL

The Company finances its working capital requirements for its wholly-owned subsidiary ClimaChem, Inc. ("ClimaChem") and its wholly-owned subsidiaries through borrowings under a $50 million credit facility with a lender (the "Working Capital Revolver Loan"). The Working Capital Revolver Loan matures in April 2005 and is secured by receivables, inventory and intangibles of all the ClimaChem entities other than El Dorado Nitric Co.

At October 15, 2001, Prime Financial Corporation ("Prime"), a subsidiary of the Company, had a note with an outstanding principal balance of $1,350,000 (the "Note") owed to SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company. The Company guaranteed payment of the Note under a limited guarantee and pledged 1,973,461 shares of the Company's common stock owned by Prime to the lender to secure its guarantee. In conjunction with

the transaction discussed below, the number of shares of the Company's common stock pledged to the lender has been reduced to 973,461.

On October 18, 2001, the Company and Prime entered into an agreement (the "Agreement") whereby the Company issued to SBL 1,000,000 shares of a newly created series of Series D Convertible Preferred Stock in the Company ("Series D Preferred Stock") as payment of $1,000,000 against the Note, with each share of Series D Preferred Stock having, among other things, .875 votes and voting as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of six percent (6%) per annum, and convertibility, at any time at the option of the holder, into the Company's common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends on the Series D Preferred Stock will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 $3.25 Preferred Stock. At December 31, 2001, $350,000 remains outstanding under the Note which is payable on demand. The Company also reduced its limited guarantee to such lender t o $350,000.

During the year ended December 31, 2001, the Company repurchased Senior Unsecured Notes having a face value of approximately $4.7 million and recognized a gain of approximately $2.6 million before income taxes.

Due to certain alleged violations of explosives storage and related regulations in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms ("BATF"), has issued an order revoking the manufacturing license of Slurry Explosive Corporation, a subsidiary of the Company, for its Hallowell, Kansas facility to produce certain explosives products. The license revocation order was upheld by an administrative law judge after an administrative trial. Slurry is currently reviewing its legal alternatives regarding the license revocation. In addition, Slurry and the Company have received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of Slurry. Slurry is complying with such subpoena. A different subsidiary of the Company in the explosive business has filed an application with the BATF to obtain a manufacturing license for the Hallowell Facility. There is no assurance that the subsidiary will be able to obtain such li cense. Since February 2002, Slurry continued to manufacture other explosive products at its Hallowell Facility not impacted by the license revocation. The Company has other production facilities where it can produce these explosives products to service its customers. It is not presently known whether the Company will be allowed to resume use of all of its long-lived asset (net book value of $2.7 million as of December 31, 2001) and be able to fully realize its remaining non-explosives inventory amounting to $1.7 million as of December 31, 2001. The ultimate outcome of this matter is not presently known. For the year ended December 31, 2001 the Company recognized a loss of $250,000 related to inventory existing at December 31, 2001, not presently expected to be recovered. The estimate of ultimate loss associated with this matter may change in the near term and such amount may be material. Slurry's sales for the years ended December 31, 2001, 2000 and 1999 were approximately $21.8, $18.2 and $15.8 million , respectively, which were approximately 6% of consolidated net sales for each such year.

The Company's Financial Statements reflect the Automotive Products Business as a discontinued operation for all periods presented. As a result, the Automotive Products Business is not presented as a reportable segment. Certain statements contained in this overview are forward-looking statements, and future results could differ materially from such statements. The

following table contains certain of the information from Note 20 of Notes to the Company's Consolidated Financial Statements about the Company's operations in different industry segments for each of the three years in the period ended December 31, 2001.

	2001	2000	1999
		(In thousands)	
Net sales:			
Businesses continuing:			
Chemical (1)	$ 191,780	$ 149,639	$ 128,154
Climate Control	138,435	130,574	117,055
Other (2)	6,415	10,407	9,027
	336,630	290,620	254,236
Business disposed of - Chemical (3)	-	-	7,461
	$ 336,630	$ 290,620	$ 261,697
Gross profit: (4)			
Businesses continuing:			
Chemical	$ 17,564	$ 15,240	$ 13,532
Climate Control	37,890	34,475	35,467
Other	1,877	2,839	1,757
	$ 57,331	$ 52,554	$ 50,756
Operating profit (loss) : (5)			
Businesses continuing:			
Chemical	$ 5,901	$ 1,877	$ 1,325
Climate Control	12,500	10,961	9,751
	18,401	12,838	11,076
Business disposed of - Chemical (3)	-	-	(1,632)
	18,401	12,838	9,444
General corporate expense and otherbusiness operations, net	(7,554)	(4,721)	(10,956)
Interest expense:			
Business disposed of (3)	-	-	(326)
Businesses continuing	(14,114)	(15,377)	(15,115)
Loss on business disposed of	-	-	(1,971)
Gains on sales of property and equipment	6,615	-	-
Benefit from termination of (provision for loss on) firm sales and purchase commitments - Chemical	2,688	(3,395)	(8,439)
Provision for impairment on long-lived assets - Chemical	- -	- -	(4,126)
Income (loss) from continuing operations before provision for income taxes and extraordinary gain	$ 6,036	$ (10,655)	$ (31,489)
Total assets:			
Businesses continuing:			
Chemical	$ 103,774	$ 109,672	$ 93,482
Climate Control	61,143	65,516	65,521
Corporate assets and other	14,068	17,707	29,632
Total assets	$ 178,985	$ 192,895	$ 188,635

(1) Chemical net sales for the year ended December 31, 2001 include approximately $35.9 million associated with a subsidiary's operation of the Cherokee Facility acquired on October 31, 2000.

(2) Excludes intersegment sales to Climate Control of $371,000, $757,000 and $1,076,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

(3) In August 1999, the Company sold substantially all the assets of its wholly owned Australian subsidiary. The operating results have been presented separately in the above table.

(4) Gross profit by industry segment represents net sales less cost of sales. Chemical gross profit for the year ended December 31, 2001 includes a gross profit of approximately $1.1 million associated with the Cherokee Facility as discussed above.

(5) Operating profit (loss) by industry segment represents revenues less operating expenses before adding or deducting general corporate expense and other business operations, interest expense, loss on business disposed of, gains on sales of property and equipment, benefit from termination of (provision for loss on) firm sales and purchase commitments, impairment on long-lived assets in 1999 and before income taxes and extraordinary gains on extinguishment of debt in 2001 and 2000. Chemical operating profit for the year ended December 31, 2001 includes an operating loss of approximately $.1 million associated with the Cherokee Facility as discussed above.

CHEMICAL BUSINESS

The Company's Chemical Business manufactures three principal product lines that are derived from anhydrous ammonia: (1) fertilizer grade ammonium nitrate and urea ammonia nitrate for the agricultural industry, (2) explosive grade ammonium nitrate and solutions for the mining industry and (3) concentrated, blended and regular nitric acid for industrial applications. In addition, the Company also produces sulfuric acid for commercial applications primarily in the paper industry.

In June 2001, the Company reached an agreement with its supplier of anhydrous ammonia whereby the former long-term purchase commitment was terminated effective June 30, 2001. Under the new agreement, the Chemical Business will purchase 100% of its requirements of purchased ammonia at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas through December 2002.

On October 31, 2000, subsidiaries of the Company, which are not subsidiaries of ClimaChem, acquired a chemical plant for the purpose of indirectly expanding its geographical marketing area. This plant, located at Crystal City, Missouri ("Crystal City Plant"), was shut down concurrent with the purchase thereof. In July 2001, the Crystal City Plant was dismantled for parts and the land sold to a third party.

On November 1, 2001, El Dorado Chemical Company ("EDC") concluded the sale of a significant portion of its explosives distribution assets to a customer ("Customer") and one of its affiliates ("Affiliate").

Effective October 1, 2001, the Company's subsidiary, Cherokee Nitrogen Company ("CNC") entered into a long term cost-plus supply agreement with the Affiliate. Under this contract, CNC will supply to the Affiliate its requirements of 83% ammonium nitrate solution from CNC's Cherokee, Alabama manufacturing plant for a term of no less than five (5) years.

On November 1, 2001, EDC entered into a long term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with the Customer. Under the Supply Agreement, EDC will supply from it's El Dorado, Arkansas plant approximately 200,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term of no less than five (5) years. In addition to the industrial grade ammonium nitrate products, EDC's Arkansas plant has manufacturing capacity for approximately 250,000 tons per year of agricultural grade ammonium nitrate products, 90,000 tons per year of concentrated nitric acid, and 100,000 tons per year of sulfuric acid.

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.

As of December 31, 2001, the backlog of confirmed orders for the Climate Control Business decreased to approximately $22 million from approximately $26.7 million at December 31, 2000. This decrease in backlog was primarily due to an influx of orders late in the third quarter of 2000. These orders represented a combination of models including engineered-to-order products which required an increased lead-time for production. As of the date of this report, the Climate Control Business had released substantially all of the December 31, 2001 backlog to production. All of the December 31, 2001 backlog is expected to be filled by December 31, 2002. See "Special Note Regarding Forward-Looking Statements."

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

REVENUES

Total revenues for 2001 and 2000 were $346.6 million and $296.3 million, respectively (an increase of $50.3 million). Sales increased $46 million, gain on sales of property and equipment increased $6.6 million and other income decreased $2.3 million. The gains on sales of property and equipment include the sale of the Crystal City Plant site and a significant portion of its explosives distribution assets. The Crystal City Plant site was sold and the Company recognized a gain on this sale of $3.3 million. The explosives distribution sites were sold and the Company recognized a gain on this sale of $2.7 million. Other income for 2001 includes recovery of $1.1 million of precious metals used in the manufacturing process of the Chemical Business and the recognition of $.5 million from the recovery of property insurance. Other income for 2000 includes the recapture of prior period provision for loss on advances of $1.6 million, the Company's equity interest in an unconsolidated joint venture of $.7 million, $.6 million of interest income, gain on sale of equity securities of an unrelated entity of $.4 million, $.3 million of income from oil and gas properties and rental income of $.3 million.

NET SALES

Consolidated net sales included in total revenues for 2001 were $336.6 million, compared to $290.6 million for 2000, an increase of $46 million. Approximately $28.8 million of this increase in sales resulted from the Cherokee Facility acquired in October 2000. The remaining increase resulted from: (i) increased sales of $18.2 million relating to agricultural and explosives products in the Chemical Business due, in part, from increased customer demand and higher sales prices and (ii) increased sales of $7.9 million in the Climate Control Business due primarily from an increase in customer demand relating to heat pump products and the increase in sales of new products and services introduced in 2001 and 2000. This increase in sales was partially offset by an elimination of certain products in the Climate Control Business.

GROSS PROFIT

Consolidated gross profit was $57.3 million or 17% as a percentage of net sales in 2001 compared to $52.6 million or 18.1% in 2000. The increase in gross profit was due to the increased sales. The reduction in consolidated gross profit as a percent of sales was the result of lower profit margins in the Chemical Business due primarily to increased raw material costs

resulting, in part, from the extremely high cost of natural gas in late 2000 and the first two quarters of 2001 and competitive pressures on sales prices of agricultural products. This decrease as a percent of net sales was partially offset by improved margins of the heat pump and certain other products in the Climate Control Business.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses as a percent of net sales for 2001 were 14.4% compared to 16.4% for 2000. This percentage decrease is primarily the result of higher sales in the Chemical Business without a comparable increase in expenses, a reduction in bad debt expense, lower expenses relating to the elimination of certain products in the Climate Control Business and other business operations and the amortization of negative goodwill resulting from the newly acquired Cherokee Facility. This percentage decrease was offset, in part, by expenses relating to start-up operations beginning in 2001 and 2000, increase in insurance costs, increase in incentive compensation and expenses incurred relating to the Working Capital Revolver Loan.

INTEREST EXPENSE

Interest expense was $14.1 million for 2001, compared to $15.4 million for 2000. The decrease of $1.3 million primarily resulted from the reduced debt outstanding resulting from the repurchase of the Senior Unsecured Notes during 2001 and 2000 and lowered interest rates offset, in part, by the increase in borrowings from the Working Capital Revolver Loan.

OTHER EXPENSE

Other expense for 2001 and 2000 was $1.4 million and $2.3 million, respectively. Other expense for 2001 includes approximately $.3 million of estimated losses relating certain alleged violations of explosives storage and related regulations (See discussion in Item I of Part I "Business-General"), expenses incurred due to mark-to-market adjustments relating to the exchange-traded futures contracts for metals used in the Climate Control Business of approximately $.2 million and financing fees of approximately $.2 million relating to extending the maturity of the former revolving credit facility. Other expense for 2000 includes (i) approximately $.6 million in costs incurred by the Company in attempts to renegotiate the terms and conditions of the Indenture related to the Senior Unsecured Notes of a subsidiary of the Company, (ii) a provision for a litigation settlement of $.6 million, and (iii) start up costs of approximately $.2 million associated with a new subsidiary in the Climate Control Business.

BENEFIT FROM TERMINATION OF (PROVISION FOR LOSS ON) FIRM SALES AND PURCHASE COMMITMENTS

The Company had a gain of approximately $2.7 million from the termination of firm purchase commitments for the year ended December 31, 2001 compared to a provision for loss on firm sales and purchase commitments of $3.4 million for the year ended December 31, 2000. In June 2001, the Company reached an agreement with its supplier of anhydrous ammonia whereby the former long-term purchase commitment was terminated effective June 30, 2001. Under the new agreement, the Chemical Business will purchase 100% of its requirements of purchased ammonia at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas through December 2002. As

consideration to terminate the prior above market priced take-or-pay purchase commitment which provided, among other things, for a market price based on natural gas and required minimum monthly purchase volumes, the Chemical Business agreed to pay the supplier a one-time settlement fee. The remaining accrued liability associated with the above-market purchase commitment, net of the one-time settlement fee, was eliminated resulting in a gain on termination of the purchase commitment of $2.3 million. Also the supplier agreed to refund the Chemical Business up to $.7 million contingent on minimum monthly purchase volumes that are expected to occur through April 2002. Therefore the Chemical Business recognized an additional gain on termination of the purchase commitment of $.4 million for the year ended December 31, 2001. See discussion in Note 17 of the Notes to Consolidated Financial Statements.

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY GAIN

The Company had income from continuing operations before income taxes and extraordinary gain of $6 million for 2001 compared to a loss of $10.7 million for 2000, an improvement of $16.7 million. Included in the 2001 income was a $6.6 million gain from sales of property and equipment as discussed above. Also included in 2001 income was an increase in gross profit resulting from increased sales and benefit from termination of firm purchase commitment recognized in 2001 compared to a loss incurred in 2000.

PROVISION FOR INCOME TAXES

As a result of the Company's net operating loss carry-forward for income tax purposes as discussed elsewhere herein and in Note 9 of Notes to Consolidated Financial Statements, the provisions for income taxes associated with continuing operations in 2001 and 2000 were related to current state income taxes.

EXTRAORDINARY GAIN

During the years ended December 31, 2001 and 2000, the Company repurchased Senior Unsecured Notes having a face value of approximately $4.7 million and $29.7 million, respectively, and recognized a gain of approximately $2.6 million and $20.1 million, net of income taxes, respectively.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

REVENUES

Total revenues of Businesses continuing for 2000 and 1999 were $296.3 million and $259.7 million, respectively (an increase of $36.6 million). Sales increased $36.4 million and other income increased $.2 million. Other income for 2000 includes the recapture of prior period provision for loss on advances of $1.6 million, the Company's equity interest in an unconsolidated joint venture of $.7 million, $.6 million of interest income, gain on sale of equity securities of an unrelated entity of $.4 million, $.3 million of income from oil and gas properties and rental income of $.3 million.

NET SALES

Consolidated net sales of Businesses continuing included in total revenues for 2000 were $290.6 million, compared to $254.2 million for 1999, an

increase of $36.4 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $21.5 million from increased sales volumes of agricultural, explosive, and industrial acid products due in part to the completion of the nitric acid plant in Baytown, Texas in May 1999 and the acquisition of the Cherokee Plant and improved sales prices of certain agricultural products, (ii) increased sales in the Climate Control Business of $13.5 million due primarily from an increase in foreign sales, variation in product sales mix, increased customer demand and the expansion of new products and services, and (iii) increased sales in the other business operations due to an increase in sales of machine tools.

GROSS PROFIT

Gross profit of Businesses continuing as a percent of net sales was 18.1% for 2000, compared to 20.0% for 1999. The decrease in the gross profit percentage was the result of lower profit margins in the Chemical and Climate Control Business caused primarily from (i) increased raw material costs relating to certain explosive and industrial acid products and increased sales volume of explosive products with lower margins relating to the Chemical Business, and (ii) increased material and labor costs relating to a new heat pump product line, start up costs of the new large air handler business, lower gross margins caused by competitive pressures and variation in product sales mix relating to the Climate Control Business. This decrease was partially offset by (i) improved gross margins relating to certain agricultural products relating to the Chemical Business, and (ii) improved profit margins of machine tools relating to the other business operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses as a percent of net sales from Businesses continuing for 2000 were 16.4% compared to 20.3% for 1999. This decrease is primarily the result of higher sales without a comparable increase in expenses; however, SG&A expenses are lower due to strategic efforts to reduce SG&A expenses relating to other business operations, a decrease in depreciation and amortization expenses, a reduction in advertising and research and development expenditures, and legal expenses incurred in 1999 relating to a project in Mexico not recurring in 2000. The decrease was partially offset by an increase in SG&A expenses relating to new start-up operations during 1999 and 2000.

INTEREST EXPENSE

Interest expense for continuing businesses of the Company was $15.4 million for 2000, compared to $15.1 million for 1999. The increase of $.3 million primarily resulted from increased lenders' prime rates and the rate being charged by the Company's working capital lender which was partially offset by reduced debt outstanding resulting from the repurchase of the Senior Unsecured Notes.

OTHER EXPENSE

Other expense of Businesses continuing for 2000 and 1999 were $2.3 million and $4.4 million, respectively. Other expense for 2000 includes (i) approximately $.6 million in costs incurred by the Company in attempts to renegotiate the terms and conditions of the Indenture related to the Senior Unsecured Notes of a subsidiary of the Company, (ii) a provision for a litigation settlement of $.6 million, and (iii) start up costs of

approximately $.2 million associated with a new subsidiary in the Climate Control Business.

PROVISION FOR LOSS ON FIRM SALES AND PURCHASE COMMITMENTS

The Company had a provision for loss on firm sales and purchase commitments of $3.4 million and $8.4 million for the years ended December 31, 2000 and 1999, respectively. See discussion in Note 17 of the Notes to Consolidated Financial Statements.

PROVISION FOR IMPAIRMENT ON LONG-LIVED ASSETS

The Company had a provision for impairment on long-lived assets of $4.1 million for the year ended December 31, 1999 which includes $3.9 million associated with two out of service chemical plants which are to be sold or dismantled. See discussion in Note 2 of the Notes to Consolidated financial Statements.

BUSINESSES DISPOSED OF

The Company sold substantially all the assets of its wholly-owned Australian subsidiary in 1999.

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY GAIN

The Company had a loss from continuing operations before income taxes and extraordinary gain of $10.7 million for 2000 compared to a loss of $31.5 million for 1999. Approximately $5.0 million of the reduced loss of $20.8 million was due to the difference in loss provision on firm sales and purchase commitments, approximately $4.1 million was due to the provision for impairment on long-lived assets in 1999, and approximately $3.9 million was due to losses relating to the business disposed of in 1999. The remainder of the improvement was primarily due to increased gross profit of the Chemical Business and other business operations which was partially offset by decreased gross profit of

the Climate Control Business and the decrease in other expenses as described above. Also SG&A expenses decreased but were partially offset by increased interest expense and decreased other income as described above.

PROVISION FOR INCOME TAXES

As a result of the Company's net operating loss carry-forward for income tax purposes as discussed elsewhere herein and in Note 9 of Notes to Consolidated financial Statements, the provisions for income taxes associated with continuing operations in 2000 and 1999 were related to current state income taxes.

EXTRAORDINARY GAIN

During the year ended December 31, 2000, subsidiaries of the Company repurchased approximately $29.7 million of the Senior Unsecured Notes and recognized a gain of approximately $20.1 million.

DISCONTINUED OPERATIONS

On April 5, 2000 the Board of Directors approved a plan of disposal of the Company's Automotive Products Business ("Automotive") which was completed on

May 4, 2000. Automotive is reflected as discontinued operations for all periods presented. An estimate of the net loss from discontinued operations of Automotive for the phase-out period beginning January 1, 2000 through May 4, 2000 (closing date) was accrued for at December 31, 1999. The net loss from discontinued operations for the year ended December 31, 2000 related to the expected performance by the Company on certain debt guarantees of Automotive and the ultimate operating loss of Automotive through May 2000. See discussion in Note 4 of the Notes to Consolidated Financial Statements for further information.

Following the sale of Automotive, the Company remained a guarantor on certain of Automotive's indebtedness. In the fourth quarter of 2000, the Company was required to perform on certain of the equipment note guarantees and in 2001, was required to fund its $1.0 million guaranty on DLT's revolving credit agreement. The Company acquired certain of this debt from the original lender and in other situations, negotiated revised terms. The Company recognized its obligations under the guaranties as of December 31, 2000 in the amount of $4.3 million and recognized a loss in the amount of $2.6 million which represents the Company's estimate of ultimate loss, net of the collateral value of approximately $1.7 million. This loss, and that associated with the final adjustment for 2000 operations from the amount accrued as of December 31, 1999, was included in the 2000 net loss from discontinued operations. See discussion in Note 13 of the Notes to Consolidated Financial Statements for further information.

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 secured equipment financing.

As previously discussed in this report, due to certain alleged violations of explosives storage and related regulations in February 2002, the Bureau of Alcohol, Tobacco and Firearms ("BATF") issued an order revoking the manufacturing license of Slurry Explosive Corporation for its Hallowell, Kansas facility to produce certain explosives products. However, a different subsidiary of the Company in the explosives business has filed an application with the BATF to obtain a manufacturing license for the Hallowell, Kansas facility. See "Business General", "Legal Proceedings", and "Overview General" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations". Because the ultimate outcome of this matter is not presently known, the Company cannot estimate the effects on its future cash flow from operations. However, although the Company does not believe that such effect will be material, there are no assurances that the revocation will not have a material adverse effect on th e Company's cash flow from operations.

Net cash provided by operating activities for the year ended December 31, 2001 was $.7 million, after certain non-cash and working capital adjustments. The decrease in receivables is primarily due to: (i) a decrease in sales prices of certain chemical products during the fourth quarter of 2001 compared to the fourth quarter of 2000 primarily due to the extremely high cost of natural gas in 2000, (ii) the elimination of certain products in the

Climate Control Business and other business operations and (iii) the timing of collections. This decrease was partially offset by improved sales of explosives products in the Chemical Business and heat pump and certain new products in the Climate Control Business. The increase in supplies and prepaid items is primarily due to the increase in precious metals used in the Chemical Business. The decrease in accounts payable is primarily due to: (i) the timing of payments, (ii) a decrease in the number of days outstanding and (iii) the elimination of certain products in the Climate Control Business and other business operations. This decrease was partially offset by increased production of certain products in the Chemical and Climate Control Businesses. The net decrease in accrued and other non-current liabilities is primarily due to: a decrease in the amount of deposits held by the Chemical Business, (ii) payments on certain equipment note guarantees of the Company's former automotive products business and (iii) the reduction in accrued shut-down costs relating to the Crystal City Plant that was sold in 2001. This decrease was partially offset by (i) the increase in deferred income relating to the exercise of an option and related sale of the building in which Climate Master, Inc. builds its products, (ii) increase in a deferred lease payment and (iii) increase in billings in excess of costs and estimated earnings on uncompleted contracts in the Climate Control Business.

CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES

Net cash provided by investing activities for the year ended December 31, 2001 included the proceeds from sales of property and equipment of $8.6 million including the sale of the Crystal City Plant and a significant portion of the Company's explosives distribution business. This cash provision was partially offset by $7.4 million for capital expenditures, cash deposited in escrow of $.4 million and an increase in other assets of $.7 million. The capital expenditures were primarily for the benefit of the Chemical Business to enhance production and product delivery capabilities.

Net cash used in financing activities included payments on long-term and other debt of $8.3 million and the acquisition of the Senior Unsecured Notes for $2.1 million. These financing disbursements were partially offset by long-term and other borrowings of $3.9 million and the net increase in revolving debt facilities of $3.2 million.

OBLIGATIONS AND COMMITMENTS

In the normal course of business, the Company enters into contracts, leases and borrowing arrangements. The Company has no debt guarantees for unrelated parties. In connection with a series of agreements with Bayer Corporation to supply nitric acid on a cost plus basis, a subsidiary of ClimaChem has entered into a 10 year leveraged lease in July 1999 that requires minimum future net lease rentals of approximately $64 million. The lease payments are includable costs in the cost plus agreements. These lease rentals are made monthly with one annual payment each December representing a majority of that due for the year. The Company's ability to perform on this lease commitment is contingent upon Bayer's performance under the related purchase agreement.

The Company's commitments and obligations as of December 31, 2001, are summarized in the following table:

		Year Due					
Type of Obligation	Total	2002	2003	2004	2005	2006	Thereafter
				(in thousands)			
Long-term debt	$ 131,711	$ 43,696(1)	$ 3,929	$ 3,918	$ 1,527	$ 2,523	$ 76,118
Leveraged lease-Bayer Project	64,039	7,665	7,666	13,001	2,250	8,175	25,282
Other operating leases	11,733	1,855	1,600	1,324	1,019	780	5,155

Purchase commitments	8,145	949	949	949	949	949	3,400
	$ 215,628	$ 54,165	$ 14,144	$ 19,192	$ 5,745	$ 12,427	$ 109,955

(1) The Working Capital Revolver Loan is not due by its terms until April 2005; however, agreement contains a subjective acceleration clause based on a material adverse change in operating results for financial condition and is therefore classified as due within one year in the accompanying consolidated balance sheet.

SOURCE OF FUNDS

The Company is a diversified holding company and, as a result, depends on credit agreements and its ability to obtain funds from its subsidiaries in order to pay its debts and obligations.

The Company's wholly-owned subsidiary, ClimaChem, Inc., through its subsidiaries, owns substantially all of the Company's Chemical and Climate Control Businesses. ClimaChem and its subsidiaries depend on credit agreements with lenders and internally generated cash flow in order to fund their operations and pay their debts and obligations.

The Company finances its working capital requirements for ClimaChem and its subsidiaries through borrowings under a $50 million credit facility with a lender (the "Working Capital Revolver Loan"). The Working Capital Revolver Loan provides for advances based on specified percentages of eligible accounts receivable and inventories of ClimaChem and its subsidiaries and accrues interest at a base rate (generally equivalent to the prime rate) plus 2% or LIBOR plus 4.5%. Interest is due monthly. The Working Capital Revolver Loan matures in April 2005 and is secured by receivables, inventories and intangibles of all the ClimaChem entities other than El Dorado Nitric Co. and its subsidiaries ("EDNC"). EDNC is neither a borrower nor guarantor of the Working Capital Revolver Loan. The Working Capital Revolver Loan requires ClimaChem to meet certain financial covenants on a quarterly and/or annual basis. The Working Capital Revolver Loan requires that ClimaChem's excess availability, as defined, equal an amount not less than $3.8 million, on each interest payment date, after giving effect to the interest payment due under ClimaChem's 10 3/4% Senior Unsecured Notes. The terms of the Working Capital Revolver require that the $3.8 million reserve and the interest amount be reserved against borrowing availability periodically during the six months between semi-annual interest payment dates. See Note 8 of Notes to Consolidated Financial Statements.

