UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarterly period ended June 30, 2000

OR

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

For the transition period from ______________ to______________

Commission file number 1-7677

LSB INDUSTRIES, INC.
Exact name of Registrant as specified in its charter

DELAWARE	73-1015226
State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.

16 South Pennsylvania, Oklahoma City, Oklahoma 73107
Address of principal executive offices (Zip Code)

(405) 235-4546
Registrant's telephone number, including area code

None
Former name, former address and former fiscal year, if changed since last report.

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

The number of shares outstanding of the Registrant's voting Common Stock, as of July 31, 2000 was 11,877,411 shares excluding 3,285,957 shares held as treasury stock.

PART I

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc. at June 30, 2000, the condensed consolidated statements of operations for the six-month and three-month periods ended June 30, 2000 and 1999 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2000 and 1999 have been subjected to a review, in accordance with standards established by the American Institute of Certified Public Accountants, by Ernst & Young LLP, independent auditors, whose report with respect thereto appears elsewhere in this Form 10-Q. The financial statements mentioned above are unaudited and reflect all adjustments, consisting only of adjustments of a normal recurring nature, except for the loss provision recognized in the first and second quarters of 2000 and the second quarter of 1999 on the firm raw material purchase commitments and the extraordinary gain recognized in the second quarter of 2000 on the extinguishment of certain Senior Unsecured Notes as discussed in Note 11 and Note 6, respectively of the Notes to Condensed Consolidated Financial Statements, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of operations for the six months ended June 30, 2000, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1999 was derived from audited financial statements as of that date. Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, for an expanded discussion of the Company's financial disclosures and accounting policies.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Note 10)
(Information at June 30, 2000 is unaudited)
(Dollars in thousands)

ASSETS	June 30, 2000	December 31, 1999
Current assets:		
Cash and cash equivalents	$ 3,941	$ 3,130
Trade accounts receivable, net	47,893	44,549
Inventories:		
Finished goods	13,385	15,983
Work in process	6,339	5,503
Raw materials	10,367	8,994
Total inventory	30,091	30,480
Supplies and prepaid items	4,531	4,617
Total current assets	86,456	82,776
Property, plant and equipment, net	82,981	83,814
Other assets, net	21,078	22,045
	$ 190,515	$ 188,635

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Note 10)
(Information at June 30, 2000 is unaudited)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2000	December 31, 1999
Current liabilities:		
Drafts payable	$ 291	$ 360
Accounts payable	22,979	18,791
Brokerage account payable	4,863	-
Accrued liabilities	19,391	18,563
Current portion of long-term debt (Note 6)	36,090	33,359
Total current liabilities	83,614	71,073
Long-term debt (Note 6)	103,858	124,713
Accrued losses on firm purchase commitments and other noncurrent liabilities (Note 11)	6,255	6,883
Commitments and Contingencies (Note 5)	-	-
Redeemable, noncumulative convertible preferred stock, $100 par value; 1,462 shares issued and outstanding	139	139
Stockholders' equity (Notes 2, 3, 5 and 10):		

Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 907,325 shares issued in 2000 (920,000 in 1999)	45,366	46,000
Common stock, $.10 per value 75,000,000 shares authorized, 15,163,368 shares issued in 2000 (15,108,716 in 1999)	1,516	1,511
Capital in excess of par value	39,906	39,277
Accumulated deficit	(75,858)	(86,675)
	12,930	2,113
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 3,285,957 shares	16,081	16,086
Total stockholders' deficit	(3,351)	(14,173)
	$ 190,515	$ 188,635

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Six Months Ended June 30, 2000 and 1999
(Dollars in thousands, except per share amounts)

	2000	1999
Businesses continuing at June 30,:		
Revenues:		
Net sales	$ 146,184	$ 130,585
Other income	2,182	1,333
	148,366	131,918
Costs and expenses:		
Cost of sales	115,215	102,401
Selling, general and administrative	23,348	24,044
Interest	8,084	7,250
Provision for loss on firm purchase commitments (Note 11)	2,485	7,500
Other expenses	1,661	1,439
	150,793	142,634
Loss from continuing operations before business disposed of, provision for income taxes extraordinary gain	(2,427)	(10,716)
Business disposed of (Note 8):		
Revenues	-	6,374
Operating costs, expenses and interest	-	8,105
	-	(1,731)
Loss on disposal of business	-	(1,971)
	-	(3,702)
Loss from continuing operations before provision for income taxes and extraordinary gain	(2,427)	(14,418)
Provision for income taxes	-	50
Loss from continuing operations before extraordinary gain	(2,427)	(14,468)
Net loss from discontinued operations (Note 9)	-	(2,431)
Extraordinary gain, net of income taxes of $225 (Note 6)	13,244	-
Net income (loss)	$ 10,817	$ (16,899)

Net income (loss) applicable to common stock (Note 2)	$ 9,229	$ (18,521)
Weighted average common shares (Note 2):		
Basic and Diluted	11,864,686	11,856,472
Income (loss) per common share (Note 2):		
Basic and diluted:		
Net loss from continuing operations	$ (.34)	$ (1.35)
Net loss from discontinued operations	-	(.21)
Extraordinary gain	1.12	-
Net income (loss) applicable to common stock	$ .78	$ (1.56)

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended June 30, 2000 and 1999
(Dollars in thousands, except per share amounts)

	2000	1999
Businesses continuing at June 30,:		
Revenues:		
Net sales	$ 76,563	$ 70,501
Other income	920	893
	77,483	71,394
Costs and expenses:		
Cost of sales	61,524	56,335
Selling, general and administrative	11,699	12,135
Interest	4,002	3,661
Provision for loss on firm purchase commitments (Note 11)	1,510	7,500
Other expenses	1,427	751
	80,162	80,382
Loss from continuing operations before business disposed of, provision for income taxes and extraordinary gain	(2,679)	(8,988)
Business disposed of (Note 8):		
Revenues	-	3,506
Operating costs, expenses and interest	-	4,267
	-	(761)
Loss on disposal of business	-	(1,971)
	-	(2,732)
Loss from continuing operations before provision for income taxes and extraordinary gain	(2,679)	(11,720)
Provision for income taxes	-	-
Loss from continuing operations before extraordinary gain	(2,679)	(11,720)
Net loss from discontinued operations (Note 9)	-	(1,369)
Extraordinary gain, net of income taxes of $225 (Note 6)	13,244	-
Net income (loss)	$ 10,565	$ (13,089)
Net income (loss) applicable to common stock (Note 2)	$ 9,772	$ (13,895)

Weighted average common shares (Note 2):		
Basic and Diluted	11,877,389	11,835,020
Income (loss) per common share (Note 2):		
Basic and diluted:		
Net loss from continuing operations	$ (.30)	$ (1.05)
Net loss from discontinued operations	-	(.12)
Extraordinary gain	1.12	-
Net income (loss) applicable to common stock	$ .82	$ (1.17)

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Six Months Ended June 30, 2000 and 1999
(Dollars in thousands)

	2000	1999
Cash flows from operating activities:		
Net income (loss)	$ 10,817	$ (16,899)
Adjustments to reconcile net income (loss) to cash flows provided by continuing operations:		
Net loss from discontinued operations	-	2,431
Extraordinary gain on extinguishment of debt	(13,469)	-
Depreciation, depletion and amortization:		
Property, plant and equipment	4,209	5,110
Other	703	634
Provision for possible losses on receivables and other assets	144	639
Loss on sale of assets	-	23
Loss on business disposed of	-	1,971
Inventory write-down and loss on firm purchase commitments, net of realization of $1,521 in 2000	964	9,100
Cash provided (used) by changes in assets and liabilities, (net of effects of discontinued operations):		
Trade accounts receivable	(3,319)	(4,684)
Inventories	389	847
Supplies and prepaid items	(803)	(2,659)
Accounts payable	4,188	4,205
Accrued liabilities	(688)	(134)
Net cash provided by continuing operating activities	3,135	674
Cash flows from investing activities:		
Capital expenditures	(3,721)	(3,968)
Principal payments on loans receivable	-	480
Proceeds from sale of equipment	76	3
Decrease (increase) in other assets	612	(81)
Net cash used in investing activities	(3,033)	(3,566)
Cash flows from financing activities:		
Proceeds from long-term and other debt	2,447	-
Payments on long-term and other debt	(3,023)	(1,931)
Net change in revolving debt facilities	1,354	11,576
Net change in drafts payable	(69)	(338)
Dividends paid on Preferred Stocks (Note 3)	-	(1,622)
Purchases of treasury stock (Note 3)	-	(230)
Net cash provided by financing activities	709	7,455
Net cash used in discontinued operations	-	(3,060)
Net increase in cash and cash equivalents	811	1,503
Cash and cash equivalents at beginning of period	3,130	1,459

Cash and cash equivalents at end of period	$ 3,941	$ 2,962

(See accompanying notes)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 2000 and 1999

Note 1: Income Taxes At December 31, 1999, the Company had regular tax net operating loss ("NOL") carry-forwards for tax purposes of approximately $75.0 million (approximately $40.0 million alternative minimum tax NOLs). Certain amounts of regular-tax NOL expire beginning in 2000.

