FORM 10-K
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended: December 31, 1994

or

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

For the transition period from _____ to _____

Commission File Number: 1-7677

LSB INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

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

Registrant's Telephone Number, Including Area Code:

(405) 235-4546

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

(Facing Sheet Continued)

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

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

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

As of March 31, 1995, the aggregate market value of the 9,423,861 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately $57,721,149 based on the closing sales price for the Company's common stock as reported for that date. That amount does not include (1) the 1,588 shares of Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company, (2) the 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock (the "Series B Preferred Stock"), and (3) the 915,000 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, excluding 5,000 shares held in treasury (the "Series 2 Preferred Stock"). An active trading market does not exist for the shares of Non-Cumulative Preferred Stock or the Series B Preferred Stock . The shares of Series 2 Preferred Stock do not have voting rights except under limited circumstances.

As of March 31, 1995, the Registrant had 13,044,922 shares of common stock outstanding (excluding 1,575,594 shares of common stock held as

treasury stock).

FORM 10-K OF LSB INDUSTRIES, INC.

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PART I

Item 1. BUSINESS

General

LSB Industries, Inc. (the "Company") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. The Company is a diversified holding company which is engaged, through its subsidiaries, in (i) the manufacture and sale of chemical products for the explosives, agricultural and industrial acids markets (the "Chemical Business"), (ii) the manufacture and sale of a broad range of air handling and heat pump products for use in commercial and residential air conditioning systems (the "Environmental Control Business"), and (iii) the manufacture or purchase and sale of certain automotive and industrial products, including automotive bearings and other automotive replacement parts (the "Automotive Products Business") and the manufacture, purchase and sale of machine tools (the "Industrial Products Business"). In May, 1994, the Company sold its Financial Services Business, which was comprised of Equity Bank for Savings F.A. ("Equity Bank") and subsidiaries of Equity Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 of Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for a brief discussion as to the terms of sale by the Company of its Financial Services Business.

Segment Information and Foreign and Domestic Operations and Export Sales

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

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

Chemical Business

General:

The Chemical Business manufactures and sells the following types of chemical products to the mining, agricultural and other industries: sulfuric acid, concentrated nitric acid, prilled ammonium nitrate fertilizer and ammonium nitrate-based blasting products. In addition, the Chemical Business markets emulsions that it purchases from others for resale to the mining industry.

In addition to its existing facilities, the Company is in the process of constructing a plant in Wilmington, N.C. to allow the Company to produce a mixed acid product for sale. The Company expects this plant to become operational during the third quarter of 1995.

For 1994, approximately 30% of the sales of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 16% of the Company's 1994 consolidated sales, and 49% consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 26% of the Company's 1994 consolidated sales. The Chemical Business accounted for approximately 54% and 49% of the Company's 1994 and 1993 consolidated sales, respectively.

Seasonality:

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

Raw Materials:

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

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

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

Marketing and Distribution:

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

The Chemical Business sells high density prilled ammonium nitrate for use in agricultural markets in geographical areas within a freight-logical distance from its El Dorado, Arkansas, manufacturing plant, primarily Texas, Oklahoma, Arkansas and Louisiana. The products are sold through 20 distribution centers, with 15 centers located in Northern and Eastern Texas, two centers located in Missouri and three centers located in Tennessee. The Chemical Business also sells its agricultural products directly to wholesale customers.

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

Patents:

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

Regulatory Matters:

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

Competition:

The Chemical Business competes with other chemical companies, in its markets, many of whom have greater financial resources than the Company. The Company believes that the Chemical Business is competitive as to price, service, warranty and product performance. The Company believes that the Chemical Business' contract with its supplier of ammonia, which the Company believes allows the Chemical Business to purchase ammonia at a favorable price compared to the world market price of ammonia, allows the Chemical Business the ability to favorably compete with its competitors as to price. The Company believes that the Chemical Business is a leader in the Texas ammonium nitrate market and one of the leading producers of concentrated nitric acid in the United States for third party sales.

Environmental Control Business

General:

The Company's Environmental Control Business manufactures and sells a broad range of fan coil, air handling, air conditioning, heating, heat pump and dehumidification products targeted to both new building construction and renovation, as well as industrial application. The fan coil products consist of in-room terminal air distribution equipment utilizing air forced over a fin tube heat exchanger which, when connected to centralized equipment manufactured by other companies, creates a centralized air conditioning and heating system that permits individual room temperature control. The heat pump products manufactured by the Environmental Control Business consist of heat-recovery, water-to-air heat pumps that include a self-contained refrigeration circuit and blower, which allow the unit to heat or cool the space it serves when supplied with recirculating water at mild temperatures. The Environmental Control Business accounted for approximately 29% and 30% of the Company's 1994 and 1993 consolidated sales, respectively, with fan coil products accounting for approximately 16% and heat pump products accounting for approximately 13%, respectively, of the Company's 1994 consolidated sales.

Production and Backlog:

Most of the Environmental Control Business' production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. As of December 31, 1994, the backlog of confirmed orders for the Environmental Control Business was approximately $24.2 million, as compared to approximately $17 million as of December 31, 1993. A customer generally has the right to cancel an order prior to the order being released to production. Past experience indicates that customers generally do not cancel orders after the Company receives them. As of December 31, 1994, the Company had released approximately $21.4 million of backlog orders in the Environmental Control Business to production, all of which are expected to be filled by December 31, 1995.

Distribution:

The Environmental Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturer's representatives, who also represent complimentary product lines not manufactured by the Company. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Environmental Control Business as a separate item in competition with the Company or as part of a package with other air conditioning-heating equipment products to form a total air conditioning system which they then sell to mechanical contractors or end-users for commercial application. Sales to original equipment manufacturers accounted for approximately 36% of the sales of the Environmental Control Business in 1994 and approximately 10% of the Company's 1994 consolidated sales.

Construction Industry:

Historically, the Environmental Control Business has depended primarily on the commercial construction industry, including new construction and the

remodeling and renovation of older buildings, however, this Business' recent growth has been in the residential area.

Raw Materials:

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

Competition:

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

Automotive Products Business

General:

The Automotive Products Business is primarily engaged in the manufacture and sale of a line of anti-friction bearings, which includes straight-thrust and radial-thrust ball bearings, angular contact ball bearings, and certain other automotive replacement parts. These products are used in automobiles, trucks, trailers, tractors, farm and industrial machinery, and other equipment. The Automotive Products Business accounted for approximately 13% and 12% of the Company's 1994 and 1993 sales, respectively. In 1994, the Automotive Products Business manufactured approximately 47% of the products it sold and approximately 49% in 1993, and purchased the balance of its products from other sources, including foreign sources.

Distribution and Market:

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

Inventory:

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

Raw Materials:

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

Competition:

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

Industrial Products Business

General:

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

Distribution and Market:

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

Customer:

The Industrial Products Business does not depend on any single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on the Industrial Products Business. A significant increase in the revenues of the Industrial Products Business occurred during 1992 and 1993 as a result of an agreement with a foreign company ("Buyer"), dated July 6, 1992, to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products. The Company has shipped to the Buyer all machinery and equipment and the tooling and designs required under the agreement. The agreement provides for a total contract amount of approximately $56.0 million, with $12.0 million of the contract amount to be retained by the Buyer as the Company's subsidiary's equity participation in the Buyer. The Company's subsidiary exchanged its rights to the equity interest in the Buyer with a foreign nonaffiliated company ("Purchaser of the Interest") for $12 million in notes. The Company has been advised that the Buyer has agreed to repurchase from the Purchaser of the Interest up to $6 million of such equity interest over a six-year period, with payment to the Purchaser of the Interest to be either in cash or bearing products. The notes issued to the subsidiary for its rights to the equity interest in the Buyer will only be payable when, as and if the Purchaser of the Interest collects from the Buyer for such equity interest, and the method of payment to the subsidiary will be either cash or bearing products, in the same manner as received by the Purchaser of the Interest from the Buyer. Due to the Company's inability to determine what payments, if any, it will receive on such notes, the Company will continue to carry such notes at a nominal amount.The balance of approximately $44.0 million has been or will be paid to the Company's subsidiary as follows: (i) approximately $13.9 million was paid through December 31, 1994, and (ii) the balance of approximately $30.1 million payable in equal quarterly installments over a ten (10) year period, plus interest. Under the agreement, the Company's subsidiary will use its best efforts to purchase approximately $14.5 million of bearing products from the Buyer each year over a period of ten (10) years; provided, however, that the Company's subsidiary is not required to purchase more product from the Buyer in any one (1) year than the amount of tapered bearings the Company's subsidiary is able to sell in its market. However, the Company's subsidiary has negotiated a preliminary oral agreement in principle which, if completed, would change the method of payment of the balance due and the subsidiary's obligation to buy products from the Buyer as discussed below. The Company will recognize revenues and profits on the sale of equipment and technology over the term of the agreement as they are realized. The revenue and profits realized during the delivery and installation period have been recognized on a percentage of completion basis. During the years ended December 31, 1994 and 1993, the Company recorded sales of approximately $1.8 million and $7.5 million, respectively, in connection with the agreement. The percentage of completion is determined by relating the productive costs incurred to date to the total productive costs estimated to complete the performance under the contract for delivery and installation. The Company presently meets all of its obligations under the contract which generally coincides with the payout term.

In March 1995, the subsidiary negotiated a preliminary oral agreement in principle with a syndication of foreign lenders whereby the lenders will acquire, without recourse to the Company, as such subsidiary, approximately $24.0 million of the unpaid contract amount billable by the Company. Under the oral agreement, the Company expects to receive approximately $4.0 million at closing, net of fees, and a commitment from the Buyer to provide approximately $16.0 million of bearing products. Upon completion of the oral agreement with the foreign lenders, the Company and the Buyer will amend their agreement to exchange the then remaining unpaid contract amount from the Buyer (approximately $5.0 million) for an amendment to the Buyer's commitment to provide additional bearing products approximating $5.0 million, thereby making the Buyer's commitment to provide bearing products to the Company approximately $21.0 million. The Company is to receive such bearing products when and if the Buyer repays the debt discussed above which the foreign lenders will acquire. The commitment of the Buyer to provide the Company $21.0 million in bearing products, at no additional cost, is to be further increased to include interest at 7 1/2% per annum until such commitment has been fulfilled by the delivery of bearing products to the Company, which delivery is not expected to begin prior to the year 2000. In connection with this agreement, the Company would also amend its purchase commitment from a best efforts arrangement to a firm commitment to purchase approximately $6.0 million of bearing products over each of the next five years, at predetermined prices, not in excess of market prices, subject to the Buyer's ability to deliver product to the Company and the product meeting quality standards. The agreement in principle is subject to, among other things, finalization of definitive agreements. There is no assurnace that the agreement in principle will be finalized. See "MANAGEMENT'S DISCUSSION AND ANALYSIS" and Note 6 of Notes to Consolidated Financial Statements for further discussion of this agreement.

Foreign Risk:

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

Competition:

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

Employees

As of December 31, 1994, the Company employed 1,446 persons. As of that date, (a) the Environmental Control Business employed 550 persons, (none of which is represented by a union),(b) the Automotive Products Business employed 255 persons, with 91 represented by unions under an agreement that expired in August, 1990, and, (c) the Chemical Business employed 447 persons, with 113 represented by unions under agreements expiring in August, 1995.

The union contract within the Automotive Product Business expired on August 1, 1990, and the employees within that business have continued to work without a contract. The employees did not strike in 1990 when their contract expired, and, as of the date of this report, there are no indications that the employees are considering striking. There are no pending negotiations in connection with the expired union contract. The Company does not believe such employees will strike within the foreseeable future, but there are no assurances to that effect.

Research and Development

The Company incurred approximately $606,000 in 1994, $788,000 in 1993, and $684,000 in 1992 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are sponsored by the Company.

Environmental Compliance

The Company does not anticipate, based on facts presently known to the Company, that it will be required during 1995 to incur any material capital expenditures for environmental control facilities relating to its industrial businesses. However, a subsidiary of the Company in its Automotive Products Business has been notified that it is a potentially responsible party as a result of having been a generator of waste disposed of at the Mosley site (as defined in the first paragraph of Item 3 of this report). In addition, a subsidiary of the Company in its Chemical Business has been notified that its chemical manufacturing facility located in El Dorado, Arkansas, has been placed into the Environmental Protection Agency's data based tracking system and that there has occurred certain releases of contaminates at it's El Dorado, Arkansas facility, and, as a result of such releases, the Chemical Business will be required to perform certain activities to remediate the contamination at the facility. See Item 2 "PROPERTIES - Chemical Business" and Item 3 "LEGAL PROCEEDINGS" for a discussion of the environmental issues at the El Dorado, Arkansas facility. While the Company is, at this time, unable to determine the ultimate cost of remediation as a result of contamination of the site in El Dorado, Arkansas, the Company has included a provision for environmental costs of $450,000 in its results of operations for 1994. While there are no assurances, based on the information presently available to the Company, the Company does not believe that the Mosley Site, as discussed in Item 3 "LEGAL PROCEEDINGS", or the El Dorado, Arkansas facility being placed in the Environmental Protection Agency's data based tracking system or any response to contamination at such El Dorado, Arkansas facility due to any release of contamination of such facility or the assessment of any penalty as a result thereof, should have a material adverse effect on the Company.

Item 2. PROPERTIES

Chemical Business

The Chemical Business primarily conducts manufacturing operations (i) on 150 acres of a 1400 acre tract of land located in El Dorado, Arkansas (the "Site") and (ii) on 10 acres of land in a facility of approximately 60,000 square feet located in Hallowell, Kansas ("Kansas facility").

As of December 31, 1994, the manufacturing facility at the Site was being utilized to the extent of approximately 88%, based on the continuous operation of those facilities. As of December 31, 1994, manufacturing operations at the Kansas facility were being utilized to the extent of approximately 80% based on two 8 hour shifts per day and a 5 day week.