As of December 31, 2001, ClimaChem had borrowing availability under the Working Capital Revolver Loan of $6.8 million. The effective interest rate under the Working Capital Revolver Loan was 6.75%. Borrowings under the Working Capital Revolver Loan outstanding at December 31, 2001 were $36.3 million. The annual interest on the outstanding debt under the Working Capital Revolver Loan at December 31, 2001, at the rates then in effect, would approximate $2.6 million annually.

Summit Machine Tool Manufacturing Corp., ("Summit"), a subsidiary of the Company, that is not a subsidiary of ClimaChem, finances its Working Capital requirement through borrowings under a Credit facility with a different lender than ClimaChem's lender, which was scheduled to mature on April 1, 2002. In March 2002, Summit entered into an amendment to the Agreement ("the Agreement"). The Agreement provides an initial revolving line of credit of $1.2 million. Effective May 1, 2002 and on the first day of each calendar month thereafter, until the maturity of the Agreement, April 1, 2003, the line of credit limit is to be reduced $50,000 monthly. The Agreement requires monthly payments of interest which accrue based on the lender's prime rate plus 7%. Summit may terminate the Agreement with proper notice without premium or penalty. The Company guarantees the Agreement. As of the date of this report Summit's outstanding borrowings under the Agreement were approximately $1.0 million.

As of December 31, 2001, the Company has outstanding $70.6 million in

Senior Unsecured Notes which require a semi-annual interest payment of $3.8 million on June 1 and December 1, 2002.

ClimaChem is restricted as to the funds that it may transfer to the Company under the terms contained in an Indenture ("Indenture") covering the Senior Unsecured Notes issued by ClimaChem and the Working Capital Revolver Loan. Under the terms of the Indenture between ClimaChem, the guarantors and the trustee relating to the Senior Unsecured Notes, ClimaChem is permitted to distribute or pay in the form of dividends and other distributions to the Company in connection with ClimaChem's outstanding equity securities or loans, (a) advances or investments to any person (including the Company), up to 50% of ClimaChem's consolidated net income for the period (taken as one accounting period), commencing on the first day of the first full fiscal quarter commencing after the Issue Date of the Senior Unsecured Notes to and including the last day of the fiscal quarter ended immediately prior to the date of said calculation (or, in the event consolidated net income for such period is a deficit, then minus 100% of such de ficit), plus (b) the aggregate net cash proceeds received by ClimaChem from the sale of its capital stock. This limitation will not prohibit (i) payment to the Company under a Services Agreement, Management Agreement and a Tax Sharing Agreement, or (ii) the payment of any dividend within 60 days after the date of its declaration if such dividend could have been made on the date of such declaration. ClimaChem did not declare and pay to the Company a dividend during 2001.

For the year ended December 31, 2001, approximately $1.2 million of management fees were earned by LSB under the Management Agreement; however, this amount was not paid to LSB since ClimaChem's Working Capital Revolver Loan restricted payment due to the operating results. It is possible that ClimaChem could pay up to $1.8 million, plus Consumer Price Index adjustments, of management fees to the Company in 2002 (if ClimaChem has earnings before interest, income taxes, depreciation and amortization ("EBITDA") in excess of $26 million, as defined by ClimaChem's Working Capital Revolver Loan for the year).

Due to the Company's and ClimaChem previous operating losses and limited borrowing ability under the credit facility then in effect, the Company discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. As of the date of this report, the Company has not paid the regular quarterly dividend of $.8125 on its outstanding $3.25 Convertible Exchangeable Class C Preferred Stock Series 2 ("Series 2 Preferred") since June 15, 1999, totaling approximately $5.6 million. In addition, the Company did not declare and pay the regular annual dividend of $12.00 on the Series B Preferred since 1999, totaling approximately $.7 million. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

Effective October 1, 2001, the Company's subsidiary, Cherokee Nitrogen Company ("CNC") entered into a long term cost-plus solution supply agreement with a customer that is an affiliate of the customer discussed below. Under this contract, CNC will supply to this customer its requirements of 83% ammonium nitrate solution from CNC's Cherokee, Alabama manufacturing plant for a term of no less than five (5) years.

On November 1, 2001, the Company's subsidiary, El Dorado Chemical Company ("EDC") entered into a long-term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with a customer. Under the Supply

Agreement, EDC will supply from it's El Dorado, Arkansas plant approximately 200,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term of no less than five (5) years. Although the execution of this supply agreement will limit the upside potential of the Company's explosive's manufacturing product line, it is expected to provide significant and consistent throughput for the El Dorado Plant and a more constant operating margin.

Management's plan for 2002 anticipates a relatively stable business environment for the Climate Control Business. Based upon the projected order level, it is expected to continue to report positive results.

Management's plan for its Chemical Business is to increase the production level at the El Dorado, Arkansas, plant facility and the Cherokee, Alabama, plants at near practical capacity, improving the 2002 fixed cost absorption and operating results compared to 2001.

The 2002 production level for Industrial Grade Ammonium Nitrate ("IGAN") at the El Dorado plant facility is planned at or near full capacity, the same as in 2001. However, the production level for Agricultural Grade Ammonium Nitrate ("AGAN") is planned at a significantly higher level (50%) in 2002 than in 2001. If the planned production level is achieved, it would be close to the plants practical full capacity for AGAN. The increased production plan is based upon Management's assessment of the amount of competitive product available in the Chemical Business agricultural market in the spring of 2002, compared to the same period in 2001. As a result of less competitive AGAN product in the market, and an expanded geographical market due to competitor's plant closings, management believes that the higher sales volume measured in units can be achieved. Sales dollars and related cost of sales will be lower in 2002 since the unit cost of the plant's feed stock, anhydrous ammonia, is lower and the unit sales pr ice is likewise lower than in the prior year.

The Company has planned capital expenditures for 2002 of approximately $5 million, but such capital expenditures are dependent upon obtaining acceptable financing. The Company will make these expenditures if there is sufficient working capital or available financing. As discussed in Note 13 of Notes to Consolidated Financial Statements, the wastewater program is not yet finally determined but is currently expected to require future capital expenditures of approximately $2 to $3 million over a period of years. Discussions for securing financing are currently underway.

Finally, while there are no assurances that the Company will be successful, ClimaChem, Inc. ("ClimaChem"), a wholly owned subsidiary of the Company, has negotiated a term sheet with an investor who has a majority block of the ClimaChem 10 3/4% Senior Notes due 2007 (the "Senior Unsecured Notes"). The term sheet provides that, subject to numerous conditions and agreements which are to be determined, affiliates of the investor will make loans to ClimaChem (the "Loans"). If the Loans are made, ClimaChem will use the funds to repurchase certain Senior Unsecured Notes at a substantial discount from face value, to pay the closing fees and expenses incurred in connection with the Loans, and to fund a cash collateral account. The Loans, if made, would be secured by certain assets of the Company and certain of its subsidiaries. Should the closing occur, the Company is to grant to the investor warrants to purchase up to 4.99% of the Company's outstanding common stock, at a nominal price, which warrants shall have a ten year exercise period. The Company currently has a total of approximately twelve million shares of common stock

issued and outstanding. The making of the Loans is subject to, among other things, negotiation and execution of definitive agreements, approval by the credit committee of the parties making the Loans, completion of the investors due diligence, approval of ClimaChem's working capital lender, and elimination of certain provisions contained in the Indenture covering the Senior Unsecured Notes.

The Company presently believes it can maintain compliance with the covenants of its working capital revolving credit facilities, successfully execute the above plan for 2002 and meet its obligations as they come due; however, there are no assurances to that effect. If the Company does not maintain compliance with the financial or other covenants of its working capital revolving facilities, does not achieve its plan for 2002, or other adverse unforeseen events occur in 2002, it is reasonably possible that the Company may not be able to meet its obligations as they come due. See "Special Note Regarding Forward-Looking Statements".

DEBT CONVERSION AND GUARANTEE

At October 15, 2001, Prime Financial Corporation ("Prime"), a subsidiary of the Company, had a note with outstanding principal balance of $1,350,000 (the "Note") owed to SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company. The Company guaranteed payment of the Note under a limited guarantee and pledged 1,973,461 shares of the Company's common stock owned by Prime to the lender to secure its guarantee. In conjunction with the transaction discussed below, the number of shares of the Company's common stock pledged to the lender has been reduced to 973,461.

On October 18, 2001, the Company and Prime entered into an agreement (the "Agreement") whereby the Company issued to SBL 1,000,000 shares of a newly created series of Series D Convertible Preferred Stock in the Company ("Series D Preferred Stock") as payment of $1,000,000 against the Note, with each share of Series D Preferred Stock having, among other things, .875 votes and voting as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of six percent (6%) per annum, and convertibility into LSB common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends on the Series D Preferred Stock will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 $3.25 Preferred Stock. At December 31, 2001, there was $5.1 million in accrued but unpaid dividends due on the Series 2 $3.25 Preferred Stock. At December 31, 2001, $350,000 remains outstanding under the Note which is payable on dem and. The Company also reduced its limited guarantee to such lender to $350,000. See discussion in Item 5 of Part II "Market For The Company's Common Equity And Related Stockholder Matters-Sale Of Unregistered Securities".

AVAILABILITY OF COMPANY'S LOSS CARRY-OVERS

The Company's cash flow in future years may 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 was approximately $38 million at December 31, 2001. As of December 31, 2001, the Company had available regular tax NOL carry-overs of approximately $66 million based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 2000 and its estimated Federal taxable income for the year 2001. There are no regular tax NOLs that expire in 2002. 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.

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. See "Business", "Legal Proceedings" and Note 13 of Notes to Consolidated Financial Statements for a discussion as to certain possible contingencies involving the sale of the Automotive Business. The preceding sentence is a forward-looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially.

ITEM 7A. 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 changes in market prices of anhydrous ammonia and natural gas. The Company's Chemical Business buys substantial quantities of anhydrous ammonia and natural gas as feed stock for use in manufacturing processes generally at spot market prices. At December 31, 2001, the Company held no derivative instruments. All information is presented in U.S. dollars.

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.

The following table presents principal amounts and related weighted-average interest rates by maturity date for the Company's interest rate sensitive financial instruments as of December 31, 2001.

	YEARS ENDING DECEMBER 31, (Dollars in thousands)						
	2002	2003	2004	2005	2006	THEREAFTER	TOTAL
Expected maturities of long-term debt:							
Variable rate debt	$ 38,184	$ 493	$ 501	$ 921	$ 469	$ 1,951	$ 42,519
Weighted average interest rate (1)	6.45%	4.77%	4.86%	4.93%	5.04%	5.16%	5.20%

Interest rate (1)							
Fixed rate debt	$ 5,512	$ 3,436	$ 3,417	$ 606	$ 2,054	$ 74,167	$ 89,192
Weighted average interest rate (2)	10.32%	10.38%	10.42%	10.44%	10.49%	10.53%	10.43%

(1) Interest rate is based on the aggregate rate of debt outstanding as of December 31, 2001. On ClimaChem's Working Capital Revolver Loan, the interest rate is based on the lender's prime rate plus 2% per annum, or at the Company's option, the lender's LIBOR rate plus 4.5% per annum.

(2) Interest rate is based on the aggregate rate of debt outstanding as of December 31, 2001.

	December 31, 2001		December 31, 2000	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(in thousands)			
Variable Rate:				
Bank debt and equipment financing	$ 42,519	$ 42,519	$ 43,519	$ 43,519
Fixed Rate:				
Bank debt and equipment financing	19,745	18,585	16,749	17,151
Senior Notes (1)	35,304	70,607	26,367	75,335
	$ 97,568	$ 131,711	$ 86,635	$ 136,005

(1) The fair value of the Company's Senior Notes was determined based on a market quotation for such securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

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,

- the Company's branding strategy, emphasizing quality, safety and reliability, gives it a competitive advantage,
- the demand for the Company's geothermal products will increase,
- the "E-2" brand ammonium nitrate fertilizer is recognized as a premium product,
- the agricultural products are the only seasonal products,
- competition within the Chemical Business is primarily based on price, service, warranty and product performance,
- the market for commercial water source heat pumps will continue to grow,
- the backlog of confirmed orders for Climate Control products at December 31, 2001 will be filled by December 31, 2002,
- the Company will not incur difficulties obtaining necessary materials for its Chemical and Climate Control Businesses,
- availability of net operating loss carryovers,
- amount to be spent relating to compliance with federal, state and local environmental laws at the El Dorado Facility,
- liquidity and availability of funds,
- anticipated financial performance,
- adequate cash flows to meet its presently anticipated working capital requirements,
- management believes that the Company has adequate resources to meet its obligations as they come due,

ability to make planned capital improvements,

- ability to obtain financing for wastewater disposal project and
- management does not anticipate that these contingent claims will result in substantial adverse impact on the Company's liquidity.
- there will be a relatively stable business environment for the Climate Control Business in 2002
- the Climate Control Business is expected to have positive results in 2002
- Chemical production levels are expected to increase for 2002
- lower costs of sales and higher sales volume in the Chemical Business
- the revocation of Slurry's explosives manufacturing license will not have a material adverse effect on the Company's cash flow
- ability of a subsidiary to obtain an explosives manufacturing license to replace Slurry's revoked license
- completion of a loan to ClimaChem from an investor in the Senior Unsecured Notes.

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,

- decline in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material increase in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- changes in federal, state and local laws and regulations, especially

- environmental regulations, or in interpretation of such, pending, additional releases (particularly air emissions) into the environment,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to secure additional financing for planned capital expenditures,
- the cost for the purchase of anhydrous ammonia and natural gas,
- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of the Company's businesses,
- adverse results in any of the Company's pending litigation,
- inability to obtain necessary raw materials and
- other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report.
- inability to obtain a manufacturing license for the facility located at Hallowell, Kansas.

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.

PART III

The Company hereby incorporates by reference the information required by Part III of this report except for the information on the Company's executive officers included under Part 4A of Part I of this report, from the definitive proxy statement which the Company intends to file with the Securities and Exchange Commission on or before April 30, 2002, in connection with the Company's 2002 annual meeting of stockholders.

PART IV

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

(a)(1) FINANCIAL STATEMENTS

The following consolidated financial statements of the Company appear immediately following this Part IV:

(a)(2) FINANCIAL STATEMENT SCHEDULE

The Company has included the following schedule in this report:

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

(a)(3) EXHIBITS

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

3.1. Restated Certificate of Incorporation, the Certificate of Designation dated February 17, 1989, and certificate of Elimination dated April 30, 1993, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Registration Statement, No. 33-61640; Certificate of Designation for the Company's $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 4.6 to the Company's Registration Statement, No. 33-61640.

3.2. Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1998.

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

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

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

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

4.5. Renewed Rights Agreement, dated January 6, 1999, between the Company and Bank One, N.A., which the Company hereby incorporates by reference from Exhibit No. 1 to the Company's Form 8-A Registration Statement, dated January 27, 1999.

4.6. Indenture, dated as of November 26, 1997, by and among ClimaChem, Inc., the Subsidiary Guarantors and Bank One, NA, as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated November 26, 1997.

4.7. Form 10 3/4% Series B Senior Notes due 2007 which the Company hereby incorporates by reference from Exhibit 4.3 to the ClimaChem Registration Statement, No. 333-44905.

4.8. First Supplemental Indenture, dated February 8, 1999, by and among ClimaChem, Inc., the Guarantors, and Bank One N.A., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the year ended December 31, 1998.

4.9. 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, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

4.10. Specimen of Certificate of Series D 6% Cumulative, Convertible Class C Preferred Stock which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

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

10.2. The Company's 1981 Incentive Stock Option Plan, as amended, and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibits 10.1 and 10.2 to the Company's Registration Statement No. 33-8302.

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

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

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

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

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

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

10.9. Limited Partnership Agreement dated as of May 4, 1995, between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

10.10. Severance Agreement, dated January 17, 1989, between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from

Exhibit 10.48 to the Company's Form 10-K for fiscal year ended December 31, 1988. The Company also entered into identical agreements with Tony M. Shelby, David R. Goss, Barry H. Golsen, David M. Shear, and Jim D. Jones and the Company will provide copies thereof to the Commission upon request.

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

10.12. Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996 which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995.

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

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

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

10.16. First Amendment to Loan and Security Agreement (DSN Plant), dated June 1, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.13 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.17. First Amendment to Loan and Security Agreement (Mixed Acid Plant), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.15 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.18. Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.16 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.19. First Amendment to Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.17 to the ClimaChem Form S-4 Registration Statement, No. 333-4905.

10.20. Letter Amendment, dated May 14, 1997, to Loan and Security Agreement between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1997.

10.21. Amendment to Loan and Security Agreement, dated November 21, 1997, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.19 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

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

10.23. Baytown Nitric Acid Project and Supply Agreement dated June 27, 1997, by and among El Dorado Nitrogen Company, El Dorado Chemical Company and Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.24. First Amendment to Baytown Nitric Acid Project and Supply Agreement, dated February 1, 1999, between El Dorado Nitrogen Company and Bayer Corporation, which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 1998. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF SUBJECT OF COMMISSION ORDER CF #7927, DATED JUNE 9, 1999, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.25. Service Agreement, dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.26. Ground Lease dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.27. Participation Agreement, dated as of June 27, 1997, among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landes Bank, New York Branch, as a Construction Lender and the Note Purchaser, and Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.28. Lease Agreement, dated as of June 27, 1997, between Boatmen's Trust Company of Texas as Owner Trustee and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.29. Security Agreement and Collateral Assignment of Construction Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.30. Security Agreement and Collateral Assignment of Facility Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company and consented to by Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.31. Amendment to Loan and Security Agreement, dated March 16, 1998, between The CIT Group/Equipment Financing, Inc., and DSN Corporation which the Company hereby incorporates by reference from Exhibit 10.54 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.32. Fifth Amendment to Lease Agreement, dated as of December 31, 1998, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 1998.

10.33. Non-Qualified Stock Option Agreement, dated April 22, 1998, between the Company and Robert C. Brown, M.D. The Company entered into substantially identical agreements with Bernard G. Ille, Raymond B. Ackerman, Horace G. Rhodes, and Donald W. Munson. The Company will provide copies of these agreements to the Commission upon request.

10.34. The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the year ended December 31, 1998.

10.35. Letter Agreement, dated March 12, 1999, between Kestrel Aircraft Company and LSB Industries, Inc., Prime Financial Corporation, Herman Meinders, Carlan K. Yates, Larry H. Lemon, Co-Trustee Larry H. Lemon Living Trust, which the Company hereby incorporates by reference from Exhibit 10.45 to the Company's Form 10-K for the year ended December 31, 1998.

10.36. 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.

10.37. 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.

10.38. First Amendment to Second Amended and Restated Loan and Security Agreement, dated January 1, 2000, by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated December 30, 1999.

10.39. Second Amendment to Second Amended and Restated Loan and Security Agreement, dated March 1, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated March 1, 2000.

10.40. Third Amendment to Second Amended and Restated Loan and Security Agreement, dated March 31, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.14 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000.

10.41. Loan Agreement dated December 23, 1999 between Climate Craft, Inc. and the City of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.42. Letter, dated April 1, 2000, executed by SBL to Prime amending the Promissory Note, which the Company incorporates by reference from Exhibit 10.52 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.43. Guaranty Agreement, dated as of April 21, 2000, by Prime to Stillwater National Bank & Trust relating to that portion of the SBL Borrowings borrowed by SBL, which the Company incorporates by reference from Exhibit 10.50 to the Company's Amendment No. 2 to its 1999 Form 10-K. Substantial similar guarantees have been executed by Prime in favor of Stillwater covering the amounts borrowed by the following affiliates SBL relating to the SBL Borrowings (as in "Relationships and Related Transactions:") listed in Exhibit A attached to the Guaranty Agreement with the only material differences being the name of the debtor and the amount owing by such debtor. Copies of which will be provided to the Commission upon request.

10.44. Security Agreement, dated effective April 21, 2000, executed by Prime in favor of Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.54 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.45. Limited Guaranty, effective April 21, 2000, executed by Prime to Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.55 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.46. Fourth Amendment to Second Amended and Restated Loan and Security Agreement dated October 10, 2000 by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.

10.47. Letter Agreement, dated August 23, 2000, between LSB Chemical Corp. and Orica USA, Inc., which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #10714, DATED FEBRUARY 21, 2001 GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.48. Agreement, dated October 31, 2000, between Orica Nitrogen, L.L.C., Orica USA, Inc., and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended September 20, 2000. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #10714, DATED FEBRUARY 21, 2001 GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.49. Letter, dated April 1, 2001, executed by SBL to Prime amending the Promissory Note, which the Company hereby incorporates by reference from Exhibit 10.55 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.50. Letter of Intent, dated December 22, 2000, between El Dorado Chemical Company and ORICA USA Inc., which the Company hereby incorporates by reference from Exhibit 10.56 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.51. Agreement, dated April 2, 2001, between Crystal City Nitrogen Company and River Cement Company, which the Company hereby incorporates by reference from Exhibit 10.57 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.52. Assignment, dated May 8, 2001, between Climate Master, Inc. and Prime Financial Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.53. Agreement for Purchase and Sale, dated April 10, 2001, by and between Prime Financial Corporation and Raptor Master, L.L.C. which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.54. Amended and Restated Lease Agreement, dated May 8, 2001, between Raptor Master, L.L.C. and Climate Master, Inc. which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.55. Option Agreement, dated May 8, 2001, between Raptor Master, L.L.C.and Climate Master, Inc., which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.56. Stock Purchase Agreement, dated September 30, 2001, by and between Summit Machinery Company and SBL Corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company' Form 10-Q for the fiscal quarter ended September 30, 2001.

10.57. Agreement, dated October 18, 2001, by and between LSB Industries, Inc., Prime Financial Corporation, and SBL Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

10.58. Certificate of Designations of LSB Industries, Inc., relating to the issuance of a new series of Class C Preferred Stock, which the Company hereby incorporates by reference form Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

10.59. Asset Purchase Agreement, dated October 22, 2001, between Orica USA, Inc. and El Dorado Chemical Company and Northwest Financial Corporation, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.60. AN Supply Agreement, dated November 1, 2001, between Orica USA, Inc. and El Dorado Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.61. Ammonium Nitrate Sales Agreement between Nelson Brothers, L.L.C. and Cherokee Nitrogen Company, which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.62. Anhydrous Ammonia Sales Agreement, dated June 30, 2001, between Koch Nitrogen Company and El Dorado Chemical Company which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q/A Amendment No.1 for the fiscal quarter ended June 30, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #11885, DATED FEBRUARY 1, 2002 GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.63 Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ClimaChem and each of its Subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 10.51 to ClimaChem, Inc.'s amendment No. 1 to Form 10-K for the year ended December 31, 2000.

10.64. Covenant Waiver Letter, dated August 2, 2001, between The CIT Group and DSN Corporation.

10.65. Agreement, dated August 4, 2001, between El Dorado Chemical Company and Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-C10 and its Local 5-434.

10.66. Agreement, dated October 16, 2001, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-C10 Local No. 224.

10.67. First Amendment to Third Amended and Restated Loan and Security Agreement, dated March 29, 2002, entered into by and between Bank of America, N.A. and Summit Machine Tool Manufacturing Corp.

21.1. Subsidiaries of the Company.

23.1. Consent of Independent Auditors.

(b) REPORTS ON FORM 8-K. The Company filed the following report on Form 8-K during the fourth quarter of 2001.

(i) Form 8-K, dated December 28, 2001. (date of earliest event: October 1, 2001). The item reported was Item 5, "Other Events and Regulation FD Disclosure", discussing the sales agreement between Cherokee Nitrogen Company and Nelson Brothers, LLC, the supply agreement between El Dorado Chemical Company ("EDC") and Orica USA Inc. and the sale of an explosives distribution business by EDC to Orica USA Inc. and Nelson Brother, LLC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 1st day of April, 2002.

LSB INDUSTRIES, INC.

By:

/s/ Jack E. Golsen

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

By:

/s/ Tony M. Shelby

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

By:

/s/ Jim D. Jones

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

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

Dated: April 1, 2002 — By: /s/Jack E. Golsen, Jack E. Golsen, Director

Dated: April 1, 2002 — By: /s/Tony M. Shelby, Tony M. Shelby, Director

Dated: April 1, 2002 — By: /s/David R. Goss, David R. Goss, Director

Dated: April 1, 2002 — By: /s/Barry H. Golsen, Barry H. Golsen, Director

Dated: April 1, 2002 — By: /s/Robert C. Brown, Robert C. Brown, Director

Dated: April 1, 2002 — By: /s/Bernard G. Ille, Bernard G. Ille, Director

Dated: — By: /s/Raymond B. Ackerman

April 1, 2002 /s/Raymond B. Ackerman
Raymond B. Ackerman, Director

Dated: By:
April 1, 2002 /s/Horace G. Rhodes
Horace G. Rhodes, Director

Dated: By:
April 1, 2002 /s/Donald W. Munson
Donald W. Munson, Director

Dated: By:
April 1, 2002 /s/Charles A. Burtch
Charles A. Burtch, Director

LSB Industries, Inc.
Consolidated Financial Statements
for Inclusion in Form 10-K
Years ended December 31, 2001, 2000 and 1999

CONTENTS

Report of Independent Auditors

The Board of Directors and Stockholders

LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the index at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative financial instruments.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 27, 2002

LSB Industries, Inc.
Consolidated Balance Sheets

	December 31, 2001	2000
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 628**	$ 3,063
Restricted cash	**350**	-
Trade accounts receivable, net	**43,388**	48,333
Inventories	**31,067**	31,639
Supplies and prepaid items	**7,050**	5,977
Total current assets	**82,483**	89,012
Property, plant and equipment, net	**76,679**	80,884
Other assets, net	**19,823**	22,999
	$ 178,985	$ 192,895

(Continued on following page)

LSB Industries, Inc.
Consolidated Balance Sheets (continued)

	December 31, 2001	2000
	(In Thousands)	
Liabilities and Stockholders' Deficit		
Current liabilities:		
Drafts payable	**$ 90**	$ 224
Accounts payable	**24,920**	26,765
Accrued liabilities:		
Customer deposits	**512**	4,545
Accrued losses on firm sales and purchase commitments	**-**	4,375
Other	**15,814**	20,392
Current portion of long-term debt	**43,696**	42,101
Total current liabilities	**85,032**	98,402
Long-term debt	**88,015**	93,904
Other non-current liabilities:		
Accrued losses on firm purchase commitments	**-**	3,450
Negative goodwill	**860**	1,329
Other	**6,917**	5,113
	7,777	9,892
Commitments and contingencies (Note 13)	**-**	-
Redeemable, noncumulative, convertible preferred stock, $100 par value; 1,295 shares issued and outstanding (1,462 in 2000)	**123**	139
Stockholders' deficit:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding; aggregate liquidation preference of $2,480,000 in 2001 ($2,240,000 in 2000)	**2,000**	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock,$50 stated value; 628,550 shares issued; aggregate liquidation preference of $36,494,000 in 2001 ($34,467,000 in 2000)	**31,427**	31,427
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued in 2001	**1,000**	-
Common stock, $.10 par value; 75,000,000 shares authorized, 15,205,989 shares issued (15,163,909 in 2000)	**1,521**	1,516
Capital in excess of par value	**52,430**	52,376
Accumulated other comprehensive loss	**(2,149)**	-
Accumulated deficit	**(71,923)**	(80,480)
	14,306	6,839
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares	**200**	200
Common stock, 3,272,426 shares in 2001 (3,285,957 in 2000)	**16,068**	16,081
Total stockholders' deficit	**(1,962)**	(9,442)
	$ 178,985	$ 192,895

See accompanying notes.