For the three and six-month periods ended June 30, 2000, the Company utilized approximately $10 million of regular and alternative minimuum tax NOLs, against which the Company had previously established a valuation allowance, to reduce its income tax expense associated with the extraordinary gain. Income taxes of $225,000 for such periods is comprised primarily of Federal alternative minimum tax.

Note 2: Income (Loss) Per Share Net income (loss) applicable to common stock is computed by adjusting net income or (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 period. All potentially dilutive securities were antidilutive for all periods presented.

For the six months ended June 30, 2000, the Company's Board of Directors did not declare and pay the regular quarterly dividend of $.8125 on the Company's Series 2 $3.25 Convertible Class C preferred stock. Dividends in arrears at June 30, 2000, amounted to approximately $2.9 million. In addition, the Company's Board of Directors did not declare and pay the January 1, 2000 regular dividend on the Company's Series B 12% Convertible, Cumulative Preferred Stock. Dividends in arrears at June 30, 2000, related to the Company's Series B 12% Convertible, Cumulative Preferred Stock, amounted to approximately $.2 million.

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

(Dollars in thousands, except per share amounts)

	Six Months Ended June 30, 2000	Six Months Ended June 30, 1999	Three Months Ended June 30, 2000	Three Months Ended June 30, 1999
Net income (loss)	$ 10,817	$(16,899)	$ 10,565	$(13,089)
Preferred stock dividend requirements	(1,588)	(1,622)	(793)	(806)
Income (loss) available to common stockholders	$ 9,229	$(18,521)	$ 9,772	$(13,895)
Weighted - average shares	11,864,686	11,856,472	11,877,389	11,835,020
Basic and diluted income (loss) per share	$ .78	$ (1.56)	$ .82	$ (1.17)

Note 3: Stockholders' Equity
The table below provides detail of activity in the stockholders' equity accounts for the six months ended June 30, 2000:

	Common Stock Shares	Common Stock Par Value	Non-redeemable Preferred Stock	Capital in excess of par value	Accumulated deficit	Treasury Stock-Common	Treasury Stock-Preferred	Total

(in thousands)

Balance at December 31, 1999	15,109	$ 1,511	$ 48,000	$ 39,277	$(86,675)	$(16,086)	$ (200)	$(14,173)
Net Income	-	-	-	-	10,817	-	-	10,817
Conversion of 12,675 shares of non-redeemable preferred stock to common stock	54	5	(634)	629	-	-	-	-
Exchange of 4,000 shares of common stock held in treasury for Board of Director fees	-	-	-	-	-	5	-	5
Balance at June 30, 2000	(1) 15,163	$ 1,516	$ 47,366	$ 39,906	$(75,858)	$(16,081)	$ (200)	$ (3,351)

(1) Includes 3,286 shares of the Company's Common Stock held in treasury. Excluding the 3,286 shares held in treasury, the outstanding shares of the Company's Common Stock at June 30, 2000 were 11,877.

Note 4: Segment Information

	Six Months Ended June 30, 2000	Six Months Ended June 30, 1999	Three Months Ended June 30, 2000	Three Months Ended June 30, 1999
	(in thousands)			
Net sales:				
Businesses continuing:				
Chemical	$ 76,308	$ 69,690	$ 41,241	$ 38,945
Climate Control	64,269	56,025	32,639	29,326
Industrial Products (4)	5,607	4,870	2,683	2,230
	146,184	130,585	76,563	70,501
Business disposed of - Chemical (1)	-	6,374	-	3,506
	$146,184	$ 136,959	$ 76,563	$ 74,007
Gross profit: (2)				
Businesses continuing:				
Chemical	$ 12,026	$ 9,624	$ 5,916	$ 4,667
Climate Control	17,356	17,313	8,397	8,992
Industrial Products	1,587	1,247	726	507
	$ 30,969	$ 28,184	$ 15,039	$ 14,166
Operating profit (loss): (3)				
Businesses continuing:				
Chemical	$ 5,850	$ 2,525	$ 2,486	$ 1,078
Climate Control	5,713	5,715	3,027	3,008
Industrial Products	206	(913)	(111)	(501)
	11,769	7,327	5,402	3,585
Business disposed of - Chemical (1)	-	(1,488)	-	(643)
	11,769	5,839	5,402	2,942
General corporate expenses and other income or expenses, net	(3,627)	(3,293)	(2,569)	(1,412)
Interest expense:				
Business disposed of (1)	-	(243)	-	(118)
Businesses continuing	(8,084)	(7,250)	(4,002)	(3,661)
Loss on business disposed of	-	(1,971)	-	(1,971)
Provision for loss on firm purchase commitments Chemical	(2,485)	(7,500)	(1,510)	(7,500)

Loss from continuing operations before provision for income taxes and extraordinary gain	$ (2,427)	$(14,418)	$ (2,679)	$(11,720)

(1) In August 1999, the Company sold substantially all the assets of its wholly owned Australian subsidiary. See Note 8 of Notes to Condensed Consolidated Financial Statements for further information. The operating results have been presented separately in the above table.

(2) Gross profit by industry segment represents net sales less cost of sales.

(3) Operating profit (loss) by industry segment represents revenues less operating expenses before deducting general corporate and other expenses, interest expense, provision for loss on firm purchase commitments and income taxes and before extraordinary gain.

(4) Excludes intersegment sales to Climate Control of $97,000 and $591,000 for the three and six months ended June 30, 2000 ($105,000 and $254,000 in 1999), respectively.

Note 5: Commitments and Contingencies

Debt Guarantee

On October 17, 1997, Prime Financial Corporation ("Prime"), a subsidiary of the Company, borrowed from SBL Corporation, 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 "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. The Company has guaranteed the Prime Loan. As of June 30, 2000, the unpaid principal balance on the Prime Loan was $1,950,000. In April, 2000, at the request of Prime and the Company, SBL agreed to modify the demand note to make such a term note with a maturity date no earlier than April 1, 2001, unless the Company receives cash proceeds in connection with either (i) the sale or other disposition of KAC Acquisition Corp. and/or Kestrel Aircraft, and/or (ii) the repayment of loans by Co-Energy Group and affiliates, and/or the repayment of amounts in connection with the stock option agreement with the shareholders of Co-Energy Group, and/or (iii) some other source that is not in the Company's projections for the year 2000. From April 1, 2000 until no sooner than April 1, 2001, any demand for repayment of principal under the Prime Loan shall not exceed $1,000,000 from proceeds realized on item (ii) and $950,000 from proceeds realized on items (i) and (iii) discussed above.

In order to make the 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. In order to obtain SBL's agreement as provided above, and for other reasons, effective April 21, 2000, a subsidiary of the Company 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 pledged to the bank 1,973,461 shares of the Company's Common Stock that it holds as treasury stock. Under the guarantee, the Company's liability is limited to the value, from time to time, of the Company's Common Stock pledged by the Company. As of June 30, 2000, the outstanding principal balance due to the bank from SBL as a result of such loan was $1,950,000.

Legal Matters

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

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

No legal action has yet been filed. The amount of the Company's cost associated with the cleanup of the site is unknown due to continuing changes in the estimated total cost of cleanup of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. The Company had accrued an amount based on a preliminary settlement proposal by the alleged potential responsible parties; however, this liability was assumed as of May 4, 2000, by the purchaser of the Automotive Business. In connection with such assumption, certain of the Company's subsidiaries received an indemnification by the purchaser of the Automotive Business.

B. Arch Minerals Corporation, et al. v. ICI Explosives USA, Inc., et al. On May 24, 1996, the plaintiffs filed this civil cause of action against EDC and five other unrelated commercial explosives manufacturers alleging that the defendants allegedly violated certain federal and state antitrust laws in connection with alleged price fixing of certain explosive products. EDC does not believe that EDC conspired with any party, including, but not limited to, the five other defendants, to fix prices in connection with the sale of commercial explosives. Based on the anticipated future cost of defense and without admission of any kind, EDC has agreed to settle this action in principle for an amount which management does not consider material which was accrued and charged to operations in the three-month period ended June 30, 2000.

C. ASARCO v. ICI, et al. The U. S. District Court for the Eastern District of Missouri has granted ASARCO and other plaintiffs in a lawsuit originally brought against various commercial explosives manufacturers in Missouri, and consolidated with other lawsuits in Utah, leave to add EDC as a defendant in that lawsuit. This lawsuit alleges a national conspiracy, as well as a regional conspiracy, directed against explosive customers in Missouri and seeks unspecified damages. EDC has been included in this lawsuit because it sold products to customers in Missouri during a time in which other defendants have admitted to participating in an antitrust conspiracy, and because it has been sued in the Arch case discussed above. Based on the information presently available to EDC, EDC does not believe that EDC conspired with any party, to fix prices in connection with the sale of commercial explosives. EDC intends to vigorously defend itself in this matter.

The Company, including its subsidiaries, is a party to various other claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management after consultation with counsel, all claims, legal actions (including those described above) and complaints are not presently probable of material loss, are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts that unfavorable disposition is not presently expected to have a material effect on the financial position of the Company, but could have a material impact to the net income (loss) of a particular quarter or year, if resolved unfavorably.