In addition, the Chemical Business distributes its products through 33 agricultural and blasting distribution centers. The Chemical Business

currently operates 20 agricultural distribution centers, with 15 of the centers located in Texas (12 of which the Company owns and 3 of which it leases); 2 centers located in Missouri (1 of which the Company owns and 1 of which it leases); and 3 centers located in Tennessee (all of which the Company owns). The Chemical Business currently operates 9 domestic explosives distribution centers located in Bonne Terre, Missouri (owned); Central City, Owensboro, Combs, and Pilgrim, Kentucky (leased); Midland, Indiana (leased); Rawlins, Wyoming (leased); Carlsbad, New Mexico (leased); and Pryor, Oklahoma (leased). The Chemical Business also has explosives distribution centers in Australia located at: Peaks Down; Kalgoorlie; Karratha; and, Hunter Valley (all leased).

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

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

During November, 1993, the Company's Chemical Business acquired assets for an additional concentrated nitric acid plant and related assets ("Plant and Assets") for approximately $1.9 million. During 1994 and early 1995 the Chemical Business spent approximately $15.1 million to install such Plant and Assets at its manufacturing plant facility located in El Dorado, Arkansas. The plant is scheduled to be operational in May, 1995. As a result of such expansion and the present utilization of the Chemical Business' manufacturing facilities, the Company believes that it's present manufacturing facilities are suitable for it's current operations.

Since the 1940's, the Site has been a manufacturing facility for ammonium nitrate compounds, and until 1969, was a manufacturing facility for ammonia. In 1955, the Site was acquired by Monsanto Company ("Monsanto"), and in June, 1983, Monsanto sold the Site to El Dorado Chemical Company ("EDC"). EDC was acquired by the Company in 1984. Under the agreement with Monsanto, Monsanto agreed to indemnify EDC for any claim which is suffered, incurred or arises due solely out of Monsanto's disposal of chemicals or chemical byproducts prior to acquisition of the Site by EDC from Monsanto or the use by Monsanto of any substance prior to the date EDC acquired the Site from Monsanto which is subsequently determined to be deleterious or dangerous to the public's health, safety or welfare. Under the agreement with Monsanto, the indemnification is not assignable to a party to which EDC transfers the Site without the prior written consent of Monsanto, except to any company of which 100% of the voting stock is owned or controlled, directly or indirectly, by EDC. Although EDC has operated the Site since its acquisition from Monsanto in 1983, in 1988, EDC transferred ownership of the Site to the Company, which in turn transferred title to another subsidiary. All of the outstanding stock of EDC is directly and wholly owned by the Company. Although no consent was obtained from Monsanto to assign the Monsanto indemnification when EDC transferred ownership of the Site to its affiliated company, if such a consent was required under the agreement with Monsanto, the Company believes that the Monsanto indemnification remains applicable to EDC.

In 1993, the Company's Chemical Business was advised that the Site had been placed in the Environmental Protection Agency's ("EPA") data-based tracking system (the "System"). The System maintains an inventory of sites in the United States where it is known or suspected that a release of hazardous waste has occurred. Notwithstanding inclusion in the System, EPA's regulations recognize that such does not represent a determination of liability or a finding that any response action will be necessary. Over 12,000 sites in the United States are presently listed in the System. If a site is placed in the System, EPA regulations require that the government or its agent perform a preliminary assessment of the site. If the preliminary assessment determines that there has been a release, or that there is suspected to have occurred a release at the site of certain types of contamination, the EPA will perform a site investigation. Pursuant to such regulations, the State of Arkansas, on behalf of the EPA, performed such preliminary assessment. The preliminary assessment report prepared by the State of Arkansas, dated September 30, 1992, stated in part, that a release of certain types of contaminants is suspected to have occurred at the Site. It is anticipated that the EPA will, at some future date, perform a site inspection at the Site. Such inspections usually involve the gathering of additional data including environmental sampling of the Site. After conducting the site inspection, the regulations provide that the EPA may determine that: (i) the Site does not warrant further involvement in the evaluation process, or (ii) that further study of the Site is warranted to determine what appropriate action is to be taken in response to a release, if any, of contaminants at the Site or whether such release, if any, justifies the Site being placed on the National Priorities List. Being placed in the System will generally be the first step in the EPA's determination as to whether a site will be placed on the National Priorities List. After the EPA completes its site inspection and evaluates other information, the EPA will then assess the Site using the Hazard Ranking System to ascertain whether the Site poses a sufficient risk to human health or the environment to be proposed for the National Priorities List. There are approximately 1,200 sites in the United States presently listed on the National Priorities List. The Company has been advised that there have occurred certain releases of contaminants at the Site. However, the Company does not believe that such releases should warrant the Site being placed on the National Priorities List, but there are no assurances to that effect. See Item 1 "BUSINESS - Environmental Compliance" and Item 3 "LEGAL PROCEEDINGS".

Environmental Control Business
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The Environmental Control Business conducts its fan coil manufacturing operations in various facilities, including two adjacent facilities located in Oklahoma City, Oklahoma, consisting of approximately 240,000 square feet owned

by the Company. As of December 31, 1994, the Environmental Control Business was using the productive capacity of the above-referenced facilities to the extent of approximately 93%, based on one, eight-hour shift per day and a five-day week.

The Environmental Control Business manufactures most of its heat pump products in a leased 230,000 square foot facility in Oklahoma City, Oklahoma. The lease carries a five year term beginning March 1, 1988, with options to renew for five additional five year periods, and currently provides for the payment of rent in the amount of $52,389 per month. The Company also has an option to acquire the facility at any time in return for the assumption of the then outstanding balance of the lessor's mortgage. As of December 31, 1994, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 71%, based on one, eight-hour shift per day and a five-day week.

The Environmental Control Business owns a 60,000 square foot facility in Juarez, Mexico, which it leases to a third party tenant. The Environmental Control Business also leases sales offices in Los Angeles and Chicago.

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

Automotive Products Business
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The Automotive Products Business conducts its operations in plant facilities principally located in Oklahoma City, Oklahoma which are considered by Company management to be suitable and adequate to meet its needs. One of the manufacturing facilities occupies a building owned by the Company, subject to mortgages, totaling approximately 178,000 square feet. The Automotive Products Business also uses additional manufacturing facilities located in Oklahoma City, Oklahoma, owned and leased by the Company totalling approximately 102,000 square feet. During 1994, the Automotive Products Business under-utilized the productive capacity of its facilities.

In December 1993, International Bearings, Inc. ("IBI") of Memphis, Tennessee, was acquired as a wholly owned subsidiary of the Company operating as a separate entity within the Automotive Products Division. IBI is a warehouse unit operating from a Company owned warehouse of approximately 45,000 square feet in an industrial park section of Memphis, TN.

Industrial Products Business
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The Company owns several buildings, some of which are subject to mortgages, totaling approximately 691,000 square feet located in Oklahoma City, Oklahoma, Tulsa, Oklahoma, and Middletown, New York, which the Industrial Products Business uses for showrooms, offices, warehouse and manufacturing facilities. The Company also owns real property located near or adjacent to the above-referenced buildings, which the Industrial Products Business uses for parking and storage.

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

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

Item 3. LEGAL PROCEEDINGS
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In December 1987, the United States Environmental Protection Agency ("EPA") notified L&S Bearing Company ("L&S") of potential responsibility for releases of hazardous substances at the Mosley Road Landfill in Oklahoma ("the Mosley Site"). The recipients of such notification were: a) generators of industrial waste allegedly sent to the Mosley Site (including L&S), and b) the current owner/operator of the Mosley Site, Waste Management of Oklahoma ("WMO") (collectively, "PRPs"). Between February 20, and August 24, 1976, the Mosley Site was authorized to accept industrial hazardous waste. During this time, a number of industrial waste shipments allegedly were transported from L&S to the Mosley Site. In February 1990, EPA added the Mosley Site to the National Priorities List. WMO and the U.S. Air Force conducted the remedial investigation ("RI") and feasibility study ("FS"). It is too early to evaluate the probability of a favorable or unfavorable outcome of the matter for L&S. However, it is the PRP Group's position that WMO as the Mosley Site owner and operator should be responsible for at least half of total liability at the Mosley Site, and that 75% to 80% of the remaining liability, if allocated on a volumetric basis, should be assignable to the U.S. Air Force. The Company is unable at this time to estimate the amount of liability, if any, since the estimated costs of clean-up of the Mosley Site are continuing to change and the percentage of the total waste which were alleged to have been contributed to the Mosley Site by L&S has not yet been determined. If an action is brought against the Company in this matter, the Company intends to vigorously defend itself and assert the above position. Although there are no assurances to this effect, the Company is exploring whether it has insurance coverage for this claim. Insurance coverage, however, is not considered since it is not known whether insurance coverage will be provided in connection with this matter. The Company does not believe that the ultimate outcome of this matter will have a material adverse effect on the Company's financial position or results of operations.

In April, 1989, a subsidiary of the Company, International Environmental

Corporation ("IEC"), was named as a third party defendant in a lawsuit brought by Economy Mechanical Industries of Illinois, Inc. ("Economy"), in an action pending in the Circuit Court of Cook County, Illinois, in connection with a project in Chicago, Illinois. Economy had purchased fan coil units for the project from IEC and the units were built in accordance with Economy's specifications. This litigation initially resulted from disputes between the owner of the project and the general contractor, and in connection therewith, the owner withheld payment from the general contractor. The general contractor and a number of subcontractors (including Economy) filed mechanics liens against the property. The general contractor filed this action to foreclose on its lien and the owner has asserted numerous claims against the general contractor and certain subcontractors (including Economy) in the total amount of $20,610,599. One of the counterclaims made by the owner relates to the fan coil system manufactured by IEC. As a result Economy brought a third party action against IEC alleging that if the fan coil system is defective, such was the responsibility of IEC and in breach of IEC's implied and express warranties. IEC has denied that the fan coils are defective and contends that any failures, if any, were caused by improper installation or other causes beyond IEC's control. IEC has filed fourth party complaints against certain of its suppliers. A settlement in principle has recently been reached subject to documentation. This settlement in principle would require two of IEC's insurance carriers to fund IEC's portion of the settlement in the sum of $868,000 and reimburse IEC approximately $330,000 for previously paid attorney fees and expenses. One of these policies has a $250,000 loss limitation on IEC's retro-premium calculations under the policy. The retro-premiums under this policy will total less than the $330,000 reimbursement payment IEC is expecting to receive under the other policy. This settlement in principle is subject to documentation and will require payments to the building owners by other parties to the suit; therefore, no assurances can currently be made concerning the final resolution of this litigation. Notwithstanding the settlement in principle, the Company does not believe this matter will have a material adverse effect on the financial condition or results of operations of the Company.

In addition to the Chemical Business' El Dorado, Arkansas facility being placed in the System (see Item 2 "PROPERTIES" for a discussion thereof), recent investigations have identified possible contamination associated with the on-site solid waste landfill at such facility in El Dorado, Arkansas. The contamination includes possible landfilling of sludges containing chromium and lead, and possible groundwater contamination. An investigation of the chromium sludge generation and landfilling was completed, as well as confirmation of the groundwater sampling data. Preliminary results indicated the presence of hazardous quantities of lead and chromium in the landfill, which were reported to EPA through the National Response Center and to the Arkansas Department of Pollution Control and Ecology ("ADPC&E"). A preliminary remedial plan was also submitted by the Chemical Business to ADPC&E. ADPC&E conducted a multi-media inspection of the facility, including the landfill, and collected groundwater samples. An inspection report identified a few deficiencies in recordkeeping which have been corrected, and allegations of improper management of the chromium sludge and another waste stream which had been managed in the wastewater treatment system. On March 29, 1995, ADPC&E forwarded to the Chemical Business a proposed Consent Administrative Order ("CAO") to resolve all compliance issues identified in the multi-media inspection. The significant items in the CAO are that the CAO provides for closure of the landfill as a solid waste unit, performance of ground water monitoring for the entire site, and payment of a civil penalty of $25,000. While the Company is at this time unable to determine the ultimate cost of compliance with the CAO, the Company has determined the subsidiary's cost to be at least $450,000; therefore, the Company has included a provision for environmental costs of $450,000 in the results of operations. Based on information presently available, the Company does not believe, as of the date of this report, that compliance with the CAO, should have a material adverse effect on the Company, the Company's subsidiary or the Company's financial condition; however, there are no assurances to that effect.

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

Not applicable.

Item 4A. EXECUTIVE OFFICERS OF THE COMPANY

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

Name	Age	Position and Offices With the Company	Served as an Officer From
Jack E. Golsen	66	Board Chairman and President	December, 1968
Barry H. Golsen	44	Board Vice Chairman and President of the Environmental Control Business	August, 1981
David R. Goss	54	Senior Vice President of Operations and Director	March, 1969
Tony M. Shelby	53	Senior Vice President - Chief Financial Officer, and Director	March, 1969

Jim D. Jones	53	Vice President - Treasurer and Corporate Controller	April, 1977
David M. Shear	35	Vice President and General Counsel	March, 1990

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

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

PART II

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

Market Information

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

	Fiscal Year Ended December 31,			
	1994		1993	
Quarter	High	Low	High	Low
First	10	8 1/4	11 1/8	6 3/4
Second	9 1/4	7	12	9
Third	7 3/4	5 1/4	12 3/8	10
Fourth	7 3/4	5 3/8	11 3/8	8 1/8

Stockholders

As of March 31, 1995, the Company had 1463 record holders of its Common Stock.