LSB Industries, Inc.
Consolidated Statements of Operations

	Year ended December 31, 2001	2000	1999
	(In Thousands, Except Per Share Amounts)		
Businesses continuing at December 31:			
Revenues:			

Net sales	**$ 336,630**	$ 290,620	$ 254,236
Gains on sales of property and equipment (Note 16)	**6,615**	-	-
Other	**3,386**	5,630	5,419
	346,631	296,250	259,655
Costs and expenses:			
Cost of sales	**279,299**	238,066	203,480
Selling, general and administrative	**48,424**	47,787	51,672
Interest	**14,114**	15,377	15,115
Other	**1,446**	2,280	4,383
Provision for loss on (benefit from termination of) firm sales and purchase commitments	**(2,688)**	3,395	8,439
Provision for impairment on long-lived assets	-	-	4,126
	340,595	306,905	287,215
Income (loss) from continuing operations before business disposed of, provision for income taxes and extraordinary gains	**6,036**	(10,655)	(27,560)
Business disposed of:			
Revenues	-	-	7,461
Operating costs, expenses and interest	-	-	9,419
	-	-	(1,958)
Loss on disposal of business	-	-	(1,971)
	-	-	(3,929)
Income (loss) from continuing operations before provision for income taxes and extraordinary gains	**6,036**	(10,655)	(31,489)
Provision for income taxes	**(55)**	(135)	(157)
Income (loss) from continuing operations before extraordinary gains	**5,981**	(10,790)	(31,646)
Net loss from discontinued operations (Note 4)	-	(3,101)	(18,121)
Extraordinary gains (Note 8 (C))	**2,576**	20,086	-
Net income (loss)	**8,557**	6,195	(49,767)
Preferred stock dividend requirements	**2,267**	2,771	3,228
Net income (loss) applicable to common stock	**$ 6,290**	$ 3,424	$ (52,995)
Income (loss) per common share:			
Basic:			
Income (loss) from continuing operations before extraordinary gains	**$ .31**	$ (1.14)	$ (2.95)
Net loss from discontinued operations	-	(.26)	(1.53)
Extraordinary gains	**.22**	1.69	-
Net income (loss)	**$ .53**	$ .29	$ (4.48)
Diluted:			
Income (loss) from continuing operations before extraordinary gains	**$ .30**	$ (1.14)	$ (2.95)
Net loss from discontinued operations	-	(.26)	(1.53)
Extraordinary gains	**.20**	1.69	-
Net income (loss)	**$ .50**	$ .29	$ (4.48)

See accompanying notes.

LSB Industries, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

Common Stock Shares	**Non Redeemable Preferred Stock**	**Common Stock Par Value**	**Capital in Excess of Par Value**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Treasury Stock-Preferred**	**Treasury Stock - Common**	**Total**

	(In Thousands)								
Balance at December 31, 1998	15,109	$ 48,000	$ 1,511	$ 38,329	$ (1,559)	$ (35,166)	$ (200)	$ (15,856)	$ 35,059
Net Loss	-	-	-	-	-	(49,767)	-	-	(49,767)
Foreign currency translation adjustment	-	-	-	-	1,559	-	-	-	1,559
Total comprehensive loss									
Expiration of variable employee stock option without exercise	-	-	-	948	-	-	-	-	948
Dividends declared:									
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	-	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	-	(16)	-	-	(16)
Series 2 preferred stock ($1.63 per share)						(1,486)	-	-	(1,486)
Purchase of treasury stock	-	-	-	-	-	-	-	(230)	(230)
Ba1ance at December 31, 1999	15,109	48,000	1,511	39,277	-	(86,675)	(200)	(16,086)	(14,173)
Net income	-	-	-	-	-	6,195	-	-	(14,173)
Repurchase of 278,700 shares of non-redeemable preferred stock	-	(13,935)		12,290	-	-	-	-	(1,645)
Conversion of 12, 750 shares of non-redeemable preferred stock to common stock	55	(638)	5	633	-	-	-	-	-
Grant of 185,000 stock options to a former employee	-	-	-	137	-	-	-	-	137
Remeasurement of30,000 stock options with employer loan feature	-	-	-	39	-	-	-	-	39
Exchange of 4,000 shares of common stock held in treasury for Board of Directors fee	-	-	-	-	-	-	-	5	5
Balance at December 31, 2000	15,164	33,427	1,516	52,376	-	(80,480)	(200)	(16,081)	(9,442)

(Continued on following page)

LSB Industries, Inc.
Consolidated Statements of Stockholders' Equity (Deficit) (continued)

	Common Stock Shares	Non Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock - Preferred	Treasury Stock - Common	Total
					(In Thousands)				
Net income						8,557			8,557
Cumulative effect of change in accounting for derivative financial instruments, net of taxes					(2,439)				(2,439)
Reclassification to operations, net of taxes					290				290
Total comprehensive income									6,408
Issuance of 1,000,000 shares of Series D preferred stock in exchange for $1,000,000 of long-term debt		1,000							1,000
Exercise of stock options	35		4	39					43
Conversion of 167 shares of redeemable preferred stock to common stock	7		1	15					16
Net change in treasury stock-common								13	13
Balance at December 31, 2001	15,206	$ 34,427	$ 1,521	$ 52,430	$ (2,149)	$ (71,923)	$ (200)	$ (16,068)	$ (1,962)

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	2001	**2000**	**1999**
	(In Thousands)		
Cash flows from operating activities			
Net income (loss)	**$ 8,557**	$ 6,195	$ (49,767)
Adjustments to reconcile net income (loss) to net cash provided (used) by continuing operating activities:			
Net loss from discontinued operations	**-**	3,101	18,121
Loss on business disposed of	**-**	-	1,971
Extraordinary gains on extinguishment of debt	**(2,631)**	(20,086)	-
Gains on sales of property and equipment	**(6,615)**	-	-
Provision for losses on (realization and reversal of) firm sales and purchase commitments	**(7,825)**	389	7,436
Provision for inventory write-downs	**554**	-	739
Provision for impairment on long-lived assets	**-**	-	4,126
Depreciation of property, plant and equipment	**10,105**	9,213	9,749
Amortization	**1,260**	1,341	1,642
Provision for losses on inventory and receivables	**141**	1,974	1,772
Recapture of prior period provisions for loss on advances and loans receivable	**-**	(1,576)	(572
Other	**(464)**	176	321
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Trade accounts receivable	**6,130**	(5,758)	(1,431)
Inventories	**(123)**	(2,172)	3,934
Supplies and prepaid items	**(780)**	(2,415)	(179)
Accounts payable	**(2,111)**	8,249	(1,056)
Accrued and other non-current liabilities	**(5,455)**	9,326	2,812
Net cash provided (used) by continuing operating activities	**743**	7,957	(382)

(Continued on following page)

LSB Industries, Inc.
Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	2001	**2000**	**1999**
	(In Thousands)		
Cash flows from investing activities			
Capital expenditures	**$** (7,446)	$ (7,736)	$ (7,645)
Principal payments received on loans receivable	-	-	1,052
Proceeds from sales of property and equipment	8,618	76	1,174
Proceeds from the sale of business disposed of	-	-	9,981
Restricted cash held in escrow	(350)	-	-
Other assets	(679)	3,137	(760)
Net cash provided (used) by investing activities	143	(4,523)	3,802
Cash flows from financing activities			
Payments on long-term and other debt	(8,268)	(5,152)	(6,144)
Long-term and other borrowings, net of origination fees	3,891	5,666	2,850
Acquisition of 10 3/4% Senior Notes	(2,066)	(8,712)	-
Net change in revolving debt facilities	3,224	7,003	6,554
Net change in drafts payable	(134)	(136)	(273)
Dividends paid on preferred stocks	-	-	(1,742)
Purchases of preferred and treasury stock	-	(1,645)	(230)
Net proceeds from issuance of common stock	32	-	-
Net cash provided (used) by financing activities	(3,321)	(2,976)	1,015
Net cash used in discontinued operations	-	(525)	(2,764)
Net increase (decrease) in cash and cash equivalents	(2,435)	(67)	1,671
Cash and cash equivalents at beginning of year	3,063	3,130	1,459
Cash and cash equivalents at end of year	**$** 628	$ 3,063	$ 3,130

See accompanying notes.

LSB Industries, Inc.
Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. The Company is a diversified holding company which is engaged, through its subsidiaries, in the manufacture and sale of chemical products (the "Chemical Business") and the manufacture and sale of a broad range of air handling and heat pump products (the "Climate Control Business"). See Note 20 -- Segment Information. In May 2000, the Company sold its Automotive Products Division (See Note 4 -- Discontinued Operations). The Company's consolidated financial statements and notes reflect the Automotive Products Division as a discontinued operation for all periods presented.

All material intercompany accounts and transactions have been eliminated. Certain reclassifications have been made in the consolidated financial statements for 2000 and 1999 to conform to the consolidated financial statement presentation for 2001.

2. Accounting Policies

Use of Estimates

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

Inventories

Inventory is priced at the lower of cost or market, with cost being determined using the first-in, first-out basis, except for certain heat pump products with an estimated replacement value of $7,793,000 at December 31, 2001 ($7,798,000 at December 31, 2000), which are carried at the lower of cost or market, with cost being determined using the last-in, first-out (LIFO) basis. The difference between the LIFO basis and current cost was $678,000 and $682,000 at December 31, 2001 and 2000, respectively.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. For financial reporting purposes, depreciation, depletion and amortization are primarily computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. Property, plant and equipment leases which are deemed to be installment purchase obligations have been capitalized and included in property, plant and equipment. Maintenance, repairs and minor renewals are charged to operations while major renewals and improvements are capitalized.

LSB Industries, Inc.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Excess of Purchase Price Over Net Assets Acquired

The excess of purchase price over net assets acquired, which is included in other assets in the accompanying balance sheets, was $1,729,000 and $2,111,000, net of accumulated amortization, of $5,198,000 and $4,816,000 at December 31, 2001 and 2000, respectively, and was being amortized by the straight-line method over periods of 15 to 19 years. Beginning January 1, 2002, the excess of purchase price over net assets acquired will no longer be amortized but will be tested for impairment at least annually. See Note 2 - Recently Issued Pronouncements.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of the assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amounts or fair values less costs to sell.

In 1999, the Company recognized impairment totaling $4.1 million (none in 2001 and 2000) associated with two chemical plants which are to be sold or dismantled. The 1999 provision for impairment represented the difference between the net carrying cost and the estimated salvage value for the non-operating plant to be dismantled and the difference between the net carrying cost and the estimated selling price less cost to dispose for the plant to be sold.

The Company has made estimates of the future cash flows related to its Chemical Business in order to determine recoverability of the Company's carrying cost. Based on these estimates, no additional impairment was recognized at December 31, 2001; however, it is reasonably possible that the Company may recognize additional impairments in this business in the near term if the Company experiences continued or further deterioration of the Chemical Business.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the associated debt instrument using the straight-line method. Such costs, which are included in other assets in the accompanying balance sheets, were $3,260,000 and $2,173,000, net of accumulated amortization, of $1,705,000 and $1,104,000 as of December 31, 2001 and 2000, respectively.

Revenue Recognition

The Company recognizes revenue at the time title to the goods transfers to the buyer and there remains no significant future performance obligations by the Company.

LSB Industries, Inc.
Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Shipping and Handling Costs

The Company records its shipping and handling costs in the Chemical Business in net sales and the Climate Control Business records shipping and handling costs in selling, general and administrative expense. For 2001, 2000 and 1999, the shipping and handling costs of the Chemical Business amounted to $9,635,000, $9,689,000 and $6,042,000, respectively, while the costs in the Climate Control Business amounted to $3,908,000, $4,044,000 and $3,986,000, respectively.

Research and Development Costs

Costs in connection with product research and development are expensed as incurred. Such costs amounted to $450,000 in 2001, $391,000 in 2000 and $713,000 in 1999.

Advertising Costs

Costs in connection with advertising and promotion of the Company's products are expensed as incurred. Such costs amounted to $597,000 in 2001, $928,000 in 2000 and $1,588,000 in 1999.

Hedging

In 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." The Company adopted SFAS 133, as amended, effective January 1, 2001. SFAS 133 required the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that do not qualify or are not designated as hedges must be adjusted to fair value through operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair 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.

In 1997, the Company entered into an interest rate forward agreement to effectively fix the interest rate of a long-term lease commitment (not for trading purposes). In 1999, the Company executed the long-term lease agreement and terminated the forward at a net cost of $2.8 million. The Company historically accounted for this hedge under the deferral method (as an adjustment of the initial term lease rentals). At January 1, 2001, the remaining deferred cost included in other assets approximated $2.4 million. The deferred cost recognized in operations amounted to $290,000 and $169,000 for 2000 and 1999, respectively. Upon adoption of SFAS 133 on January 1, 2001, the deferred cost was reclassified into accumulated other comprehensive loss and will be amortized to operations over the term of the lease arrangement.

2. Accounting Policies (continued)

The Company also periodically enters into exchange-traded futures contracts for copper and aluminum (as such products are used in the Company's Climate Control Business), which contracts are currently accounted for on a mark to market basis.

Income (Loss) per Share

Net income (loss) applicable to common stock is computed by adjusting net income (loss) by the amount of preferred stock dividends. Basic income (loss) per common share is based upon net income (loss) applicable to common stock and the weighted average number of common shares outstanding during each year. Diluted income (loss) per share, if applicable, is based on the weighted average number of common shares and dilutive common equivalent shares outstanding, if any, and the assumed conversion of dilutive convertible securities outstanding, if any. See Note 10 -- Redeemable Preferred Stock, Note 11 -- Stockholders' Deficit, and Note 12 -- Non-Redeemable Preferred Stock for a full description of securities which may have a dilutive effect in future years.

2. Accounting Policies (continued)

The following table sets forth the computation of basic and diluted income (loss) per share:

(Dollars in thousands, except per share amounts)

	2001	2000	1999
Numerator:			
Net income (loss)	**$ 8,557**	$ 6,195	$ (49,767)
Preferred stock dividend requirements	**(2,267)**	(2,771)	(3,228)
Numerator for basic earnings (loss) per share - net income (loss) applicable to common stock	**6,290**	3,424	(52,995)
Preferred stock dividend requirements on preferred stock assumed to be converted, if dilutive	**240**	- -	- -
Numerator for diluted earnings (loss) per share	**$ 6,530**	$ 3,424	$ (52,995)
Denominator:			
Denominator for basic earnings (loss) per share - weighted average shares	**11,913,031**	11,871,211	11,838,277
Effect of dilutive securities:			
Employee stock options	**380,078**	-	-
Convertible preferred stock	**784,681**	-	-
Convertible note payable	**4,000**	-	-
Dilutive potential common shares	**1,168,759**	-	-
Denominator for dilutive earnings (loss) per share - adjusted weighted average shares and assumed conversions	**13,081,790**	11,871,211	11,838,277
Basic earnings (loss) per share	**$ .53**	$ .29	$ (4.48)
Diluted earnings (loss) per share	**$ .50**	$ .29	$ (4.48)

Recently Issued Pronouncements

In July 2001, the FASB issued Statements No. 141 ("SFAS 141"), "Business Combinations," and No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". SFAS 141 is effective for all business combinations initiated after June 30, 2001 and SFAS 142 will require that goodwill and intangible assets with indefinite lives no longer be amortized but be tested for impairment at least annually. SFAS 142 was effective for the Company on January 1, 2002. Upon adoption

2. Accounting Policies (continued)

of SFAS 142, the Company will recognize $860,000 of negative goodwill as a cumulative effect of accounting change. For the 2001, 2000 and 1999, goodwill amortization was not material.

Also in July 2001, the FASB issued Statement No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligation" which will require liability recognition for legal or contractual retirement obligations associated with tangible long-lived assets. The Company will adopt SFAS 143, using a cumulative effect, effective January 1, 2003. The Company cannot currently reasonably estimate the effect, if any, the adoption of this standard will have on its financial statements.

In August 2001, the FASB issued Statement No. 144 ("SFAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets" which will modify the accounting for and potentially the financial statement presentation of assets held for disposal. The Company will adopt SFAS 144 effective January 1, 2002. The adoption of SFAS 144 is not presently expected to have a material impact upon the Company's financial position or results of operations.

Statements of Cash Flows

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

Supplemental cash flow information includes:

	2001	2000	1999
	(In Thousands)		
Cash payments for:			
Interest on long-term debt and other	**$ 14,342**	$ 15,435	$ 16,114
Income taxes, net of refunds	**$ 81**	$ 136	$ (36)
Noncash financing and investing activities--			
Long-term debt issued for property, plant and equipment	**$ -**	$ 81	$ 3,327
Accrued liability assumed in connection with debt guarantee performance	**$ -**	$ 4,266	$ -
Preferred stock issued in exchange for long-term debt	**$ 1,000**	$ -	$ -
Cumulative effect of change in accounting for derivative financial instruments	**$ 2,439**	$ -	$ -

3. Liquidity and Management's Plan

The Company is a diversified holding company and, as a result, depends on credit agreements and its ability to obtain funds from its subsidiaries in order to pay its debts and obligations.

The Company's wholly-owned subsidiary, ClimaChem, Inc. ("ClimaChem"), through its

3. Liquidity and Management's Plan (continued)

subsidiaries, owns substantially all of the Company's Chemical and Climate Control Businesses.

ClimaChem and its subsidiaries depend on credit agreements with lenders and internally generated cash flow in order to fund their operations and pay their debts and obligations.

The Company finances its working capital requirements for ClimaChem and its subsidiaries through borrowings under a $50 million credit facility with a lender (the "Working Capital Revolver Loan"). The Working Capital Revolver Loan provides for advances based on specified percentages of eligible accounts receivable and inventories of ClimaChem and its subsidiaries and accrues interest at a base rate (generally equivalent to the prime rate) plus 2% or LIBOR plus 4.5%. Interest is due monthly. The Working Capital Revolver Loan matures in April 2005 and is secured by receivables, inventories and intangibles of all the ClimaChem entities other than El Dorado Nitric Co. and its subsidiaries ("EDNC"). EDNC is neither a borrower nor guarantor of the Working Capital Revolver Loan. The Working Capital Revolver Loan requires ClimaChem to meet certain financial covenants on a quarterly and/or annual basis. The Working Capital Revolver Loan requires that ClimaChem's excess availability, as defined, equal an amount not less than $3.8 million, on each interest payment date, after giving effect to the interest payment due under ClimaChem's 10 3/4% Senior Notes. The terms of the Working Capital Revolver require that the $3.8 million reserve and the interest amount be reserved against borrowing availability periodically during the six months between semi-annual interest payment dates.

As of December 31, 2001, ClimaChem had borrowing availability under the Working Capital Revolver Loan of $6.8 million. The effective interest rate under the Working Capital Revolver Loan was 6.75%. Borrowings under the Working Capital Revolver Loan outstanding at December 31, 2001 were $36.3 million. The annual interest on the outstanding debt under the Working Capital Revolver Loan at December 31, 2001, at the rates then in effect would approximate $2.6 million annually.

Summit Machine Tool Manufacturing Corp., ("Summit"), a subsidiary of the Company, that is not a subsidiary of ClimaChem, finances its Working Capital requirement through borrowings under a Credit facility with a different lender than ClimaChem's lender, which was scheduled to mature on April 1, 2002. In March 2002, Summit entered into an amendment to the Agreement ("the Agreement"). The Agreement provides an initial revolving line of credit of $1.2 million. Effective May 1, 2002 and on the first day of each calendar month thereafter, until the maturity of the Agreement, April 1, 2003, the line of credit limit is to be reduced $50,000 monthly. The Agreement requires monthly payments of interest which accrue based on the lender's prime rate plus 7%. Summit may terminate the Agreement with proper notice without premium or penalty. The Company guarantees the Agreement. As of the date of this report Summit's outstanding borrowings under the Agreement were approximately $1.0 million.

As of December 31, 2001, the Company has outstanding $70.6 million in Senior Unsecured Notes which require a semi-annual interest payment of $3.8 million on June 1 and December 1, 2002.

3. Liquidity and Management's Plan (continued)

ClimaChem is restricted as to the funds that it may transfer to the Company under the terms contained in an Indenture ("Indenture") covering the Senior Unsecured Notes issued by ClimaChem and the Working Capital Revolver Loan. Under the terms of the Indenture between ClimaChem, the guarantors and the trustee relating to the Senior Notes, ClimaChem is permitted to distribute or pay in the form of dividends and other distributions to the Company in connection with ClimaChem's outstanding equity securities or loans, (a) advances or investments to any person (including the Company), up to 50% of ClimaChem's consolidated net income for the period (taken as one accounting period), commencing on the first day of the first full fiscal quarter commencing after the Issue Date of the Senior Notes to and including the last day of the fiscal quarter ended immediately prior to the date of said calculation (or, in the event consolidated net income for such period is a deficit, then minus 100% of such def icit), plus (b) the aggregate net cash proceeds received by ClimaChem from the sale of its capital stock. This limitation will not prohibit (i) payment to the Company under a Services Agreement, Management Agreement and a Tax Sharing Agreement, or (ii) the payment of any dividend within 60 days after the date of its declaration if such dividend could have been made on the date of such declaration. ClimaChem did not declare and pay to the Company a dividend during 2001.

For the year ended December 31, 2001, approximately $1.2 million of management fees were earned by LSB under the Management Agreement; however, this amount was not paid to LSB since ClimaChem's Working Capital Revolver Loan restricted payment due to the operating results. It is possible that ClimaChem could pay up to $1.8 million, plus Consumer Price Index adjustments, of management fees to the Company in 2002 (if ClimaChem has earnings before interest, income taxes, depreciation and amortization ("EBITDA") in excess of $26 million, as defined by ClimaChem's Working Capital Revolver Loan for the year).

Due to the Company's and ClimaChem previous operating losses and limited borrowing ability under the credit facility then in effect, the Company discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. As of the date of this report, the Company has not paid the regular quarterly dividend of $.8125 on its outstanding $3.25 Convertible Exchangeable Class C Preferred Stock Series 2 ("Series 2 Preferred") since June 15, 1999, totaling approximately $5.6 million. In addition, the Company did not declare and pay the regular annual dividend of $12.00 on the Series B Preferred since 1999, totaling approximately $.7 million. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

Effective October 1, 2001, the Company's subsidiary, Cherokee Nitrogen Company ("CNC") entered into a long term cost-plus solution supply agreement with a customer that is an affiliate of the customer

discussed below. Under this contract, CNC will supply to this customer its requirements of 83% ammonium nitrate solution from CNC's Cherokee, Alabama manufacturing plant for a term of no less than five (5) years.

3. Liquidity of Management's Plan (continued)

On November 1, 2001, the Company's subsidiary, El Dorado Chemical Company ("EDC") entered into a long-term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with a customer. Under the Supply Agreement, EDC will supply from it's El Dorado, Arkansas plant approximately 200,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term of no less than five (5) years. Although the execution of this supply agreement will limit the upside potential of the Company's explosive's manufacturing product line, it is expected to provide significant and consistent throughput for the El Dorado Plant and a more constant operating margin.

Management's plan for 2002 anticipates a relatively stable business environment for the Climate Control Business. Based upon the projected order level, it is expected to continue to report positive results.

Management's plan for its Chemical Business is to increase the production level at the El Dorado, Arkansas, plant facility and the Cherokee, Alabama, plants at near practical capacity, improving the 2002 fixed cost absorption and operating results compared to 2001.

The 2002 production level for Industrial Grade Ammonium Nitrate ("IGAN") at the El Dorado plant facility is planned at or near full capacity, the same as in 2001. However, the production level for Agricultural Grade Ammonium Nitrate ("AGAN") is planned at a significantly higher level (50%) in 2002 than in 2001. If the planned production level is achieved, it would be close to the plants practical full capacity for AGAN. The increased production plan is based upon Management's assessment of the amount of competitive product available in the Chemical Business agricultural market in the spring of 2002, compared to the same period in 2001. As a result of less competitive AGAN product in the market, and an expanded geographical market due to competitor's plant closings, management believes that the higher sales volume measured in units can be achieved. Sales dollars and related cost of sales will be lower in 2002 since the unit cost of the plant's feed stock, anhydrous ammonia, is lower and the unit sales pr ice is likewise lower than in the prior year.

The Company has planned capital expenditures for 2002 of approximately $5 million, but such capital expenditures are dependent upon obtaining acceptable financing. The Company will make these expenditures if there is sufficient working capital or available financing. As discussed in Note 13 of Notes to Consolidated Financial Statements, the wastewater program is not yet finally determined but is currently expected to require future capital expenditures of approximately $2 to $3 million over a period of years. Discussions for securing financing are currently underway.

Finally, while there are no assurances that the Company will be successful, ClimaChem, Inc. ("ClimaChem"), a wholly owned subsidiary of the Company, has negotiated a term sheet with

3. Liquidity of Management's Plan (continued)

an investor who has a majority block of the ClimaChem 10 3/4% Senior Notes due 2007 (the "Senior Unsecured Notes"). The term sheet provides that, subject to numerous conditions and agreements which are to be determined, affiliates of the investor will make loans to ClimaChem (the "Loans"). If the Loans are made, ClimaChem will use the funds to repurchase certain Senior Unsecured Notes at a substantial discount from face value, to pay the closing fees and expenses incurred in connection with the Loans, and to fund a cash collateral account. The Loans, if made, would be secured by certain assets of the Company and certain of its subsidiaries. Should the closing occur, the Company is to grant to the investor warrants to purchase up to 4.99% of the Company's outstanding common stock, at a nominal price, which warrants shall have a ten year exercise period. The Company currently has a total of approximately twelve million shares of common stock issued and outstanding. The making of the Loans is subject to, among other things, negotiation and execution of definitive agreements, approval by the credit committee of the parties making the Loans, completion of the investors due diligence, approval of ClimaChem's working capital lender, and elimination of certain provisions contained in the Indenture covering the Senior Unsecured Notes.

The Company presently believes it can maintain compliance with the covenants of its working capital revolving credit facilities, successfully execute the above plan for 2002 and meet its obligations as they come due; however, there are no assurances to that effect. If the Company does not maintain compliance with the financial or other covenants of its working capital revolving facilities, does not achieve its plan for 2002, or other adverse unforeseen events occur in 2002, it is reasonably possible that the Company may not be able to meet its obligations as they come due.

4. Discontinued Operations

On April 5, 2000, the Board of Directors approved a plan of disposal of the Company's Automotive Products Business ("Automotive"). The sale of Automotive was concluded on May 4, 2000, to Drive Line Technologies ("DLT"). The Company received notes for its net investment of approximately $8.7 million, and the buyer assumed substantially all of Automotive's liabilities. The operating losses associated with the discontinuation of this business segment are reflected in the net loss from discontinued operations for 1999 in the Consolidated Statements of Operations.

The terms of the notes received in the sale called for no payments of principal for the first two years following the close. Interest was to accrue at Wall Street Journal Prime plus 1.0% but was not to be paid until DLT's availability under its credit agreement reached a level of $1.0 million.

4. Discontinued Operations (continued)

Due to the terms of the notes received by the Company in connection with the sale of Automotive and the possibility of non-collectibility of those notes, the Company fully reserved the total amount of the notes at the time of sale. In May 2001, DLT agreed to allow its lenders to complete a peaceful repossession of its collateral.

Following the sale of Automotive, the Company remained a guarantor on certain of Automotive's indebtedness. In the fourth quarter of 2000, the Company performed on certain of the equipment note guarantees and in 2001, was required to fund its $1.0 million guaranty on DLT's revolving credit agreement. The Company acquired certain of this debt from the original lender and in other situations, negotiated revised terms. The Company recognized its obligations under the guaranties as of December 31, 2000 in the amount of $4.3 million in the accompanying consolidated balance sheet. The Company also recognized a loss in the 2000 statement of operations in the amount of $2.6 million representing the Company's estimate of ultimate loss, net of the collateral value, associated with guaranteed indebtedness of Automotive. This loss, and that associated with the final adjustment for 2000 operations from the amount accrued as of December 31, 1999, is included in the 2000 net loss from discontinued operations (see Note 13 - - Commitments and Contingencies).

Operating results of the discontinued operations for 1999, were as follows (in thousands):

Revenues	$	33,405
Cost of sales		28,915
Selling, general and administrative		10,168
Interest		2,449
Loss from discontinued operations before loss on disposal		(8,127)
Loss on disposal		(9,994)
Loss from discontinued operations	$	(18,121)

Revenues of Automotive of $10.3 million through May 4, 2000 have been excluded from revenues in the accompanying consolidated statement of operations for 2000.