Other

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

Note 6: Long-Term Debt

As of June 30, 2000, the Company and certain of its subsidiaries, including ClimaChem, are parties to a Revolving Credit Facility evidenced by two separate loan agreements ("Agreements") with a lender ("Lender") collateralized by receivables, inventories and proprietary rights of the parties to the Agreements. The Agreements have been amended from time to time since inception to accommodate changes in business conditions and financial results.

The Agreements, as amended, requires the Company and ClimaChem to maintain certain financial ratios and contain other financial covenants, including capital expenditure limitations. The maximum borrowing ability under the amended Agreements is the lesser of $50.0 million or the borrowing availability calculated using advance rates and eligible collateral less a Reserve of $5.0 million. The Agreements, as amended, provide for interest at the Lender's prime rate plus 1.5% per annum or, at the Company's option, at the Lender's LIBOR rate plus 3.875% per annum. The term of the Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen-month terms if, by October 1, 2000, the Company and Lender shall have determined new financial covenants for the calendar year beginning in January 2001. The Company may terminate the Revolving Credit Facility prior to maturity; however, should the Company do so, it would be required to pay a termination fee of $500,000. While there is no assurance that the Company will be successful in extending the term of such credit facility, the Company believes it will be successful in extending such facility or replacing such facility from another Lender with substantially the same terms during 2000.

The outstanding borrowings under the Revolving Credit Facility of $28.8 million at June 30, 2000 are classified as long-term debt due within one year. As of June 30, 2000, the Borrowing Group, excluding the " Reserve" had availability of $9.4 million. The effective interest rate at June 30, 2000 was 11.0%.

In November 1997, the Company's wholly owned subsidiary, ClimaChem, Inc. ("ClimaChem"), completed the sale of $105 million principal amount of 10 3/4% Senior Notes due 2007, (the "Notes"). Interest on the Notes is payable semiannually in arrears on June 1 and December 1 of each year, and the principal is payable in the year 2007. The Notes are senior unsecured obligations of ClimaChem and rank pari passu in right of payment to all existing senior unsecured indebtedness of ClimaChem and its subsidiaries. The Notes are effectively subordinated to all existing and future senior secured indebtedness of ClimaChem. As of June 30, 2000, ClimaChem was current on the payment of all interest due the holders of the Notes.

During the second quarter of 2000, a subsidiary of ClimaChem repurchased approximately $19.2 million of the Notes and recognized a gain of approximately $13.2 million, net of income taxes of $.2 million. The outstanding principal balance of the Notes is approximately $85.8 million at June 30, 2000. In July 2000, the Company repurchased approximately $6.0 million of additional Notes on approximately the same basis as the second quarter purchases.

ClimaChem owns substantially all of the companies comprising the Company's Chemical and Climate Control Businesses. ClimaChem is a holding company with no significant assets other than the notes and accounts receivable from the Company or material operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly, by ClimaChem. ClimaChem's payment obligations under the Notes are fully, unconditionally and joint and severally guaranteed by all of the existing subsidiaries of ClimaChem (the "Guarantors"), except for one subsidiary, El Dorado Nitrogen Company ("EDNC"). Separate financial statements and other disclosures concerning the guarantors are not presented herein because management has determined they are not material to investors.

Summarized consolidated unaudited balance sheet information of ClimaChem and its subsidiaries as of June 30, 2000 and December 31, 1999 and the results of operations for the six-month and three-month periods ended June 30, 2000 and 1999 are detailed below.

ClimaChem, Inc.	June 30, 2000	December 31, 1999
	(in thousands)	
Balance sheet data:		
Cash	$ 3,401	$ 2,673
Trade accounts receivable, net	45,581	41,934
Inventories:		
Finished goods	10,018	11,275
Work in process	6,339	5,503
Raw material	10,428	8,994
Total inventory	26,785	25,772
Supplies and prepaid items	4,468	4,314
Due from LSB and affiliates, net (1)	1,840	1,758
Total current assets	82,075	76,451
Property, plant and equipment, net	75,225	75,667
Notes and interest receivable from LSB and affiliates (1)	14,046	13,948
Other assets, net	16,783	18,012
Other assets, net		
Total assets	$ 188,129	$ 184,078
Accounts payable	$ 21,017	$ 16,312
Brokerage account payable	4,863	-
Accrued liabilities	15,829	13,791
Current portion of long-term debt	31,139	29,644
Total current liabilities	72,848	59,747
Long-term debt	94,395	112,544
Accrued losses on firm purchase commitments	5,009	5,652
Stockholders' equity	15,877	6,135
Total liabilities and stockholders' equity	$ 188,129	$ 184,078

ClimaChem, Inc.	Six Months Ended June 30, 2000	1999	Three Months Ended June 30, 2000	1999
	(in thousands)			
Operations data:				
Revenues:				
Net sales	$ 140,577	$ 125,178	$ 73,880	$ 68,357
Other income	55	240	-	76
	140,632	125,958	73,880	68,433
Costs and expenses:				
Cost of sales	111,729	98,955	59,575	54,810
Selling, general and administrative	21,938	20,336	11,024	10,319
Interest	7,307	7,131	3,616	3,637
Provision for loss on firm purchase commitments	2,485	7,500	1,510	7,500
Other expense	-	-	687	-

	143,459	133,922	76,412	76,266
Loss before business disposed of, benefit for income taxes and extraordinary gain	(2,827)	(7,964)	(2,532)	(7,833)
Business disposed of				
Revenues	-	6,374	-	3,506
Operating costs, expenses and interest	-	8,105	-	4,267
	-	(1,731)	-	(761)
Loss on disposal of business	-	(1,971)	-	(1,971)
	-	(3,702)	-	(2,732)
Loss before benefit for income taxes and extraordinary gain	(2,827)	(11,666)	(2,532)	(10,565)
Benefit for income taxes	-	(3,074)	-	(3,124)
Loss before extraordinary gain	(2,827)	(8,592)	(2,532)	(7,441)
Extraordinary gain, net of income taxes of $900	12,569	-	12,569	-
Net income (loss)	$ 9,742	$ (8,592)	$ 10,037	$ (7,441)

(1) Notes and other receivables from LSB and affiliates are eliminated when consolidated with LSB.

Note 7: Comprehensive Income The Company presents comprehensive income in accordance with Financial Accounting Standard No. 130 "Reporting Comprehensive Income" ("SFAS 130"). The provisions of SFAS 130 require the Company to classify items of other comprehensive income in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid in capital in the equity section of the balance sheet.

Other comprehensive income for the six-month and three-month periods ended June 30, 2000 and 1999 is detailed below.

	Six Months Ended June 30, 2000	Six Months Ended June 30, 1999	Three Months Ended June 30, 2000	Three Months Ended June 30, 1999
	(in thousands)			
Net income(loss)	$10,817	$(16,899)	$10,565	$(13,089)
Foreign currency translation income	-	1,599	-	1,337
Total comprehensive income (loss)	$10,817	$(15,340)	$10,565	$(11,752)

Note 8: Businesses Disposed of On August 2, 1999, the Company sold substantially all the assets of its wholly owned Australian subsidiary, Total Energy Systems Limited and its subsidiaries ("TES"), of the Chemical Business. The loss associated with the disposition was $2.0 million and was comprised of disposition costs of approximately $.3 million, the recognition in earnings of the cumulative foreign currency loss of approximately $1.1 million and approximately $.6 million related to the resolution of certain environmental matters.

Note 9: Discontinued Operations On April 5, 2000, the Board of Directors approved a plan of disposal of the Company's Automotive Products Business to allow the Company to focus its efforts and financial resources on its core businesses, Chemical and Climate Control. Accordingly, the Automotive Business has been presented in the accompanying consolidated financial statements as a discontinued operation. The Company concluded the sale of the substantially all of the assets of the Automotive Products Business on May 4, 2000. As a result of the sale, the Company did not receive any cash but did receive promissory notes totaling $8.7 million, secured by a second lien on the buyer's assets, and subordinated to the buyer's working capital lender. In addition, the buyer assumed substantially all of the debts of the Company's Automotive Products Business. The terms of the sale of the Automotive Products Business calls for no payments of principal on the notes to the Company for the first two years following closing, and future receipts are entirely dependent upon the buyers' ability to make the business profitable. Accordingly the Company fully reserved its notes and related interest receivable from the buyer and its investment in the net assets as of June 30, 2000 and December 31, 1999, respectively . The Company remains a guarantor on certain equipment notes of the Automotive Products Business which had outstanding indebtedness of approximately $4.1 million as of June 30, 2000 and on its revolving credit agreement in the amount of $1.0 million (for which the Company has posted a letter of credit as of June 30, 2000). The loss on disposal does not include the loss, if any, which may result if the Company is required to perform on its guarantees described above. As of the date of this report, the the Company believes that the buyer is current on its obligations guaranteed by the Company; however, there are no assurances that the Company will not be required to perform on its guarantees in a future period. Net assets of the discontinued Automotive operations were as follows as of December 31, 1999 (zero as of June 30, 2000):

	December 31, 1999 (in thousands)
Accounts receivable, net	$ 4,852
Inventories	15,178
Other current assets	502
Total current assets	20,532
Property and equipment, net	7,439
Other assets	2,138
Total noncurrent assets	9,577
Accounts payable and accrued liabilities	(3,714)
Current portion of long-term debt	(12,096)
Accrued loss through estimated disposal date and other current liabilities	(2,289)
Total current liabilities	(18,099)
Long-term debt due after one year	(4,115)
	7,895
Valuation allowance	(7,895)
Net assets of discontinued operations	$ -

Operating results of the discontinued Automotive operations for the six-month and three-month periods ended June 30, 1999, are as follows:

	Six Months Ended June 30, 1999	Three Months Ended June 30, 1999
	(in thousands)	
Revenues	$19,057	$ 8,915
Cost of sales	14,984	6,975
Selling, general and administrative	4,815	2,398
Interest	1,584	806
Other expenses	105	105

Loss from discontinued operations	$(2,431)	$(1,369)

Revenues of the Automotive Products Business of $10.3 million through May 4, 2000 ($3.3 million for the period April 1, 2000 through May 4, 2000) have been excluded from revenues in the accompanying Condensed Consolidated Statement of Operations of LSB Industries, Inc. for the six-month and three-month periods ended June 30, 2000.