Dividends

Holders of the Company's Common Stock are entitled to receive dividends only when, as and if declared by the Board of Directors. No dividends may be paid on the Company's Common Stock until all required dividends are paid on the outstanding shares of the Company's preferred stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. The Company has issued and outstanding as of December 31, 1994, 915,000 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,597 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of preferred stock is entitled to receive an annual dividend, if, as and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferred at the rate of $3.25 a share payable quarterly in arrears on June 15, September 15, December 15, and March 15, which dividend is cumulative, (ii) Non Cumulative Preferred Stock at the rate of $10 a share payable April 1, and (iii) Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative. The Company did not pay cash dividends on its Common Stock for many years. During the first part of 1993, the Company's Board of Directors approved the adoption of a policy as to the payment of cash dividends on its outstanding Common Stock pursuant to which an annual cash dividend of $.06 per share will be declared by the Board of Directors and paid on the Company's outstanding shares of Common Stock payable at $.03 per share semiannually, subject to change or termination by the Board of Directors at any time. The Company paid a cash dividend of $.03 a share on its outstanding Common Stock on July 1, 1994, and January 1, 1995; however, there are no assurances that this policy will not be terminated or changed by the Board of Directors. See Notes 9,10 and 11 of Notes to Consolidated Financial Statements.

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

Under the terms of a term loan agreement between El Dorado Chemical Company ("EDC"), EDC's wholly owned subsidiary, Slurry Explosive Corporation ("SEC") and certain lenders, EDC cannot transfer funds to the Company in the form of cash dividends or other advances, except (i) for the amount of taxes that EDC would be required to pay if it was not consolidated with the Company and (ii) an amount equal to twenty-five percent (25%) of EDC's cumulative adjusted net income (as reduced by cumulative net losses), as defined, any

time EDC has a Total Capitalization Ratio, as defined, greater than .65:1 and after EDC has a Total Capitalization Ratio of .65:1 or less, 50% of EDC's cumulative adjusted net income (as reduced by cumulative net losses). See Note 7 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis".

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

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

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

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

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

Item 6. SELECTED FINANCIAL DATA

	Years ended December 31,				
	1994	1993	1992	1991	1990
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales	$245,025	$232,616	$198,373	$177,035	$196,577
Total Revenues	$249,969	$237,529	$200,217	$180,238	$198,931
Interest expense	$ 6,949	$ 7,507	$ 9,225	$ 10,776	$ 11,126
Income (loss) from continuing operations before extraordinary items	$ 983	$ 11,235	$ 6,985	$ (3,190)	$ 2,919
Net income (loss)	$ 24,467	$ 12,399	$ 9,255	$ (1,147)	$ (9,121)

Net income (loss) applicable to common stock	$ 21,232	$ 10,357	$ 7,428	$ (3,090)	$(11,107)
Primary earnings (loss) per common share:					
Income (loss) from continuing operations before extraordinary items	$ (.16)	$ .69	$ .66	$ (.81)	$ .17
Net income (loss)	$ 1.54	$ .77	$ .94	$ (.48)	$ (2.02)

Item 6. SELECTED FINANCIAL DATA (Continued)

	Years ended December 31,				
	1994	1993	1992	1991	1990
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data:					
Total Assets	$221,281	$196,038	$166,999	$158,383	$192,754
Long-term debt, including current portion	$ 91,681	$ 90,395	$ 51,332	$ 56,807	$ 57,796
Redeemable preferred stock	$ 152	$ 155	$ 163	$ 179	$ 186
Non-redeemable preferred stock, common stock, and other stockholders' equity, net	$ 90,599	$ 74,871	$ 18,339	$ 10,352	$ 13,481
Selected other Data:					
Cash dividends declared per common share	$ .06	$ .06	$ -	$ -	$ -

Information for years 1993 and prior has been restated to reflect the results and sale of Equity Bank in 1994 as a discontinued operation - See Note 3 of Notes to Consolidated Financial Statements.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's December 31, 1994 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA" and Item 1 "BUSINESS" included elsewhere in this report.

Overview

The Company is a diversified holding company which is engaged, through its subsidiaries, in the Chemical Business, the Environmental Control Business, the Automotive Products Business and the Industrial Products Business . The Chemical Business accounted for approximately 43% of the Company's assets at December 31, 1994. The Chemical Businessand the Environmental Control Business accounted for approximately 54% and 29%, respectively, of the Company's sales for the year ended December 31, 1994. Operating profit of the Company increased from $22.9 million in 1992, to $26.2 million in 1993, then decreased to $10.7 million in 1994. As a result of significantly lower operating profit, the Company's net income from continuing operations was approximately $1.0 million in 1994, as compared to $11.2 million in 1993 and $7.0 million in 1992. As previously discussed in this report, in 1994 the Company sold Equity Bank for Savings F.A. ("Equity Bank"), which comprised the Company's Financial Services Business. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis,and Note 3 of Notes to Consolidated Financial Statements for further discussion of the sale of Equity Bank.

Results of Operations

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Comparison of 1994 with 1993

Revenues

Total revenues for the years ended December 31, 1994 and 1993 were $250.0 million and $237.5 million, respectively (an increase of $12.5 million). Sales increased $12.4 million.

Net Sales

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

Gross Profit

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

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 20.1% in 1994 and 18.7% in 1993. This increase in SG&A as a percent of sales was primarily due to: (i) decreased sales to a foreign customer in the Industrial Products Business with no corresponding reduction in SG&A costs; (ii) increased insurance costs in the Industrial Products Business resulting from settlement of certain claims; (iii) loss reserves placed on loans to potential acquisition candidates in the Automotive Products and Environmental Control Businesses; and (iv) low provision for bad debt expenses in 1993 in the Environmental Control Business compared to the provision in 1994. These factors were offset in part by a decrease in legal costs resulting from settlement of the customs matter in the second quarter of 1993 and settlement of a dispute with one of the Company's insurers in the first quarter of 1994, in addition to sales increases due to higher ammonia prices in the Chemical Business with no corresponding increase in SG&A costs.

Interest Expense

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

Write-off of Costs Associated with Abandoned Acquisition Prospects

Results of operation for 1994 include approximately $1.2 million in costs expended in pursuit of acquisition prospects which the Company chose to abandon. Subsequent to year end, a decision was made to discontinue the evaluation to manufacture fertilizer in Indonesia and to charge-off a loan made in connection with a potential acquisition of 80% of a specialty chemical manufacturer of iodine derivatives.

Income From Continuing Operations Before Taxes

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

Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 8 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1994 and 1993 are for current state income taxes and federal alternative

minimum taxes. In 1994, the Company recognized a provision for alternative minimum taxes associated with its discontinued Financial Services Business of $1.3 million with an offsetting benefit to continuing operations as a result of utilization of the Company's alternative minimum tax net operating loss carryforward not otherwise available to the Financial Services Business.

Income From Discontinued Operations

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

Gain From Disposal of Discontinued Operations

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

Comparison of 1993 with 1992

Revenues

Total revenues for the years ended December 31, 1993 and 1992 were $237.5 millon and $200.2 million, respectively (an increase of $37.3 million). Other income included in total revenues was $4.9 million in 1993, compared to $1.8 million for 1992. This increase resulted primarily from higher proceeds on real estate sold in 1993 than in 1992.

Net Sales

Consolidated net sales for the year 1993 were $232.6 million, compared to $198.4 for the year 1992, an increase of $34.2 million or 17.2%. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $8.9 million, primarily due to the acquisition ofTES in July, 1993, sales by Slurry Explosive Corporation ("Slurry") to an expanded customer base for twelve months in 1993 compared to only eleven months in 1992, and sales of Universal Tech Corporation ("UTC"), which was acquired in September, 1992, offset by reduced sales by El Dorado Chemical Company due to the effects of coal mine strikes in the eastern United States; (ii) increased sales in the Environmental Control Business of $14.6 million, primarily due to an expanded customer base in 1993 and the effects in 1992 of a strike at the fan coil manufacturing plant of this business; (iii) increased sales in the Automotive Products Business of $8.5 million due to an expanded customer base in 1993; and (iv) increased sales in the Industrial Products Business of $2.2 million, primarily due to increased sales to a foreign customer (see Note 6 of Notes to Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this Management's Discussion and Analysis).

Gross Profit

Gross profit was 25.0% of sales for 1993, compared to 26.2% of sales for 1992. The decline in the gross profit percentage was due primarily to (i) lower efficiency in the heat pump manufacturing plant of the Environmental Control Business as a result of period costs associated with start up of production requirements related to an agreement entered into with a major United States air conditioning company; (ii) a shift in sales mix in the Industrial Products Business to lower margin items; and (iii) higher cost of the primary raw material (ammonia) in the Chemical Business. During 1993 the average cost of ammonia was approximately 12.2% higher than the average cost of ammonia during 1992. This higher cost was not fully passed on to customers in the form of price increases. These factors were offset in part by gross profits recognized on the foreign sales contract (See Note 6 of Notes to Consolidated Financial Statements) of $5.3 million in 1993, compared to only $3.6 million in 1992, and the effects in 1992 of a strike at the fan coil manufacturing plant of the Environmental Control Business.

Selling, General and Administrative Expense

Selling, general and administrative expense as a percent of net sales was 18.7% in both 1993 and 1992.

Interest Expense

Interest expense for the Company was approximately $7.5 million during 1993 compared to approximately $9.2 million during 1992. The decrease primarily resulted from lower interest rates and lower average balances of borrowed funds.

Income From Continuing Operations Before Taxes

The Company had income from continuing operations before income taxes of $12.0 million in 1993, compared to $7.4 million in 1992. The improved profitability of $4.6 million, after the one time charge to expense of $1.8 million for settlement of a dispute with Customs, was due to higher sales in the Chemical, Environmental Control, and Automotive Products businesses, and an increase of $1.7 million in estimated earnings on the foreign sales contract.

Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 8 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1993 and 1992 are for current state income taxes and federal alternative

minimum taxes.

Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business as discussed in Note 3 of Notes to Consolidated Financial Statements. Income from discontinued operations, net of expenses, was $1.2 million in 1993 compared to $2.3 million in 1992.

Liquidity and Capital Resources

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

Sale of Equity Bank - On May 25, 1994, pursuant to a Stock Purchase Agreement dated as of February 9, 1994 (the "Acquisition Agreement") , the Company sold to Fourth Financial Corporation ("Fourth Financial") Equity Bank for Savings, F.A., ("Equity Bank"), which constituted the Financial Services Business of the Company. Pursuant to the Acquisition Agreement, Fourth Financial acquired all of the outstanding shares of capital stock of Equity Bank. Under the Acquisition Agreement, the Company acquired from Equity Bank prior to the completion of the sale of Equity Bank certain subsidiaries of Equity Bank ("Retained Corporations") that owned the assets contributed by the Company to Equity Bank at the time of the acquisition of Equity Bank by the Company for Equity Bank's carrying values of such Retained Corporations. At the time of the acquisition of the Retained Corporations, Equity Bank's carrying value of the Retained Corporations was approximately $67.4 million. At the time of the closing of the sale of Equity Bank, a subsidiary of the Company acquired the Equity Tower Loan and other real estate owned by Equity Bank that had been acquired by Equity Bank through foreclosure ("OREO"), which are collectively referred to as the "Retained Assets". The Retained Assets were acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank, which was approximately $17.5 million. In addition, the Company acquired (i) certain loans owned by Equity Bank at book value or $1.00 in the case of loans that had been charged off ("Other Loans") and (ii) certain other loans at Equity Bank's net carrying value of $3.1 million.

The Purchase Price paid by Fourth Financial for Equity Bank was approximately $91.1 million. Of the approximately $91.1 million, the Company used approximately $67.4 million to repay certain indebtedness the Company incurred to finance the purchase from Equity Bank of the Retained Corporations. In addition, the Company used approximately $17.5 million to purchase the Retained Assets. The Company was further required under the Acquisition Agreement to purchase from Equity Bank at the closing of the proposed sale the outstanding amount of the Company's trade receivables previously sold by the Company and certain of its subsidiaries to Equity Bank (the "Receivables") (approximately $6.9 million). The Company used cash and approximately $3.0 million of borrowings from a line of credit provided by Fourth Financial through its Bank IV subsidiary which line of credit was replaced by the $65 million line of credit facility discussed elsewhere in this Liquidity and Capital Resources section, to purchase the balance of such Receivables and $3.1 million of net loans (as discussed above) from Equity Bank. The Company has subsequently obtained seven year term financing to replace the temporary financing of approximately $2.7 million of the loans it purchased from Equity Bank.

The sale of Equity Bank pursuant to the Acquisition Agreement resulted in a pre-tax gain for financial reporting purposes for the Company of approximately $24.2 million, based upon the Purchase Price of approximately $91.1 million. The Company's tax basis in Equity Bank was higher than its basis for financial reporting purposes. Consequently, the income tax effect of the sale of Equity Bank is limited to a charge for alternative minimum tax.

Sources of funds - As a result of the sale of Equity Bank, the capitalization of the Company improved considerably. Stockholders' equity is approximately $91 million at December 31, 1994. In December 1994, the Company and certain of its subsidiaries finalized a new working capital line of credit. This line of credit consolidates substantially all of the Company's working capital requirements into one comprehensive funding source. This working capital line of credit is evidenced by six separate loan agreements ("Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory and proprietary rights of the Company and the subsidiaries that are parties to the Agreements. The Agreements provide for revolving credit facilities ("Revolver") for total direct borrowings up to $65 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables and bears interest at the Lender's prime lending rate plus one-half percent (.50%). The rate in effect at December 31, 1994 was 9.00%. The initial term of the Agreements is through December 31, 1997, and is renewable thereafter for successive thirteen month terms. The Lender or the Company may terminate the Agreements at the end of the initial term or at the end of any renewal term without penalty, except that the Company may terminate the Agreements after the second anniversary of the Agreements without penalty. At December 31, 1994, the available borrowings, based on eligible collateral, approximated $9.2 million. Borrowings under the Revolver outstanding at December 31, 1994, were $44.4 million. The Agreements require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. The annual interest on the outstanding debt under the Revolver at December 31, 1994 at the rate then in effect would be approximately $4 million.