5. Business Disposed Of

On August 2, 1999, the Company sold substantially all the assets of its wholly owned subsidiary, Total Energy Systems Limited and its subsidiaries ("TES"), of the Chemical Business. Pursuant to the sale

agreement, TES retained certain of its liabilities which were liquidated from the proceeds of the sale and the collection of its accounts receivables which were retained. The loss associated with the disposition included in the accompanying consolidated statements of operations as business disposed of for 1999 was $2.0 million.

6. Inventories

Inventories at December 31, 2001 and 2000 consist of:

	Finished (or Purchased) Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
2001:				
Chemical products	$ 11,608	$ -	$ 2,874	$ 14,482
Climate Control products	5,459	2,613	7,405	15,477
Machinery and industrial supplies	1,939	-	-	1,939
	19,006	2,613	10,279	31,898
Less amount not expected to be realized within one year	831	-	-	831
	$ 18,175	**$ 2,613**	**$ 10,279**	**$ 31,067**
2000 total	$ 20,599	$ 2,962	$ 9,687	$ 33,248
Less amount not expected to be realized within one year	1,609	-	-	1,609
	$ 18,990	$ 2,962	$ 9,687	$ 31,639

7. Property, Plant and Equipment

Property, plant and equipment consists of:

	December 31,	
	2001	2000
	(In Thousands)	
Land and improvements	**$ 3,105**	$ 3,546
Buildings and improvements	**22,704**	19,295
Machinery, equipment and automotive	**119,796**	132,592
Furniture, fixtures and store equipment	**5,979**	8,632
Producing oil and gas properties	-	2,391
	151,584	166,456
Less accumulated depreciation, depletion and amortization	**74,905**	85,572
	$ 76,679	$ 80,884

8. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2001	2000
	(In Thousands)	
Secured revolving credit facility - ClimaChem (A)	**$ 36,348**	$ 32,747
Secured revolving credit facility - LSB (B)	**1,342**	1,719
10-3/4% Senior Notes due 2007 (C)	**70,607**	75,335
Secured loan with interest payable monthly (D)	**1,553**	4,463
Other, with interest at rates of 3.45% to 12.80%, most of which is secured by machinery, equipment and real estate (E)	**21,861**	21,741
	131,711	136,005
Less current portion of long-term debt	**43,696**	42,101
Long-term debt due after one year	**$ 88,015**	$ 93,904

(A) In April 2001, ClimaChem and its subsidiaries, ("the borrowers"), entered into a new $50 million credit facility with a new lender (the "Working Capital Revolver Loan") replacing the existing revolving credit facility. The Working Capital Revolver Loan provides for advances based on specified percentages of eligible accounts receivable and inventories of ClimaChem and its subsidiaries and accrues interest at a base rate (generally equivalent to the prime rate) plus 2% or LIBOR plus 4.5%. The effective rate at December 31, 2001 was 6.75%. Interest is due monthly. The facility provides for up to $8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. Under the Working Capital Revolver Loan, the lender also requires the borrowers to pay a letter of credit fee equal to 2.75% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .5% per annum for the excess amount available unde r the facility not drawn and various other audit, appraisal and valuation charges. The Working Capital Revolver Loan matures in April 2005 and is secured by receivables, inventories and intangibles of all the ClimaChem entities other than El Dorado Nitric Co. and its subsidiaries ("EDNC"). EDNC is neither a borrower or guarantor of the Working Capital Revolver Loan. A prepayment penalty equal to 3% of the facility is due to the lender should the borrowers elect to prepay the facility prior to April 2003. This penalty is reduced 1% per year through maturity. The Working Capital Revolver Loan requires ClimaChem to maintain quarterly earnings before interest, taxes, depreciation and amortization (EBITDA) for ClimaChem and its Climate Control Business on a trailing twelve month basis, of $21.35 million and $10 million, respectively, to achieve an annual fixed charge coverage ratio

of at least 1 to 1 and limits capital expenditures to $11.1 million annually. The Working Capital Revolver Loan requires the borr owers to have varying minimum amounts of availability under the revolver, prior to and following certain events. These amounts generally increase prior to interest payment due dates of the Senior Notes discussed in (B) below. The Working Capital Revolver Loan also contains covenants that, among other things, limit the borrowers' ability to: (i) incur additional indebtedness, (ii) incur liens, (iii) make restricted payments or loans to affiliates who are not borrowers, or (iv)

8. Long-Term Debt (continued)

engage in mergers, consolidations or other forms of recapitalization, (v) dispose of assets, and (vi) repurchase ClimaChem's 10-3/4% Senior Notes. The Working Capital Revolver Loan also requires all collections on accounts receivable be made through an account in the name of the lender or their agent and gives the lender the sole discretion to determine whether there has been any material adverse change; as defined, in the financial condition of the borrowers or LSB Industries, Inc., as guarantor, prior to granting additional advances. The lender may, upon an event of default as defined, terminate the Working Capital Revolver Loan and make the balance outstanding due and payable in full. Amounts available under the Working Capital Revolver Loan at December 31, 2001 were $6.8 million.

(B) Summit Machine Tool Manufacturing Corp., ("Summit"), a subsidiary of the Company, that is not a subsidiary of ClimaChem, finances its Working Capital requirement through borrowings under a Credit facility with a different lender than ClimaChem's lender, which was scheduled to mature on April 1, 2002. In March 2002, Summit entered into an amendment to the Agreement ("the Agreement"). The Agreement provides an initial revolving line of credit of $1.2 million. Effective May 1, 2002 and on the first day of each calendar month thereafter, until the maturity of the Agreement, April 1, 2003, the line of credit limit is to be reduced $50,000 monthly. The Agreement requires monthly payments of interest which accrue based on the lender's prime rate plus 7% (5.5% in December 2001 for an effective rate of 10.25%). Summit may terminate the Agreement with proper notice without premium or penalty. The Company guarantees the Agreement.

(C) In 1997, ClimaChem completed the sale of $105 million principal amount of 10-3/4% Senior Notes due 2007 (the "Notes"). The Notes bear interest at an annual rate of 10-3/4% payable semiannually in arrears on June 1 and December 1 of each year. The Notes are senior unsecured obligations of ClimaChem and rank equal 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.

The Notes were issued pursuant to an Indenture, which contains certain covenants that, among other things, limit the ability of ClimaChem and its subsidiaries to: (i) incur additional indebtedness; (ii) incur certain liens; (iii) engage in certain transactions with affiliates; (iv) make certain restricted payments; (v) agree to payment restrictions affecting subsidiaries; (vi)

8. Long-Term Debt (continued)

engage in unrelated lines of business; or (vii) engage in mergers, consolidations or the transfer of all or substantially all of the assets of ClimaChem to another person. In addition, in the event of certain asset sales, ClimaChem is required to use the proceeds to reinvest in the Company's business, to repay certain debt or to offer to purchase Notes at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon, plus liquidated damages, if any, to the date of purchase.

Under the terms of the Indenture, ClimaChem cannot transfer funds to subsidiaries of the Company that are not subsidiaries of ClimaChem in the form of cash dividends or other distributions or advances, except for (i) the amount of taxes that ClimaChem 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 cumulative net income from January 1, 1998 through the end of the period for which the calculation is made for the purpose of proposing a dividend payment, and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem pursuant to a certain services agreement and a certain management agreement to which ClimaChem and the Company are parties.

Except as described below, the Notes are not redeemable at ClimaChem's option prior to December 1, 2002. After December 1, 2002, the Notes will be subject to redemption at the option of ClimaChem, in whole or in part, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, plus liquidated damages, if any, to the applicable redemption date.

In the event of a change of control of the Company or ClimaChem, holders of the Notes will have the right to require ClimaChem to repurchase the Notes, in whole or in part, at a redemption price of 101% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon, plus liquidated damages, if any, to the date of repurchase.

During 2001 and 2000, subsidiaries of the Company repurchased Notes having a face value of approximately $4.7 million and $29.7 million, respectively, on the open market for approximately $2.1 million and $8.7 million and recognized gains, after writing off approximately $.1 million and $.9 million of loan origination costs, of approximately $2.6 million and $20.1 million before income taxes, respectively.

ClimaChem is a holding company with no significant assets (other than that related to the notes receivable from LSB and affiliates, specified below), or operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly. 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 EDNC.

8. Long-Term Debt (continued)

Summarized, consolidated financial information of ClimaChem and its subsidiaries as of December 31, 2001 and 2000 and the results of operations for each of the three years in the period ended December 31, 2001 is as follows:

	December 31,	
	2001	**2000**
	(In Thousands)	
Balance sheet data:		
Cash and cash equivalents	**$ 309**	$ 2,838
Trade accounts receivable, net	**41,613**	45,981
Inventories	**29,959**	29,020
Supplies and prepaid items	**6,014**	5,989
Deferred income taxes	**2,000**	-
Due from LSB and affiliates (1)	-	1,103
Total current assets	**79,895**	84,931
Property, plant and equipment, net	**70,122**	72,825
Due from LSB and affiliates (1)	**14,407**	14,166
Other assets, net	**14,706**	17,245
Total assets	**$ 179,130**	$ 189,167
Accounts payable	**$ 23,530**	$ 25,865
Accrued liabilities:		
Customer deposits	**512**	4,545
Accrued losses on firm sales and purchase commitments	-	4,375
	13,241	

Other	**13,241**	12,727
Due to LSB and affiliates (1)	**1,310**	-
Current-portion of long-term debt	**39,601**	37,092
Total current liabilities	**78,194**	84,604
Long-term debt	**82,301**	89,064
Other non-current liabilities:		
Accrued losses on firm purchase commitments	**-**	3,450
Deferred income taxes	**3,120**	-
Due to LSB (1)	**1,200**	-
Other	**5,572**	2,666
	9,892	6,116
Stockholders' equity	**8,743**	9,383
Total liabilities and stockholders' equity	**$ 179,130**	$ 189,167

1.Due from/to LSB and affiliates is eliminated when consolidated with the Company.

8. Long-Term Debt (continued)

	Year Ended December 31,		
	2001	**2000**	**1999**
	(In Thousands)		
Operations data:			
Revenues:			
Net sales	**$ 330,215**	$ 279,972	$ 244,462
Gain on sales of property and equipment	**2,898**	-	-
Interest and other income, net	**1,086**	1,894	2,493
	334,199	281,866	246,955
Costs and expenses:			
Cost of sales	**277,797**	232,495	196,095
Selling, general and administrative	**46,014**	45,932	45,618
Interest	**13,078**	13,882	14,260
Provision for loss on (benefit from termination of) firm sales and purchase commitments	**(2,688)**	3,395	8,439
Loss on sale and operations of business disposed of	**-**	-	3,929
Provision for impairment on long-lived assets	**-**	-	3,913
	334,201	295,704	272,254
Loss before provision (benefit) for income taxes and extraordinary gains	**(2)**	(13,838)	(25,299)
Provision (benefit) for income taxes	**-**	235	(6,117)
Loss before extraordinary gains	**(2)**	(14,073)	(19,182)
Extraordinary gains, net of income taxes	**1,511**	17,321	-
Net income (loss)	**$ 1,509**	$ 3,248	$ (19,182)

During 2001 and 2000, ClimaChem and certain of its subsidiaries repurchased Senior Unsecured Notes having a face value of approximately $4.7 million and $25.2 million and recognized gains of approximately $1.5 million and $17.3 million, net of income taxes, respectively.

(D) This agreement, as amended, between a subsidiary of the Company and an institutional lender provided for a loan, the proceeds of which were used in the construction of a nitric acid plant, in the aggregate amount of $16.5 million requiring 84 equal monthly payments of principal plus interest, with interest at a fixed rate of 8.86% through maturity in 2002. This agreement is secured by the plant, equipment and machinery, and proprietary rights associated with the plant which has a carrying value of $24.7 million at December 31, 2001.

This agreement, as amended, contains covenants (i) requiring maintenance of an escalating

8. Long-Term Debt (continued)

tangible net worth, (ii) restricting distributions and dividends, (iii) restricting a change of control of the subsidiary and the Company and (iv) requiring maintenance of a reducing debt to tangible net worth ratio. In August 2001, the lender waived compliance of financial covenants through December 31, 2002.

(E) Includes a $.4 million note payable ($1.8 million at December 31, 2000), to an unconsolidated related party. In October 2001, the Company and one of its subsidiaries entered into an agreement whereby the Company issued to the unconsolidated related party 1,000,000 shares of a created series of Series D Convertible Preferred Stock in the Company ("Series D Preferred Stock") as payment of $1,000,000 against the note, with each share of Series D Preferred Stock having, among other things, .875 votes and voting as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of six percent (6%) per annum, and convertibility into LSB common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends on the Series D Preferred Stock will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 $3.25 Preferred Stock. The note is unsecured, bears interest at 10.75% per annum payable monthly, and requires repayment in 2002.

Maturities (in thousands) of long-term debt for each of the five years after December 31, 2001 are: 2002--$43,696; 2003--$3,929; 2004--$3,918; 2005--$1,527; 2006--$2,523 and thereafter--$76,118.

9. Income Taxes

The provision for income taxes attributable to continuing operations before extraordinary gains consists of the following:

	December 31,		
	2001	**2000**	**1999**
	(In Thousands)		
Current:			
Federal	**$ -**	$ -	$ -
State	**55**	135	157
	$ 55	$ 135	$ 157

The tax effects of each type of temporary difference and carry forward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 2001 and 2000 are as follows:

9. Income Taxes (continued)

	December 31,	
	2001	**2000**
	(In Thousands)	
Deferred tax assets		
Amounts not deductible for tax purposes:		
Allowance for doubtful accounts	**$ 2,255**	$ 3,532
Asset impairment	**6,461**	6,363
Accrued liabilities	**1,118**	3,789
Other	**1,207**	1,071
Capitalization of certain costs as inventory for tax purposes	**1,236**	1,396
Net operating loss carry forwards	**25,861**	25,313
Investment tax and alternative minimum tax credit carry forwards	**793**	793
Total deferred tax assets	**38,931**	42,257
Less valuation allowance on deferred tax assets	**28,240**	31,512
Net deferred tax assets	**$ 10,691**	$ 10,745
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	**$ 8,552**	$ 8,606
Inventory basis difference resulting from a business combination	**2,139**	2,139
Total deferred tax liabilities	**$ 10,691**	$ 10,745

The Company is able to realize deferred tax assets up to an amount equal to the future reversals of existing taxable temporary differences. The taxable temporary differences will turn around in the loss carry forward period as the differences are depreciated or amortized. Other differences will turn around as the assets are disposed of in the normal course of business.

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income (loss) from continuing operations before provision for income taxes and extraordinary gains" for each of the three years in the period ended December 31, 2001 are detailed below:

9. Income Taxes (continued)

	Year Ended December 31,		
	2001	**2000**	**1999**
		(In Thousands)	
Provision (benefit) for income taxes at federal statutory rate	**$ 2,113**	$ (3,379)	$ (11,021)
Changes in the valuation allowance related to deferred tax assets, net of rate differential	**(3,272)**	(12,049)	16,492
Effect of discontinued operations, extraordinary gains, NOL expirations and other on valuation allowance	**1,256**	15,238	(7,156)
State income taxes, net of federal benefit	**55**	135	157

Permanent differences	**(97)**	190	310
Foreign subsidiary loss	-	-	1,375
Provision for income taxes	**$ 55**	$ 135	$ 157

At December 31, 2001, the Company has regular-tax net operating loss ("NOL") carry forwards of approximately $66 million (approximately $38 million alternative minimum tax NOLs).

10. Redeemable Preferred Stock

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

11. Stockholders' Deficit

Stock Options

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is generally recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2001, 2000 and 1999, respectively: risk-free

11. Stockholders' Deficit (continued)

interest rates of 4.31%, 6.13% and 6.04%; a dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of .95, .55 and .48; and a weighted average expected life of the option of 9.7, 8.1 and 6.9 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the qualified and non-qualified stock options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	Year Ended December 31,		
	2001	**2000**	**1999**
	(In Thousands, Except Per Share Data)		
Net income (loss) applicable to common stock	$ 5,919	$ 2,838	$ (53,608)
Income (loss) per common share	$ .50	$ .24	$ (4.53)

Qualified Stock Option Plans

In 1981, the Company adopted the 1981 Incentive Stock Option Plan (1,350,000 shares), in 1986, the Company adopted the 1986 Incentive Stock Option Plan (1,500,000 shares), in 1993, the Company adopted the 1993 Stock Option and Incentive Plan (850,000 shares) and in 1998 the Company's adopted the 1998 Stock Option Plan (1,000,000 shares). Under these plans, the Company is authorized to grant options to purchase up to 4,700,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. The 1981 and 1986 Incentive Stock Option Plans have expired and, accordingly, no additional options may be granted from these plans. Options granted prior to the expiration of these plans continue to remain valid thereafter in accordance with their terms. At December 31, 2001, there are 108,000 options outstanding related to these two plans. At December 31, 2001, there are 560,000 options outstanding related to the 1993 Stock Option and Incentive Plan and 987,800 options outstanding relating to the 1998 stock Option and Incentive Plan which continue to be effective. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options to be granted under this plan is equal to the market value of the Company's common stock at the date of grant. For participants who own 10% or more of the

11. Stockholders' Deficit (continued)

Company's common stock at the date of grant, the option price is 110% of the market value at the date of grant and the options lapse after five years from the date of grant.

Activity in the Company's qualified stock option plans during each of the three years in the period ended December 31, 2001 is as follows:

	2001		**2000**		**1999**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**1,740,500**	**$ 2.69**	1,985,500	$ 2.73	987,500	$ 4.23
Granted	**232,500**	**2.75**	-	-	1,015,500	1.29
Exercised	**(20,400)**	**1.19**	-	-	-	-
Canceled, forfeited or expired	**(296,800)**	**4.51**	(245,000)	3.02	(17,500)	3.38
Outstanding at end of year	**1,655,800**	**$ 2.39**	1,740,500	$ 2.69	1,985,500	$ 2.73
Exercisable at end of year	**879,100**	**$ 2.98**	1,010,100	$ 3.71	756,250	$ 4.01
Weighted average fair value of options granted during year		**$ 2.40**		NA		$ .71

Outstanding options to acquire 1,641,800 shares of stock at December 31, 2001 had exercise prices ranging from $1.25 to $4.88 per share (865,100 of which are exercisable at a weighted average price of $2.88 per share) and had a weighted average exercise price of $2.33 and remaining contractual life of 6.1 years. The balance of options outstanding at December 31, 2001 had an exercise price of $9.00 per share (all of which are exercisable at a weighted average exercise price of $9.00 per share) and had a remaining contractual life of 1.3 years.

11. Stockholders' Deficit (continued)

Non-Qualified Stock Option Plans

The Company's Board of Directors approved the grants of non-qualified stock options to the Company's outside directors, the President and certain key employees, as detailed below. The option prices are generally based on the market value of the Company's common stock at the dates of grants.

These options have vesting terms and lives specific to each grant but generally vest over 48 months and expire five or ten years from the grant date. In 1993, the Company adopted the 1993 non-employee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of shares of common stock of the Company that may be issued under the Outside Director Plan is 150,000 shares (subject to adjustment as provided in the Outside Director Plan).

The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of $9.2 million or more for such fiscal year. The exercise price for an option granted under this plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under this plan to the extent not exercised shall terminate upon the earlier of the termination as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. During 2001 and 2000, there were no options granted under this plan. During 1999, the Company granted 120,000 options under the Outside Director Plan.

In 1999, the Board of Directors granted 596,500 stock options that vest over 48 months and have contractual lives of either five or ten years. In 2000, the Board of Directors granted 185,000 to a former employee of the Company to replace the options this individual held prior to leaving the Company. These options were fully vested at the date of grant and 100,000 of these options expire nine years from the date of grant and 85,000 expire seven years from the date of grant. The Company recognized compensation expense amounting to $137,000 in 2000 related to the grant of these shares. In 2001, the Board of Directors granted 102,500 stock options that vest over 48 months and have contractual lives of ten years.

11. Stockholders' Deficit (continued)

Activity in the Company's non-qualified stock option plans during each of the three years in the period ended December 31, 2001 is as follows:

	2001		**2000**		**1999**	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**1,175,500**	**$ 2.46**	1,103,500	$ 2.36	560,000	$ 3.82
Granted	**102,500**	**2.73**	185,000	2.82	716,500	1.30
Exercised	**(15,000)**	**1.25**	-	-	-	-
Surrendered, forfeited, or expired	**(55,000)**	**6.37**	(113,000)	2.06	(173,000)	2.70
Outstanding at end of year	**1,208,000**	**$ 2.32**	1,175,500	$ 2.46	1,103,500	$ 2.36
Exercisable at end of year	**694,400**	**$ 2.47**	617,900	$ 2.90	210,900	$ 3.57
Weighted average fair value of options granted during year		**$ 2.44**		$ .64		$ .69

Outstanding options to acquire 1,203,000 shares of stock at December 31, 2001 had exercise prices ranging from $1.25 to $4.54 per share (689,400 of which are exercisable at a weighted average price of $2.45 per share) and had a weighted average exercise price of $2.31 and remaining contractual life of 6.6 years. The balance of options outstanding at December 31, 2001 had an exercise price of $5.36 per share (all of which are exercisable) at a weighted average exercise price of $5.36 per share, and had a remaining contractual life of 5.6 years.

Preferred Share Purchase Rights

In January 1999, the Company's Board of Directors approved the renewal (the "Renewed Rights Plan") of the Company's existing Preferred Share Purchase Rights Plan ("Existing Rights Plan") and declared a dividend distribution of one Renewed Preferred Share Purchase Right (the "Renewed Preferred Right") for each outstanding share of the Company's common stock outstanding upon the Existing Rights Plan's expiration date. The Renewed Preferred Rights are designed to ensure that all of the Company's stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

The Renewed Preferred Rights are generally exercisable when a person or group, other than the Company's Chairman and his affiliates, acquire beneficial ownership of 20% or more of the Company's common stock (such a person or group will be referred to as the "Acquirer"). Each Renewed Preferred Right (excluding Renewed Preferred Rights owned by the Acquirer) entitles stockholders to buy one one-hundredth (1/100) of a share of a new series of participating preferred stock at an exercise price of $20. Following the acquisition by the Acquirer of

11. Stockholders' Deficit (continued)

beneficial ownership of 20% or more of the Company's common stock, and prior to the acquisition of 50% or more of the Company's common stock by the Acquirer, the Company's Board of Directors may exchange all or a portion of the Renewed Preferred Rights (other than Renewed Preferred Rights owned by the Acquirer) for the Company's common stock at the rate of one share of common stock per Renewed Preferred Right. Following acquisition by the Acquirer of 20% or more of the Company's common stock, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Company's common shares having a market value of two times the Renewed Preferred Right's exercise price in lieu of the new preferred stock.

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

Prior to the acquisition by the Acquirer of beneficial ownership of 20% or more of the Company's stock, the Company's Board of Directors may redeem the Renewed Preferred Rights for $.01 per Renewed Preferred Right.

12. Non-Redeemable Preferred Stock

The 20,000 shares of Series B cumulative, convertible preferred stock, $100 par value, are convertible, in whole or in part, into 666,666 shares of the Company's common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. At December 31, 2001, $.5 million of dividends ($24 per share) on the Series B preferred stock were in arrears.

The Class C preferred stock, designated as a $3.25 convertible exchangeable Class C preferred stock, Series 2, has no par value ("Series 2 Preferred"). The Series 2 Preferred has a liquidation preference of $50.00 per share plus accrued and unpaid dividends and is convertible at the option of the holder at any time, unless previously redeemed, into common stock of the Company at an initial conversion price of $11.55 per share (equivalent to a conversion rate of approximately 4.3 shares of common stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. Upon the mailing of notice of

certain corporate actions, holders will have special conversion rights for a 45-day period.

The Series 2 Preferred is redeemable at the option of the Company, in whole or in part, at prices decreasing annually to $50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. The redemption price at December 31, 2001 was $50.65 per share. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. At December 31, 2001, $5.1 million of dividends ($8.125 per share) on the Series 2 Preferred were in arrears.

12. Non-Redeemable Preferred Stock (continued)

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

The 1,000,000 shares of Class C preferred stock, designated as Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred"), have no par value and are convertible, in whole or in part, into 250,000 shares of the Company's common stock (1 share of common stock for 4 shares of preferred stock) at any time at the option of the holder. Dividends on the Series D Preferred are cumulative and payable annually in arrears at the rate of 6% per annum of the liquidation preference of $1.00 per share but will be paid only after accrued and unpaid dividends are paid on the Series 2 Preferred. Each holder of the Series D Preferred shall be entitled to .875 votes per share.

At December 31, 2001, the Company is authorized to issue an additional 3,200 shares of $100 par value preferred stock and an additional 3,371,450 shares of no par value preferred stock. Upon issuance, the Board of Directors of the Company will determine the specific terms and conditions of such preferred stock.

As of December 31, 2001, the Company had reserved approximately $3.6 million shares of common stock issuable upon conversion upon conversion of preferred stock.

13. Commitments and Contingencies

Operating Leases

The Company leases certain property, plant and equipment under non-cancelable operating leases. Future minimum payments on operating leases, including the Nitric Acid Project and Purchase Commitment discussed below with initial or remaining terms of one year or more at December 31, 2001 are as follows:

	(In Thousands)
2002	$ 10,469
2003	10,215
2004	15,274
2005	4,218
2006	9,904
Thereafter	33,837
	$ 83,917

13. Commitments and Contingencies (continued)

Rent expense under all operating lease agreements, including month-to-month leases, was $15,909,000 in 2001, $12,436,000 in 2000 and $8,247,000 in 1999. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was $45,000 in 2001, 2000 and 1999.

Nitric Acid Project

The Company's wholly owned subsidiary, EDNC, operates a nitric acid plant (the "Baytown Plant") at Bayer's Baytown, Texas chemical facility in accordance with a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, EDNC converts ammonia supplied by Bayer into nitric acid based on a cost plus arrangement. Under the terms of the Bayer Agreement, EDNC is leasing the Baytown Plant pursuant to a leveraged lease from an unrelated third party with an initial lease term of ten years. The schedule of future minimum payments on operating leases above includes $7,665,000 in 2002, $7,666,000 in 2003, $13,001,000 in 2004, $2,250,000 in 2005, $8,175,000 in 2006, and $25,282,000 after 2006 related to lease payments on the EDNC Baytown Plant. 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 Agreeme nt may opt against renewal. EDNC's ability to perform on its lease commitments is contingent upon Bayer's performance under the Bayer Agreement. A subsidiary of the Company has guaranteed the performance of EDNC's obligations under the Bayer Agreement.

Purchase and Sales Commitments

In June 2001, the Company reached an agreement with its supplier of anhydrous ammonia whereby the former long-term purchase commitment was terminated effective June 30, 2001. Under the new agreement, the Chemical Business will purchase 100% of its requirements, whatever the Company may determine them to be, excluding any amounts supplied by others for tolling at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas. See Note 17 -- Inventory Write-down and Benefit From Termination of (Loss on) Firm Sales and Purchase Commitments. The Company also enters into agreements with suppliers of raw materials which require the Company to provide finished goods in exchange therefore. The Company did not have a significant commitment to provide finished goods with its suppliers under these exchange agreements at December 31, 2001.