Note: 10 Liquidity and Management's Plan The Company is a diversified holding company and, as a result, it is dependent 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") and its subsidiaries are dependent on credit agreements with lenders and internally generated cash flow in order to fund their operations and pay their debts and obligations.

As of June 30, 2000, the Company and certain of its subsidiaries, including ClimaChem, are parties to a working capital line of credit evidenced by two separate loan agreements ("Agreements") with a lender ("Lender") collateralized by receivables, inventories and proprietary rights of the parties to the Agreements. The Agreements have been amended from time to time since inception to accommodate changes in business conditions and financial results.

The term of the Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen-month terms if, by October 1, 2000, the Company and Lender shall have determined new financial covenants for the calendar year beginning in January 2001. The Company believes that it will be successful in extending such facility or replacing such facility with another lender with substantially the same terms during 2000.

As of June 30, 2000 the Company, exclusive of ClimaChem, and ClimaChem have a borrowing availability under their existing revolver of $.3 million, and $9.1 million, respectively, or $9.4 million in the aggregate and the effective interest rate was 11.0%. Borrowings under the Revolver outstanding at June 30, 2000, were $28.8 million. The annual interest on the outstanding debt under the Revolver at June 30, 2000, at the rates then in effect would approximate $3.2 million. The Agreements also restrict the flow of funds, except under certain conditions, to subsidiaries of the Company that are not parties to the Agreement.

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. Under the terms of the Indenture, ClimaChem cannot transfer funds to the Company, except for (i) the amount of income taxes that they would be required to pay if they were not consolidated with the Company (the "Tax Sharing Agreement"), (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 and ClimaChem's subsidiaries pursuant to a certain services agreement and a certain management agreement to which the companies are parties. ClimaChem sustained a net loss of $19.2 million in the calendar year 1999, and net income of approximately $9.7 million for the six months ended June 30, 2000 including an extraordinary gain of $12.6 million, net of income taxes, resulting from the repurchase of Senior Unsecured Notes. No amounts were paid to the Company by ClimaChem under the Tax Sharing Agreement, nor under the Management Agreement during 1999. For the six months ended June 30, 2000, ClimaChem was required to pay the Company $900,000 under the Management Agreement inasmuch as earnings before interest, income taxes, depreciation and amortization ("EBITDA") exceeded $13.0 million for the period. It is possible that ClimaChem could pay up to $1.8 million of management fees to the Company for fiscal 2000 should operating results be favorable (if ClimaChem has EBITDA in excess of $26.0 million for fiscal 2000). In addition, ClimaChem recorded a provision for income taxes relating to the extraordinary gain on the repurchase of Senior Unsecured Notes for the six months ended June 30, 2000 of $.9 million, $.8 million of which is payable to the Company under the terms of the Tax Sharing Agreement. There are no assurances that additional amounts will be earned in future quarters or that the amount earned in the first half of 2000 will not be required to be repaid in subsequent periods. Due to these limitations, the Company and its non-ClimaChem subsidiaries have limited resources to satisfy their obligations and may not be in a position to satisfy its obligation to ClimaChem. The amount which the Company owed ClimaChem at June 30, 2000 includes approximately $.5 million for interest due June 1, 2000 on a $10 million note payable by the Company to ClimaChem.

Due to the Company's and ClimaChem's net losses for the years of 1998 and 1999 and the limited borrowing ability under the Revolver, 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, and 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 $2.9 million. In July 2000, the Company repurchased 172,500 shares of the Series 2 Preferred with a stated value of approximately $8.6 million for approximately $.9 million. Also, the Company's Board of Directors has decided not to pay the September 15, 2000 dividend payment on its outstanding Series 2 Preferred. If the September 15 dividends on the Series 2 Preferred is not paid, the amount of the total arrearage of unpaid dividend payment on the outstanding Series 2 Preferred will be approximately $3.0 million. In addition, the Company did not pay the January 1, 2000 regular dividend on the Series B Preferred. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

As of June 30, 2000, the Company had working capital of approximately $2.8 million and long-term debt due after one year of approximately $103.9 million on a consolidated basis. However, the Company and its subsidiaries which are not subsidiaries of ClimaChem had a working capital deficit of approximately $4.2 million and long-term debt due after one year of approximately $24.7 million including the amount owed to ClimaChem.

The Company's plan for the remainder of 2000 identifies specific non-core assets which the Company will attempt to realize to provide additional working capital to the Company in 2000. As part of the plan, the Company is presently evaluating alternatives for realizing its net investment in the Industrial Products Business. Further the Company's plan also calls for the realization of the Company's investment in an option to acquire an energy conservation company and advances made to such entity (the "Optioned Company"). In April 2000, the Company received written acknowledgment from the President of the Optioned Company that it had executed a letter of intent to sell to a third party, the proceeds from which would allow repayment of the advances and options payments to the Company in the amount of approximately $2.7 million. Upon receipt of these proceeds, the Company is required to repay up to $1.0 million of outstanding indebtedness to a related party, SBL Corporation, related to an advance made to the Company in 1997. The remaining proceeds would be available for corporate purposes.

During 1999 and into 2000, the Company has been restructuring its operations and reducing its workforce as opportunities arise. The Company also successfully renegotiated its primary raw material purchase contracts in the Chemical Business in an effort to improve the profitability of the Business and focused its attention on the development of new, market-innovated products in the Climate Control Business.

During the second quarter of 2000, a subsidiary of ClimaChem repurchased approximately $19.2 million of the Senior Unsecured Notes and recognized a gain of approximately $13.2 million, net of income taxes. At June 30, 2000, the subsidiary had a liability to the brokerage firms which reacquired the Senior Unsecured Notes in the amount $4.9 million which was paid in July 2000 out of the subsidiary's working capital. In July 2000, the Company repurchased approximately $6.0 million of additional Senior Unsecured Notes on approximately the same basis as the second quarter purchases.

For the remainder of 2000, the Company has planned capital expenditures of approximately $2.5 million, primarily in the Chemical and Climate Control Businesses, but such capital expenditures are dependent upon obtaining acceptable financing. The Company expects to delay these expenditures as necessary based on the availability of adequate working capital and the availability of financing. The Company believes, based upon present circumstances, that it will receive relief from certain of the compliance dates under its wastewater management project and expects that this will ultimately result in the delay in the implementation date of such project. Because the Company has not completed its evaluation of engineering alternatives, the Company has not yet provided to the state of Arkansas its final design plans by the deadline of August 1, 2000 set forth in the applicable consent order. The consent order provides that the August 1, 2000 deadline for submission of final design plans will be preceded by the agency's issuance of a revised permit. The revised permit will include the discharge limits that will apply to the wastewater treatment project. To date the state has deferred issuance of the revised permit. The Company continues to regularly advise the state of the projects engineering status and financing status. Construction of the wastewater treatment project is subject to the Company obtaining financing to fund this project. There are no assurances that the Company will be able to obtain the required financing. Failure to construct the wastewater treatment project could have a material adverse effect on the Company.

The Company's plan for the remainder of 2000 involves a number of initiatives and assumptions which management believes to be reasonable and achievable; however, should the Company not be able to execute this plan described above, it may not have resources available to meet its obligations as they come due.

Note 11: Loss on Firm Purchase Commitment The Chemical Business is obligated to purchase anhydrous ammonia pursuant to the terms of a firm uncancelable supply contract. At June 30, 2000, the purchase price the Chemical Business was required to pay for anhydrous ammonia to be purchased under the contract, which was approximately ten percent of the Chemical Business' anhydrous ammonia requirements in 2000 (15% in 2001 and 2002), exceeded and was expected to continue to exceed the spot market prices throughout the purchase period. Due to the estimated sales prices and the cost to produce the nitrate products, including the cost of the anhydrous ammonium to be purchased under the contract, the costs of certain of the Company's nitrate based products are expected to exceed the anticipated future sales prices. As a result, an additional provision for loss on the firm purchase commitment of $1.5 million was recorded in the second quarter of 2000 ($2.5 million for the six months ended June 30, 2000). At June 30, 2000 and December 31, 1999, the accompanying balance sheets include remaining accrued losses under the firm purchase commitment of $8.4 and $7.4 million, respectively ($3.4 and $1.8 million of which is classified as current in accrued liabilities, respectively). Due to the pricing mechanism in the contract, it is reasonably possible that this loss provision estimate may change in the near term.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's June 30, 2000 Condensed Consolidated Financial Statements.