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

(1) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and

Slurry Explosive Corporation ("Chemical"), which substantially comprise the Company's Chemical Business, are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended, provides for a seven year term loan of $28.5 million ("Term Loan"). The balance of the Term Loan at December 31, 1994 was $15.8 million. Annual principal payments on the Term Loan are $5.1 million in 1995, $5.2 million in 1996 and a final payment of $5.5 million on March 31, 1997. The Loan Agreement also provides for a revolving credit facility which provides for a maximum available credit line of approximately $5.6 million at December 31, 1994. The availability under this facility reduces by $1.8 million annually in 1995 and 1996 with the remainder due in March 1997. Annual interest at the agreed to interest rates, if calculated on the aggregate $21.4 million outstanding balance at December 31, 1994 would be approximately $2.6 million. The Term Loan is secured by substantially all of the assets not otherwise pledged under the credit facility previously discussedand capital stock of Chemical. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, is .65:1 or below.

(2) The Company's wholly-owned subsidiary, DSN Corporation ("DSN") is a party to several loan agreements with a financing company (the "Financing Company") for two (2) projects which DSN will complete during 1995. These loan agreements are for a construction loan (the "Construction Loan") which provides for $12.5 million to be used to construct, equip, reerect and refurbish a nitric acid plant (the "DSN Plant") being placed into service by the Chemical Business at it's El Dorado Arkansas facility and a loan for approximately $1.1 million to finance the construction of a mixed acid plant in North Carolina (the "Mixed Acid Loan"). The Construction Loan will be repaid upon the earlier of completion of construction and acceptance of the DSN Plant as capable of production or March 31, 1995, with proceeds of a permanent loan ("DSN Permanent Loan"). The DSN Permanent Loan will have a repayment schedule of eighty-four (84) equal consecutive monthly installments of principal and interest, payable in arrears. The interest rate per annum will fix for the entire loan term at the rate per annum for a five year United States Treasury Security ("Treasury Rate") as determined at the close of business on the third business day prior to the making of the DSN Permanent Loan plus 2.70%. As of March 24, 1995, the Treasury Rate was 6.91%, resulting in an interest rate of 9.61%. The Mixed Acid Loan will be repaid under the same terms as the Construction Loan. Upon the earlier of completion of construction of the referenced mixed acid plant or August 1, 1995, the Mixed Acid Loan will have a repayment schedule of eighty-four (84) equal consecutive monthly installments of principal and interest, payable in arrears. The rate of interest on the Mixed Acid Loan will be the Treasury Rate, as defined above, plus 2.70%.

Foreign Subsidiary Financing - On March 7, 1995 the Company guaranteed a revolving credit facility (the "Facility") entered into between its wholly-owned Australian subsidiary Total Energy Systems Ltd. ("TES") and Bank of New Zealand. The Facility is intended to assist TES in meeting its working capital and trade finance requirements. The Facility allows for borrowings up to an aggregate of approximately $3.7 million based on specific percentages of qualified eligible assets. Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from the Company. The interest rate on this debt is the Bank of New Zealand Corporate Base Lending Rate plus 0.5% (11.5% at March 7, 1995). The Facility is subject to renewal at the discretion of Bank of New Zealand based upon annual review. The next annual review is due on March 31, 1996.

Cash Flows - Net cash provided by operating activities of continuing operations in 1994, after adjustment for net non-cash expenses of $9.3 million, was $6.7 million. This cash increase consisted of the following changes in assets and liabilities: (i) decreases in accounts receivable of $3.9 million, (ii) inventory increases of $13.7 million, (iii) increases in supplies and prepaid items of $0.9 million, and (iv) increases in accounts payable and accrued liabilities of $7.1 million. The decrease in accounts receivable was due primarily to the collection of a 1993 receivable in 1994 for a large insurance settlement in the Industrial Products Business, in addition to collections on certain long outstanding accounts in the Industrial Products Business. The increase in inventory was due primarily to (i) increases in the Automotive Products Business for the build-up of inventory levels at a new subsidiary acquired in December 1993, (ii) higher than normal purchases from certain foreign vendors by the Automotive Products Business in advance of anticipated cost increases (iii) build up of heat pump inventory in the Environmental Control Business in anticipation of sales increases in 1995, (iv) increases in raw material (ammonia) costs in the Chemical Business and (v) build up in inventory at the Chemical Business' Australian subsidiary, which was acquired in 1993, due to expansion of that operation. The increase in supplies and prepaid items resulted primarily from increases in supplies, security deposits, and prepaid costs in the Chemical Business. The increase in accounts payable and accrued liabilities was due primarily to the increases in inventory levels as described above. Investing activities during 1994 included (i) capital expenditures of $15.6 million, due primarily to the Chemical Business' construction of a new nitric acid production facility, in addition to normal expenditures in the Chemical Business and expenditures in the Environmental Control Business to improve the manufacturing processes of that business; (ii) sales of real estate and equipment which generated proceeds of $4.4 million; (iii) a purchase in connection with the sale of

Equity Bank of certain loans for $3.1 million; (iv) principal payments on notes receivable; and (v) an increase in other assets of $5.6 million, due primarily to loans made in connection with certain pending acquisitions, investment in equity securities, and deferred costs of certain long term projects. Cash flows provided by financing activities included net borrowings of $56.5 million, offset by repurchases of accounts receivable from Equity Bank of $33.6 million, dividends paid of $4.0 million, and treasury stock purchases of $5.0 million.

In summary, during 1994, recurring cash requirements for required debt service payments, dividends on Company stocks and purchases of treasury stock exceeded cash provided from operations by approximately $11.0 million. In addition, the Company spent approximately $3.0 million for capital improvements, primarily in the Environmental Control Business and Chemical Business, to improve manufacturing capabilities and $11.0 million in connection with the DSN Plant being constructed by the Chemical Business. The Company also spent approximately $3.6 million for prospective acquisition related activities. The expenditures noted above exceeded cash provided from operations by approximately $28.6 million. Of this excess, $13.4 million was funded by borrowings against the Company's revolving credit facilities, $12.8 million was borrowed from DSN's lender and the balance of $2.4 million was funded through other financings, principally real estate financing.

Future cash requirements include working capital requirements for anticipated sales increases in all Businesses, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the revolving credit facilities previously discussed. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Environmental Control and Automotive Products Businesses, both of which increased their inventories in 1994 beyond required levels. In 1995, the Company has incurred another $4.0 million to complete installation of the new plant, which is expected to begin full production by May, 1995. The Company also has planned capital expenditures for the Environmental Control Business to acquire certain machinery and equipment for approximately $3.0 million in 1995.

Management believes that cash flows from operations, the Company's revolving credit facilities, and other sources will be adequate to meet its presently anticipated capital expenditure, working capital, debt service and dividend requirements. The Company currently has no material commitment for capital expenditures, other than those related to Chemical's completion of an additional concentrated nitric acid plant and a mixed acid plant as discussed above.

During 1994, the Company declared and paid the following aggregate dividends: (1) $12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (2) $3.25 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; (3) $10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock; and (4) $.06 per share on its outstanding shares of Common Stock. The Company expects to continue the payment of such dividends in the future in accordance with the policy adopted by the Board of Directors and the terms inherent to the Company's various preferred stocks.

Foreign Sales Contract - A subsidiary of the Company entered into an agreement with a foreign company ("Buyer") to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products. The agreement provides for a total contract amount of approximately $56.0 million, with $12.0 million of the contract amount to be retained by the Buyer as the Company's subsidiary's equity participation in the Buyer, which represented a minority interest. During 1993, the Company's subsidiary exchanged its equity participation in the Buyer for $12.0 million in notes. Through December 31, 1994, the Company's subsidiary has received $13.9 million from the buyer under the agreement. During 1993, the Company and the foreign customer agreed to a revised payment schedule which deferred the beginning of payments under the contract from June 30, 1993 to one $791,000 principal payment on November 1, 1993 and then principal payments of $791,000 due March 31, 1994 and quarterly, thereafter, until the contract is paid in full.

The customer made the quarterly payments due November 1, 1993 and March 31, 1994. The quarterly payments due subsequent to March 31, 1994 have not been received. See Item 1 "BUSINESS - Industrial Products Business" and Note 6 of Notes to Consolidated Financial Statements.

Potential Business Acquisitions - During 1994 the Company, through a subsidiary, loaned $2.1 million to a French manufacturer of HVAC equipment. Under the loan agreement, the Company has the option to exchange its rights under the loan for 80% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the french manufacturer to secure its $2.1 million loan. At this time the decision has not been made to exercise such option and the $2.1 million loan net of a $650,000 reserve is carried on the books as a note receivable in other assets.

The Company is presently negotiating a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization to enhance the marketing of the Company's air conditioning products. The Company anticipates that the stock option will have a four (4) year term, and a total option granting price of $1.0 million payable in installments during the first year of the stock option, with annual $100,000 payments for yearly extensions of the stock option thereafter for up to three (3) years. Upon exercise of the stock option by the Company, or upon the occurrence of certain performance criteria which would give the grantors of the stock option the right to accelerate the date on which the Company must elect whether to exercise, the Company shall issue promissory notes for the exercise price of the subject

shares. The total exercise price of the subject shares is $4.0 million, less the amounts paid for the granting and any extensions of the stock option. The Company expects to obtain the stock option in 1995, however, there are no assurances that such stock option will be obtained or that it will ultimately be exercised.

A subsidiary of the Company has indicated a willingness to invest approximately $2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The purchase is contingent on, among other things, the developer closing financing for the Project. The Project was awarded a $17.9 million performance contract to retrofit residential housing units at a U.S. Army base. The contract calls for installation of energy-efficient equipment (including air conditioning and heating equipment), which will reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent(77%) of all energy and maintenance savings during the twenty (20) year contract term. The Company anticipates that the developer will obtain financing and the Company will invest in the Project, however, there are no assurances that such will happen.

The Company believes it will be able to finance the cash requirements associated with the stock option agreement and the Project from existing cash reserves and cashflow from Company operations in the event the Company consumates either of the two prospects discussed in the two preceeding paragraphs.

Additionally, the Company is performing due diligence on some other small companies that might result in acquisitions in 1995 or later. Any such acquisitions consummated will require additional financing which the Company believes can be obtained.

Settlement of Litigation - In 1994, the Company settled its litigation with one of it's insurers for $3.6 million, which was paid to the Company on March 11, 1994. Such amounts were accrued in the fourth quarter of 1993 to the extent that costs and expenses had been previously incurred.

Availability of Company's Loss Carryovers - The Company anticipates that its cash flow in future years will benefit to some extent from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years. As of December 31, 1994, the Company had available NOL carryovers of approximately $42.9 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1993, and on the Company's estimates for 1994. These NOL carryovers will expire beginning in the year 1999.

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

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Directors. The Company's Certificate of Incorporation and Bylaws provide for the division of the Board of Directors into three classes, each class consisting (as nearly as possible) of one-third of the whole. The terms of office of one class of directors expires each year, with each class of directors being elected for a term of three years and until the shareholders or directors have elected or appointed their qualified successors. The Company's bylaws presently provide that the number of directors may consist of not less than three nor more than nine, and the Board of Directors presently has set the number of directors at nine.

The following table sets forth the name, principal occupation, age, year in which the individual first became director, and year in which the director's term will expire.

Name and Principal Occupation	First Became a Director	Term Expires	Age
Raymond B. Ackerman (1) Chairman Emeritus of Ackerman McQueen, Inc.	1993	1996	72
Robert C. Brown, M.D. (2) President of Northwest Internal Medicine Associates, Inc.	1969	1995	64
Barry H. Golsen (3) Vice Chairman of the Board of Directors of the Company and President of the Environmental Control Business of the Company	1981	1997	44
Jack E. Golsen (4) President and Chairman of the Board of Directors of the Company	1969	1995	66
David R. Goss (5) Senior Vice President - Operations of the Company	1971	1997	54
Bernard G. Ille (6) Investments	1971	1996	68
Jerome D. Shaffer, M.D. (7) Investments	1969	1997	78
Tony M. Shelby (8) Senior Vice President - Finance of the Company	1971	1996	53
C.L. Thurman (9) Investments	1969	1995	76

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(1) Mr. Ackerman retired in 1992 from Ackerman McQueen, Inc.. Prior to his retirement, he served for more than five years as President of Ackerman McQueen, Inc., which is a public relations and advertising firm, located in Oklahoma.

(2) Dr. Brown has practiced medicine in Oklahoma City, Oklahoma for the past five years.

(3) For the past five years, Barry H. Golsen has served as the President of the Company's Environmental Control Business. Mr. Golsen was elected Vice Chairman of the Board of Directors on August 18, 1994.

(4) Mr. Golsen has served in the same capacity with the Company for the past five years.

(5) Mr. Goss, a certified public accountant, has served in substantially the same capacity with the Company for the past five years.

(6) Mr. Ille served as President and Chief Executive Officer of First Life Assurance Company ("First Life") from May, 1988, to March 31, 1994, when he retired from that position. In 1991, First Life was placed in conservatorship under the Oklahoma Department of Insurance and was sold on March 31, 1994. For more than five (5) years prior to that time, Mr. Ille also served as President of United Founders Life Insurance Company. Mr. Ille also serves as a director of Landmark Land Company Inc. ("Landmark") and served as a director of Landmark's wholly-owned savings and loan subsidiary. Such savings and loan subsidiary was placed in receivership in 1991 by the Federal Deposit Insurance Corporation while Mr. Ille served as a director. First Life was a subsidiary of Landmark until such was placed in conservatorship.