In 1995, a subsidiary of the Company entered into a product supply agreement with a third party whereby the subsidiary is required to make monthly facility fee and other payments which aggregate $79,068. In return for this payment, the subsidiary is entitled to certain quantities of compressed oxygen produced by the third party. Except in circumstances as defined by the agreement, the monthly payment is payable regardless of the quantity of compressed oxygen used by the subsidiary. The term of this agreement, which has been included in the above minimum operating lease commitments, is for a term of 15 years; however, the subsidiary can currently terminate the agreement without cause at a cost of approximately $4.5 million. Based on the subsidiary's estimate of compressed oxygen demands of the plant, the cost of the oxygen

13. Commitments and Contingencies (continued)

under this agreement is expected to be favorable compared to floating market prices. Purchases under this agreement aggregated $959,000, $933,000, and $912,000 in 2001, 2000, and 1999, respectively. At December 31, 2001, the Company has a standby letter of credit outstanding related to its Climate Control Business of approximately $1 million.

Effective October 1, 2001, the Company's subsidiary, Cherokee Nitrogen Company ("CNC") entered into a long term 83% ammonium nitrate solution supply agreement with a third party ("Solution Agreement"). Under the Solution Agreement, CNC will supply to the third party its requirements of 83% ammonium nitrate solution from CNC's Cherokee, Alabama manufacturing plant for a term of no less than five (5) years on a cost plus basis.

On November 1, 2001, the Company's subsidiary, El Dorado Chemical Company ("EDC") entered into a long term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with a third party. Under the Supply Agreement, EDC will supply from it's El Dorado, Arkansas plant approximately 200,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term of no less than five (5) years.

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 former 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's subsidiary 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 subsidiary'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 cost s 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 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 former subsidiary of the Company. This liability was assumed as of May 4, 2000, by the purchaser of the Automotive Business, and certain of the Company's subsidiaries received an indemnification by the purchaser

13. Commitments and Contingencies (continued)

of the Automotive Business. In March, 2001, the Company sold to the purchaser of the Automotive Business all of the stock of the corporate entity that formerly comprised the Automotive Business. Accordingly, the Company believes that to the extent that its former Automotive Business is ultimately determined to be a contributor to the site, if at all, the Company may again become a responsible party.

B. The Company and its operations are subject to numerous environmental laws ("Environmental Laws") and to other federal, state and local laws regarding health and safety matters ("Health Laws"). In particular, the manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under the Environmental Laws and the Health Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that material costs or liabilities will not be incurred by the Company in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder relating to the Chemical Business have in the past resulted, and could in the future result, in penalties, cleanup costs, or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from the Company's facilities or th e use or disposal of certain of its chemical products. Significant expenditures have been incurred by the Chemical Business at the El Dorado Facility in order to comply with the Environmental Laws and Health Laws. The Chemical Business could be required to make significant additional site or operational modifications at the El Dorado Facility, involving substantial expenditures.

The Chemical Business entered into a consent administrative order with the Arkansas Department of Environmental Quality ("ADEQ") in August, 1998 (the "Wastewater Consent Order"). The Wastewater Consent Order recognized the presence of nitrate contamination in the shallow groundwater and required installation of an interim groundwater bioremediation treatment system. The bioremediation was not successful in achieving denitrification. The Chemical Business prepared a report to the ADEQ regarding field testing of the shallow groundwater with a plan for quarterly sampling of the monitor wells. Upon completion of the waste minimization activities referenced below, a final remedy for groundwater contamination will be selected, based on an evaluation of risk. There are no known users of groundwater in the area, and preliminary risk assessments have not identified any risk that would require additional remediation. There can be no assurance that the risk assessment will be approved by the ADEQ, or that further work will not be required. The Wastewater Consent Order included a $183,700 penalty assessment, of which $125,000 is being satisfied over five years at expenditures of $25,000 per year for waste minimization activities.

The Wastewater Consent Order also required certain improvements in the wastewater collection and treatment system to be completed by October 2001. In September 2001, ADEQ proposed and the Company's subsidiary agreed that in lieu of the Wastewater Consent Order, ADEQ will issue a renewal permit establishing new, more restrictive effluent limits. The Company believes that the new permit will establish new deadlines, which the Company's subsidiary believes will allow a minimum of three years for the El Dorado plant to come into compliance with the new

13. Commitments and Contingencies (continued)

limits. Alternative methods for meeting these requirements are continuing to be examined by the Chemical Business. The Company believes, although there can be no assurance, that any such new effluent limits would not have a material adverse effect on the Company; however, should the facility be unable to operate in compliance with the new limits, such would have a material adverse effect upon the financial position and operating results of the Company and may result in the recognition of impairment of certain long-lived assets.

The wastewater program is not yet finally determined but is currently expected to require future capital expenditures of approximately $2 to $3 million over a period of years. Discussions for securing financing are currently underway.

In September, 2001, the large equalization pond located at the Chemical Business' El Dorado, Arkansas manufacturing facility was drained to accommodate repairs to a corroded underground discharge pipe. This event began when a hole developed in the pond's discharge pipe, allowing the release of water up stream of the permitted outfall. It was determined to allow water to be released through the valve into the permitted discharge to avoid erosion of a levy, to permit monitoring and sampling of discharged water, and to direct the discharge to the permitted outfall. No adverse environmental conditions were noted at the discharge, however, the sustained discharge was allegedly out of compliance with the mass effluent limits curtained in the permit. The ADEQ has offered a civil penalty for this event of $190,000 by means of a proposed Consent Administrative Order. The Chemical Business believes that the proposed penalty amount is far in excess of the amount warranted and has requested further discussions with the ADEQ regarding a proposed civil penalty applicable to this discharge event.

In February, 2002, Slurry Explosive Corporation ("Slurry") received a proposed consent administrative order ("Slurry Consent Order") from the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The proposed Slurry Consent Order states that there exists soil and groundwater contamination, and there exists surface water contamination in the lake adjacent to the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent lake is used for fishing. The Slurry Consent Order also provides that Slurry has not verified the presence of such contaminants. Under the terms of the draft Slurry Consent Order, Slurry would be required a) to submit an environmental assessment work plan to the KDHE for review and approval, b) to agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility, and c) to provide reports to the KDHE, all of the preceding in accordance with the time frames and formats required in the Slurry Consent Order. The Company believes, although there can be no assurance, that compliance by Slurry with the anticipated Slurry Consent Order would not have a material adverse effect on the Company.

From March, 2001, through January, 2002, the Chemical Business experienced eleven alleged air emissions violations. One of the alleged violations involved a malfunctioning continuous air emissions monitor, one of the alleged violations was based a typographical error, six of the

13. Commitments and Contingencies (continued)

alleged violations involved air emissions point source tests that were allegedly performed in a manner not in compliance with testing procedures, two of the alleged violations involved tests that failed to meet emissions criteria, and one of the alleged violations involved the simultaneous operation of two boilers which is not permitted under the air permit. The Chemical Business and the ADEQ have been in negotiations regarding applicable penalties for certain of these violations. On March 5, 2002, the Chemical Business received a letter from the ADEQ outlining the above alleged violations which based on past experience, is, as a preliminary step to proposing a Consent Administrative Order. The Chemical Business anticipates that it will enter into a Consent Administrative Order with the ADEQ to resolve the above alleged violations. The Chemical Business also anticipates requesting administrative changes to its air permit to avoid future difficulties in complying with testing procedures .

C. Due to certain alleged violations of explosives storage and related regulations, in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms ("BATF"), issued an order revoking the manufacturing license of Slurry Explosive Corporation ("Slurry"), a subsidiary of ClimaChem and the Company, for its Hallowell, Kansas facility ("Hallowell Facility") to produce certain explosives products and confiscated certain high explosives inventory. The license revocation order was upheld by an administrative law judge after an administrative trial. Slurry is currently reviewing its legal alternatives regarding the license revocation. In addition, Slurry and the Company has received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of Slurry. Slurry is complying with such subpoena. A different subsidiary of the Company in the explosive business has filed an application with the BATF to obtain a manufacturing license for the Hallowell Facility. There is no assurance that the subsidiary will be able to obtain such license. Since February 2002, Slurry continued to manufacture certain non-explosive products at its Hallowell Facility. The Company has other production facilities where it can produce some explosives products to service its customers. It is not presently known whether the Company will be allowed to resume use of all of its long-lived asset (net book value of $2.7 million as of December 31, 2001) and be able to fully realize its remaining non-explosives inventory amounting to $1.7 million as of December 31, 2001. The ultimate outcome of this matter is not presently known. For the year ended December 31, 2001 the Company recognized a loss of $250,000 related to inventory existing at December 31, 2001, not presently expected to be recovered. The estimate of ultimate loss associated with this matter may change in the near term and such amount may be material. Slurry's sales for the years ended December 31, 2001, 2000 and 1999 were approximately $21.8, $18.2 and $15.8 million, respectively.

13. Commitments and Contingencies (continued)

The Company has several contingencies, including those set forth above, that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants or possible claimants. Although management does not anticipate that these claims or possible claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the ultimate outcome.

Other

In 1989 and 1991, the Company entered into severance agreements with certain of its executive officers that become effective after the occurrence of a change in control, as defined, if the Company substantially changes or terminates the officer's employment or if the officer becomes incapacitated. These agreements require the Company to pay the executive officers an amount equal to 2.9 times their average annual base compensation, as defined, upon such termination. As of December 31, 2001, severance payments required would amount to $4.3 million.

The Company has retained certain risks associated with its operations, choosing to self-insure up to various specified amounts under its health program. The Company reviews the program on at least a quarterly basis to balance the cost/benefit between its coverage and retained exposure and has accrued its share of the estimated liability.

14. Employee Benefit Plan

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. The Company does not presently contribute to this plan except for EDC union employees and EDNC employees.

15. Fair Value of Financial Instruments

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

As of December 31, 2001 and 2000, due to their short term nature, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair values.

Carrying values for variable rate borrowings of $42.5 million and $43.5 million are believed to approximate their fair value as of December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000, carrying values of fixed rate debt which aggregated $89.2 million and $92.5 million, respectively, had estimated fair values of approximately $55 million and $43.1 million, respectively. Fair values for fixed rate borrowings, other than the Notes, are estimated using a
discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration the Company's current credit worthiness. Fair value of the Notes is based on market quotations obtained at December 31.

16. Gains on Sales of Property and Equipment

On October 31, 2000 a subsidiary of the Company, which is not a subsidiary of ClimaChem, acquired a chemical plant for the purpose of indirectly expanding its geographical marketing area. This plant, located at Crystal City, Missouri ("Crystal City Plant"), was shut down concurrent with the purchase thereof. In July 2001, the Crystal City Plant was dismantled for parts and the land was sold to a third party for approximately $4 million. The Company recognized a gain on the sale of the Crystal City Plant of approximately $3.3 million.

On November 1, 2001, a subsidiary of the Company sold a significant portion of its explosives distribution assets. The total sales price for the distribution sites was $3.5 million. The Company recognized a gain on the sale of these assets of approximately $2.7 million.

17. Inventory Write-Down and Benefit From Termination of (Loss on) Firm Sales and Purchase Commitments

In June 2001, the Company reached an agreement with its supplier of anhydrous ammonia whereby the former long-term purchase commitment was terminated effective June 30, 2001. Under the new agreement, the Chemical Business purchases 100% of its requirements of purchased ammonia at market price plus transportation to the Chemical Business Facility in El Dorado, Arkansas through December 2002.

As consideration to terminate the prior above-market priced take-or-pay purchase commitment which provided, among other things, for a market price based on natural gas and required minimum monthly purchase volumes, the Chemical Business agreed to pay the supplier a one-time settlement fee. The remaining accrued liability as of June 30, 2001, associated with the above-market purchase commitment, net of the one-time settlement fee, was eliminated resulting in a gain on termination of the purchase commitment of $2.3 million that was in 2001. The supplier also agreed to refund the Chemical Business up to $.7 million contingent on minimum monthly purchase volumes for which the Chemical Business recognized an additional gain on termination of the purchase commitment of $.4 million during the six-month period ended December 31, 2001. For the first six months of 2001, the Company realized, through cost of goods sold, approximately $2.1 million of the accrued liability previously established for loss on the former firm purchase commitment.

Prior to the termination discussed above, the Chemical Business had a firm commitment to purchase anhydrous ammonia pursuant to the terms of a supply contract that were higher than the then current market spot price. As a result, in 2000 and 1999, a subsidiary of the Company recorded loss provisions for anhydrous ammonia required to be purchased during the remainder of the contract aggregating approximately $2.5 and $8.4 million, respectively. During 2001 and 1999, the Company's Chemical Business also wrote down the carrying value of certain nitrate- based inventories by approximately $1 million and $1.6 million, respectively which is included in cost of sales in the accompanying consolidated statement of operations.

Also in 2000, the Company entered into forward sales commitments with customers for deliveries in 2001 which ultimately were at prices below the Company's costs as of December 31, 2000. In connection therewith, the Company recognized a loss on these sales commitments in 2000 of $.9 million.

18. Business Interruption Insurance Recovery

In 2000, a nitric acid plant ("Baytown Plant") operated by El Dorado Nitric Company ("EDNC"), a subsidiary of ClimaChem and the Company, experienced a mechanical failure resulting in an interruption of production. To supply nitric acid to EDNC's customers during the interruption, EDNC purchased nitric acid produced by a subsidiary of the Company, El Dorado Chemical Company ("EDC"), as well as from third party producers. The repairs to the Baytown Plant were completed in January 2001.

Because EDC increased its production in nitric acid to supply EDNC during the interruption, this increase negatively impacted its capability to produce agricultural products to be sold during 2001 spring season. Therefore the Company received and recognized a business interruption insurance recovery of approximately $1.6 million during 2001 which is classified as a reduction of cost of sales in the accompanying consolidated statement of operations for 2001.

19. Business Combination

On October 31, 2000, the Company acquired two plants previously owned and operated by LaRoche Industries, Inc. ("LaRoche") through an asset purchase agreement involving Orica, USA, who acquired other operating assets of LaRoche, for approximately $3.0 million. The acquisition by LSB subsidiaries, which are not subsidiaries of ClimaChem, included inventory, spare parts, precious metals and an operating nitrogen-based products plant in Cherokee, Alabama (the "Cherokee Plant") and the Crystal City Plant which was sold in July 2001. (See Note 16-Gains on Sales of Property and Equipment). The Cherokee Plant, which produces solid and liquid fertilizer products and anhydrous ammonia, had unaudited sales for thenine months ended September 30, 2000, and the year ended December 31, 1999, of $30.0 million and $32.3 million, respectively. The Cherokee Plant also had an unaudited operating loss before selling, general and administrative expense for the nine months ended September 30, 2000 and for the year ended December 31, 1999, of $.1 million and $2.4 million, respectively. On a proforma basis, giving effect to this acquisition as if it occurred on January 1, 1999 the Company
would have reported the following operating results for the years ended December 31, 2000 and 1999:

19. Business Combination (continued)

	2000	1999
	(unaudited)	
	(in millions, except per share amounts)	
Revenues from businesses continuing	$ 329.9	$ 287.5
Loss from continuing operations before extraordinary item	$ (10.9)	$ (33.9)
Earnings per share from continuing operations before extraordinary item applicable to common stock	$ (1.14)	$ (3.15)

20. Segment Information

Factors used by Management to Identify the Enterprise's Reportable Segments and Measurement of Segment Profit or Loss and Segment Assets

LSB Industries, Inc. has two continuing reportable segments: the Chemical Business and Climate Control Business. The Company's reportable segments are based on business units that offer similar products and services. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

Since total assets and net sales relating to the Industrial Products Business have been less than 5% of consolidated amounts for 2001, 2000 and 1999, the Industrial Products Business is no longer presented as a reportable segment.

The Company evaluates performance and allocates resources based on operating profit or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Description of each Reportable Segment

Chemical

This segment manufactures and sells fertilizer grade ammonium nitrate and urea ammonia nitrate for the agriculture industry, explosive grade ammonium nitrate and solutions for the mining industry and concentrated, blended and mixed nitric acid for industrial applications. The Company's primary manufacturing facilities are located in El Dorado, Arkansas, Baytown, Texas and Cherokee, Alabama. Sales to customers of this segment primarily include farmers, ranchers and dealers in the Central, South Central and Southeast regions of the United States, explosives distributors in Kentucky, Missouri, Texas, Oklahoma and West Virginia and industrial users of acids in the South and East regions of the United States. In addition to the industrial grade ammonium nitrate products, EDC's Arkansas plant has manufacturing capacity for approximately 250,000 tons per year of agricultural grade ammonium nitrate products, 90,000 tons per year of concentrated nitric acid, and 100,000 tons pe r year of sulfuric acid.

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

20. Segment Information (continued)

Climate Control

This business segment manufactures and sells, primarily from its various facilities in Oklahoma City, a variety of hydronic fan coil, water source heat pump products and other HVAC products for use in commercial and residential air conditioning and heating systems. The Company's various facilities in Oklahoma City comprise substantially all of the Climate Control segment's operations. Sales to customers of this segment primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world.

Credit Risk

Sales to contractors and independent sales representatives are generally secured by a mechanics lien in the Climate Control Business. Other sales are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due. The Company's periodic assessment of accounts and credit loss provisions is based on the Company's best estimate of amounts which are not recoverable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across many different industries and geographic areas. As of December 31, 2001 and 2000, the Company's accounts receivable are shown net of allowance for doubtful accounts of $2.5 million and $3. 1 million, respectively. Notes receivable included in other assets are shown net of allowance for doubtful accounts of $13.7 million and $13.8 million as of December 31, 2001 and 2000, respectively.

20. Segment Information (continued)

Information about the Company's continuing operations in different industry segments for each of the three years in the period ended December 31, 2001 is detailed below.

	2001	2000	1999
	(In Thousands)		
Net sales:			
Businesses continuing:			
Chemical:			
Agricultural Products	$ 60,742	$ 40,671	$ 33,398
Explosives	76,632	51,679	50,712
Industrial Acids	54,406	57,289	44,044
Total Chemical	$ 191,780	$ 149,639	$ 128,154
Climate Control:			
Water Source heat pumps	61,134	54,242	51,292
Hydronic fan coils	61,397	61,111	57,133
Other HVAC products	15,904	15,221	8,630
Total Climate Control	138,435	130,574	117,055

Total Climate Control	138,433	130,374	117,033
Other	6,415	10,407	9,027
Business disposed of - Chemical	-	-	7,461
	$ 336,630	$ 290,620	$ 261,697
Gross profit:			
Businesses continuing:			
Chemical	$ 17,564	$ 15,240	$ 13,532
Climate Control	37,890	34,475	35,467
Other	1,877	2,839	1,757
	$ 57,331	$ 52,554	$ 50,756
Operating profit (loss):			
Businesses continuing:			
Chemical	$ 5,901	$ 1,877	$ 1,325
Climate Control	12,500	10,961	9,751
	18,401	12,838	11,076
Business disposed of-- Chemical	-	-	(1,632)
	18,401	12,838	9,444
General corporate expenses and other business operations, net	(7,554)	(4,721)	(10,956)
Interest expense:			
Business disposed of	-	-	(326)
Businesses continuing	(14,114)	(15,377)	(15,115)
Loss on business disposed of	-	-	(1,971)
Gains on sales of property and equipment	6,615	-	-
Benefit from termination of (provision for loss on) firm sales and purchase commitments	2,688	(3,395)	(8,439)
Provision for impairment on long-lived assets	-	-	(4,126)
Income (loss) from continuing operations before provision for income taxes and extraordinary gain	$ 6,036	$ (10,655)	$ (31,489)

20. Segment Information (continued)

	2001	2000	1999
		(In Thousands)	
Depreciation of property, plant and equipment:			
Businesses continuing:			
Chemical	$ 7,013	$ 6,576	$ 7,102
Climate Control	2,421	2,174	1,901
Corporate assets and other	671	463	746
Total depreciation of property, plant and equipment	$ 10,105	$ 9,213	$ 9,749
Additions to property, plant and equipment:			
Businesses continuing:			
Chemical	$ 6,245	$ 4,191	$ 3,670
Climate Control	1,144	3,180	7,147
Corporate assets and other	57	365	155
Total additions to property, plant and equipment	$ 7,446	$ 7,736	$ 10,972
Total assets:			
Businesses continuing:			
Chemical	$ 103,774	$ 109,672	$ 93,482
Climate Control	61,143	65,516	65,521
Corporate assets and other	14,068	17,707	29,632
Total assets	$ 178,985	$ 192,895	$ 188,635

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

Gross profit by industry segment represents net sales less cost of sales. Operating profit by industry segment represents revenues less operating expenses. In computing operating profit from continuing operations, none of the following items have been added or deducted: gains on sales of property and equipment, general corporate expenses, income taxes, interest expense, provision for loss on (benefit from termination of) firm sales and purchase commitments, provision for impairment on long-lived assets, results from discontinued operations or businesses disposed of or extraordinary gains.

20. Segment Information (continued)

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

Information about the Company's domestic and foreign operations from continuing operations for each of the three years in the period ended December 31, 2001 is detailed below:

Geographic Region	2001	2000	1999
		(In Thousands)	
Sales:			
Businesses continuing:			
Domestic	**$ 333,569**	$ 283,916	$ 250,625
Foreign	**3,061**	6,704	3,611
	336,630	290,620	254,236
Foreign business disposed of	-	-	7,461
	$ 336,630	$ 290,620	$ 261,697
Income (loss) from continuing operations before provision for income taxes and extraordinary gain:			
Businesses continuing:			
Domestic	**$ 6,107**	$ (10,323)	$ (27,113)
Foreign	**(71)**	(332)	(447)
	6,036	(10,655)	(27,560)
Foreign business disposed of	-	-	(1,958)
Gain (loss) on disposal of businesses	-	-	(1,971)
	-	-	(3,929)
	$ 6,036	$ (10,655)	$ (31,489)
Long-lived assets:			
Businesses continuing:			
Domestic	**$ 76,677**	$ 80,882	$ 83,811
Foreign	**2**	2	3
	$ 76,679	$ 80,884	$ 83,814

20. Segment Information (continued)

Revenues by geographic region include revenues from unaffiliated customers, as reported in the consolidated financial statements. Revenues earned from sales or transfers between affiliates in different geographic regions are shown as revenues of the transferring region and are eliminated in consolidation.

Revenues from unaffiliated customers include foreign export sales as follows:

Geographic Area	2001	2000	1999
		(In Thousands)	
Mexico and Central and South America	**$ 1,331**	$ 862	$ 1,261
Canada	**7,504**	5,953	6,125
Middle East	**1,609**	3,697	4,431
Other	**3,936**	3,592	4,816
	$ 14,380	$ 14,104	$ 16,633

Major Customer

Sales to one customer, Bayer Corporation ("Bayer") of the Company's Chemical Business segment represented approximately 13% of total revenues of the Company for 2000. There were no customers with sales of more than 10% of the Company's total revenues for 2001 and 1999. As discussed in Note 13 - Commitments and Contingencies, under the terms of the Bayer Agreement, Bayer will purchase, from a subsidiary of the Company, all of its requirements for nitric acid to be used at the Baytown, Texas facility for an initial ten-year term ending May 2009.

LSB Industries, Inc.
Supplementary Financial Data
Quarterly Financial Data (Unaudited)
(In Thousands, Except Per Share Amounts)

	Three months ended			
	March 31	June 30	September 30	December 31
2001				
Total revenues	$ 87,017	$ 98,846	$ 80,661	$ 80,107
Gross profit on net sales	$ 14,416	$ 19,146	$ 10,490	$ 13,279
Income (loss) from continuing operations before extraordinary gain	$ (1,123)	$ 5,233	$ (1,833)	$ 3,704
Extraordinary gain (loss)	$ 30	$ -	$ 2,566	$ (20)
Net income (loss)	$ (1,093)	$ 5,233	$ 733	$ 3,684

Net income (loss) applicable to common stock	$ (1,660)	$ 4,666	$ 166	$ 3,118
Earnings (loss) per common share:				
Basic:				
Income (loss) from continuing operations before extraordinary gain	$ (.14)	$ .39	$ (.21)	$ .26
Extraordinary gain	$ -	$ -	$ .22	$ -
Net income (loss) applicable to common stock	$ (.14)	$ .39	$ .01	$ .26
Diluted:				
Income (loss) from continuing operations before extraordinary gain	$ (.14)	$ .33	$ (.21)	$ .23
Extraordinary gain	$ -	$ -	$ .22	$ -
Net income (loss) applicable to common stock	$ (.14)	$ .33	$ .01	$ .23
2000				
Total revenues	$ 70,883	$ 77,483	$ 69,951	$ 77,933
Gross profit on net sales	$ 15,930	$ 15,039	$ 11,246	$ 10,339
Income (loss) from continuing operations before extraordinary gain	$ 252	$ (2,679)	$ (2,952)	$ (5,411)
Net loss from discontinued operations	$ -	$ -	$ (579)	$ (2,522)
Extraordinary gain	$ -	$ 13,244	$ 3,952	$ 2,890
Net income (loss)	$ 252	$ 10,565	$ 421	$ (5,043)
Net income (loss) applicable to common stock	$ (543)	$ 9,772	$ (195)	$ (5,610)
Earnings (loss) per common share:				
Basic and diluted:				
Loss from continuing operations before extraordinary gain	$ (.05)	$ (.30)	$ (.32)	$ (.47)
Net loss from discontinued operations	$ -	$ -	$ (.05)	$ (.21)
Extraordinary gain	$ -	$ 1.12	$ .35	$ .22
Net income (loss) applicable to common stock	$ (.05)	$ .82	$ (.02)	$ (.46)

LSB Industries, Inc.
Supplementary Financial Data
Quarterly Financial Data (Unaudited) (continued)

In the third quarter of 2001, the Company sold certain property and equipment including a chemical plant site located at Crystal City, Missouri and recognized a gain of approximately $3.3 million. In the fourth quarter of 2001, the Company also sold certain property and equipment including a significant portion of its explosives distribution business and recognized a gain of approximately $2.7 million.

During the fourth quarter of 2001, the Company received approximately $1.2 million from its supplier of anhydrous ammonia relating to excess pipeline charges previously billed to the Company. This amount is classified as a reduction of cost of sales.

During the third and fourth quarters of 2001, the Company wrote down the carrying value of certain nitrate-based inventories by approximately $.7 million and $.3 million, respectively.

The Company recorded a benefit from termination of firm purchase commitments of $2.3 million and $.4 million in the second and fourth quarters of 2001, respectively compared to provisions for losses on firm sales and purchase commitments of $1.5 million, $1.0 million and $.9 million in the first, second and fourth quarters of 2000, respectively.

In the third and fourth quarters of 2000, the Company recognized a loss from discontinued operations of approximately $.6 million and $2.5 million, respectively. These losses relate to the recognition of the Company's obligation to perform on certain note guarantees and a letter of credit, net of the collateral value and the final adjustment for 2000 from the amount accrued as of December 31, 1999.

The Company repurchased approximately $4.5 million of Senior Notes in the third quarter of 2001 and recognized a gain of approximately $2.6 million. The Company repurchased approximately $19.2 million, $6.0 million and $4.5 million of Senior Notes in the second, third and fourth quarters of 2000, respectively, and recognized a gain of approximately $13.2 million, $4.0 million and $2.9 million, respectively.

LSB Industries, Inc.
Schedule II - Valuation and Qualifying Accounts
Years ended December 31, 2001, 2000 and 1999
(Dollars in Thousands)

Description		Balance at Beginning of Year	Additions Charges (Recoveries) to Costs and Expenses	Deductions Write-offs/ Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts (1):					
	2001	$ 3,077	$ 81	$ 617	$ 2,541
	2000	$ 1,713	$ 1,974	$ 610	$ 3,077
	1999	$ 2,085	$ 812	$ 1,184	$ 1,713
Inventory-reserve for slow-moving items (1):					
	2001	$ 1,291	$ 60	$ 119	$ 1,232
	2000	$ 1,450	$ -	$ 159	$ 1,291
	1999	$ 814	$ 695	$ 59	$ 1,450

Notes receivable-allowance for doubtful accounts (1):					
	2001	$ 13,787	$ -	$ 132	$ 13,655
	2000	$ 15,414	$ 1,001 (2)	$ 2,628	$ 13,787
	1999	$ 6,502	$ 8,931	$ 19	$ 15,414

LSB Industries, Inc.
Schedule II - Valuation and Qualifying Accounts (continued)
Years ended December 31, 2001, 2000 and 1999
(Dollars in Thousands)

Description		Balance at Beginning of Year	Additions Charged to (Recoveries) to Costs and Expenses	Deductions Write-offs/ Costs Incurred	Balance at End of Year
Accrual for plant turnaround:					
	2001	$ 1,848	$ 2,946	$ 3,052	$ 1,742
	2000	$ 1,299	$ 1,922	$ 1,373	$ 1,848
	1999	$ 1,104	$ 1,421	$ 1,226	$ 1,299

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

(2). Amount includes $2.6 million in allowance for the notes received from DLT related to the debt guarantees that the Company was required to fund and is included in loss on discontinued operations.