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

Overview

General

The Company is pursuing a strategy of focusing on its core businesses relating to its Chemical and Climate Control Businesses. In addition, the Company is seeking to reduce its outstanding indebtedness and improve its liquidity and operating results through liquidation of selected assets. In this regard, the Company previously concluded that its Industrial and

Automotive Products Businesses were non-core to the Company.

The Automotive Products Business was sold pursuant to a definitive plan approved by the Board of Directors. Upon the closing of the sale, the Company received notes in the approximate amount of $8.7 million, such notes being secured by a second lien on the assets of the Automotive Products Business. These notes, and any payments of principal and interest, thereon, are subordinated to the buyer's primary lender. The Company will receive no principal payments under the notes for at least the first two years following the sale of the Automotive Products Business, and future receipts are entirely dependent upon the buyers' ability to make the business profitable. Accordingly, the Company has fully reserved its note and related interest receivable from the buyer as of June 30, 2000. In addition, the buyer assumed substantially all of the Automotive Products Business' debts and obligations as of the date of the sale.

During the second quarter of 2000, a subsidiary of the Company repurchased approximately $19.2 million of Senior Unsecured Notes and recognized a gain of approximately $13.2 million, net of income taxes. At June 30, 2000, the subsidiary had a liability to the brokerage firms which reacquired the Senior Unsecured Notes in the amount of $4.9 million which was paid in July 2000 out of the subsidiary's working capital. During July 2000, a subsidiary of the Company repurchased approximately $6.0 million of additional Senior Unsecured Notes on approximately the same basis as the second quarter purchases. The purchases will serve to reduce interest expense by approximately $2.7 million annually.

In addition, in July 2000, a subsidiary of the Company purchased 172,500 shares of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("$3.25 Preferred") for approximately $.9 million. Each share of $3.25 Preferred has a face value of $50.00 per share. The Company bought these shares out of its working capital.

Chemical Business

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

As of June 30, 2000, the Chemical Business had commitments to purchase 84,000 tons of anhydrous ammonia under a take or pay contract at a minimum volume of 2,000 tons per month of anhydrous ammonia during 2000 and 3,000 tons per month of anhydrous ammonia during 2001 and 2002. In addition, under the contract the Chemical Business is committed to purchase 50% of its remaining requirements of anhydrous ammonia through 2002 from this third party at prices which approximate market prices. Based on the pricing index contained in this contract, prices paid during the six months ended June 30, 2000 were higher than the current market spot price. The purchase price(s) the Chemical Business will be required to pay for the remaining 84,000 tons of anhydrous ammonia under this contract currently exceeds and is expected to continue to exceed the spot market prices throughout the purchase period. As a result, in the first quarter of 2000 and in 1999 the Company recorded loss provisions for anhydrous ammonia required to be purchased during the remainder of the contract aggregating approximately $1.0 and $8.4 million, respectively. At June 30, 2000, an additional loss provision of approximately $1.5 million was recorded based on the forward contract pricing existing at June 30, 2000 and estimated market prices for certain products to be manufactured and sold during the remainder of the contract. At June 30, 2000, the accrued liability for future payments of the loss provision included in the Condensed Consolidated Financial Statements was approximately $8.4 million.

During 1999 and the six months ended June 30, 2000, the Chemical Business has reported losses from operations after interest and before income tax credit, if any. Management expects the Chemical Business to continue to report losses until natural gas and/or anhydrous ammonia prices come down or until sales prices of the Business' nitrogen products increases to a level that reflects the high price of such raw material. See

"Special Note Regarding Forward-Looking Statements".

The Chemical Business is a member of an organization of domestic fertilizer grade ammonium nitrate producers which sought relief from extremely low priced Russian ammonium nitrate. This industry group filed a petition in July 1999 with the U.S. International Trade Commission and the U.S. Department of Commerce seeking an antidumping investigation and, if warranted, relief from Russian dumping. The International Trade Commission rendered a favorable preliminary determination that U.S. producers of ammonium nitrate have been injured as a result of Russian ammonium nitrate imports. In addition, the U.S. Department of Commerce issued a preliminary affirmative determination that the Russian imports were sold at prices that were significantly below their fair market value. On May 19, 2000, the U.S. and Russian governments entered into an agreement to limit volumes and set minimum prices for Russian ammonium nitrate exported to the United States ("Suspension Agreement"). The U.S. industry , however, requested completion of the investigation. On August 2, 2000, by unanimous vote, the U.S. International Trade Commission found that imports by Russian fertilizer grade ammonium nitrate have materially injured the domestic ammonium nitrate industry ("Final Determination"). This Final Determination will not abrogate the Suspension Agreement. However, in the event that Russia withdraws from or violates the Suspension Agreement, an antidumping order would be issued subjecting Russian fertilizer grade ammonium nitrate to a dumping duty of approximately 250%.

Net Sales in the Chemical Business (excluding the Australian subsidiary in which substantially all of its assets were disposed of in August, 1999) were $76.3 million for the six months ended June 30, 2000 and $69.7 million for the six months ended June 30, 1999. The sales volume from the Chemical Business increased in 2000 from the 1999 level. This increase in sales is due largely to increased sales volume of mining and industrial acid products and improved sales prices of certain agricultural products. The gross profit (excluding the Australian subsidiary) increased to $12.0 million (or 15.8% of net sales) in 2000 from $9.6 million (or 13.8% of net sales) in 1999. The increase in the gross profit was primarily a result of improved sales prices and reductions in costs relating to certain agricultural products and the realization of approximately $1.5 million of the provision for loss on firm purchase commitments and inventory write-down. This increase was partially offset by lower sales prices and increased costs relating to certain mining and industrial acid products.

The Australian subsidiary revenues for the six months ended June 30, 1999 were $6.4 million and the loss was $3.7 million, including a loss on disposal of $2.0 million. (See Note 8 of Notes to Condensed Consolidated Financial Statements.) See Special Note Regarding Forward-Looking Statements".

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.

Sales of $64.3 million for the six months ended June 30, 2000, in the Climate Control Business were approximately 14.7% greater than sales of $56.0 million for the six months ended June 30, 1999. The gross profit was approximately $17.4 million and $17.3 million in both periods. The gross profit percentage decreased to 27.0% for 2000 from 30.9% for 1999. This decrease is primarily due to (i) increased material costs relating to a new product line and labor costs, (ii) decreased gross margins caused by competitive pressures and (iii) increased sales of products with lower margins.

Industrial Products Business

Net sales in the Industrial Products Business during the six months ended June 30, 2000 and 1999 were $5.6 million and $4.9

million, respectively, resulting in an operating profit of $.2 million and operating loss of $.9 million, respectively. The net investment in assets of this Business has continued to decrease and the Company expects to realize further reductions in future periods. The Company continues to eliminate certain categories of machines from the product line by not replacing those machines when sold.

RESULTS OF OPERATIONS

Six months ended June 30, 2000 vs. Six months ended June 30, 1999.

Revenues

Total revenues of Businesses continuing for the six months ended June 30, 2000 and 1999 were $148.4 million and $131.9 million, respectively, an increase of $16.5 million. Sales and other income increased $15.6 and $.9 million, respectively.

Net Sales

Consolidated net sales of Businesses continuing included in total revenues for the six months ended June 30, 2000, were $146.2 million, compared to $130.6 million for the first six months of 1999, an increase of $15.6 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $6.6 million due primarily from increased sales volume of mining and industrial acid products and improved sales prices of certain agricultural products, (ii) increased sales in the Climate Control Business of $8.2 million due primarily from an increase in export sales and an increase in sales volume due to improved manufacturing processes , and (iii) increased sales in the Industrial Products Business due to an increase in sales of machine tools.

Gross Profit

Gross profit of Businesses continuing as a percent of sales was 21.2% for the first six months of 2000, compared to 21.6% for the first six months of 1999. The decrease in the gross profit percentage was primarily the result of lower profit margins in the Climate Control Business caused primarily from (i) increased material costs relating to a new product line and labor costs, (ii) decreased gross margins caused by competitive pressures, and (iii) increased sales of products with lower margins. This decrease was offset by higher profit margins in the Chemical Business due to improved sales prices and reductions in costs relating to certain agricultural products and the realization of approximately $1.5 million of the provision for loss on firm purchase commitments and inventory write-down in 2000. This increase was offset by lower sales prices and increased costs relating to certain mining and industrial acid products.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from Businesses continuing at June 30, 2000, were 16.0% in the six month period ended June 30, 2000, compared to 18.4% for the first six months of 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 the Industrial Products Business and a reduction in warranty expenses due to quality control, improvements and improved management of warranty claims in the Climate Control Business.