(7) Dr. Shaffer retired from the practice of medicine in 1987. Prior to that time, Dr. Shaffer practiced medicine in Oklahoma City, Oklahoma, for more than five years.

(8) Mr. Shelby, a certified public accountant, has served in substantially the same capacity with the Company during the past five years.

(9) Prior to his retirement in September of 1987, from the Company, Mr. Thurman served as President of the industrial supply operations of the Company's Industrial Products Business for more than five years.

Family Relationships. Jack E. Golsen is the father of Barry H. Golsen; Jack E. Golsen and Robert C. Brown, M.D., are brothers-in-law; and Robert C. Brown, M.D. is the uncle of Barry H. Golsen.

Compliance with section 16(a) of the Exchange Act. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 1994, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 1994 all directors and officers of the Company and beneficial owners of more than ten percent (10%) of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act filed their required Forms 3, 4, or 5, as required by Section 16(a) of the Exchange Act on a timely basis, except that Clifford L. Thurman filed two late Forms 4 relating to four transactions and Bernard G. Ille filed one late Form 4 relating to one transaction.

Item 11. EXECUTIVE COMPENSATION

The following table shows the aggregate cash compensation which the Company and its subsidiaries paid or accrued to the Chief Executive Officer and each of the other four (4) most highly-paid executive officers of the Company (which includes the President of the Company's Environmental Control Business, who also serves as Vice Chairman of the Board of Directors of the Company and who performs key policy making functions for the Company). The table includes cash distributed for services rendered during 1994, plus any cash distributed during 1994 for services rendered in a prior year, less any amount relating to those services previously included in the cash compensation table for a prior year.

Summary Compensation Table

Name and Position	Year	Annual Compensation Salary ($)	Bonus ($)	Other Annual Compensation ($)(2)	Long-term Compensation Awards Securities Underlying Options	All Other Compensation ($)(3)
Jack E. Golsen	1994	429,423	150,000	-	165,000(4)	100,000
Chairman of the	1993	379,615	100,000	-	-	-
Board, President	1992	359,395	160,000(1)	-	50,000	-
and Chief Executive Officer						
Barry H. Golsen	1994	176,769	90,000	-	-	100,000
Vice Chairman of	1993	165,000	60,000	-	-	-
the Board of	1992	168,671	100,000(1)	-	10,000	-
Directors and President of the Environmental Control Business						
David R. Goss	1994	146,708	90,000	-	-	100,000
Senior Vice	1993	142,000	60,000	-	-	-
President -	1992	145,099	100,000(1)	-	10,000	-
Operations						
Tony M. Shelby	1994	146,708	90,000	-	-	100,000
Senior Vice	1993	142,000	60,000	-	-	-
President/Chief	1992	144,975	100,000(1)	-	10,000	-
Financial Officer						
David M. Shear	1994	128,827	40,000	-	-	-
Vice President/	1993	111,846	30,000	-	-	-
General Counsel	1992	98,032	20,000	-	25,000	-

(1) Includes the following amounts paid in 1992 as bonuses for 1991: Jack E. Golsen - $60,000; Barry H. Golsen - $40,000; David R. Goss - $40,000; and Tony M. Shelby - $40,000.

(2) Does not include perquisites and other personal benefits, securities or property for the named executive officer in any year if the aggregate amount of such compensation for such year does not exceed the lesser of either $50,000 or 10% of the total of annual salary and bonus reported for the named executive officer for such year.

(3) In 1994, the Company paid to Messrs. J. Golsen, B. Golsen, Goss and Shelby an additional bonus of $100,000 each for their services as members of the Board of Directors of Equity Bank during the six years that the Company owned that financial business.

(4) On June 1, 1989, the Company originally granted a nonqualified stock option to purchase 165,000 shares of the Company's Common Stock at an exercise price of $2.625 per share (the "NQSO"), which on the date of grant was the fair market value of the Company's Common Stock. Prior to the NQSO's expiration date of June 1, 1994, the Company granted an extension of the option period of the NQSO for an additional five (5) year period, beginning on June 1, 1994, and terminating on June 1, 1999 (the "Extended NQSO"). The Extended NQSO vests and becomes exercisable at twenty percent (20%) per year on June 1, 1995, 1996, and 1997, and the remaining forty percent (40%) becomes exercisable June 1, 1998. The exercise price of the Extended NQSO is $2.625 per share, the same as the original NQSO. The Extended NQSO shall become immediately exercisable in full upon the death of the optionee or a change in control of the Company, and the Board of Directors of the Company may, at its option, accelerate such vesting at any time.

Option Grants in 1994

The following table sets forth information relating to individual grants of stock options made to each of the named executive officers in the above Summary Compensation Table during the last fiscal year:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)		
Name	Options Granted (#)(1)	% of Total Options Granted Emp-loyees in 1994	Exer-cise Price ($/sh)	Expir-ration Date	0%($)	5%($)	10%($)
Jack E. Golsen	165,000	67.6%	2.625	6/01/99	948,651	1,210,743	1,527,812

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(1) On June 1, 1989, the Company originally granted a nonqualified stock option to purchase 165,000 shares of the Company's Common Stock at an exercise price of $2.625 per share (the "NQSO"), which on the date of grant was the fair market value of the Company's Common Stock. Prior to the NQSO's expiration date of June 1, 1994, the Company granted an extension of the option period of the NQSO for an additional five (5) year period, beginning on June 1, 1994, and terminating on June 1, 1999 (the "Extended NQSO"). The Extended NQSO vests and becomes exercisable at twenty percent (20%) per year on June 1, 1995, 1996, and 1997, and the remaining forty percent (40%) becomes exercisable June 1, 1998. The exercise price of the Extended NQSO is $2.625 per share, the same as the original NQSO. The Extended NQSO shall become immediately exercisable in full upon the death of the optionee or a change in control of the Company, and the Board of Directors of the Company may, at its option, accelerate such vesting at any time.

(2) The potential realizable value of each grant of options assumes that the market price of the Company's Common Stock appreciates in value from the date of grant to the end of the option term at the annualized rates shown above each column. The actual value that the optionee may realize, if any, will depend on the amount by which the market price of the Company's Common Stock at the time of exercise exceeds the exercise price of the option. There is no assurance that the optionee will receive the amounts estimated in this table. The fair market value of a share of the Company's Common Stock was $8.375 on the date that the NQSO was extended as discussed in footnote (1) above, and $6.125 on March 31, 1995. Thus, the realizable value of the Extended NQSO on March 31, 1995, was $577,401, which is the difference between the exercise price of the Extended NQSO and the market value of the Company's Common Stock on March 31, 1995.

Aggregated Option Exercises in 1994 and Fiscal Year End Option Values

The following table sets forth information concerning each exercise of stock options by each of the named executive officers during the last fiscal year and the year-end value of unexercised options:

			Number of Securities Underlying Unexercised Options at FY End (#)(3)	Value of Unexercised In-the-Money Options at FY End ($) (3) (4)
Name	Shares Acquired on Exercise (#)(1)	Value Realized ($) (2)	Exercisable/ Unexercisable	Exercisable Unexercisable
Jack E. Golsen	-	$ -	10,000/ 195,000 (5)	$ 28,120/ 682,485
Barry H. Golsen	-	-	14,000/ 6,000	62,468/ 16,872
David R. Goss	-	-	5,000/ 6,000	20,875/ 18,750
Tony M. Shelby	-	-	5,000/ 6,000	20,875/ 18,750
David M. Shear	-	-	8,000/ 15,000	30,250/ 46,875

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(1) Each number represents the number of shares received by the named individual upon exercise.

(2) The values set forth in the columns below are between the market value of the Company's common stock on the date the particular option was exercised and the exercise price of such option.

(3) The options granted under the Company's Plans become exercisable

20% after one year from date of grant, an additional 20% after two years, an additional 30% after three years, and the remaining 30% after four years.

(4) The values are based on the difference between the price of the Company's common stock on the New York Exchange at the close of trading on December 31, 1994 of $6.25 per share and the exercise price of such option. The actual value realized by a named executive on the exercise of these options depends on the market value of the Company's common stock on the date of exercise.

(5) The amount shown includes 165,000 non-qualified stock options which vest and are exercisable 20% on June 1, 1995, June 1, 1996 and June 1, 1997 with the remaining 40% exercisable June 1, 1988.

Other Plans. The Board of Directors has adopted an LSB Industries, Inc. Employee Savings Plan (the "401(k) Plan") for the employees (including executive officers) of the Company and its subsidiaries, excluding certain (but not all) employees covered under union agreements. The 401(k) Plan is an employee contribution plan, and the Company and its subsidiaries make no contributions to the 401(k) Plan. The amount that an employee may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the employee's income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the employee's compensation each pay period, in accordance with the employee's instructions, and pays the amount into the 401(k) Plan for the employee's benefit. The Summary Compensation Table set forth above includes any amount contributed and deferred during the 1994 fiscal year pursuant to the 401(k) Plan by the named executive officers of the Company.

The Company has a death benefit plan for certain key employees. Under the plan, the designated beneficiary of an employee covered by the plan will receive a monthly benefit for a period of ten (10) years if the employee dies while in the employment of the Company or a wholly-owned subsidiary of the Company. The agreement with each employee provides, in addition to being subject to other terms and conditions set forth in the agreement, that the Company may terminate the agreement as to any employee at anytime prior to the employee's death. The Company has purchased life insurance on the life of each employee covered under the plan to provide, in large part, a source of funds for the Company's obligations under the Plan. The Company also will fund a portion of the benefits by investing the proceeds of a policy received by the Company upon the employee's death. The Company is the owner and sole beneficiary of the insurance policy, with the proceeds payable to the Company upon the death of the employee. The following table sets forth the amounts of annual benefits payable to the designated beneficiary or beneficiaries of the executive officers named in the Summary Compensation Table set forth above under the above-described death benefits plan.

Name of Individual	Amount of Annual Payment
Jack E. Golsen	$175,000
Barry H. Golsen	$ 30,000
David R. Goss	$ 35,000
Tony M. Shelby	$ 35,000
David M. Shear	$ 0

In addition to the above-described plans, during 1991 the Company entered into a non-qualified arrangement with certain key employees of the Company and its subsidiaries to provide compensation to such individuals in the event that they are employed by the Company or a subsidiary of the Company at age 65. Under the plan, the employee will be eligible to receive for the life of such employee, a designated benefit as set forth in the plan. In addition, if prior to attaining the age 65 the employee dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the employee will receive a monthly benefit for a period of ten (10) years. The agreement with each employee provides, in addition to being subject to other terms and conditions set forth in the agreement, that the Company may terminate the agreement as to any employee at any time prior to the employee's death. The Company has purchased insurance on the life of each employee covered under the plan where the Company is the owner and sole beneficiary of the insurance policy, with the proceeds payable to the Company to provide a source of funds for the Company's obligations under the plan. The Company may also fund a portion of the benefits by investing the proceeds of such insurance policies. Under the terms of the plan, if the employee becomes disabled while in the employment of the company or a wholly-owned subsidiary of the Company, the employee may request the Company to cash-in any life insurance on the life of such employee purchased to fund the Company's obligations under the plan. Jack E. Golsen does not participate in the plan. The following table sets forth the amounts of annual benefits payable to the executive officers named in the Summary Compensation Table set forth above under such retirement plan.

Name of Individual	Amount of Annual Payment
Barry H. Golsen	$17,480
David R. Goss	$17,403
Tony M. Shelby	$15,605
David M. Shear	$17,822

Compensation of Directors. In 1994, the Company compensated each non-management director of the Company for his services in the amount of $4,500. The non-management directors of the Company also received $500 for every meeting of the Board of Directors attended during 1994. Each member of the Audit Committee, consisting of Messrs. Ille, Brown and Shaffer, also received an additional $20,000 for their services in 1994. In addition, the Company

paid C.L. Thurman $20,000 as compensation for his services as Chairperson of the Special Projects Committee of the Board of Directors for 1994. Also, as further discussed in Item 11 "EXECUTIVE COMPENSATION - Summary Compensation Table", the Company paid to Messrs. J. Golsen, B. Golsen, Goss and Shelby an additional one-time bonus of $100,000 for their services as members of the Board of Directors of Equity Bank during the six years that the Company owned that financial business. Messrs. J. Golsen, B. Golsen, Goss and Shelby are members of the Company's Board of Directors, as well as, employees of the Company.

In September 1993, the Company adopted the 1993 Non-Employee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum shares for which options may be issued under the Outside Director Plan will be 150,000 shares (subject to adjustment as provided in the Outside Director Plan). The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of $9.2 million or more for such fiscal year. The exercise price for an option granted under the Outside Director Plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under the Outside Director Plan, to the extent not exercised, shall terminate upon the earlier of the termination of the outside director as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. On April 30, 1994, options to acquire 5000 shares of Common Stock were granted under this plan to Messrs. Ille, Brown, Shaffer, Thurman and Ackerman, at a per share exercise price of $9.00. As a result of the Company's financial performance for 1994, the Company will be granting options under the Outside Director Plan for the purchase of 5,000 shares of Common Stock to each of Messrs. Ille, Brown, Shaffer, Thurman, and Ackerman.

Termination of Employment and Change in Control Arrangements. In 1989 and 1991, the Company entered into severance agreements with Jack E. Golsen, Barry H. Golsen, Tony M. Shelby, David R. Goss, David M. Shear and certain other officers of the Company and subsidiaries of the Company.

Each severance agreement provides (among other things) that if, within twenty-four (24) months after the occurrence of a change in control (as defined) of the Company, the Company terminates the officer's employment other than for cause (as defined) or the officer terminates his employment for good reason (as defined) the Company must pay the officer an amount equal to 2.9 times the officer's base amount (as defined). The phrase "base amount" means the average annual gross compensation paid by the Company to the officer and includable in the officer's gross income during the period consisting of the most recent five (5) year period immediately preceding the change in control. If the officer has been employed by the Company for less than 5 years, the base amount is calculated with respect to the most recent number of taxable years ending before the change in control that the officer worked for the Company.