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

(a)(3) Exhibits

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

3.1. Restated Certificate of Incorporation, the Certificate of Designation dated February 17, 1989, and certificate of Elimination dated April 30, 1993, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Registration Statement, No. 33-61640; Certificate of Designation for the Company's $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 4.6 to the Company's Registration Statement, No. 33-61640.

3.2. Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1998.

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

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

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

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

4.5. Renewed Rights Agreement, dated January 6, 1999, between the Company and Bank One, N.A., which the Company hereby incorporates by reference from Exhibit No. 1 to the Company's Form 8-A Registration Statement, dated January 27, 1999.

4.6. Indenture, dated as of November 26, 1997, by and among ClimaChem, Inc., the Subsidiary Guarantors and Bank One, NA, as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated November 26, 1997.

4.7. Form 10 3/4% Series B Senior Notes due 2007 which the Company hereby incorporates by reference from Exhibit 4.3 to the ClimaChem Registration Statement, No. 333-44905.

4.8. First Supplemental Indenture, dated February 8, 1999, by and among ClimaChem, Inc., the Guarantors, and Bank One N.A., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the year ended December 31, 1998.

4.9. 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, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

4.10. Specimen of Certificate of Series D 6% Cumulative, Convertible Class C Preferred Stock which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

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

10.2. The Company's 1981 Incentive Stock Option Plan, as amended, and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibits 10.1 and 10.2 to the Company's Registration Statement No. 33-8302.

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

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

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

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

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

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

10.9. Limited Partnership Agreement dated as of May 4, 1995, between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

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

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

10.12. Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996 which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995.

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

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

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

10.16. First Amendment to Loan and Security Agreement (DSN Plant), dated June 1, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.13 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.17. First Amendment to Loan and Security Agreement (Mixed Acid Plant), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.15 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.18. Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.16 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.19. First Amendment to Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.17 to the ClimaChem Form S-4 Registration Statement, No. 333-4905.

10.20. Letter Amendment, dated May 14, 1997, to Loan and Security Agreement between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1997.

10.21. Amendment to Loan and Security Agreement, dated November 21, 1997, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.19 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

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

10.23. Baytown Nitric Acid Project and Supply Agreement dated June 27, 1997, by and among El Dorado Nitrogen Company, El Dorado Chemical Company and Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.24. First Amendment to Baytown Nitric Acid Project and Supply Agreement, dated February 1, 1999, between El Dorado Nitrogen Company and Bayer Corporation, which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 1998. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF SUBJECT OF COMMISSION ORDER CF #7927, DATED JUNE 9, 1999, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.25. Service Agreement, dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.26. Ground Lease dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.27. Participation Agreement, dated as of June 27, 1997, among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landes Bank, New York Branch, as a Construction Lender and the Note Purchaser, and Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.28. Lease Agreement, dated as of June 27, 1997, between Boatmen's Trust Company of Texas as Owner Trustee and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.29. Security Agreement and Collateral Assignment of Construction Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.30. Security Agreement and Collateral Assignment of Facility Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company and consented to by Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.31. Amendment to Loan and Security Agreement, dated March 16, 1998, between The CIT Group/Equipment Financing, Inc., and DSN Corporation which the Company hereby incorporates by reference from Exhibit 10.54 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.32. Fifth Amendment to Lease Agreement, dated as of December 31, 1998, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 1998.

10.33. Non-Qualified Stock Option Agreement, dated April 22, 1998, between the Company and Robert C. Brown, M.D. The Company entered into substantially identical agreements with Bernard G. Ille, Raymond B. Ackerman, Horace G. Rhodes, and Donald W. Munson. The Company will provide copies of these agreements to the Commission upon request.

10.34. The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the year ended December 31, 1998.

10.35. Letter Agreement, dated March 12, 1999, between Kestrel Aircraft Company and LSB Industries, Inc., Prime Financial Corporation, Herman Meinders, Carlan K. Yates, Larry H. Lemon, Co-Trustee

Larry H. Lemon Living Trust, which the Company hereby incorporates by reference from Exhibit 10.45 to the Company's Form 10-K for the year ended December 31, 1998.

10.36. 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.

10.37. 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.

10.38. First Amendment to Second Amended and Restated Loan and Security Agreement, dated January 1, 2000, by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated December 30, 1999.

10.39. Second Amendment to Second Amended and Restated Loan and Security Agreement, dated March 1, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated March 1, 2000.

10.40. Third Amendment to Second Amended and Restated Loan and Security Agreement, dated March 31, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.14 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000.

10.41. Loan Agreement dated December 23, 1999 between Climate Craft, Inc. and the City of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.42. Letter, dated April 1, 2000, executed by SBL to Prime amending the Promissory Note, which the Company incorporates by reference from Exhibit 10.52 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.43. Guaranty Agreement, dated as of April 21, 2000, by Prime to Stillwater National Bank & Trust relating to that portion of the SBL Borrowings borrowed by SBL, which the Company incorporates by reference from Exhibit 10.50 to the Company's Amendment No. 2 to its 1999 Form 10-K. Substantial similar guarantees have been executed by Prime in favor of Stillwater covering the amounts borrowed by the following affiliates SBL relating to the SBL Borrowings (as in "Relationships and Related Transactions:") listed in Exhibit A attached to the Guaranty Agreement with the only material differences being the name of the debtor and the amount owing by such debtor. Copies of which will provided to the Commission upon request.

10.44. Security Agreement, dated effective April 21, 2000, executed by Prime in favor of Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.54 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.45. Limited Guaranty, effective April 21, 2000, executed by Prime to Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.55 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.46. Fourth Amendment to Second Amended and Restated Loan and Security Agreement dated October 10, 2000 by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.

10.47. Letter Agreement, dated August 23, 2000, between LSB Chemical Corp. and Orica USA, Inc., which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.48. Agreement, dated October 31, 2000, between Orica Nitrogen, L.L.C., Orica USA, Inc., and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended September 20, 2000. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.49. Letter, dated April 1, 2001, executed by SBL to Prime amending the Promissory Note, which the Company hereby incorporates by reference from Exhibit 10.55 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.50. Letter of Intent, dated December 22, 2000, between El Dorado Chemical Company and ORICA USA Inc., which the Company hereby incorporates by reference from Exhibit 10.56 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.51. Agreement, dated April 2, 2001, between Crystal City Nitrogen Company and River Cement Company, which the Company hereby incorporates by reference from Exhibit 10.57 to the Company's Form 10-K for the fiscal year ended December 31, 2000.

10.52. Assignment, dated May 8, 2001, between Climate Master, Inc. and Prime Financial Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.53. Agreement for Purchase and Sale, dated April 10, 2001, by and between Prime Financial Corporation and Raptor Master, L.L.C. which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.54. Amended and Restated Lease Agreement, dated May 8, 2001, between Raptor Master, L.L.C. and Climate Master, Inc. which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.55. Option Agreement, dated May 8, 2001, between Raptor Master, L.L.C.and Climate Master, Inc., which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.56. Stock Purchase Agreement, dated September 30, 2001, by and between Summit Machinery Company and SBL Corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company' Form 10-Q for the fiscal quarter ended September 30, 2001.

10.57. Agreement, dated October 18, 2001, by and between LSB Industries, Inc., Prime Financial Corporation, and SBL Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

10.58. Certificate of Designations of LSB Industries, Inc., relating to the issuance of a new series of Class C Preferred Stock, which the Company hereby incorporates by reference form Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

10.59. Asset Purchase Agreement, dated October 22, 2001, between Orica USA, Inc. and El Dorado Chemical Company and Northwest Financial Corporation, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.60. AN Supply Agreement, dated November 1, 2001, between Orica USA, Inc. and El Dorado Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.61. Ammonium Nitrate Sales Agreement between Nelson Brothers, L.L.C. and Cherokee Nitrogen Company, which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.62. Anhydrous Ammonia Sales Agreement, dated June 30, 2001, between Koch Nitrogen Company and El Dorado Chemical Company which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q/A Amendment No.1 for the fiscal quarter ended June 30, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.63 Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ClimaChem and each of its Subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 10.51 to ClimaChem, Inc.'s amendment No. 1 to Form 10-K for the year ended December 31, 2000.

10.64. Covenant Waiver Letter, dated August 2, 2001, between The CIT Group and DSN Corporation.

10.65. Agreement, dated August 4, 2001, between El Dorado Chemical Company and Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-C10 and its Local 5-434.

10.66. Agreement, dated October 16, 2001, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-C10 Local No. 224.

10.67. First Amendment to Third Amended and Restated Loan and Security Agreement, dated March 29, 2002, entered into by and between Bank of America, N.A. and Summit Machine Tool Manufacturing Corp.

21.1. Subsidiaries of the Company.

23.1. Consent of Independent Auditors.

(b) REPORTS ON FORM 8-K. The Company filed the following report on Form 8-K during the fourth quarter of 2001.

(i) Form 8-K, dated December 28, 2001. (date of earliest event: October 1, 2001). The item reported was Item 5, "Other Events and Regulation FD Disclosure", discussing the sales agreement between Cherokee Nitrogen Company and Nelson Brothers, LLC, the supply agreement between El Dorado Chemical Company ("EDC") and Orica USA Inc. and the sale of an explosives distribution business by EDC to Orica USA Inc. and Nelson Brother, LLC.

CIT

August 2, 2001

Mr. Jim D. Jones
Vice President and Treasurer
LSB Industries, Inc.
16 South Pennsylvania
Oklahoma City, OK 73101

Via Fax # (405) 236-0728
Re: Covenant Violation

Dear Mr. Jones:

This letter is to inform you that The CIT Group/Equipment Financing, Inc. ("CIT") hereby agrees to waive any covenant violation under that certain Loan and Security Agreement dated October 31, 1994, including any amendments and guaranties thereto, between DSN Corporation, as Borrower, and CIT, as Lender, for the period from April 1, 2002 and December 31, 2002, subject to the following:

1. Continued receipt of annual and quarterly financial statements.
2. Receipt of $15,000.00 waiver fee.

If you have any questions, please call me at (770) 551-7892.

Very Truly,

The CIT Group/Equipment Financing, Inc.

By: _____

Herb Ballard, Senior Credit Analyst

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

PAPER, ALLIED-INDUSTRIAL, CHEMICAL &
ENERGY WORKERS INTERNATIONAL UNION AFL-CIO
AND ITS LOCAL 5-434

Effective: August 4, 2001

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

TABLE OF CONTENTS

PREAMBLE

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

ARTICLE I
TERM OF AGREEMENT

This Agreement shall remain in full force and effect for a period beginning at 12:01 a.m., August 4, 2001, and ending at 12:00 Midnight, July 31, 2004. At reasonable times after June 1, 2004, the parties will meet for the purpose of negotiating a new contract to be effective for the period commencing after 12:01 a.m., August 4, 2004.

ARTICLE II
MANAGEMENT RIGHTS CLAUSE

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

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

ARTICLE III
RIGHT TO ARBITRATE

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

ARTICLE IV
GRIEVANCE PROCEDURE AND ARBITRATION

Section 1.

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

First Step

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

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

Second Step

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

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

Third Step

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

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

Fourth Step

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

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

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

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

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

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

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

Section 2.

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

Section 3.

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

ARTICLE V
CLASSIFICATION CHANGES

Section 1.

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

Section 2.

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

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

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

Section 3.

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

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

Section 4.

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

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

1. Fill other operating vacancies within his area.

2. Assist in maintenance efforts anywhere in the plant.

3. Perform yard maintenance work anywhere in the plant.

4. Perform minor maintenance in his unit.

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

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

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

1. Assist in maintenance efforts in his unit.

2. Perform yard maintenance work in his unit.

3. Perform minor maintenance in his unit.

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

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

Section 5.

Except in cases of emergency and for training purposes, no foreman, supervisor, or employee not covered by this Agreement shall do any work peculiar to any classification covered by the bargaining unit. However, Maintenance employees may from time

to time perform minor operating functions when accompanied by operating personnel. The Company shall use technical employees from time to time to make tests and inspections requiring engineering skill.

ARTICLE VI
HOURS OF WORK

Section 1.

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

Section 2.

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

Section 3.

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

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

Section 4.

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

Section 5.

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

ARTICLE VII
CALL-OUT OVERTIME AND LOCAL NOTIFICATION

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

Section 1.

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

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

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

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

In the event overtime distribution and/or call-out procedures do not provide the Company with sufficient qualified personnel to

perform the overtime work, the Company shall have the right to assign qualified personnel, or at its option, assign the work to a salaried employee.

Section 2.

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

Section 3.

No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change. However, any employee who is working extra to complete his forty (40) hours per week may be used for filling vacancies in his area in accordance with his seniority. The Company further agrees that each employee shall receive twenty-four (24) hours' notice prior to any change in his shift, or in lieu thereof, the employee shall receive time and one-half (1-1/2) for the first shift worked; however, no such extra pay shall be paid when an employee's shift is changed incident to his promotion to a higher vacancy or when he is returned to his regular assignment from an advancement. However, if an employee's assignment is temporarily shut down and, as a result, there is no work for him on his regular assignment, he may be so notified and reassigned to fill other operating vacancies on another shift or to work with Maintenance on another shift. If the employee is so notified sixteen (16) hours or more in advance of the beginning of his new shift, he will not be entitled to pay in lieu of short notice for shift change.

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

Section 4.

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

ARTICLE VIII
SHIFT MEN - DAY MEN

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

ARTICLE IX
HOLIDAY PAY

Each of the following days is a holiday:

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

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

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

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

Holiday Pay -- Employee will be off on a holiday if so notified that his services are not needed. Employees who fail to receive

proper notification will receive time and one-half (1-1/2) for the first shift worked after the said holiday. Proper notification will be twenty-four (24) hours. Such notification shall not be required in the event of unit or equipment mechanical failure, fire, storm, explosion, or Act of God.

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

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

ARTICLE X
VACATIONS

Section 1.

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

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

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

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

Section 2.

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

Section 3.

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

Section 4.

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

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

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

Section 5.

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

Section 6.

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

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

Section 7.

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

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

ARTICLE XI
SENIORITY

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

Section 1. Eligibility for Seniority.

An employee shall be first entitled to seniority when he has been continuously employed for 180 days within the bargaining unit, his seniority dating from the date of the beginning of such employment.

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

Section 2. Seniority Credits.

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

Section 3. Progression Chart.

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

Section 4. Bargaining Unit and Area Seniority.

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

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

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

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

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

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

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

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

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

Section 6. Vacancy Posting and Bidding Procedure.

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

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

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

(d) At the end of this 5-day period, the employee with the most bargaining unit seniority who has turned in an acceptance notice will be assigned the vacancy, and he will be transferred to the new vacancy as soon as possible. The successful bidder's seniority in the area to which he is transferred will start on the sixteenth (16th) day after the vacancy was originally posted. An employee accepting a promotion by either the area realignment or the bidding procedure to a vacancy with a higher rate of pay will not receive the higher rate of pay until qualified for the vacancy.

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

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

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

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

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

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

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

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

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

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

Upon acceptance or rejection of a call-out, the individual's name will be placed at the bottom of the list. If the call-out is

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 8. Classifications and Shifts

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

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

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

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

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

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

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

Section 9. Reduction in Forces.

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

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

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

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

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

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

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

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

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

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

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

Section 10. Status of Employees Laid Off.

The accrued seniority, both bargaining unit and area, of an employee who has been laid off through no fault of his own shall continue to exist as of the date of the layoff for the following periods:

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

Section 11. Seniority Lists.

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

Section 12. Seniority - Outside Assignments.

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

Section 13. Layoffs and Reemployment.

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

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

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

Section 14. New Operations and Existing Operations.

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

Section 15. Promotional Requirements.

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

ARTICLE XII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

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

Section 2.

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

Section 3.

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

ARTICLE XIII
AUTHORIZED DEDUCTIONS

1. Union Dues.

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

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

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

2. Political Contributions

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

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

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

ARTICLE XIV
DISCHARGE

Section 1.

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

Section 2.

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

Section 3.

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

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

ARTICLE XV
MILITARY LEAVE

Section 1. Leave of Absence.

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

Section 2.

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

ARTICLE XVI
BULLETIN BOARDS

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

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

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

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

9; ARTICLE XVII
SAFETY & HEALTH

Section 1.

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

Section 2.

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

Section 3.

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

Section 4.

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

Section 5.

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

Section 6.

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

Section 7.

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

Section 8.

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

Section 9.

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

Section 10.

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

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

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

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

ARTICLE XVIII
WORKMEN'S COMMITTEE CONFERENCES

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

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

ARTICLE XIX
SEVERANCE PAY

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

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

ARTICLE XX
CONTRACT WORK

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

ARTICLE XXI
DISCRIMINATION

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

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

ARTICLE XXII
LEAVE OF ABSENCE

Section 1. Personal Business.

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

Section 2. Union Business.

(a) The Company shall grant a leave of absence, without pay, extending not longer than thirty (30) days to employees in order to engage in any work pertaining to the business of the Union, local or otherwise, upon sufficient notice so that the employee's absence will not cause overtime employment. Upon completion of such leave that employee will resume employment with previous seniority retained. This privilege will not be extended to more than four (4) employees at any one time. This privilege will not be extended to any one (1) employee for more than an aggregate of sixty (60) days in any one (1) calendar year. This does not apply to negotiations.

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

It is provided, however, that not more than one (1) employee at a time may be on leave of the character mentioned in the paragraph immediately preceding.

No employee shall be granted a leave of absence pursuant to this subsection who has not, immediately preceding the date upon which such leave of absence is to begin, worked for a period of one (1) year continuously.

Upon completion of the leave of absence mentioned within this subsection, or upon completion of the extended term of such leave of absence, if the term thereof is extended pursuant to this subsection, the employee involved will resume employment with previous seniority retained, provided such employee reports to the Company for work within one (1) day following the expiration of said leave of absence or within one (1) day following the extended term of such leave of absence if the term thereof is extended pursuant to this subsection.

An employee who fails to report for work within one (1) day following the end of such leave of absence shall thereby forfeit all of his seniority and his services with the Company shall be terminated; provided, however, if the employee involved is (on the date

which he would otherwise be required to report to work) totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended thirty (30) days.

Company shall have the right to require such employee to be examined by a physician of its choice before extending such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employ of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously accrued seniority, whichever is less, during the period of his disability as a result thereof, notwithstanding any provisions of Article XI. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employ of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the department in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better assignment elsewhere, his seniority shall be canceled.

ARTICLE XXIII
JURY DUTY

Each employee of the Company who is called to serve upon any grand jury, petit jury, coroner jury, or jury commission shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount which he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

ARTICLE XXIV
WAGE RATES AND CLASSIFICATIONS

Each employee who works during the period beginning 12:01 a.m., August 4, 2001, and ending 12:00 midnight, July 30, 2004, in one of the classifications shown on Exhibit "B" attached hereto, shall be paid for his work in that classification in accordance with the applicable wage rate, shift differential, and clothing allowance in accordance with Exhibit "B".

Notwithstanding any other provision of this Agreement to the contrary, the question of wages to be paid shall not be construed to include any allowance which results in an increase in the compensation of an employee or of employees.

ARTICLE XXV
VALIDITY

If any court shall hold any part of this Agreement invalid, such decision shall not invalidate the entire Agreement.

ARTICLE XXVI
NOTICES

Any notice required to be given an employee under Article V, Section 3, or under Article XIX, may be given by posting a notice on the bulletin board of the Union, with a copy of said notice to the Chairman of the Workmen's Committee. If any employee named in such notice is on vacation or on leave of absence, a copy of said notice will be mailed in a sealed envelope, registered, and addressed to him at his address as shown on the records of the Company. Each employee named in any such notice shall be deemed to have received the notice at the time said notice is posted on the bulletin board or mailed to him at his home address.

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to El Dorado Chemical Company, P. O. Box 231, El Dorado, Arkansas 71731, Attention: Plant Manager.

Any notice to be given to the Union may be given by depositing the same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to the Paper, Allied-Industrial, Chemical & Energy Workers International Union AFL-CIO, Local 5-434, El Dorado, Arkansas 71731, with a copy of the notice to the Secretary, Local 5-434, of the Union, El Dorado, Arkansas 71731.

ARTICLE XXVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or to attend the funeral or any of the relatives of the employee hereinafter mentioned for the time hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild

of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) days. One of these days shall be the day of the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purpose stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for a deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight-time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as: vacation pay, holiday pay, or sickness benefits payments.

ARTICLE XXVIII
SICKNESS BENEFITS

Group Insurance and Pension.

Effective January 1, 2001, the Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis, payable bi-weekly:

Effective January 1, 2002, Sixty (60.00) Dollars
Effective January 1, 2003, Sixty-Five (65.00) Dollars
Effective January 1, 2004, Seventy (70.00) Dollars

In the event benefits utilization calculations for years 2002, 2003, or 2004 indicates a bi-weekly cost share of less than the amounts stated above, employees will pay the lower bi-weekly cost share commencing January 1, of the following calendar year.

Employee should refer to Summary Plan Descriptions for details of Preferred Plan Benefits, co-payments, deductibles, co-insurance coverage and periodic amendments as may be made from to time to time.

Effective with the date of this Agreement, the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance (twice an employee's annual income).

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

ARTICLE XXIX
NO LOCKOUT -- NO STRIKE

The Company agrees that there shall be no lockout and the Union agrees there shall be no strike, sympathy strike, or interruption of production during the term of this Agreement.

ARTICLE XXX
RETIREMENT AGE

Any employee who becomes seventy (70) years of age shall be retired and his services with the Company terminated on the first (1st) day of the month following the day upon which he is age seventy (70).

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

IN WITNESS WHEREOF, this instrument is executed on the 4th day of August, 2001, to be effective as of 12:01 a.m. on the 4th day of August, 2001.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken
Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY:
Robert Thornton

BY:
James Turberville

EXHIBIT "A"
OPERATING DEPARTMENT
PROGRESSION CHART

AREA II	**AREA III**	**AREA IV**
"A" Operator	"A" Operator	"A" Analyst
"B" Operator	"B" Operator	"B" Analyst
"C" Operator	"C" Operator	"C" Analyst
"D" Operator	"D" Operator	"D" Analyst
*"E" Operator	"E" Operator	"E" Analyst

* (First 180 Days)

EXHIBIT "B"
WAGE RATES AND CLASSIFICATIONS

	08/04/01	08/04/02	08/04/03
"A" Operator/"A" Analyst	17.67	17.87	18.07
"B" Operator/"B" Analyst	16.65	16.85	17.05
"C" Operator/"C" Analyst	16.04	16.24	16.44
"D" Operator/"D" Analyst	13.62	13.82	14.02
*"E" Operator/"E" Analyst	9.10	9.30	9.50

* (First 180 Days)

An "A" Operator who assigned as Control Board Operator shall receive a premium of $.50 per hour for such hours worked.

Management shall have the right to use casual labor for periods of employment not to exceed ninety (90) days per year for a given individual.

SHIFT DIFFERENTIAL

In addition to the foregoing hourly rates, there shall be paid a shift differential of forty cents ($.40) for each hour worked on the 3:00 p.m. to 11:00 p.m. shift and eighty cents ($.80) for each hour worked on the 11:00 p.m. to 7:00 a.m. shift.

For payroll purposes, shift differential pay will be averaged over all three (3) shifts (7:00 a.m. to 3:00 p.m., 3:00 p.m. to 11:00 p.m., and 11:00 p.m. to 7:00 a.m.) - forty cents ($.40) per hour will be paid for each hour worked. Shift differential will be paid to operating personnel assigned to rotating shifts.

9; **CLOTHING ALLOWANCE**

In addition to the foregoing hourly wage rates, there shall be paid a clothing allowance of nine cents ($.09) per hour for each hour worked by an employee. Effective August 4, 2001, through the term of this Agreement the clothing allowance will be sixteen cents ($.16) per hour worked by an employee.

EMERGENCY SQUAD PREMIUM

In addition to the foregoing rates, there shall be paid a rate of ten cents ($.10) per hour for each hour worked to employees working classifications designated for inclusion on the Plant Emergency Squad.

EXHIBIT "C-2"
5-2 SHIFT SCHEDULE

	M T W T F S S	M T W T F S S	M T W T F S S
SHIFT 7-3	X X X X X	Y Y Y Y Y	Z Z Z Z Z
SHIFT 3-11	Y Y Y Y Y	Z Z Z Z Z	X X X X X
SHIFT 11-7	Z Z Z Z Z	X X X X X	Y Y Y Y Y
DAYS OFF	X X Y Y Z Z	X X Y Y Z Z	X X Y Y Z Z

EXHIBIT "C-3"
UNIFORM SHIFT SCHEDULE

	M T W T F S S	M T W T F S S	M T W T F S S	M T W T F S S
SHIFT 11-7	A A A A A D D	D D D D D C C	C C C C C B B	B B B B B A A
SHIFT 7-3	D D D C C C C	C C C B B B B	B B B A A A A	A A A D D D D
SHIFT 3-11	C C B B B B B	B B A A A A A	A A D D D D D	D D C C C C C
OFF	B B C D D A A	A A B C C D D	D D A B B C C	C C D A A B B

EXHIBIT "D"
CONSOLIDATION POLICY

During their negotiations, the Company and the Union discussed the procedures to be followed by the Company in its job consolidation program and agreed as follows:

The Company will accomplish consolidation of jobs in each operating department whereby each employee will be trained through the training program announced by the Company.

As soon as an employee has demonstrated the technical knowledge and qualifications to properly perform all duties of each job within an assigned area (II), (III), then such employee will be promoted to the classification of "A" Operator at the appropriate increase in pay.

(a) The length of training will be determined by the individual's ability to learn and perform the skills required by consolidation. To become qualified and entitled to "A" Operator pay and classification, an employee must have the skills and knowledge to perform any job duty within his/her work area.

(b) Areas and shifts will not be changed as a result of consolidation.

(c) Company shall have the right to determine the frequency of rotation, (not more often than weekly) in order to accomplish job consolidation. Such rotation shall normally be on a regular basis with exceptions made only because of justifiable business needs such as unplanned personnel absence, Acts of God, and production equipment failure.

(d) The parties have discussed the possible impact of consolidation on a limited number of employees who are not yet "A" Operators because:

1. They do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator. (This does not mean physical fitness which is provided for in Article XII.)

2. A very limited number of employees who allege they currently have medical conditions which limit their assignment to perform all the duties of the "A" Operator classification.

3. Those who allege they do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and with whom the Company disagrees.

4. Those who have neither alleged nor requested disqualification, but who are nominated by the Company. Following negotiations, a joint committee shall meet for the purpose of discussing the above individuals subject to the following:

(a) Each employee in categories 1-3 must, no later than September 30, 1989, submit a signed, dated request to the Manager of Manufacturing, requesting consideration for one of the above reasons. This procedure is offered on a one-time basis during such period.

(b) In the event the joint committee agrees that such an employee is disqualified for the reason alleged, such person shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B". The Company may utilize such individual in any job he/she is qualified to perform in his/her area.