Interest Expense

Interest expense for continuing businesses of the Company was $8.1 million in the first six months of 2000, compared to $7.3 million for the first six months of 1999. The increase of $.8 million primarily resulted from increased lenders' prime rates.

Provision for Loss

The Company had a provision for loss on firm purchase commitments of approximately $2.5 and $7.5 million for the six months ended June 30, 2000 and 1999, respectively. See discussion in Note 11 of Notes to Condensed Consolidated Financial

Statements.

Other Expense

Other expense for the six months ended June 30, 2000 included 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 as well as a provision for a litigation settlement of $.6 million for the six months ended June 30, 2000 (none in 1999).

Business Disposed of

The Company sold substantially all the assets of a wholly owned subsidiary in 1999. See discussion in Note 8 of the Notes to Condensed Consolidated Financial Statements.

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 $2.4 million in the first six months of 2000 compared to $14.4 million in the six months ended June 30, 1999. Approximately $5.0 million of the increased profitability of $12.0 million was due to the difference in loss provision on firm purchase commitments. The remainder of the improvement was primarily due to improved profit margins of the Chemical Business relating to certain agricultural products and the realization of the loss provision on firm purchase commitments in 2000 compare to the inventory write-down in 1999 offset by lower profit margins of the Climate Control Business due to increased costs associated with new product lines and labor and lower profit margins in the commercial and export heat pump sales due to competitive pressures. The profit margins of certain mining and industrial acid products of the Chemical Business also decreased due to lower sales prices and higher material costs. In addition, SG&A expenses decreased but were partially offset by increased interest expense.

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 1 of Notes to Condensed Consolidated Financial Statements, no provisions for income taxes were necessary for the six months ended June 30, 2000. The Company's provisions for income taxes were for current state income taxes and federal alternative minimum taxes in 1999.

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 the periods presented. The net loss from discontinued operations of Automotive for the phase-out period beginning January 1, 2000 through May 4, 2000 (closing date) was fully accrued for at December 31, 1999. For the six months ended June 30, 1999, the net loss from discontinued operations was $2.4 million. See discussion in Note 9 of the Notes to Consolidated Financial Statements.

Extraordinary Gain

During the second quarter of 2000, a subsidiary of the Company repurchased approximately $19.2 million of the Senior Unsecured Notes and recognized a gain of approximately $13.2 million, net of income taxes of $.2 million.

Three months ended June 30, 2000 vs. Three months ended June 30, 1999.

Revenues

Total revenues of Businesses continuing for the three months ended June 30, 2000 and 1999 were $77.5 million and $71.4 million, respectively, an increase of $6.1 million relating to net sales.

Net Sales

Consolidated net sales of Businesses continuing included in total revenues for the three months ended June 30, 2000, were $76.6 million, compared to $70.5 million for the three months ended June 30, 1999, an increase of $6.1 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $2.3 million due primarily from increased sales volume of mining and industrial acid products offset by decreased sales volume of agricultural products, (ii) increased sales in the Climate Control Business of $3.3 million due primarily from an increase in in sales volume due to improved manufacturing processes, and (iii) increased sales in the Industrial Products Business of $.5 million due to increased sales of machine tools.

Gross Profit

Gross profit of Businesses continuing as a percent of sales was 19.6% for the three months ended June 30, 2000, compared to 20.1% for the three months ended June 30, 1999. The decrease in the gross profit percentage was primarily the result of lower profit margins in the Climate Control Business due primarily from (i) increased sales of products with lower margins, (ii) decreased gross margins caused by competitive pressures, and (iii) increased labor and certain overhead costs. These lower margins were offset by higher profit margins in the Chemical Business due to improved sales prices and reductions in costs relating to certain agricultural products and the realization of approximately $.6 million of the provision for loss on firm purchase commitments in 2000 compared to the write-down of inventory of $1.6 million in 1999. This increase was offset by lower sales prices and increased costs relating to certain mining and industrial acid products.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from Businesses continuing at June 30, 2000, were 15.3% in the three-month period ended June 30, 2000, compared to 17.2% 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 the Industrial Products Business.

Interest Expense

Interest expense for continuing businesses of the Company was $4.0 million in the three-month period ended June 30, 2000, compared to $3.7 million for 1999. The increase of $.3 million primarily resulted from increased lenders' prime rates.

Provision for Loss

The Company had a provision for loss on firm purchase commitments of approximately $1.5 and $7.5 million for the three months ended June 30, 2000 and 1999, respectively. See discussion in Note 11 of Notes to Condensed Consolidated Financial Statements.

Other Expense

Other expense for the three months ended June 30, 2000 included 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 as well as a provision for a litigation settlement of $.6 million for the three months ended June 30, 2000 (none in 1999).

Business Disposed of

The Company sold substantially all the assets of a wholly owned subsidiary in 1999. See discussion in Note 8 of the Notes to Condensed Consolidated Financial Statements.

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 $2.7 million in the three-month period ended June 30, 2000 compared to a loss of $11.7 million in the three months ended June 30, 1999. The increased profitability of $9.0 million was primarily due to the variance in the amount of the loss on firm purchase commitments between the two periods. Other profitability increases resulted from improved profit margins of the Chemical Business relating to certain agricultural products and the inventory write-down in 1999 offset by lower profit margins of the Climate Control Business due to increased labor and overhead costs associated with new product lines and lower profit margins in the commercial and export heat pump sales. The profit margins of certain mining and industrial acid products of the Chemical Business also decreased due to lower sales prices and higher material costs. In addition, decreased SG&A expenses were offset by increased interest expense.

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 1 of Notes to Condensed Consolidated Financial Statements, no provisions for income taxes were necessary for the three months ended June 30, 2000 and 1999.

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 the periods presented. The net loss from discontinued operations of Automotive for phase-out period from April 1, 2000 to May 4, 2000 was fully accrued for at December 31, 1999. For the three-month period ended June 30, 1999, the net loss from discontinued operations was $1.4 million. See discussion in Note 9 of the Notes to Consolidated Financial Statements.

Extraordinary Gain

During the second quarter of 2000, a subsidiary of the Company repurchased approximately $19.2 million of the Senior Unsecured Notes and recognized a gain of approximately $13.2 million, net of income taxes of $.2 million.

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, In November 1997, the Company issued $105 million of Senior Unsecured Notes by its wholly owned subsidiary, ClimaChem, Inc. .

Net cash provided by continuing operating activities for the six months ended June 30, 2000 was $3.1 million, after a noncash extraordinary gain of $13.5 million, depreciation and amortization of $4.9 million, loss on firm purchase commitments, net of realization of $1.0 million and including an accounts receivable increase of $3.3 million; an increase in accounts payable of $4.2 million; and other items totaling $1.0 million. The increase in receivables is primarily due to seasonal sales of agricultural products in the Chemical Business and improved sales in the Climate Control Business. The increase in accounts payable is primarily due to increased purchases caused by an increase in production and timing of payments in the Chemical and Climate Control Businesses.

Cash Flow From Investing and Financing Activities

Net cash used in investing activities for the six months ended June 30, 2000 included $3.7 million for capital expenditures. The capital expenditures were primarily for the benefit of the Chemical and Climate Control Businesses to enhance production and product delivery capabilities.

Net cash provided by financing activities included proceeds from long- term debt and other debt of $2.4 million offset by payments of $3.0 million. and a net increase in revolving debt of

$1.4 million.

Source of Funds

Continuing Businesses

The Company is a diversified holding company and, as a result, it is dependent 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"), and its subsidiaries are dependent on credit agreements with lenders and internally generated cash flow in order to fund their operations and pay their debts and obligations.

As of June 30, 2000, the Company and certain of its subsidiaries, including ClimaChem, are parties to a working capital line of credit evidenced by two separate loan agreements ("Agreements") with a lender ("Lender") collateralized by receivables, inventories and proprietary rights of the parties to the Agreements as described in Note 6 of Notes to Condensed Consolidated Financial Statements. The term of the Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen-month terms if, by October 1, 2000, the Company and Lender shall have determined new financial covenants for the calendar year beginning in January 2001. While there is no assurance that the Company will be successful in extending the term of such credit facility, the Company believes it will be successful in extending such facility or replacing such facility from another Lender with substantially the same terms during 2000.

As of June 30, 2000 the Company, exclusive of ClimaChem, and ClimaChem had a borrowing availability under the revolver of $.3 million, and $9.1 million respectively, or $9.4 million in the aggregate and the effective interest rate was 11.0%. Borrowings under the Revolver outstanding at June 30, 2000, were $28.8 million. The annual interest on the outstanding debt under the Revolver at June 30, 2000, at the rates then in effect would approximate $3.2 million. The Agreements also restrict the flow of funds, except under certain conditions, to subsidiaries of the Company that are not parties to the Agreement.

In addition to the credit facilities discussed above, as of June 30, 2000, ClimaChem's wholly owned subsidiary, DSN Corporation ("DSN"), is a party to three loan agreements with a financial company (the "Financing Company") for three projects. At June 30, 2000, DSN had outstanding borrowings of $6.7 million under these loans. The loans have monthly repayment schedules of principal and interest through maturity in 2002. The interest rate on each of the loans is fixed and range from 8.2% to 8.9%. Annual interest, for the three notes as a whole, at June 30, 2000, at the agreed to interest rates would approximate $.6 million. The loans are secured by the various DSN property and equipment. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. In August 2000, DSN obtained a waiver from the Financing Company of the financial covenants through June 2001.