The severance agreements provide that a "change in control" means a change in control of the Company of a nature that would require the filing of a Form 8-K with the Securities and Exchange Commission and, in any event, would mean when: (1) any individual, firm, corporation, entity or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of thirty percent (30%) or more of the combined voting power of the Company's outstanding voting securities having the right to vote for the election of directors, except acquisitions by: (a) any person, firm, corporation, entity or group which, as of the date of the severance agreement, has that ownership, or (b) Jack E. Golsen, his wife; his children and the spouses of his children; his estate; executor or administrator of any estate, guardian or custodian for Jack E. Golsen, his wife, his children, or the spouses of his children, any corporation, trust, partnership or other entity of which Jack E. Golsen, his wife, children, or the spouses of his children own at least eighty percent (80%) of the outstanding beneficial voting or equity interests, directly or indirectly, either by any one or more of the above-described persons, entities or estates; and certain affiliates and associates of any of the above-described persons, entities or estates; (2) individuals who, as of the date of the severance agreement, constitute the Board of Directors of the Company (the "Incumbent Board") and who cease for any reason to constitute a majority of the Board of Directors except that any person becoming a director subsequent to the date of the severance agreement, whose election or nomination for election is approved by a majority of the Incumbent Board (with certain limited exceptions), will constitute a member of the Incumbent Board; or (3) the sale by the Company of all or substantially all of its assets.

The termination of an officer's employment with the Company "for cause" means termination because of: (a) the mental or physical disability from performing the officer's duties for a period of one hundred twenty (120) consecutive days or one hundred eighty days (even though not consecutive) within a three hundred sixty (360) day period; (b) the conviction of a felony; (c) the embezzlement by the officer of Company assets resulting in substantial personal enrichment of the officer at the expense of the Company; or (d) the willful failure (when not mentally or physically disabled) to follow a direct written order from the Company's Board of Directors within the reasonable scope of the officer's duties performed during the sixty (60) day period prior to the change of control.

The termination of an officer's employment with the Company for "good reason" means termination because of (a) the assignment to the officer of duties inconsistent with the officer's position, authority, duties or responsibilities during the sixty (60) day period immediately preceding the change in control of the Company or any other action which results in the diminishment of those duties, position, authority, or responsibilities; (b) the relocation of the officer; (c) any purported termination by the Company of

the officer's employment with the Company otherwise than as permitted by the severance agreement; or (d) in the event of a change in control of the Company, the failure of the successor or parent company to agree, in form and substance satisfactory to the officer, to assume (as to a successor) or guarantee (as to a parent) the severance agreement as if no change in control had occurred.

Each severance agreement runs until the earlier of: (a) three years after the date of the severance agreement, or (b) the officer's normal retirement date from the Company. However, beginning on the first anniversary of the severance agreement and on each anniversary thereafter, the term of the severance agreement automatically extends for an additional one-year period, unless the Company gives notice otherwise at least sixty (60) days prior to the anniversary date.

Effective June 1, 1994, the Company extended until June 1, 1999, the option period of a nonqualified stock option previously granted to Jack E. Golsen for the purchase of 165,000 shares of the Company's Common Stock at an exercise price of $2.625 per share (the "Extended NQSO"). The Extended NQSO vests and becomes exercisable at twenty percent (20%) per year on June 1, 1995, 1996, and 1997, and the remaining forty percent (40%) becomes exercisable on June 1, 1998. The terms of the Extended NQSO provide, in part, that the Extended NQSO shall become immediately exercisable upon a change in control of the Company. A "change in control" for purposes of the Extended NQSO, shall be deemed to have occurred upon any of the following events: (i) consummation of any of the following transactions: any merger, recapitalization, or other business combination of the Company pursuant to which the Company is the non-surviving corporation, unless the majority of the holders of Common Stock immediately prior to such transaction will own at least fifty percent (50%) of the total voting power of the then outstanding securities of the surviving corporation immediately after such transaction; (ii) a transaction in which any person, corporation, or other entity (A) shall purchase any Common Stock pursuant to a tender offer or exchange offer, without the prior consent of the Board of Directors or (B) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Company representing fifty percent (50%) or more of the total voting power of the then outstanding securities of the Company; or (iii) if, during any period of two (2) consecutive years, individuals who, at the beginning of such period, constituted the entire Board of Directors and any new director whose election by the Board of Directors, or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election by the stockholders was previously approved, cease for any reason to constitute a majority thereof.

Compensation Committee Interlocks and Insider Participation. The Company's Executive Salary Review Committee has the authority to set the compensation of all officers of the Company, except the President, which the Board of Directors sets. This Committee generally considers and approves the recommendations of the President. The members of the Executive Salary Review Committee are the following non-management directors: Robert C. Brown, M.D., Jerome D. Shaffer, M.D., and Bernard G. Ille. During 1994, the Executive Salary Review Committee had one meeting.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Security Ownership of Certain Beneficial Owners. The following table shows the total number and percentage of the outstanding shares of the Company's voting common stock and voting preferred stock beneficially owned as of March 31, 1995, with respect to each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that the Company knows to have beneficial ownership of more than five percent (5%) of the Company's voting common stock and voting preferred stock. A person is deemed to be the beneficial owner of voting shares of Common Stock of the Company which he or she could acquire within sixty (60) days of April 1, 1995 such as upon the exercise of options.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may beneficially own, the amounts shown below for an individual or entity may include shares also considered beneficially owned by others.

Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned(1)	Percent of Class
Jack E. Golsen and members of his family(2)	Common	3,783,735 (3)(5)(6)	27.2%
	Voting Preferred	20,000 (4)(6)	92.3%
Riverside Capital Advisors, Inc.	Common	901,373 (7)	6.7%

(1) The Company based the information with respect to beneficial ownership on information furnished by the above-named individuals or entities or contained in filings made with the Securities and Exchange Commission or the Company's records.

(2) Includes Jack E. Golsen and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen (a Director, Vice Chairman of the Board of Directors and President of the Environmental Control Business of the Company); son, Steven J. Golsen (Executive officer of several subsidiaries of the Company), and daughter, Linda F. Rappaport. The address of Jack E.

Golsen, Sylvia H. Golsen and Linda F. Rappaport is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; Barry H. Golsen's address is 5000 S.W. Seventh Street, Oklahoma City, Oklahoma 73125; and Steven J. Golsen's address is 7300 S.W. 44th Street, Oklahoma City, Oklahoma 73179.

(3) Includes (a) the following shares that Jack E. Golsen ("J. Golsen") has the sole voting and investment power: (i) 89,028 shares that he owns of record, (ii) 33,000 shares that he has the right to acquire within sixty (60) days under a non-qualified stock option, (iii) 4,000 shares that he has the right to acquire upon conversion of a promissory note, (iv) 133,333 shares that he has the right to acquire upon the conversion of 4,000 shares of the Company's Series B 12% Cumulative Convertible Preferred Stock (the "Series B Preferred") owned of record by him, and (v) 25,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (b) 1,168,984 shares owned of record by Sylvia H. Golsen, in which she and her husband, J. Golsen share voting and investment power; (c) 235,526 shares that Barry H. Golsen ("B Golsen") has the sole voting and investment power, 533 shares that he shares the voting and investment power with his wife that are owned of record by his wife, and 17,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (d) 195,897 shares that Steven J. Golsen ("S. Golsen") has the sole voting and investment power and 17,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (e) 163,460 shares held in trust for the grandchildren of Jack E. and Sylvia H. Golsen of which B. Golsen, S. Golsen and Linda F. Rappaport jointly or individually are trustees; (f) 82,552 shares owned of record by Linda F. Rappaport, which Mrs. Rappaport has the sole voting an investment power, and (g) 1,041,799 shares owned of record by Golsen Petroleum Corporation ("GPC") and 533,333 shares that GPC has the right to acquire upon conversion of 16,000 shares of Series B Preferred owned of record by GPC. GPC is wholly-owned by J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen and Linda F. Rappaport, with each owning twenty percent (20%) of the outstanding stock of GPC, and as a result, GPC, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen, and Linda F. Rappaport share the voting and investment power of the shares beneficially owned by GPC. GPC's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.

(4) Includes: (a) 4,000 shares of Series B Preferred owned of record by J. Golsen, which he has the sole voting and investment power; and (b) 16,000 shares of Series B Preferred owned of record by GPC, in which GPC, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen and Linda F. Rappaport share the voting and investment power.

(5) Does not include 112,360 shares of Common stock that Linda F. Rappaport's husband owns of record and 17,000 shares which he has the right to acquire within the next sixty (60) days under the Company's stock option plans, all of which Linda F. Rappaport disclaims beneficial ownership.

(6) J. Golsen disclaims beneficial ownership of the shares that B. Golsen, S. Golsen and Linda F. Rappaport each have the sole voting and investment power over as noted in footnote (3) above. B. Golsen, S. Golsen and Linda F. Rappaport disclaim beneficial ownership of the shares that J. Golsen has the sole voting and investment power over as noted in footnotes (3) and (4) and the shares owned of record by Sylvia H. Golsen. Sylvia H. Golsen disclaims beneficial ownership of the shares that J. Golsen has the sole voting and investment power over as noted in footnotes (3) and (4) above.

(7) Riverside Capital Advisors was deemed to beneficially own these shares as a result of having full discretionary investment authority over 13 customers accounts to which it provides investment services. This amount includes 90,850 shares of Common Stock that may be acquired upon conversion of the Company's $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred") and 103,422 shares of Common Stock held by affiliates of Riverside Capital Advisors who share control of investment decisions made by Riverside Capital Advisors.

Security Ownership of Management. The following table sets forth information obtained from the directors of the Company and the directors and executive officers of the Company as a group as to their beneficial ownership of the Company's voting common stock and voting preferred stock as of March 31, 1995.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown below for an individual may include shares also considered beneficially owned by others. Any shares of stock which a person does not own, but which he or she has the right to acquire within sixty (60) days of April 1, 1995 are deemed to be outstanding for the purpose of computing the percentage of outstanding stock of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

Name of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned	Percent of Class
Raymond B. Ackerman	Common	5,680 (2)	*
Robert C. Brown, M.D.	Common	233,329 (3)	1.8%
Barry H. Golsen	Common	1,909,921 (4)	14.6%
	Voting Preferred	16,000 (4)	74.0%
Jack E. Golsen	Common	3,071,767 (5)	23.4%
	Voting Preferred	20,000 (5)	92.5%
David R. Goss	Common	196,585 (6)	1.5%

Bernard G. Ille	Common	115,000 (7)	*
Jerome D. Shaffer,M.D.	Common	140,374 (8)	1.1%
Tony M. Shelby	Common	204,728 (9)	1.6%
C.L. Thurman	Common	20,333 (10)	*
Directors and Executive Officers as a group(11 persons)	Common	4,487,750 (11)	34.2%
	Voting Preferred	20,000 (11)	92.5%

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* Less than 1%.

(1) The Company based the information with respect to beneficial ownership on information furnished by each director or officer, contained in filings made with the Securities and Exchange Commission, or contained in the Company records.

(2) Mr. Ackerman has sole voting and investment power of 680 of these shares, which shares are held in a trust in which Mr. Ackerman is both the settlor and the trustee and in which he has the vested interest in both the corpus and income. The remaining 5000 shares of common stock listed here are shares that Mr. Ackerman may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(3) The amount shown includes 45,000 shares of common stock that Dr. Brown may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company. The shares with respect to which Dr. Brown shares the voting and investment power consist of 117,516 shares owned by Dr. Brown's wife, 50,727 shares owned by Robert C. Brown, M.D., Inc., a corporation wholly-owned by Dr. Brown, and 20,086 shares held by the Robert C. Brown M.D., Inc. Employee Profit Sharing Plan, of which Dr. Brown serves as the trustee. The amount shown does not include 57,190 shares directly owned by the children of Dr. Brown, all of which Dr. Brown disclaims beneficial ownership.

(4) See footnotes (3), (4), and (6) of the table under "Security Ownership of Certain Beneficial Owners and Management" of this Item for a description of the amount and nature of the shares beneficially owned by B. Golsen, including 17,000 shares B. Golsen has the right to acquire within sixty (60) days.

(5) See footnotes (3), (4), and (6) of the table under "Security Ownership of Certain Beneficial Owners and Management" of this Item for a description of the amount and nature of the shares beneficially owned by J. Golsen, including the 33,000 shares J. Golsen has the right to acquire within sixty (60) days pursuant to non-qualified stock options and 25,000 shares J. Golsen has the right to acquire within sixty (60) days pursuant to options granted under the Company's Incentive Stock Option Plans ("ISOs").

(6) The amount shown includes 8,000 shares that Mr. Goss has the right to acquire within sixty (60) days pursuant to options granted under the Company's ISOs, over which Mr. Goss has the sole voting and investment power. Mr. Goss shares voting and investment power over 2,429 shares owned by Mr. Goss's wife, individually and/or as custodian for Mr. Goss's children and has sole voting and investment power over the balance of the shares.

(7) The amount includes 45,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille has the sole voting and investment power. Mr. Ille disclaims beneficial ownership of 70,000 shares owned by Mr. Ille's wife.

(8) Dr. Shaffer has the sole voting and investment power over these shares, which include 45,000 shares that Dr. Shaffer may purchase pursuant to currently exercisable non-qualified stock options.

(9) Mr. Shelby has the sole voting and investment power over these shares, which include 8,000 shares that Mr. Shelby has the right to acquire within sixty (60) days pursuant to options granted under the Company's ISOs.

(10) Mr. Thurman has the sole voting and investment power over these shares, which include 5000 shares that Mr. Thurman may purchase pursuant to currently exercisable non-qualified stock options..