(c) An employee who has submitted a request to be disqualified, due to physical reasons, for assignment to perform all duties of the "A" Operator classification may be required to submit to a physical examination by the Company's physician pursuant to the provisions of Article XII. In case of a disagreement over such employee's physical fitness for such work assignment, the procedures of Section 3 of Article XII may be resorted to by the employee within three (3) working days or the decision of the Company's physician shall be final and binding.

(d) In the case of an employee who has alleged that he/she does not possess the ability to learn, retain and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and the joint committee cannot reach a mutual agreement, the Company shall have the right to require such employee to proceed with its job consolidation and training program until the employee either qualifies or the Company agrees that such individual does, in fact, lack such ability. Such individual shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B" and assigned any duties qualified to perform within his/her area.

(e) In the event the joint committee does not agree that a person nominated by the Company under paragraph 4 is not qualified for training for promotion to "A" Operator, the individual may grieve the Company's decision.

(f) The above procedure is available only on a one-time basis, limited to those individuals who have submitted written request for consideration under the provisions of paragraphs 1, 2, or 3, or who were nominated by the Company during the 60-day period commencing August 1, 1989.

It is understood that there may be a situation where, because of training needs, it is necessary to train someone other than the senior operator and shift. In this case, as soon as such individual has been promoted to "A" Operator, the most senior operator will be placed in training for advancement to "A" Operator or paid at the rate of "A" Operator.

DATED this fourth day of August, 2001.

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY:
Robert Thornton

BY:
James Turberville

LETTER OF UNDERSTANDING

The parties have agreed that not withstanding any other clause or provision of the agreement the following procedures shall apply during the life of the Agreement, effective August 4, 2001:

(a) Commencing August 1, 1990, each employee shall be limited to one bid during each 12-month period commencing with the date the successful bidder is informed of the bid award. A successful bidder will be transferred as soon as a qualified replacement is available to fill his vacancy.

(b) Skills balancing, by shift within each area. Company shall have the right to balance assignment skills in each area on each shift in order to maintain production efficiency and to accomplish training needs.

A shift is considered not balanced until each operating assignment has available a minimum of two qualified operators.

The Company has the right to balance skills on each shift in each area. Whenever three (3) or more employees are qualified on any one assignment within a shift and another shift has only one person qualified for that assignment, the Company may transfer one person to the shift having only one trained person in that assignment in the following manner:

Company will offer the transfers first by area seniority to such qualified personnel and in the event the senior qualified employees decline, there by assignment of the qualified employee(s) with the least area seniority necessary to achieve shift skill balancing.

When more than one shift exceeds minimum skill balancing personnel numbers, the initial offer of transfer opportunity or assignment, will be by area seniority and qualifications from all shifts in the area.

It is understood that the same individual may not be involuntarily transferred for the purpose of skills balancing more frequently than once each twelve (12) months.

Skills balancing between shifts takes precedence over bidding procedures.

In the event the transfer of an employee from one shift to another creates a surplus on the receiving shift, the surplus employee shall then be assigned to the shift from which the transferred employee came. If an employee is not surplus the bidding procedure will be followed.

When there is a conflict between terms of the Agreement and this Letter of Understanding, this document shall control.

DATED this fourth day of August, 2001.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY:
Robert Thornton

BY:
James Turberville

EXTRA CREW
LETTER OF UNDERSTANDING

During their negotiations, the parties discussed the Company's objective of facilitating its commitment to job consolidation training, recognizing the need for extra personnel who could be used for purposes of relief, training, or replacement of employees who are absent or for overtime assignment.

The parties have agreed that the Company shall have the right to utilize certain lowest seniority individuals who will be designated as "Extra Crew" and assigned as the Company may elect. Such "Extra Crew" personnel will not be assigned to a shift or area until there is a vacancy after the completion of the realignment and bidding procedures, even though the employee has completed 180 days of service.

Such "Extra Crew" members will be drawn from the lowest senior employees in the plant or from "new hires." No regular assignment will be deleted to provide employees for this "Extra Crew."

The Company will utilize four (4) current employees to establish the "Extra Crew," or new hires as attrition takes place.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY: ; _
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:

Lance Owens

BY:
Robert Thornton

BY:
James Turberville

AMERICANS WITH DISABILITIES ACT
LETTER OF UNDERSTANDING

The Company and Union recognize the provisions of the American's with Disabilities Act may impact the terms of this Agreement, and thus agree to discuss each instance individually in order to reach a mutual understanding.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY:
Robert Thornton

BY:
James Turberville

TWELVE HOUR SHIFT
LETTER OF UNDERSTANDING

There is presently an operating practice of a twelve hour shift schedule. All matters regarding the twelve hour shift policy are governed by the policy which is contained in Standard Operating Procedures Manual No. A002.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS

INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY: 9;
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY:
Robert Thornton

BY:
James Turberville

LETTER OF UNDERSTANDING

During their negotiations in July and August, 2001, the parties discussed a proposal which would permit a limited exercise or bargaining unit seniority in the event of a reduction in force from either Area II, Acid, or Area III, Nitrates. The parties recognize the continuing right of the Company to rely on the provisions of Article XI, Seniority, including the first paragraph of Article XI and agreed that Section 4, Bargaining Unit and Area Seniority, subparagraph (c) provides for reducing the numbers of employees from an Area on the basis of area seniority.

The Company agrees, that in the event of a reduction in force from either Area II, or Area III, on the basis of Area seniority, an effected employee must first seek to displace an employee who holds a classification of "D" Operator, on the basis of bargaining unit seniority, within the Area he is presently assigned.

In the event there is no "D" Operator in the Area from which such employee was reduced, he may then request permission to displace an employee who is classified as a "D" Operator from the production area (II or III) he was not displaced from, on the basis of Bargaining Unit Seniority.

The Company shall have the right to give priority over Bargaining Unit Seniority to an employee who seeks to displace a "D" Operator from Area II or III, which he was not displaced from, on the basis of previous qualifications in such Area.

Employees may not displace an employee from a classification wage rate higher than the employee who seeks to retain employment on the basis of Bargaining Unit Seniority.

DATED this fourth day of August, 2001.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY: 9;
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Terry Laster

BY:
Lance Owens

BY: 9;
Robert Thornton

BY:
James Turberville

LETTER OF UNDERSTANDING

The parties have discussed the use of past disciplinary events of employees who commit violations of Company policies, rules, work procedures, poor work performance, negligence, errors, etc., which do not involve offenses for which the penalty is immediate discharge, and agree, that a written disciplinary record, issued to an employee who does not receive a subsequent written letter or disciplinary notice, within twelve (12) months of the date of the first written notice, then such notice will not be used as evidence in an arbitration hearing in support of a disciplinary event occurring at a later date.

If an employee receives an additional disciplinary warning, at any point in time, commencing with date of the first written warning, an additional twelve (12) months, commencing with date of the most recent disciplinary incident, must lapse with no disciplinary event, before the previous notices become unavailable as evidence in future arbitration hearings.

DATED this fourth day of August, 2001.

EL DORADO CHEMICAL COMPANY

BY:
Richard L. Milliken, Senior Vice President, Manufacturing

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

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Kenneth Booker

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Lance Owens

BY:

Robert Thornton

BY:

James Turberville

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE WORKERS,
AFL-CIO
LOCAL NO. 224

Effective: October 16, 2001

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

TABLE OF CONTENTS

PREAMBLE

This Agreement is made and entered into by and between EL DORADO CHEMICAL COMPANY (hereinafter referred to as the "Company"), and the INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL-CIO, LOCAL NO. 224 (hereinafter referred to as the "Union"), which the Company recognizes as the sole bargaining agency for the Maintenance employees of the Company at its chemical plant located north of El Dorado, Arkansas, who are eligible for membership in the Union in accordance with the Labor Management Relations Act of 1947.

9; **ARTICLE I**
APPLICATION OF AGREEMENT

The Company hereby recognizes the Union as the exclusive bargaining agency for the employees of the Company at said plant who work in the capacities hereinafter stated in this Article I.

(a) All Maintenance employees, as described in Exhibit "A", engaged in the installation, maintenance and repair of machinery and equipment, but excluding all production, chemical and operating employees, shipping attendants, office and clerical employees, managers, supervisors and guards.

ARTICLE II
PERIOD OF AGREEMENT

This Agreement shall remain in full force and effect for a 3-year contract term commencing October 16, 2001, at 12:01 a.m., and ending 12:00 Midnight, October 16, 2004. At reasonable times after June 1, 2004, the parties will meet to attempt to negotiate a new contract to be effective for a period beginning after 12:01 a.m., October 16, 2004.

ARTICLE III
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject

to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct; to assure discipline and efficient operations; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of the business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any job, operation, service, or department; to sell, merge or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged. The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE IV
CHECK-OFF OF UNION DUES

Upon receipt of a signed authorization by an employee requesting deductions from his wages for his monthly union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form of such individual authorization shall be as set forth in Exhibit "D" hereto.

The Financial Secretary of Local 224, IAM-AW, shall, from time to time, notify the Company in writing of the amount of the monthly deduction to be made, from time to time, under this authorization. All money so deducted by the Company shall be paid to the Union on or before the end of the month during which deductions are made. Upon receipt of written request by an employee, the Company shall, after thirty (30) days' notice, discontinue dues deduction.

ARTICLE V
SENIORITY

Section 1. Length of Service.

Length of service in the bargaining unit and with the El Dorado Plant shall, in that order, govern the promotion, demotion, and transfer of employees.

Section 2. Order of Seniority.

An employee's seniority shall be determined as follows:

Order of Importance	Seniority
1st	Bargaining Unit
2nd	Plant

Section 3. Eligibility for Seniority.

An employee shall be first entitled to seniority in the bargaining unit when he has been continuously employed in that unit for 180 days; his seniority dating from the date of the beginning of such employment.

However, an employee who has been employed in the bargaining unit, who has been laid off prior to his having been employed therein for 180 days continuously, and who is reemployed in the bargaining unit within 180 days from the date upon which he is laid off, shall, upon such reemployment, be entitled to have the number of days which he has worked in the bargaining unit, during the period of his most recent previous employment herein, included in any subsequent computation of his seniority in the bargaining unit and shall be entitled to seniority when he has accrued 180 days on that basis.

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

Section 4. Filling Vacancies.

(a) Temporary and permanent vacancies will be filled only when the Company sees a need to fill the vacancy. In the event the Company sees a need to fill a vacancy, it will be filled by the employee having the most bargaining unit seniority, who desires the job, and who possesses a skill of the group in which the vacancy occurs. Any person so promoted must accept the duties and responsibilities of the job.

(b) When there is a permanent vacancy in a group and the Company sees a need to fill that vacancy, the Company shall post promptly, and keep posted for fifteen (15) days, notice on its bulletin board of the job vacancy. It shall be the duty of an employee who feels himself entitled to such job on account of his seniority to file his sealed bid for such job with the Plant Manager or his representative, and send a copy thereof to the Chairman of the Shop Committee within said 15-day period. In order to be considered valid, a bid must be signed, dated, and deposited in a locked box marked "I.A. of M. and A.W. Bids" located at the plant entrance gate.

Immediately upon expiration of the posting period of fifteen (15) days, the names of all bidders will be posted on the bulletin board, and the bidder having the most seniority and who desires the job shall be assigned to the group and receive the "C" Mechanic rate of pay if he possesses the necessary skill. In the event no qualified bidder possessing the necessary skill bids on the vacancy, the Company may hire a qualified employee from the outside.

If he does not possess the skill, he will be reduced to the rate that compares to his previous experience beginning not later than the beginning of the work week following the week in which the successful bidder is determined, provided the successful bidder is available to report for work on that day.

If the group vacancy is not filled by the procedure set forth above and the Company sees the need to fill the vacancy, a first-year "E" Mechanic job will be posted for filling outside the bargaining unit.

Notwithstanding any other provisions of this subsection (b), it is agreed that the Company shall have the right at any time during said 15-day posting period to withdraw the posting of a new job in the event the Company decides that such job need not be filled.

(c) Should an employee within a group who is entitled to a promotion desire to waive his opportunity for that promotion, he shall do so by signing a waiver.

(d) In the event that it becomes necessary to establish a permanent rotating shift the Company will notify the Shop Committee to discuss the procedure and shift to be implemented at least thirty (30) calendar days before establishing such shift.

Section 5. Qualifications for Job.

(a) It is not the intention of the parties to this Agreement that any employee shall be permitted to work on a job when he is not qualified to perform the work which that job requires. However, if, in the opinion of the Company, an employee is not qualified for a particular job to which he would otherwise be entitled by virtue of his seniority, and the Company determines that an employee's application for the job shall be denied on the basis of his lack of qualifications, the Company shall notify the Chairman of the Shop Committee and the employee involved of their decision, at least five (5) days prior to the date upon which any other employee is permanently assigned to the job.

Section 6. Seniority List.

Seniority lists will be compiled on April 1 and October 1 and will be available to all employees. One copy of each seniority list will be furnished to the Shop Committee.

Section 7. Seniority Accrued.

Each employee shall retain the seniority accrued to him based upon actual service at the El Dorado Plant.

Section 8. Seniority - Outside Assignments.

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

Section 9. Discharges and Reemployment.

When there is a reduction in the number of employees in the bargaining unit, the employee last employed in the bargaining unit shall be the first employee laid off. The employee laid off through no fault of his own, who has the greatest bargaining unit seniority, shall (subject to the following provisions of this Article) be the person first reemployed in the event additional employees are employed, provided that the person is qualified to perform the duties of the job to which he would be assigned on reemployment.

A person who has worked in the bargaining unit sufficiently long to be entitled to seniority in that unit, and who is laid off through no fault of his own, who has kept his current address on file with the Company, and who continues to be entitled to seniority under the terms of this Agreement shall (subject to the following provisions of this Article) be given first consideration for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with a copy of such letter to the Chairman of the Shop Committee), addressed to him at his address then on file with the Company, and he shall be allowed fifteen (15) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article V (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed seven (7) days from the date of the delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating

that he is so disabled, in which event the period within which he shall be permitted to retu rn to work shall be extended ninety (90) days.

Section 10. Status of Employees Laid Off.

The accrued seniority of an employee who has been laid off through no fault of his own shall continue to exist from the date of his layoff for the following periods:

Years of Service	Period Seniority to Exist
0-180 days	-0-
181 days to 2 years	Length of previously accrued seniority
2 years or more	2 years

Section 11. Loss of Seniority.

Seniority shall be lost and employment terminated for any of the following reasons:

(a) Quitting.

(b) Absence from work for three (3) consecutive days without having notified the Company, unless physically impossible to do so.

(c) Discharge for just cause.

(d) Failure to return at the expiration of a leave of absence or vacation.

(e) If an employee misrepresents the reason for requesting a leave of absence.

(f) If an employee fails to file for reinstatement within ninety (90) days following discharge from the U.S. Military Service.

(g) Failure to return to work from layoff within the time specified in Section 9 of this Article.

(h) At the end of the period specified in Section 10 of this Article, or upon earlier rejection after layoff of an offer of reemployment in a classification equal to the classification from which laid off.

ARTICLE VI
HOURS OF WORK AND OVERTIME

Section 1. Hours of Work.

(a) Regular base hours of work shall be eight (8) hours per day and forty (40) hours per week.

(b) The work week shall begin at 12:01 a.m. each Monday and end at 12:00 midnight the following Sunday. The work day shall begin at 12:01 a.m. and end at 12:00 midnight.

(c) The work week shall normally be five (5) consecutive 8-hour days, Monday through Friday, and will normally begin work at 7:00 a.m. and end at 3:30 p.m. with a 30-minute lunch period from 12:00 noon to 12:30 p.m.

(d) No employee shall be required to work more than twelve (12) hours during any normal work day except in case of an emergency.

(e) All employees shall be expected to report to work promptly at the scheduled time. No employee shall be permitted to work if such employee reports for work more than one and one-half (1-1/2) hours after his regular scheduled reporting time, unless such delay has been previously excused by the Company.

(f) No employee shall be allowed to work more than sixteen (16) continuous hours nor more than sixteen (16) hours in any one day except in the case of an emergency. However, an employee will be allowed to complete his regularly scheduled hours of work as provided in Sections 5, 8 and 10 of this Article VI.

(g) Maintenance overhauls may be staffed on 8-hour, 10-hour, or 12-hour shifts as may be necessitated by the needs of the

operation.

The Company will specify and select the number and classifications of personnel on each shift by work group classification for each particular overhaul on a shift basis. Preference to shifts will be governed by the employee's bargaining unit seniority. Shift change notice will be handled as outlined in Article VI, Section 3. In the event there are insufficient qualified personnel on each shift, the Company shall have the right to assign qualified personnel as needed.

Section 2. Overtime and Call-Out Pay Rates.

(a) Overtime and call-out rates shall be one and one-half (1-1/2) times the regular rate and shall be paid for all work performed in excess of forty (40) hours per week, continuous actual work in excess of eight (8) hours, and for all work performed as a result of call-out and for hours worked outside an employee's regularly scheduled hours.

(b) Any employee who works over, beyond his regular scheduled work day, shall be paid a minimum of three (3) hours at straight time. If the employee is required to stay over beyond his regular scheduled work day to attend meetings or to receive training, and no production work is involved, he will receive pay for actual time spent at one and one-half (1-1/2) times his regular rate of pay, providing he has received a minimum of twenty-four (24) hours' notice in advance.

(c) No employee shall work overtime without the approval of his Foreman.

Section 3. Shift Change Notice.

(a) The Company shall pay each employee one and one-half (1-1/2) times his regular rate of pay for the first shift of a rearranged work schedule if the employee whose shift is changed shall not have been notified of the change at least twenty-four (24) hours prior to the beginning of said first shift. If notice of employee's shift change shall be posted on his regular day off, notice of the change shall be posted at least seventy-two (72) hours prior to the beginning of said first shift. Any notice required to be given to an employee under the provisions of this Section 3 may be given by written notice posted on the general bulletin board of the Company and the bulletin board of the Union, and each employee named in any notice shall be deemed to have received the notice at the time copies of said notices are posted on said boards.

(b) The changing of an employee's shift, incident to the return of an employee from sickness or accident, shall not be considered a change in shift within the meaning of this Section 3, unless the absent employee has given the Company at least seventy-two (72) hours' notice of his intention to return to work and the time at which he will return to work by notifying his supervisor.

(c) The changing of an employee's shift from 7:00-3:30 to 7:00-3:00, or from 7:00-3:00 to 7:00-3:30 will not constitute a shift change.

(d) A change in shift at the request of an employee shall not be considered a change in shift for the purpose of this Section 3.

(e) No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change.

Section 4. Meal Time.

(a) If a "Day Man" is instructed to and continues to work overtime past 6:00 p.m., he shall be allowed a 30-minute period beginning at 6:00 p.m. for supper on Company time; and if said "Day Man" then continues to work additional overtime, he shall be allowed a 30-minute lunch period on Company time; each such period to begin at the end of four (4) hours of additional continuous overtime worked after 6:30 p.m.

(b) Any employee called for work outside of his regular working hours, who is required to work more than four (4) consecutive hours outside his regular hours, shall be allowed a 30-minute period for a meal on Company time at the end of the fourth consecutive hour and at the end of each consecutive 4-hour period thereafter that said employee continues to work outside his regular hours.

Section 5. No Reduction of Work Week as Result of Overtime.

No employee will be required to take any time off from his regular work week because of overtime worked in that or any other week. If an employee is required to work on his day off, he shall not be forced to take another day off in lieu thereof.

Section 6. Computation of Overtime.

For the purpose of computing overtime under this Article, the exact time worked, rounded to the nearest quarter hour, shall be accounted for, which shall be paid for at the overtime rate.

There shall be no duplicate payment for daily overtime and weekly overtime. If daily overtime is greater in any one work week, only daily overtime shall be paid, or if weekly overtime is greater in any one work week, only weekly overtime shall be paid. There shall be no pyramiding of overtime.

Section 7. Distribution of Overtime and Call-Out Time.

Overtime work opportunities shall initially be distributed, as equitably as practicable, within each work group where the overtime is required in accord with the Company's distribution policy. The Company may then offer such work to employees in other work groups who are qualified.

For the purpose of distributing overtime, the Company will submit a list, biweekly, to the work group steward showing the overtime worked, refused and overtime standing of each employee covered within the group.

Each employee who is requested to report for overtime duty shall report at the required time unless he shall first obtain permission from his supervisor to be relieved of such duty.

Section 8. Call-Out.

An employee who is called out and reports for work outside his regular working hours shall work until excused by the person then supervising his work; provided that no one shall be required to work longer than is provided in Section 1(d) of this Article. An employee who is called out and reports for work shall be paid a minimum for four (4) hours at time and one-half (1-1/2), even though the full four (4) hours may not be worked because no work is available, or he does not work at all because no work is available. An employee called for such work, who works continuously until the beginning of his regular hours of work and continues to work during the regular hours of his scheduled work, shall not be considered to have had a change in shift within the meaning of Section 3 of this Article VI.

A description of the work or jobs to be done, or the problem necessitating the call-out, is provided as accurately as possible by the supervisor in order that the person being called may judge: (a) whether or not he has the ability to do the work, and (b) about how long he may have to work. It is not intended to have a person come out on one job, then surprise him with a list of additional jobs to be done. However, due to emergencies, it cannot be guaranteed that he will only be required to do what he was called for.

Notwithstanding the fact that an employee has been called out for work, such employee shall perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused from such work.

If an employee is called out for work and works until the beginning of his regular work schedule, the call-out will be considered as ending at the beginning of his regular schedule.

Section 8A. Advance Scheduling of Overtime.

Overtime may be scheduled up to three (3) weeks in advance of the actual time required. In the event the scheduled overtime is cancelled, eight (8) hours' notice will be given or a call-out will be paid.

Section 8B. Right to Assign Qualified Personnel.

In the event overtime distribution and call-out procedures do not provide the Company with sufficient, qualified personnel to perform the overtime work, the Company shall have the right to assign such work to qualified personnel. The performance of such work is mandatory.

Section 9. Holiday Pay.

The following days shall be considered holidays and normally no work will be performed on the designated holidays except in cases of emergency, around-the-clock shift work, and in those crafts where work is necessary for continued operations:

1. New Year's Day
2. Good Friday
3. Memorial Day
4. July Fourth
5. Labor Day
6. Columbus Day
7. Thanksgiving Day
8. Day after Thanksgiving
9. Last work day before Christmas holiday
10. Christmas Day

When any of these holidays fall on Sunday, the following Monday will be observed as the holiday.

When any of these holidays fall on Saturday, the preceding Friday will be observed as the holiday.

Each employee who is not required to work and who does not work on a holiday shall be paid a bonus equivalent to eight (8) hours at his regular rate at straight time pay, providing he has worked his last scheduled work day immediately preceding the holiday and his first scheduled work day following the holiday unless the failure to work these days is because of confirmed illness or accident no more than five (5) work days before or after the holiday, unless the employee was excused in advance by the Company.

Each employee who works on a holiday will be paid, in addition to the 8-hour bonus mentioned above, one and one-half (1-1/2) times his regular rate of pay.

Section 10. Reporting for Work and Not Used.

Except when no work is available due to Act of God, such as fire, flood, explosion, or tornado, an employee who reports for duty on his regular schedule shall be given the opportunity of working a full 8-hour shift.

ARTICLE VII
WAGE RATES AND CLASSIFICATIONS

Section 1. Wages and Pay Period.

The regular pay periods for employees subject to this Agreement will cover every two (2) scheduled work weeks, and checks will be available to the men on their regular shifts on the Friday following completion of the 2-week period.

Each employee who works during the period beginning 12:01 a.m., October 16, 2001, and ending 12:00 Midnight, October 16, 2004, shall be paid for his work in that classification on the basis of the basic hourly wage rate for that classification shown on Exhibit "A" to this Agreement. Each employee will be paid the applicable clothing allowances provided on Exhibit "B" to this Agreement.

Section 2. Changes in Classification of Work.

(a) Each employee covered by any classification is expected to perform any duties to which he may be assigned within his classification or lower classification.

(b) It is understood and agreed by the parties hereto that two (2) work groups shall be recognized under this Agreement. A tabulation of the groups with explanatory notes is made in Exhibit "C," Part 1, which is a part of this Agreement.

(c) All Maintenance personnel may be assigned to do any jobs that they have the ability to perform subject to the provisions of Article V, Section 5, and Article XIV, Section 5, of the current contract.

(d) The Company reserves the right to increase or reduce, at any time and from time to time, the number of men employed in any group mentioned in Exhibit "C", Part 1, to that number of men which, in the opinion of the Company, are required to perform work in that group for maintaining the plant. Any such increase or reduction of force in any group shall be made on the basis of bargaining unit seniority in that group. The Company shall advise the employee(s) affected seventy-two (72) hours in advance of any permanent change in the number of persons who shall work in any classification.

ARTICLE VIII
HANDLING OF GRIEVANCES

Section 1. Routine Submission.

(a) For the purpose of adjusting a grievance arising out of the application or interpretation of a written provision of the Agreement, it is agreed that an employee, and/or with his Steward, shall first seek adjustment of the matter with his Foreman; and, if not resolved, the employee, and/or with his Steward, may submit the grievance in writing to his Foreman. No grievance will be considered unless it has been submitted to his Foreman within five (5) working days after the employee knew or should have known that the grievance occurred.

The Foreman shall advise the employee and/or the Steward, in writing, within five (5) days (Saturdays, Sundays and holidays excluded) of his decision on the grievance, if submitted. The grievance must be filed, in writing, on grievance forms provided by the Company and signed by the individual grievant.

If the grievance is not satisfactorily adjusted with the Foreman, the employee and the Steward may submit the grievance to the Shop Committee for handling with the Department Head.

(b) If the Shop Committee elects to process the grievance, it shall submit the grievance to the Department Head, along with a factual statement of the reasons that the Foreman's answer was not satisfactory. The grievance must be submitted to the Department Head within five (5) days (excluding Saturdays, Sundays and holidays) after the date the Foreman advised the Steward and/or employee of his decision. The Department Head shall, within seven (7) calendar days following receipt of the grievance, meet with the designated members of the Shop Committee at a time to be mutually agreed upon. The Department Head shall advise the Shop Committee, in writing, within five (5) days following this meeting (excluding Saturdays, Sundays and holidays) of his decision regarding the grievance.

(c) If the response of the Department Head is not satisfactory, the Shop Committee may submit the matter, in writing, to the Plant Manager within ten (10) days (excluding Saturdays, Sundays and holidays) after the date the Department Head furnishes his grievance response to the Committee. The Plant Manager shall, within ten (10) calendar days following receipt of such grievance

(and documentation) meet with the designated members of the Shop Committee, at a time to be mutually agreed upon. The Plant Manager, or his authorized representative, shall render a decision on the grievance, in writing, within ten (10) days (Saturdays, Sundays and holidays excluded) following this meeting.

Section 2. Arbitration.

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

The Union and the Company shall make written application to the Federal Mediation & Conciliation Service requesting a seven-name arbitrator panel from which the parties shall select one (1) arbitrator. The parties shall alternately each strike one name until only one (1) name remains who shall act as Arbitrator. It is understood that, starting with the first arbitration case following the date of the execution of this Agreement, the Union shall strike the first name. In the next case, the first name shall be stricken by the Company, and alternately the Union and the Company thereafter. Both the Company and the Union shall have the right to reject two (2) panels submitted by the Federal Mediation & Conciliation Service.

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

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

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

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

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

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

The Union has the authority to process, abandon, or settle grievances on behalf of employees. It is provided, however, that no grievance as to wage scales that shall be paid to all or any group of the employees in the bargaining unit shall be submitted to an arbiter, in any event.

The question as to whether a person has been paid the rate to which he is entitled, in accordance with the wage rates set forth in Exhibit "A" to this Agreement, for work which he has performed shall be a subject for arbitration.

The grievance and arbitration provisions provided for herein, in addition to any other right or obligation under the Agreement, are limited to grievances or clams arising and actually filed in writing during the term of this Agreement.