As discussed in Note 10 of Notes to Condensed Consolidated Financial Statements, 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. No amounts were paid to the Company by ClimaChem under the Tax Sharing Agreement, nor under the Management Agreement during 1999. For the six months ended June 30, 2000, ClimaChem was required to pay the Company $900,000 under the Management Agreement inasmuch as earnings before interest, income taxes, depreciation and amortization ("EBITDA") exceeded $13.0 million for the period. It is possible that ClimaChem could pay up to $1.8 million of management fees to the Company should operating results be favorable (if ClimaChem has EBITDA in excess of $26.0 million). In addition, ClimaChem recorded a provision for income taxes relating to the extraordinary gain on the repurchase of Senior Unsecured Notes for the six months ended June 30, 2000 of $.9 million, $.8 million of which is payable to the Company under the terms of the Tax Sharing Agreement. There are no assurances that additional amounts will be earned in future quarters or that the amount earned in the first half of 2000 will not be required to be repaid in subsequent periods. Due to these limitations, the Company and its non-ClimaChem subsidiaries have limited resources to satisfy their obligations and may not be in a position to satisfy its obligations to ClimaChem. The amount which the Company owed ClimaChem at June 30, 2000 includes approximately $.5 million for interest due June 1, 2000 on a $10 million note payable by the Company to ClimaChem.

Due to the Company's and ClimaChem's net losses for the years of 1998 and 1999 and the limited borrowing ability under the Revolver, 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, and 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 $2.9 million. In July 2000, the Company repurchased 172,500 shares of the Series 2 Preferred for approximately $.9 million. In addition, the Company did not pay the January 1, 2000 regular dividend on the Series B Preferred. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

As of June 30, 2000, the Company and its subsidiaries which are not subsidiaries of ClimaChem had a working capital deficit of approximately $4.2 million and long-term debt due after one year of approximately $24.7 million including amounts owed to ClimaChem.

Commencing in 1997, the Company created a long-term plan which focused around the Company's core operations, the Chemical and Climate Control Businesses. This plan commenced with the sale of the 10 3/4% Senior Unsecured Notes by the Company's wholly owned subsidiary, ClimaChem, in November 1997. This financing allowed the core businesses to continue their growth through expansion of business directly related to the Company's core operations.

The plan for 2000 called for the Company to dispose of a significant portion of its non-core assets. Therefore, on April 5, 2000, the Board of Directors approved a plan for the sale of its Automotive Products Business, which was concluded on May 4, 2000. The Company's plan for the remainder of 2000 calls for the Company to improve its liquidity and operating results through the liquidation of non-core assets, realization of benefits from its late 1999 and early 2000 realignment of its overhead (which serves to minimize the cash flow requirements of the Company and its subsidiaries which are not subsidiaries of ClimaChem) and through various debt and equity alternatives. The Company's plan for the remainder of 2000 also identifies specific other non-core assets which the Company will attempt to realize to provide additional working capital to the Company in 2000. See "Special Note Regarding Forward Looking Statements." As part of the plan, the Company is presently evaluating alternatives for realizing its net investment in the Industrial Products Business. Further, the Company's plan also calls for the realization of the Company's investment in an option to acquire an energy conservation company and advances made to such entity (the "Optioned Company"). In April 2000, the Company received written acknowledgment from the President of the Optioned Company that it had executed a letter of intent to sell to a third party, the proceeds from which would allow repayment of the advances and options payments to the Company in the amount of approximately $2.7 million. Upon receipt of these proceeds, the Company is required to repay up to $1.0 million of outstanding indebtedness to a related party, SBL Corporation, related to an advance made to the Company in 1997. The remaining proceeds would be available for corporate purposes.

During 1999 and into 2000, the Company has been restructuring its operations and reduced its workforce as opportunities arise. The Company also successfully renegotiated its primary raw material purchase contracts in the Chemical Business in an effort to improve the profitability of the Business and focused its attention on the development of new, market-innovative products in the Climate Control Business.

For the remainder of 2000, the Company has planned capital expenditures of approximately $2.5 million, primarily in the Chemical and Climate Control Businesses, but such capital expenditures are dependent upon obtaining acceptable financing. The Company expects to delay these expenditures as necessary based on the availability of adequate working capital and the availability of financing. The Company believes, based upon present circumstances, that it will receive relief from certain of the compliance dates under its wastewater management project and expects that this will ultimately result in the delay in the implementation date of such project. Because the Company has not completed its evaluation of engineering alternatives, the Company has not yet provided to the state of Arkansas its final design plans by the deadline of August 1, 2000 set forth in the applicable consent order. The consent order provides that the August 1, 2000 deadline for submission of final design plans will be preceded by the agency's issuance of a revised permit. The revised permit will include the discharge limits that will apply to the wastewater treatment project. To date the state has deferred issuance of the revised permit. The Company continues to regularly advise the state of the projects engineering status and financing status. Construction of the wastewater treatment project is subject to the Company obtaining financing to fund this project. There are no assurances that the Company will be able to obtain the required financing. Failure to construct the wastewater treatment project could have a material adverse effect on the Company.

The Company's plan for the remainder of 2000 involves a number of initiatives and assumptions which management believes to be reasonable and achievable; however, should the Company not be able to execute this plan described above, it may not have resources available to meet its obligations as they come due.

Discontinued Business

As discussed in Note 9 of Notes to Condensed Consolidated Financial Statements, 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. The Company received notes for its net investment of approximately $8.7 million, and the buyer assumed substantially all of the Automotive Products Business' liabilities. The losses associated with the discontinuation of this business segment are reflected in the net loss from discontinued operations for the six months ended June 30, 1999 in the Condensed Consolidated Statements of Operations.

The terms of the notes received in the sale call for no payments of principal for the first two years following the close. Interest will accrue at Wall Street Journal Prime plus 1.0% but will not be paid until and if Automotive's availability reaches a level of $1.0 million. Accrued interest will not be recognizable until received.

The Company remains a guarantor on certain equipment notes of Automotive, which had outstanding indebtedness of approximately $4.1 million at June 30, 2000, and on the Automotive Revolver in the amount of $1.0 million for which the Company has posted a letter of credit as of June 30, 2000. As of the date of this report, the Company believes that the buyer is current on its obligations guaranteed by the Company; however, there are no assurances that the Company will not be required to perform on its guarantee in a future period.

Debt Guarantee

As discussed in Note 5 of Notes to Condensed Consolidated Financial Statements, on October 17, 1997, Prime Financial Corporation ("Prime"), a subsidiary of the Company, borrowed from SBL Corporation, 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 "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. The Company has guaranteed the Prime Loan. As of June 30, 2000, the unpaid principal balance on the Prime Loan was $1,950,000. In April, 2000, at the request of Prime and the Company, SBL agreed to modify the demand note to make such a term note with a maturity date no earlier than April 1, 2001, unless the Company receives cash proceeds in connection with either (i) the sale or other disposition of KAC Acquisition Corp.

and/or Kestrel Aircraft, and/or (ii) the repayment of loans by Co-Energy Group and affiliates, and/or the repayment of amounts in connection with the stock option agreement with the shareholders of Co-Energy Group, and/or (iii) some other source that is not in the Company's projections for the year 2000. From April 1, 2000 until no sooner than April 1, 2001, any demand for repayment of principal under the Prime Loan shall not exceed $1,000,000 from proceeds realized on item (ii) and $950,000 from proceeds realized on items (i) and (iii) discussed above.

In order to make the 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. In order to obtain SBL's agreement as provided above, and for other reasons, effective April 21, 2000, a subsidiary of the Company 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 pledged to the bank 1,973,461 shares of the Company's Common Stock that it holds as treasury stock. Under the guarantee, the Company's liability is limited to the value, from time to time, of the Company's Common Stock pledged by the Company. As of June 30, 2000, the outstanding principal balance due to the bank from SBL as a result of such loan was $1,950,000.

Contingencies

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

Quantitative and Qualitative Disclosure about Market Risk

General

The Company's results of operations and operating cash flows are impacted by changes in market interest rates and raw material prices for products used in its manufacturing processes.

Interest Rate Risk

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

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, for an expanded analysis of expected maturities of long term debt and its weighted average interest rates and discussion related to raw material price risk.

As of June 30, 2000, the Company's variable rate and fixed rate debt, which aggregated $139.9 million, exceeded the debt's fair market value by approximately $58.4 million ($79.0 million at December 31, 1999). The fair value of the Senior Notes of a subsidiary of the Company was determined based on a market quotation for such securities.