(11) The amount shown includes 256,500 shares of common stock that officers and directors, or entities controlled by officers and directors of the Company, have the right to acquire within sixty (60) days.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

A subsidiary of the Company, Hercules Energy Mfg. Corporation ("Hercules"), leases land and a building in Oklahoma City, Oklahoma from Mac Venture, Ltd. ("Mac Venture"), a limited partnership. GPC serves as the general partner of Mac Venture. The limited partners of Mac Venture include GPC and the three children of Jack E. Golsen. See "Security Ownership of Certain Beneficial Owners and Management", above, for a discussion of the stock ownership of GPC. The land leased by Hercules from Mac Venture consists of a total of 341,000 square feet, with 44,000 square feet in the building. Hercules leases the property from Mac Venture for $7,500 per month under a triple net lease which began as of January 1, 1982, and expires on December 31, 1998. Also, at January 1, 1991, GPC owed Hercules approximately $62,000 for purchases of oilfield equipment in prior years. Beginning in 1991, the

balance of $62,000 was payable at the rate of $1,000 per month, and in September 1994, GPC paid this debt in full.

Northwest Internal Medicine Associates, ("Northwest") a division of Plaza Medical Group., P.C., has an agreement with the Company to perform medical examinations of the management and supervisory personnel of the Company and its subsidiaries. Under such agreement, Northwest is paid $4,000 a month to perform all such examinations. Dr. Robert C. Brown (a director of the Company) is a co-owner of Plaza Medical Group., P.C.

In 1983, LSB Chemical Corp. ("LSB Chemical"), a subsidiary of the Company, acquired all of the outstanding stock of El Dorado Chemical Company ("EDC") from its then four stockholders ("Ex-Stockholders"). A substantial portion of the purchase price consisted of an earnout based primarily on the annual after-tax earnings of EDC for a ten-year period. During 1989, two of the Ex-Stockholders received LSB Chemical promissory notes for a portion of their earnout, in lieu of cash, totaling approximately $896,000, payable $496,000 in January, 1990, and $400,000 in May, 1994. LSB Chemical agreed to a buyout of the balance of the earnout from the four Ex-Stockholders for an aggregate purchase amount of $1,231,000. LSB Chemical purchased for cash the earnout from two of the Ex-Stockholders and issued multi-year promissory notes totaling $676,000 to the other two Ex-Stockholders. Jack E. Golsen guaranteed LSB Chemical's payment obligation under the promissory notes, which is $400,000 at March 31, 1995.

In December 1993, the Company's Board of Directors authorized the Company to loan funds to certain executive officers of the Company and certain subsidiaries who incurred unanticipated alternative minimum tax liability as a result of the exercise of the Company's incentive stock options during 1993. Pursuant to such authorization, the Company made loans to the following executive officers of the Company in the following amounts for the purpose of assisting in the payment of alternative minimum tax liability arising from the exercise of the Company's incentive stock options: Jack E. Golsen - $290,000; Barry H Golsen - $270,000; David R. Goss - $461,000; Tony M. Shelby - $400,000; David M. Shear - $56,500; Jim D. Jones - $185,000; and Michael Tepper - $66,427. Each loan was payable on demand at an annual interest rate equal to New York Prime plus 1% and was secured by shares of the Company's Common Stock acquired by the respective executive officers upon the exercise of such options. The Company also made loans for the same purposes and on the same terms as described above to Steven J. Golsen, President of one of the Company's subsidiaries, in the amount of $270,000 and Claude L. Rappaport, President of one of the Company's subsidiaries, in the amount of $270,000. Steven J. Golsen and Claude L. Rappaport are also the son and son-in-law, respectively, of Jack E. Golsen, the President and Chairman of the Board of the Company.

On or before September 26, 1994, Jack E. Golsen, Barry H. Golsen, David M. Shear, and Michael D. Tepper each paid their respective loans in full by tendering cash payment to the Company in an amount equal to the outstanding principal and accrued interest owing under their respective loans. The funds used to satisfy such loans were acquired by Jack E. Golsen, Barry H. Golsen, David M. Shear and Michael D. Tepper uopon the sale in open market transactions to Lazard Freres & Company ("Lazard") of the following number of shares of the Company's Common Stock owned by them at the following sales prices: Sylvia H. Golsen, wife of Jack E. Golsen, - 92,000 shares at $6.25 per share; Barry H. Golsen - 29,000 shares at $6.25 per share; David M. Shear and Heidi Brown, his wife, - 9,900 shares at $6.125 per share, and Michael D. Tepper - 11,000 shares at $6.125 per share. Steven J. Golsen, son of Jack E. Golsen, and Claude L. Rappaport, Son-in-law of Jack E. Golsen, also paid their respective loans in full by tendering cash payment to the Company in the amount equal to the outstanding principal and accrued interest owing under their respective loans. The funds used to satisfy such loans were acquired by Steven J. Golsen and Claude L. Rappaport upon the sale in open market transactions to Lazard of the following number of shares of the Company's Common Stock owned by them at the follwoing sales prices: Steven J. Golsen - 30,000 shares at $6.25 per share, and Claude L. Rappaport - 31,000 shares at $6.25 per share.

Pursuant to an understanding between the Company and Lazard, immediately following the open market sales of (i) an aggregate 202,900 shares by Sylvia H. Golsen, Michael D. Tepper, Barry H. Golsen, David M. Shear, Heidi Brown, Steven J. Golsen, and Claude L. Rappaport, described above; (ii) 20,000 shares by Golsen Petroleum Corporation ("GPC") at a sales price of $6.25 per share, and (iii) 25,000 shares by Robert C. Brown, M. D. at a sales price of $6.25 per share, the Company purchased such shares of its Common Stock from Lazard Freres & Company at purchase prices of $6.25 per share as to 227,000 shares and $6.125 as to 20,900 shares, which purchase prices equaled the fair market value of the Common Stock on the dates of such purchases. The shares acquired by the Company upon such purchase constitute treasury shares of the Company. GPC is wholly owned by Sylvia H. Golsen, Steven J. Golsen, Barry H. Golsen, and the daughter of Jack E. Golsen.

On or before October 4, 1994, Messrs. Shelby, Jones, and Goss paid their respective loans in full by (i) tendering cash payment to the Company as payment of a portion of such loans, and (ii) transferring to the Company the number of shares of Common Stock owned by each of them equal to the remaining outstanding principal and accrued interest owing under such loans, based on the fair market value of $5.75 per share of Common Stock on the date of transfer. The number of shares of Common Stock transferred to the Company by Messrs. Shelby, Jones, and Goss, as described above, was 60,654, 21,458 and 72,892, respectively.

In 1994, during the period that the Company was negotiating a new working capital line of credit, GPC advanced the Company $175,000 and the MG Revocable Trust advanced the Company $247,000. Each advance was made on a unsecured basis at a rate of interest equal to the base rate of a local bank approximating prime plus 1-3/4% per annum. The Settlor of the MG Revocable Trust is the mother of Jack E. Golsen. These advances and all accrued

interest were repaid in full prior to the closing of the new working capital line of credit in December, 1994.

PART IV

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

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

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

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

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

2.1. Stock Purchase Agreement dated as of February 9, 1994, between Fourth Financial Corporation, the Company and Prime Financial Corporation ("Stock Purchase Agreement"), which the Company hereby incorporates by reference from Exhibit A to the Company's Proxy Statement, dated March 22, 1994 and filed with the Commission on March 23, 1994. Schedules and exhibits to the Stock Purchase Agreement are listed in the Stock Purchase Agreement and copies of such documents so listed will be furnished supplementally to the Commission upon request.

2.2. Stock Purchase Agreement and Stock Pledge Agreement between Dr. Hauri AG, a Swiss Corpoation, and LSB Chemical Corp.

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

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

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

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

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

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

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

4.6. Amended and Restated Secured Credit Agreement, dated as of January 21, 1992, between El Dorado Chemical Company ("EDC"),

Slurry Explosive Corporation ("Slurry"), Household Commercial Financial Services, Inc. ("Household"), Connecticut Mutual Life Insurance Company ("CML") and CM Life Insurance Company which the Company hereby incorporates by reference from Exhibit 4.15 to the Company's Form 10K for the year ended December 31,1991. The agreement contains a list of schedules and exhibits omitted from the filed copy and the Company agrees to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

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

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

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

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

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

4.12. Loan and Security Agreement, dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc.. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Compnay agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request.

4.13. Loan and Security Agreement dated December 12, 1994, between El Dorado Chemical Company and Slurry Explosive Corporation, as borrowers, and BankAmerica Business Credit, Inc., as lender. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Company agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request. Substantially identical Loan and Security Agreements, dated December 12, 1994, have been entered into by each of L&S Bearing Co., International Environmental Corporation, Climate Master, Inc., and Summit Machine Tool Manufacturing, Corp. with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided to the Commission upon the Commission's request.

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

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

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

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

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

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

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

10.8. Union Contracts, dated August 1, 1992, between EDC and the Oil, Chemical and Atomic Workers, United Steel Workers of America, United Mine Workers and the International Association of Machinists and Aerospace Workers, which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 1992.

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

10.10. Agreement for Purchase and Sale of Anhydrous Ammonia, dated as of January 1, 1994, between El Dorado Chemical Company and Farmland Industries, Inc.

10.11. Non-qualified Stock Option Agreement, dated April 26, 1990, between the Company and Robert C. Brown, M.D., which the Company hereby incorporates by reference from Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 1990. The Company entered into substantially identical agreements with Bernard G. Ille, Jerome Shaffer and C.L. Thurman, and the Company will provide copies thereof to the Commission upon request.

10.12. Non-qualified Stock Option Agreement, dated November 19, 1987, between the Company and C.L. Thurman, which the Company hereby incorporates by reference from Exhibit 10.25 to the Company's Form 10-K for the fiscal year ended December 31, 1987. The Company entered into substantially identical agreements with Jerome D. Shaffer, Bernard G. Ille, and Robert C. Brown and the Company will provide copies thereof to the Commission upon request.

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

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

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

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

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

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

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

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

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

10.22. Processing Agreement, dated January 1, 1994, between Monsanto Company and El Dorado Chemical Company.

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

10.24. Loan and Security Agreement dated October 31, 1994

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

10.25. Loan and Security Agreement dated April 5, 1995 between DSN Corporation and the CIT Group.

11.1. Statement re: Computation of Per Share Earnings

22.1. Subsidiaries of the Company

23.1. Consent of Independent Auditors

27.1. Financial Data Schedule

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the fourth quarter of 1994.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 13th day of April, 1995.

LSB INDUSTRIES, INC.

By: /S/ Jack E. Golsen

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

By: /s/ Tony M. Shelby

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

By: /s/Jim D. Jones

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

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

Dated: April 13, 1995 By: /s/Jack E. Golsen

Jack E. Golsen, Director

Dated: April 13, 1995 By:/s/ Tony M. Shelby

Tony M. Shelby, Director

Dated: April 13, 1995 By:/s/ David R. Goss

David R. Goss, Director

Dated: April 13, 1995 By:/s/Barry H. Golsen

Barry H. Golsen, Director

Dated: April 13, 1995 By:/s/ C.L. Thurman

C. L. Thurman, Director

Dated: April 13, 1995 By:/s/Robert C. Brown

Robert C. Brown, Director

Dated: April 13, 1995 By:/s/Bernard G. Ille

Bernard G. Ille, Director

Dated: April 13, 1995 By:/s/Jerome D. Shaffer

Jerome D. Shaffer, Director

Dated: April 13, 1995 By:/s/Raymond B. Ackerman

Raymond B. Ackerman, Director

Report of Independent Auditors

The Board of Directors and Stockholders
LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 1994 and 1993, and the related consolidated statements of operations, non-redeemable preferred stock, common stock and other stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 21, 1995

LSB Industries, Inc.