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

ARTICLE IX
SHOP COMMITTEE AND STEWARDS

Section 1. Shop Committee.

The Shop Committee, composed of four (4) members from the employee work force, and management representatives, shall hold regular meetings on a bimonthly basis. It shall be the responsibility of the Shop Committee to submit a written agenda of each subject it wishes to discuss with the Company no less than forty-eight (48) hours before the day of any such meeting. Only three (3) employees in any one group at any one time shall be a member of the Committee.

Section 2. Stewards.

(a) A Steward and an assistant Steward may be elected in each work group by the employees of that group, and the Union shall submit to the Company, in writing, the names of each person so designated. The Company shall consider the person so designated as Steward and assistant Steward of each work group until notified, in writing, to the contrary.

(b) Duly-elected Stewards or Committeemen shall be deemed to possess top ranking seniority for purposes of layoff and recall rights within his respective work group or classification while acting as such.

ARTICLE X
LEAVE OF ABSENCE

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with the consent of the Company so long as he does not desire to be off over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service.

Section 2. Union Business.

(a) The Company shall, upon a minimum of thirty (30) days' prior written request from an employee and the President of Local No. 224 of International Association of Machinists and Aerospace Workers, grant a leave of absence, extending not longer than fourteen (14) days, to the employee applying for such leave in order that he may, during that leave, engage in work pertaining to the business of Local No. 224 of International Association of Machinists and Aerospace Workers.

Such a leave shall not be granted to more than one (1) employee at any one time. Such employee shall not be granted such a leave for more than an aggregate of thirty(30) days in any one (1) calendar year.

(b) The Company shall grant (upon a minimum of sixty (60) days advance prior written request of an employee and the President or Vice President of International Association of Machinists and Aerospace Workers) a leave of absence for a period not to exceed one (1) year in order that the employee requesting such leave may, during the period of such leave, work as any employee of International Association of Machinists and Aerospace Workers. Not more than one (1) employee shall be permitted to be absent from work at any one time on any such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employment of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously-accrued seniority, whichever is less, during the period of his disability as a result thereof. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employment of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the classification in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better job elsewhere, his seniority shall be cancelled.

Section 4. Notice to the Company.

When an employee becomes aware of the fact that he is going to be absent from work due to sickness, accident, or other emergency, he must notify his supervisor as far in advance of his scheduled shift as he/she has knowledge of such intended absence, but no less than one (1) hour before the time he is due to report to work. In the event the employee cannot contact his Supervisor, it is permissible to contact any member of Management.

Section 5. Military Reserve Training.

(a) Any regular employee (not probationary) may be granted a special leave of absence for a period not to exceed fourteen (14) days, plus a reasonable period to cover travel time, when required for the purpose of engaging in a training program for Enlisted Reserve, Reserve Officers, or National Guard Encampment, provided:

1. He furnishes the Company with a copy of orders from the military authorities calling him for duty; and

2. He gives advance notice to his immediate supervisor so that arrangements may be made for his replacement during the period of his leave.

(b) Only one (1) leave of absence for Military Reserve Training shall be granted to any employee during a calendar year.

ARTICLE XI
VACATIONS

Section 1.

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

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

(b) Three weeks (120 hours) - during the calendar year in which an employee accrues six (6) year's plant seniority;

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

Section 2.

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

Section 3.

(a) Normally, all vacations will begin with the first work day of the work week schedule.

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

(c) Each employee must take his vacation during the vacation year (January 1-December 31) in which it falls due, subject to subsections (d) and (i) below.

(d) If an employee is not permitted to take his vacation in any calendar year in which it is due because the Company finds it not convenient to excuse him from work, he shall be paid a sum equal to the sum to which he would have been entitled for working at his regular job based on straight-time pay at normal working schedule during the last part of that year equal to the number of weeks' vacation to which he is entitled.

(e) Except with special permission of the Company, no employee shall be permitted to begin a vacation in any year within three (3) months of the date of the end of the vacation taken by him during the preceding calendar year, and any employee who has received pay in lieu of vacation for one (1) calendar year shall be entitled to his next annual vacation before March 1 of the following year, if it is practical for the Company to give him a vacation.

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

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

(g) An employee will not be eligible for overtime or call-out during the period beginning with the first day of his vacation and until his first scheduled work day following completion of his vacation.

(h) In the event of the death of any employee who was then otherwise eligible for a vacation but who had not taken it, a sum of money equal to pay in lieu of such vacation shall be paid to the person(s) who shall be entitled to the personal property of such decedent.

(i) No employee shall receive pay in lieu of vacation except as provided in Article XI, Section 2(d). However, when an employee is absent from work due to authorized occupational injury or illness, or personal sick leave, and has not returned to work by December 31, he may, at the Company's option, be permitted to take his vacation or receive vacation pay between January 1, and April 1 of the following year.

Section 4.

The vacation schedule will be initiated January 2nd of each year for those eligible for vacation in that year. Employees shall choose their vacation periods in order of their bargaining unit seniority. The Company will, insofar as operations permit, arrange by choice and by seniority the employee's request in the vacation schedule. An employee not submitting his vacation preference within a reasonable time after being contacted will have his vacation scheduled during the year at a time convenient to the plant operations.

Normally, subject to operational requirements, the Company will permit from each Maintenance Work Group, a maximum of twenty (20%) percent of the active available employees to be on vacation at the same time.

ARTICLE XII
MILITARY LEAVE

Section 1. Military Selective Service Act.

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

Section 2. Pay in Lieu of Vacation.

Each such employee who is entitled to a vacation under the vacation policy of the Company at the time he leaves to enter the Armed Forces, who elects not to take the vacation but to receive pay in lieu thereof, shall, upon furnishing to the Company a certificate from his commanding officer establishing the fact that he had been inducted into the military service, be paid the amount of money he would have received had he taken his vacation just prior to the beginning of his military leave.

ARTICLE XIII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

The Company may, from time to time, require all employees to have periodical physical examinations by a doctor selected by the Company. However, such examinations shall not be used for the purpose of discriminating against an employee. Each employee shall receive his regular rate of pay for all time required to be examined as provided in this Section 1.

Section 2. Certificate of Physical Fitness.

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

Section 3. Dispute Resolution.

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

ARTICLE XIV
MISCELLANEOUS AND GENERAL

Section 1. Tool Check-in Time.

Employees will be allowed fifteen (15) minutes time to clean and check in their tools before quitting time, if such action is required by them.

Section 2. Bulletin Board.

The Company shall maintain at the plant entrance gate at the Chemical Plant a bulletin board which shall be designated as "Local No. 224 Bulletin Board" and shall be for the use of the Union for posting -- subject to the approval of the Company -- of any matters of interest to or affecting the business of the Union. It is understood and agreed that the posting of notices by the Union within the plant area will be on this bulletin board only and will be posted by the Chairman of the Shop Committee or his recognized representative. This bulletin board will be locked with a key, released to the Chairman of the Shop Committee and to the Company.

Section 3. Discrimination.

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

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

Section 4. Wage Rate Changes.

There shall be no change in the basic hourly wage rates set forth in Exhibit "A" to this Agreement, or in the clothing allowance set forth in Exhibit "B" to this Agreement, during the term of this Agreement.

Section 5. Safety Provisions.

The Company shall continue to make reasonable provisions for the safety and the health of its employees at the plant during hours of their employment. Protective devices from injury shall be provided by the Company. Employees, subject to this Agreement, will abide by safe practice rules and regulations of the Company, and failure to do so may be considered grounds for dismissal.

No employee shall be required to perform services which, in the considered judgment of the Company and the Union, seriously endanger his physical safety; his refusal to do such work shall not warrant or justify discharge. If any employee refused to perform such work, representatives of the Company and the Union shall immediately attempt to decide the safety factor. Should they be unable to agree, the decision of a representative of the Safety Department of the Company shall be obtained. If the employee still feels an unsafe condition exists, he will not be required to perform that given job, and the Company will have the work done by any means it elects.

Section 6. Discharges.

It is agreed by and between the Company and the Union that the Company may, without limitation upon its right to discharge an employee for any other valid reason, discharge any employee, subject to this Agreement, for the violation of any of the Company's rules or regulations, which said rules and regulations heretofore have been approved by both the Company and the Union.

Section 7. Recess Period (Smoking).

Where men are required to work continuously in restricted and confined areas where smoking is not permitted, the Foreman is authorized to grant a recess of not longer than ten (10) minutes to employees upon request, providing in his judgment, work conditions permit; however, no employee shall be granted more than two (2) such recesses in any one (1) normal work day.

Section 8. Jury Duty.

Each employee of the Company who is called for service upon any grand jury, petit jury or coroner jury shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay he received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

Section 9. Termination Pay.

An hourly employee whose work comes within the scope of the Fair Labor Standards Act, and who has been continuously employed by the Company for one (1) year, shall, if discharged through no fault of his own, receive a sum equivalent to forty (40) hours' straight time pay at his regular rate, based upon his normal schedule of work, and twice that amount if he has been employed by the Company for a period of five (5) years. No employee shall receive such termination pay more than once in any one (1) calendar year.

Section 10. Contract Work.

It is agreed that any classified work covering maintenance and repair of equipment and machinery now being done by employees of the Company shall not be contracted out as long as the Company has the necessary equipment and as long as there are qualified men available to do the work.

Section 11. Technical and Supervisory Employees.

The Company may use technical and supervisory employees to install temporary test equipment to be used in evaluating conditions and/or performance of plant facilities.

Section 12. Minor Maintenance.

It is agreed that Operating Department personnel will perform minor maintenance functions. Minor maintenance functions shall be similar in scope but not limited to the following examples:

1. Tightening loose mechanical connections.

2. Tightening leaking packing.

3. Changing instrument charts.

4. Tightening piping fittings to stop minor leaks.

5. Changing light bulbs.

6. Hooking up loading and unloading lines.

Section 13. Minor Operating Functions.

Maintenance personnel may perform minor operating functions when requested by production supervision, but only when accompanied by a qualified member of the operations group. Typical example: Assisting in closing or opening large block valves that are difficult for one person to handle.

ARTICLE XV
VALIDITY OF CONTRACT

If any court shall hold any provision of this contract invalid, such decision shall not invalidate the other provisions.

ARTICLE XVI
NOTICE

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to:

El Dorado Chemical Company
P.O. Box 231
El Dorado, Arkansas 71731
Attention: Plant Manager

Any notice to be given to the Union may be given by depositing same in the U.S. Mail in a seal envelope, registered, postage prepaid, and addressed to:

Recording Secretary
International Association of Machinists
and Aerospace Workers, AFL-CIO,
Local No. 224
Box 1332
El Dorado, Arkansas

A copy of notices should be likewise mailed to:

President, International Association of
9; 9; Machinists and Aerospace Workers
AFL-CIO Machinists Building
9000 Machinist Place
Upper Marlboro, Maryland 20772-2687

ARTICLE XVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or attend the funeral of any one of the relatives of the employee hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) continuous days. One of these days shall be the day of the funeral. The other day may be the day before the funeral or the day after the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for the day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purposes stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for the deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as vacation pay, holiday pay, or sickness benefits payments.

Any request for such time off with pay based on false statements will subject the employee making the request to immediate disciplinary action or discharge.

ARTICLE XVIII
GROUP INSURANCE

The Company agrees to provide group insurance benefits. Employees participating in these plans will be furnished a booklet explaining the provisions of the agreements.

Section 1. Group Insurance and Retirement.

Effective with the date of this Agreement the Company and employees will share the cost of employee and employee dependent group insurance coverage on the following basis:

Company 75%
Employee 25%

Effective with the date of this Agreement the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance.

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

9; **ARTICLE XIX**
NO STRIKE OR LOCKOUT

There shall be no strike, sympathy strike, or lockout during the term of this Agreement for any reason.

ARTICLE XX
SERVICE WITH COMPANY

The Company shall honor previous service at the El Dorado Chemical Company for purposes of seniority and vacation eligibility only. Previous service at the plant, or any predecessor of the Company, shall not be credited for purposes of pension benefits.

ARTICLE XXI
RETIREMENT AGE

The mandatory retirement age for employees shall be in accord with federal law.

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

IN WITNESS HEREOF, this instrument is executed on the ___ day of _____, 2001, to be effective as of October 16, 2004, at 12:00 a.m.

EL DORADO CHEMICAL COMPANY

By:
R.L. Milliken
Senior Vice President, Manufacturing

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:
Randolph Jiles
Directing Business Representative

Members of the Shop Committee:

Jim McKnight

Edward Johnson

Wayne Hatch

Jeff Durham

Chuck Sellers

9; **EXHIBIT "A"**

BASIC HOURLY WAGE RATE

Classification	10/16/01	10/16/02	10/16/03
"A" Mechanic	$ 16.91	$ 17.33	$ 17.67
"B" Mechanic	$ 16.17	$ 16.33	$ 16.65
"C" Mechanic	$ 15.79	$ 15.95	$ 16.27
"D" Mechanic	$ 11.90	$ 12.02	$ 12.26
"E" Mechanic-New Hire (First 180 Days)	$ **	$ **	$ **

** Rate of pay determined by Company on basis of employees qualifications.

The Company shall have the right to select and appoint employee(s) as Lead. In addition to the regular work of their classification, a Lead may be assigned to train, assist, assign employees, carry out the instructions of supervision, and to perform any other duties pertaining to the maintenance department, which may be assigned by management. The selection of Lead personnel and the duration of their appointment is within the sole discretion of management. While so assigned, Lead(s) shall receive a premium of one dollar ($1.00) above their regular hourly rate.

ASBESTOS ABATEMENT TEAM PREMIUM

In addition to the foregoing rate, there shall be paid a rate of five cents ($.05) per hour for each hour worked to employees who are fully qualified and designated, in writing, as members of the Asbestos Abatement Team.

EXHIBIT "B"

CLOTHING ALLOWANCE

In addition to the hourly rates set forth in Exhibit "A", there shall be paid a clothing allowance of each hour worked, as indicated below:

Clothing Allowance Per Hour
$.16

9; **EXHIBIT "C"**
Part 1

RECOGNIZED MAINTENANCE WORK GROUPS

Group I - Mechanical

Includes work ordinarily done by:

Pipefitter, Plumber
Welder, Lead Burner
Heavy Duty Operator
Rigger
Machinist
General Mechanic
Tank Car Repairman
Carpenter
Painter
Mason, Insulator, Concrete Finisher

Group II - Electrical/Instrumentation

Includes work ordinarily done by:

Electrician
Instrument Repairman

EXHIBIT "D"

EMPLOYEE DUES AUTHORIZATION LETTER

DATE:_____

TO: EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

Until further notice, you are hereby requested and authorized to deduct from wages due me, and payable on the first regular pay day of each month, the sum equal to my monthly dues as set by Local 224, IAM & AW, AFL-CIO, for my account on or before the end of the month during which deductions are made.

"Contributions or gifts to Local Lodge 224, International Association of Machinists and Aerospace Workers are not deductible as charitable contributions for federal income tax purposes. However, they may be tax deductible under other provisions of the Internal Revenue Code."

_____
Employee

EXHIBIT "E"

AMERICANS WITH DISABILITIES ACT
LETTER OF UNDERSTANDING

The Company and Union recognize the provisions of the American's with Disabilities Act may impact the terms of this Agreement, and thus agree to discuss each instance individually in order to reach a mutual understanding.

Dated this 16th day of October, 2001.

EL DORADO CHEMICAL COMPANY

By:
R.L. Milliken
Senior Vice President, Manufacturing

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:
Randolph Jiles
Directing Business Representative

Members of the Shop Committee:

Jim McKnight

Edward Johnson

Wayne Hatch

Jeff Durham

Chuck Sellers

EXHIBIT "F"

SHIFT DIFFERENTIAL
LETTER OF UNDERSTANDING

Effective August 1, 1998, in addition to the foregoing hourly rates, employees who are regularly assigned to a specific shift shall be paid a shift differential of forty cents ($.40) for each hour worked on the evening shift and eighty cents ($.80) for each hour worked on the graveyard shift. For payroll purposes, employees who are regularly assigned to a three shift rotating schedule shall receive shift pay averaged over all three shifts (forty cents ($.40) per hour).

NOTE: Maintenance personnel who are not regularly assigned on a rotating shift basis or to the evening or graveyard shift will receive shift differential in accordance with the August 3, 1989, Letter of Understanding (regarding turnarounds and major maintenance projects).

EL DORADO CHEMICAL COMPANY

By:
R.L. Milliken
Senior Vice President, Manufacturing

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:
Randolph Jiles
Directing Business Representative

Members of the Shop Committee:

Jim McKnight

Edward Johnson

Wayne Hatch

Jeff Durham

Chuck Sellers

EXHIBIT "G"

LETTER OF UNDERSTANDING

During the commencement of their 2001 negotiations, the Company advised the Workmen's Committee and its International Representative, Mr. Randolph Jiles, that due to a historic series of events, including: droughts, natural gas prices, loss of sales due to foreign competition, surplus agricultural chemical capacity, and ever increasing and higher maintenance costs, the Company had experienced a net loss since 1998. Because of the dire financial condition of the Company, a "plea of poverty" was made to both the IAM and PACE Unions at the start of their respective negotiations.

Because of these conditions and the dire financial straits of the Company, we have stated, its survival depends on our ability to improve plant productivity through more effective management of its maintenance work force and its maintenance operations.

After much deliberation, the Company made the decision to propose to eliminate its maintenance workforce and to have their

work performed by outside contractors.

The parties have been assisted by Commissioner Sherman Bolden of the Federal Mediation and Conciliation Service in their deliberations of this issue.

During a joint negotiations session following the Company's discussion of employee conduct and work practices which influenced its proposal to discuss the decision of whether or not to subcontract its maintenance work, including the following:

(a) Company's continuing inability to obtain off duty personnel for call-out overtime to perform emergency equipment repairs;
(b) use of telephone devices such as caller IDs and answering machines, and refusal to work a reasonable amount of overtime;
(c) abuse of break time;
(d) employee failure to be at work stations at 0700, and leaving their work stations before 1530; and
(e) employee failure to seek substitute assignments when assigned project is delayed or equipment not released by production personnel.

There was a discussion of "side agreements" and work practices, which were contrary to efficient production, and the terms of the Collective Bargaining Agreement.

There were also discussions of attendance and work habits including a lack of employee initiative as well as supervisory conduct and planning department bottlenecks.

As the parties ended their October 3rd negotiations meeting, Union Spokesman, Jiles, requested that the Company consider their requests and their promises which were that they would become a more efficient and caring workforce, and that the Company consider their promises before making a decision to subcontract maintenance work presently performed by hourly employees and to not make such a decision.

Union spokesman, Jiles, also stated that the employees would comply with rules of conduct and hours of work policies. Mr. Jiles also suggested the Company should republish such rules and policies so that there would be no future misunderstanding about what is expected of the employees and in return the employees would demonstrate by their actions that they will become an efficient and productive work force and, in turn their efforts and improved work could help to maintain the viability of El Dorado Chemical Company as a long term employer.

It was agreed that no one wanted to see the El Dorado Chemical Company close and that the Machinists' Union and the maintenance employees represented by this Union are each committed to the goal of helping the Company survive by utilizing their skills and abilities to perform quality work in a timely fashion.

Company management has carefully considered the Union's comments and their request that we not make the decision to subcontract their work.

In return for the Company's consent to withdraw its proposal to subcontract all maintenance work and to eliminate its maintenance work force, the Company could agree to do so subject to the following conditions:

> Delete all side agreements and practices, which are not in conformity with the Collective Bargaining Agreement, and are null and void and will have no future effect. This means that overtime policies and employee work assignment practices will be made on the basis of the rights retained by management, consistent with the Collective Bargaining Agreement, in the manner and means decided upon by management in compliance with a joint goal of increased productivity and maximizing efficient and flexible utilization of employee skills and work time.
>
> The Company will establish a 12-Hour Shift patterned after the production unit 12-Hour Shift, now in place. The Company will have the sole right to determine the number of personnel to be assigned to either eight-hour or twelve-hour shifts.
>
> The Company will place time clocks in the assigned maintenance workshops. Work time begins when an employee reports to his or her assigned work area, where they clock in and out, not the main gate. Employees must clock only their own time card.

Employees will be paid for time on the clock minus thirty (30) minutes for lunch. Employees must be prepared to commence work at 0700 no matter how soon they clock in and will not be paid extra time for clocking in before 0700 unless their supervisor has instructed such employee to clock in early to commence work on a job assignment. The same rules will apply for clocking out, if an employee is scheduled to work eight (8) hours and he clocks out late he will not be paid for a holdover unless the employee is held over at the direction of his supervisor. Clock in time and clock ending time will no longer begin when an employee walks through the guard gate. This is not to say that everyone violates these rules or engages in nonproductive conduct, but as in life, it only takes a few to require that rules be put into place which apply to all.

Employees who leave their work areas for lunch must clock out and in upon return.

CONTRACT TERM

Company proposes a three (3) year agreement commencing with date of ratification. The Company agrees that active maintenance employees will receive $.20 per hour retroactive to August 4, 2001, and will be enrolled in the LSB Health Plan, based on our earlier agreement for contract extension.

The Company will implement a system whereby we can capture records on employees' productivity. There will be a measure of employee productivity and the Company will continue to monitor the call-out procedures compliance. We believe that the employees will stop violating the spirit and intent of the Agreement and will start taking call-outs when necessary.

The Company will install an absentee control procedure, a no-fault policy.

In return for your acceptance of these provisions the Company will have the right, on the one (1) year anniversary date, following ratification of our Agreement, to review performance and efficiency records and call-out records. Company will meet with the Union's committee and Mr. Jiles and provide you with the results at that time. If the employees have carried out their agreements of increased productivity, cooperation, and efficiency, the Company will not seek to contract out the maintenance work of the Company during the remaining two (2) years of the Agreement. However, if Company performance records and other records show otherwise and that we have returned to previous productivity levels, then at that point in time, the Company shall have the right to open up the contract to discuss the subcontracting out of maintenance work and the contract term shall revert to the one (1) year period of time, just ended.

We sincerely do not believe that this will happen, but these are the major factors of concern, required by the Company. The Company's committee truly believes in your capabilities and the commitments that you expressed at our last meeting.

This then constitutes our proposal to you in return for the commitments made at the table during our last negotiations meeting.

PRESENTED BY BILL TONEY
COMPANY SPOKESPERSON
OCTOBER 11, 2001

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

Randolph Jiles, Directing Business Representative

MEMBERS OF THE SHOP COMMITTEE:

Jim McKnight

Edward Johnson

Wayne Hatch

Jeff Durham

Chuck Sellers

For El Dorado Chemical Company

George Hogg, Plant Manager

FIRST AMENDMENT
TO THIRD AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of March 29, 2002, and entered into by and between BANK OF AMERICA, N.A. ("Lender") and SUMMIT MACHINE TOOL MANUFACTURING CORP. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Third Amended and Restated Loan and Security Agreement dated as of April 16, 2001 (the "Agreement");

WHEREAS, Borrower and Lender have agreed to amend the Agreement in certain respects 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. Amendments to Section 1.1. The following amendments are made to Section 1.1 of the Agreement:

(a) "First Amendment Effective Date" is hereby added as a new defined term, the definition of which term shall read in its entirety as follows:

"First Amendment Effective Date" means March 29, 2002.

(b) The definition of "Applicable Margin" is hereby amended and restated to read in its entirety as follows:

"Applicable Margin" means, at all times from and after the First Amendment Effective Date, seven percent (7.0%) per annum.

(c) The definition of "Maximum Revolving Credit Line" is hereby amended and restated to read in its entirety as follows:

"Maximum Revolving Credit Line" means (a) for the period from the First Amendment Effective Date through and including April 30, 2002, One Million Two Hundred Thousand Dollars ($1,200,000), and (b) on the first day of each calendar month thereafter, commencing with May 1, 2002, an amount equal to (i) the "Maximum Revolving Credit Line" in effect during the immediately preceding calendar month minus (ii) Fifty Thousand Dollars ($50,000).

Section 2.02 Addition of Section 3.4. A new Section 3.4 is hereby added to the Agreement, which Section 3.4 shall read in its entirety as follows:

3.4 Quarterly Extension Fees. Borrower shall, on the last day of each Fiscal Quarter commencing with the Fiscal Quarter ending June 30, 2002, pay to Lender an extension fee in the amount of $10,000; provided, however, that if prior to the last day of any Fiscal Quarter (a) this Agreement has terminated in accordance with the terms of Article 12 hereof and (b) the Obligations have been repaid by Borrower in full, no such quarterly extension fee shall be required to be paid on the last day of the Fiscal Quarter during which this Agreement was terminated.

Section 2.03 Amendment to Article 12. Article 12 of the Agreement is hereby amended and restated to read in its entirety as follows:

12. TERM AND TERMINATION. The term of this Agreement shall extend until April 1, 2003 (the "Termination Date"). This Agreement shall automatically be renewed thereafter for successive terms of one month each, unless this Agreement is terminated as provided below. The Borrower shall have the right to terminate this Agreement, without premium or penalty, at any time hereafter, and the Lender shall have the right to terminate this Agreement at the end of the initial term by giving the Borrower

written notice not less than fifteen (15) days prior to the end of such term by registered or certified mail. 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 payabl e. 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).

ARTICLE III

Ratifications, Representations and Warranties

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

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

ARTICLE IV

Conditions Precedent

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

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

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

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral since **[December 31, 2001]**, and Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Consent and Reaffirmation. LSB shall have executed and delivered the Consent and Reaffirmation attached to this Amendment; and

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

(b) Borrower shall have paid to Lender on or before the effective date hereof an extension fee in the amount of $10,000.

(c) 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 equit y, 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.**

[Remainder of page intentionally left blank.]

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

BORROWER:

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:

Name:

Title:

LENDER:

BANK OF AMERICA, N.A.

By:

Name:

Title: 9;

CONSENT AND REAFFIRMATION

The undersigned hereby (a) acknowledges the execution of, and consents to the terms and conditions of, that certain First Amendment to Third Amended and Restated Loan and Security Agreement dated as of March 29, 2002, between Summit Machine Tool Manufacturing Corp. and Bank of America, N.A. ("Lender") and reaffirms its obligations under (i) that certain Amended and Restated Continuing Guaranty (the "Guaranty") dated as of April 16, 2001, and (ii) that certain Amended and Restated Stock Pledge Agreement (the "Pledge Agreement") dated as of April 16, 2001, each made by the undersigned in favor of Lender, and (b) acknowledges and agrees that the Guaranty and the Pledge Agreement remain in full force and effect and the Guaranty and the Pledge Agreement are hereby ratified and confirmed.

Dated as of March 29, 2002

LSB INDUSTRIES, INC.

By: 9;
Name: 9;
Title: #9;

Ex.-21.1

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
As of March 22, 2002

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

Prime Financial Corporation
- Prime Holdings Corporation
- Northwest Capital Corporation
- ClimaChem, Inc. (5% stock ownership)

LSB Holdings, Inc.
- LSB-Europa Limited
- LSB International Sales Corp.
- Summit Machine Tool Inc. Corp.
  - Crystal City Nitrogen Company
- L&S Automotive Technologies, Inc.
- Climatex, Inc.
- Climate Master International Limited
- Cherokee Nitrogen Company

ClimateCraft Technologies, Inc.

LSA Technologies Inc.

INDUSTRIAL PRODUCTS BUSINESS

Summit Machine Tool Manufacturing Corp.
- Summit Machinery Company
  - Tower Land Development Corp.
  - Clipmate Corporation (20% held by Waldock and Starrett)
  - Pryor Plant Chemical Company

Hercules Energy Mfg. Corporation

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans, 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 of 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) and the related Prospectuses of LSB Industries, Inc. of our report dated March 27, 2002, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/Ernst & Young LLP
ERNST & YOUNG LLP

Oklahoma City, Oklahoma

March 27, 2002