Raw Material Price Risk

The Company has a remaining commitment at June 30, 2000 to purchase 84,000 tons of anhydrous ammonia under a contract. The Company's purchase price can be higher or lower than the current market spot price. As of June 30, 2000, based on the forward contract pricing expected during the remaining contract term and estimated market prices for certain products to be manufactured and sold during the remainder of the contract, a provision for losses during the remainder of the purchase period of approximately $2.5 million was recorded in the six months ended June 30, 2000. See Note 11 of Notes to Condensed Consolidated 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, (i) ability to improve operations and become profitable, (ii) establishing a position as a market leader, (iii) the amount of the loss provision for anhydrous ammonia required to be purchased may increase (iv) plan for 2000 to realize cash, reduce indebtedness and improve liquidity and operating results, (v) collection of notes received on the sale of the Automotive Products Business, (vi) ability to either extend term of existing working capital agreement or replace such, (vii) availability of net operating loss carryovers, (viii) amount to be spent relating to capital expenditures, (ix) ability to be able to continue to borrow under the Company's revolving line of credit, (x) ability to complete the sale of the Optioned Company, (xi) ability to obtain financing to fund its presently anticipated capital requirements, (xii) ability to make required capital improvements, (xiii) anticipated cost of certain amounts of anhydrous ammonia exceed the market, (xiv) no improvements in the sales price of certain nitrate based products of the Chemical Business is expected in the near future due to increased cost of anhydrous ammonia, and (xv) the Company's ability to receive or repay management fees and amounts related to taxes from its subsidiary. While the Company believes the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, (i) decline in general economic conditions, both domestic and foreign, (ii) material reduction in revenues, (iii) material increase in interest rates; (iv) inability to collect in a timely manner a material amount of receivables, (v) increased competitive pressures, (vi) changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending (vii) additional releases (particularly air emissions into the environment), (viii) material increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company, (ix) the requirement to use internally generated funds for purposes not presently anticipated, (x) ability to become profitable, or if unable to become profitable, the inability to secure additional liquidity in the form of additional equity or debt, (xi) the cost for the purchase of anhydrous ammonia decreasing, (xii) changes in competition, (xiii) the loss of any significant customer, (xiv) changes in operating strategy or development plans, (xv) inability to fund the working capital and expansion of the Company's businesses, (xvi) adverse results in any of the Company's pending litigation, (xvii) inability to obtain necessary raw materials, (xviii) continuing decreases in the selling price for the Chemical Business' nitrogen based end products, (xix) inability to complete the sale of the Optioned Company, and (xx) other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report. Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Independent Accountants' Review Report

Board of Directors

LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of June 30, 2000, and the related condensed consolidated statements of operations for the six-month and three-month periods ended June 30, 2000 and 1999 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 17, 2000, except for Note 4, as to which the date is April 6, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 3, 2000

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the fiscal period ended December 31, 1999, which Item 3 is incorporated by reference herein.

Prior to the date of this report, the Chemical Business entered into an agreement in principal to settle the litigation styled Arch Minerals Corporation, et al. v. ICI Explosives USA, Inc., pending in the United States District Court, Eastern District of Missouri, for a sum which the Company does not deem to be material. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults upon Senior Securities

(b) The Company's Board of Directors did not declare and pay the June 15, 2000 dividends on the Company's outstanding $3.25 Convertible Exchangeable Class C

Preferred Stock, Series 2 ("Series 2 Preferred"). Accrued and unpaid dividends on the Series 2 Preferred are cumulative. The amount of the total arrearage of unpaid dividends on the outstanding Series 2 Preferred is approximately $2.4 million as of the date of this report. In addition, the Company's Board of Directors has decided not to pay the September 15, 2000 dividend payment on its outstanding Series 2 Preferred. If the September 15 dividends on the Series 2 Preferred is not paid, the amount of the total arrearage of unpaid dividend payment on the outstanding Series 2 Preferred will be approximately $3.0 million. Also the Company's Board of Directors did not declare and pay the January 1, 2000 regular dividend on the Company's Series B 12% Convertible, Cumulative Preferred Stock ("Series B"). Dividends in arrears at June 30, 2000, related to the Company's Series B amounted to approximately $.2 million.

Whenever dividends on the Series 2 Preferred shall be in arrears and unpaid, whether or not declared, in amount equal to at least six quarterly dividends (whether or not consecutive), the holders of the Series 2 Preferred (voting separately as a class) will have the exclusive right to vote for and elect two additional directors of the Company's Board of Directors during the period that dividends on the Series 2 Preferred remain in arrears by six quarterly dividends. The right of the holders of the Series 2 Preferred to vote for such two additional directors shall terminate, subject to re-vesting in the event of a subsequent similar arrearage, when all cumulative and unpaid dividends on the Series 2 Preferred have been declared and set apart for payment. The term of office of all directors so elected by the holders of the Series 2 Preferred shall terminate immediately upon the termination of the right of the holders of the Series 2 Preferred to vote for such two additional directors, subject to the requirements of Delaware law.

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

At the Company's 2000 Annual Meeting of Shareholders held on July 20, 2000, the following nominees to the Board of Directors were elected as directors of the Company:

Name	Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
Gerald G. Gagner	11,346,275	167,603	0
Barry H. Golsen	11,346,275	168,398	0
David R. Goss	11,340,480	167,398	0
Jerome D. Shaffer, M.D.	11,345,175	168,703	0

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

At the Annual Meeting, Ernst & Young, LLP, Certified Public Accountants, was appointed as independent auditors of the Company for 2000, as follows:

Number of Number of Number of

Shares "For"	Shares "Against" and to "Withhold Authority"	Abstentions and Broker Non-Votes
11,447,899	21,646	23,553

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

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

2.1 Asset Purchase and Sale Agreement, dated May 4, 2000 by L&S Automotive Products Co., L&S Bearing Co., LSB Extrusion Co., Rotex Corporation and DriveLine Technologies, Inc., which is incorporated from Exhibit 2.1 to the Company's Amendment No. 2 to the 1999 Form 10-K. This agreement includes certain exhibits and schedules that are not included with this exhibit, and will be provided upon request by the Commission.

10.1 Covenant Waiver Letter, dated August 4, 2000, between The CIT Group and DSN Corporation.

10.2 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.

10.3 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 defined 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.

10.4 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.

10.5 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.

10.6 Subordination Agreement, dated May 4, 2000, by and among Congress Financial Corporation (Southwest), a Texas corporation (Lender), LSB Industries Inc. (Subordinated Creditor), DriveLine Technologies, Inc., (formerly known as Tribonetics Corporation),an Oklahoma corporation and L&S Manufacturing Corp, which the Company incorporated by reference from Exhibit 10.56 to the Company's Amendment No. 2 to its 1999 Form 10-K.

15.1 Letter Re: Unaudited Interim Financial Information

27.1 Financial Data Schedule

(B) Reports of Form 8-K. The Company filed the following reports on Form 8-K during the quarter ended June 30, 2000:

(i) Form 8-K, dated June 19, 2000 (date of event: May 4, 2000). The item reported was Item 2 "Acquisition or Disposition of Assets" discussing the sale of substantially all of the assets of LSB Industries, Inc.'s Automotive Products Business to DriveLine Technologies, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 11th day of August 2000.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Tony M. Shelby,
Senior Vice President of Finance
(Principal Financial Officer)

By: /s/ Jim D. Jones
Jim D. Jones
Vice President, Controller and
Treasurer (Principal Accounting Officer)

The CIT Group, Inc. (NJ)
650 CIT Drive
Livingston, NJ 07039

CIT

August 4, 2000

Jim Jones
Vice President and Treasurer
LSB Industries
16 South Pennsylvania Avenue
Oklahoma City, OK 73107

Dear Mr. Jones:

Reference is made to that certain Loan Agreement dated October 31, 1994, as amended (the "Agreement") between DSN Corporation, ("Debtor"), and the CIT Group/Equipment Financing, Inc. ("CIT"). Debtor has advised CIT that LSB Industries, Inc., a guarantor of Debtor's obligations to CIT were not in compliance with certain convenants as of June 30, 2000.

Debtor has requested, that notwithstanding anything to the contrary in the Agreement, that CIT waive the instances of non-compliance through June 30, 2001.

CIT hereby waives, as of this date, the above instances of non-compliance under the Agreement.

All other terms, conditions and agreements under the Loan Agreement, together with all schedules, attachments and amendments thereto shall remain in full force and effect. Please note that CIT's willingness to waive this particular covenant violation should not be interpreted as CIT's agreement or willingness to waive any further breach or violation of the Agreement.

Sincerely,
The CIT Group Equipment Financing, Inc.
By:
Title:

Acknowledged and agreed to
DSN Corporation
By:
Title:

Exhibit 15.1

Letter of Acknowledgment RE: Unaudited Financial Information

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) pertaining to the 1981 and 1986 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 the certain Non-Qualified Stock Option Agreements for various employees and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our report dated August 3, 2000, relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which is included in its Form 10-Q for the quarter ended June 30, 2000.

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

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 3, 2000

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LSB INDUSTIES, INC.
1,000
6-MOS
DEC-31-1999
JUN-30-2000
3,941
0
49,348
1,455
30,091
86,456
164,304
81,323
190,515
83,614
103,858
139
47,366
1,516
(52,233)
190,515
146,184
148,366
115,215
150,793
1,661
2,485
8,084
(2,427)
0
(2,427)
0
13,244
0
10,817
.78
.78