Consolidated Balance Sheets (Note 1)

	DECEMBER 31, 1994	1993
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,610	$ 2,781
Trade accounts receivable, less allowance for doubtful accounts of $2,000,000 ($2,583,000 in 1993)	42,720	49,533
Inventories (Notes 4 and 7):		
Finished goods	33,926	24,197
Work in process	9,796	9,643
Raw materials	15,611	11,801
Total inventory	59,333	45,641
Supplies and prepaid items	6,386	5,459
Total current assets	111,049	103,414
Property, plant and equipment, at cost (Notes 5 and 7)	133,359	113,795
Accumulated depreciation	(59,675)	(53,269)
Property, plant and equipment, net	73,684	60,526
Loans receivable, secured by real estate (Note 3)	17,243	13,968
Other assets, net of allowance for doubtful accounts of $1,150,000 in 1994 (none in 1993)	19,305	18,130
	$221,281	$196,038

	DECEMBER 31, 1994	1993
	(In Thousands)	
LIABILITIES, PREFERRED AND COMMON STOCKS AND OTHER STOCKHOLDERS' EQUITY		
Current liabilities:		
Drafts payable	$ 1,291	$ 1,220
Accounts payable	29,496	22,645
Accrued liabilities	8,062	6,752
Current portion of long-term debt (Note 7)	9,716	9,763
Total current liabilities	48,565	40,380
Long-term debt (Note 7)	81,965	20,508
Net liabilities of Financial Services Business sold in 1994 (Note 3)	--	60,124
Commitments and contingencies (Notes 3, 6 and 12)		
Redeemable, noncumulative, convertible preferred stock, $100 par value; 1,597 shares issued and outstanding (1,637 in 1993) (Note 10)	152	155
Non-redeemable preferred stock, common stock and other stockholders' equity (Notes 7, 9 and 11):		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 920,000 shares issued	46,000	46,000
Common stock, $.10 par value; 75,000,000 shares authorized, 14,620,156 shares issued (14,514,056 in 1993)	1,462	1,451
Capital in excess of par value	37,369	37,120
Retained earnings (deficit)	12,883	(7,541)
	99,714	79,030
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares (none in 1993)	200	--
Common stock, 1,559,590 shares (840,085 in 1993)	8,915	4,159
Total non-redeemable preferred stock, common stock and other stockholders' equity	90,599	74,871
	$221,281	$196,038

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations (Note 1)

	YEAR ENDED DECEMBER 31, 1994	1993	1992
	(In Thousands, Except Per Share Amounts)		
Revenues:			
Net sales	$245,025	$232,616	$198,373
Other income	4,944	4,913	1,844
	249,969	237,529	200,217
Costs and expenses:			
Cost of sales	191,916	174,504	146,391
Selling, general and administrative	49,221	43,474	37,153
Interest	6,949	7,507	9,225
Provision for environmental matter	450	--	--
Costs of abandoned acquisitions	1,150	--	--
	249,686	225,485	192,769
Income from continuing operations before provision (benefit) for income taxes	283	12,044	7,448
Provision (benefit) for income taxes	(700)	809	463
Income from continuing operations	983	11,235	6,985
Discontinued operations:			
Income from discontinued operations	584	1,228	2,323
Gain on disposal of discontinued operations	24,200	--	--
Provision for income taxes related to discontinued operations	(1,300)	(64)	(53)
	23,484	1,164	2,270
Net income	$ 24,467	$ 12,399	$ 9,255
Net income applicable to common stock	$ 21,232	$ 10,357	$ 7,428
Earnings per common share:			
Primary:			
Income (loss) from continuing operations	$ (0.16)	$ 0.69	$ 0.66
Net income	$ 1.54	$ 0.77	$ 0.94
Fully diluted:			
Income (loss) from continuing operations	$ (0.16)	$ 0.63	$ 0.50
Net income	$ 1.46	$ 0.71	$ 0.66

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity

	COMMON STOCK		NON-REDEEMABLE PREFERRED STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK -- COMMON	TREASURY STOCK -- PREFERRED	TOTAL
	SHARES	PAR VALUE						
	(In Thousands)							
Balance at December 31, 1991	5,825	$583	$ 19,206	$17,853	$(24,655)	$(2,635)	$ --	$10,352
Net income	--	--	--	--	9,255	--	--	9,255
Conversion of 158 shares of redeemable preferred stock to common stock	6	1	--	15	--	--	--	16
Conversion of 92,468 shares of Series 1 Class C preferred stock to common stock	705	70	(1,849)	1,779	--	--	--	--
Exercise of stock options:								
Cash	450	45	--	642	--	--	--	687
Stock tendered and added to treasury at market value	1,112	111	--	1,689	--	(1,800)	--	--
Dividends declared:								
Series 1 Class C preferred stock ($2.20 per share)	--	--	--	--	(1,568)	--	--	(1,568)
Series B 12% preferred stock ($12.00 per share)	--	--	--	--	(240)	--	--	(240)
Redeemable preferred stock ($10.00 per share)	--	--	--	--	(19)	--	--	(19)
Purchase of treasury stock	--	--	--	--	--	(144)	--	(144)
Balance at December 31, 1992	8,098	810	17,357	21,978	(17,227)	(4,579)	--	18,339
Net income	--	--	--	--	12,399	--	--	12,399
Conversion of 85 shares of redeemable preferred stock to common stock	3	--	--	5	--	--	--	5
Conversion of 657,390 shares of Series 1 preferred to common stock	5,008	501	(13,148)	12,647	--	--	--	--
Redemption of Series 1 preferred	--	--	(115)	(8)	--	--	--	(123)
Retirement of Series 1 preferred held in treasury	--	--	(2,094)	214	--	1,880	--	--
Sale of common stock	263	26	--	1,914	--	--	--	1,940
Sale of Series 2 preferred	--	--	46,000	(2,129)	--	--	--	43,871
Exercise of stock options:								
Cash received	640	64	--	1,501	--	--	--	1,565
Stock tendered and added to treasury at market value	502	50	--	998	--	(1,048)	--	--

(Continued on following page)

Consolidated Statements of Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity (continued)

	COMMON STOCK		NON-REDEEMABLE PREFERRED STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK -- COMMON	TREASURY STOCK -- PREFERRED	TOTAL
	SHARES	PAR VALUE						
					(In Thousands)			
Dividends declared:								
Series B 12% preferred stock ($12.00 per share)	--	$ --	$ --	$ --	$ (240)	$ --	$ --	$ (240)
Redeemable preferred stock ($10.00 per share)	--	--	--	--	(16)	--	--	(16)
Common stock ($.06 per share)	--	--	--	--	(797)	--	--	(797)
Series 2 preferred stock ($1.80 per share)	--	--	--	--	(1,660)	--	--	(1,660)
Purchase of treasury stock	--	--	--	--	--	(412)	--	(412)
Balance at December 31, 1993	14,514	1,451	48,000	37,120	(7,541)	(4,159)	--	74,871
Net income	--	--	--	--	24,467	--	--	24,467
Conversion of 40 shares of redeemable preferred stock to common stock	1	--	--	1	--	--	--	1
Exercise of stock options:								
Cash received	105	11	--	248	--	--	--	259
Dividends declared:								
Series B 12% preferred stock ($12.00 per share)	--	--	--	--	(240)	--	--	(240)
Redeemable preferred stock ($10.00 per share)	--	--	--	--	(16)	--	--	(16)
Common stock ($.06 per share)	--	--	--	--	(808)	--	--	(808)
Series 2 preferred stock ($3.25 per share)	--	--	--	--	(2,979)	--	--	(2,979)
Purchase of treasury stock	--	--	--	--	--	(4,756)	(200)	(4,956)
Balance at December 31, 1994	14,620	$1,462	$48,000	$37,369	$12,883	$(8,915)	$(200)	$90,599

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows (Note 1)

	YEAR ENDED DECEMBER 31, 1994	1993	1992
	(In Thousands)		
CASH FLOWS FROM CONTINUING OPERATIONS			
Income from continuing operations	$ 983	$ 11,235	$ 6,985
Adjustments to reconcile income from continuing operations to net cash provided (used) by continuing operations:			
Depreciation, depletion and amortization:			
Property, plant and equipment	6,998	5,870	5,971
Other	1,077	959	1,071
Provision for possible losses:			
Trade accounts receivable	1,468	439	972
Notes receivable	650	--	--
Environmental matter	450	--	--
Gain of sales of assets	(1,303)	(1,587)	(61)
Cash provided (used) by changes in assets and liabilities:			
Trade accounts receivable	3,923	(13,523)	3,084
Inventories	(13,692)	2,737	(7,130)
Supplies and prepaid items	(927)	(1,282)	415
Accounts payable	6,209	(718)	(277)
Accrued liabilities	850	(867)	1,439
Billings in excess of costs and estimated earnings	--	(4,858)	4,858
Net cash provided (used) by continuing operations	6,686	(1,595)	17,327
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS			
Capital expenditures	(15,647)	(9,397)	(4,628)
Purchase of loans receivable	(3,068)	--	--
Principal payments on notes receivable	388	--	--
Proceeds from sales of equipment and real estate properties	4,399	6,735	1,164
Other assets	(5,566)	(1,882)	(968)
Cash acquired in connection with acquisitions	--	1,228	55
Payments for acquisitions	--	(1,747)	(140)
Net cash used by investing activities	(19,494)	(5,063)	(4,517)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (Note 1) (continued)

	YEAR ENDED DECEMBER 31, 1994	1993	1992
	(In Thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS			
Payments on long-term and other debt	$ (7,635)	$(17,828)	$ (6,948)
Long-term and other borrowings	17,124	--	851
Net change in revolving debt facilities	47,004	(4,950)	(1,108)
Net change in receivables previously financed by discontinued operations	(33,570)	1,218	(7,065)
Net change in drafts payable	71	(3,329)	918
Dividends paid:			
Preferred stocks	(3,235)	(1,916)	(1,827)
Common stock	(808)	(797)	--
Purchase of treasury stock:			
Preferred stock	(200)	--	--
Common stock	(4,756)	(302)	(144)
Net proceeds from issuance of common and preferred stock	259	47,141	687
Net cash provided (used) by financing activities of continuing operations	14,254	19,237	(14,636)
Net increase (decrease) in cash from continuing operations	1,446	12,579	(1,826)
Net change in cash from discontinued operations	(1,617)	(10,913)	1,723
Net increase (decrease) in cash and cash equivalents from all activities	(171)	1,666	(103)
Cash and cash equivalents at beginning of year	2,781	1,115	1,218
Cash and cash equivalents at end of year	$ 2,610	$ 2,781	$ 1,115

See accompanying notes.

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. The accounts of its financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank"), which was sold on May 25, 1994 have been reclassified as discontinued operations at December 31, 1993. Additionally, the consolidated statements of operations for the years ended December 31, 1993 and 1992 have been restated to present the operation of Equity Bank as income from discontinued operations. See Note 3 for the assets and liabilities of the Company's financial services subsidiary classified as discontinued at December 31, 1993.

2. ACCOUNTING POLICIES

STATEMENTS OF CASH FLOWS

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

Supplemental cash flow information includes:

	1994	1993	1992
	(In Thousands)		
Cash payments for interest and income taxes:			
Interest on long-term debt and other	$7,440	$7,159	$8,911
Income taxes (1992 is net refunds received)	832	861	(155)
Noncash financing and investing activities:			
Exercise of stock options-stock tendered and added to treasury shares at market value	--	1,048	1,800
Long-term debt issued for property, plant and equipment	4,884	1,500	--
Patents purchased by reduction of note receivable	--	--	2,344

2. Accounting Policies (continued)

LOANS RECEIVABLE

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

INVENTORIES

Purchased machinery and equipment are carried at specific cost plus duty, freight and other charges, not in excess of net realizable value. All other inventory is priced at the lower of cost or market, with cost being determined using the first-in, first-out (FIFO) basis, except for certain heat pump products with a value of $9,007,000 at December 31, 1994 ($7,191,000 at December 31, 1993), which are priced at the lower of cost or market, with cost being determined using the last-in, first-out (LIFO) basis. The difference between the LIFO basis and current cost is $681,000 at December 31, 1994 ($571,000 at December 31, 1993).

DEPRECIATION

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

CAPITALIZATION OF INTEREST

Interest costs aggregating $491,000 related to the construction of a new nitric acid plant were capitalized in 1994 (none in 1993 or 1992). At such time as the assets are placed in service, capitalized costs will be amortized over the related plant's estimated useful life.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED

The excess of purchase price over net assets acquired totals $4,776,000 at December 31, 1994, is included in other assets and is being amortized by the straight-line method over periods of 10 to 22 years. The carrying value of the excess of purchase price over net assets acquired is reviewed if the facts and circumstances suggest that it may be impaired.

2. Accounting Policies (continued)

RESEARCH AND DEVELOPMENT COSTS

Costs incurred in connection with product research and development are expensed as incurred. Such costs amounted to $606,000 in 1994, $788,000 in 1993 and $684,000 in 1992.

ADVERTISING COSTS

Costs incurred in connection with advertising and promotion of the Company's products are expensed as incurred. Such costs amounted to $1,321,000 in 1994, $1,310,000 in 1993 and $898,000 in 1992.

INCOME TAXES

The Company provides income taxes for the difference in the tax and financial reporting bases of assets and liabilities in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

NET INCOME (LOSS) APPLICABLE TO COMMON STOCK

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

EARNINGS PER SHARE

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

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

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

	1994	1993	1992
Primary	13,831,128	13,401,194	8,188,492
Fully diluted	15,155,461	15,397,886	14,413,179

3. DISCONTINUED OPERATIONS--FINANCIAL SERVICES

On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994 (the "Acquisition Agreement"), the Company sold for $91.1 million its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser"). The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank. All regulatory and shareholder approvals necessary to complete the sale of Equity Bank were obtained prior to the closing of this transaction. Equity Bank's revenues for the period from January 1, 1994 to May 25, 1994 and the years ended December 31, 1993 and 1992 were $16.5 million, $41.8 million and $46.9 million, respectively.

The assets and liabilities of the Company's Financial Services subsidiary, classified as discontinued at December 31, 1993, are as follows:

	DECEMBER 31, 1993 (In Thousands)
ASSETS	
Cash and cash equivalents	$ 8,906
Loans and mortgage-backed securities, net	359,303
Other securities	7,806
Property and equipment, net	5,144
Excess of purchase price over net assets acquired, net	17,041
Other assets	3,273
	401,473
LIABILITIES	
Deposits	332,511
Securities sold under agreement to repurchase	38,721
Federal Home Loan Bank advances	87,650
Accrued liabilities	2,715
	461,597
Net liabilities	$ 60,124

Under the Acquisition Agreement and using the proceeds from the sale of Equity Bank, the Company acquired from Equity Bank, prior to closing, certain subsidiaries of Equity Bank ("Retained Corporations") that own the real and personal property and other assets contributed

3. Discontinued Operations--Financial Services (continued)

by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying value of the assets contributed of approximately $67.4 million, which approximated fair value. The carrying value of the assets in the consolidated financial statements of the Company continues to be historical cost. At the time of closing of the sale of Equity Bank, the Company also acquired: (A) the loan and mortgage on and an option to purchase Equity Tower located in Oklahoma City, Oklahoma ("Equity Tower Loan"), for an amount equal to Equity Bank's carrying value of approximately $13.9 million; (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure for an amount equal to Equity Bank's carrying value of approximately $3.6 million (the Equity Tower Loan and other real estate owned are collectively called the "Retained Assets"); and (C) certain other loans for $3.1 million previously owned by Equity Bank. In addition, the Company acquired the outstanding accounts receivable sold to Equity Bank by the Company and its subsidiaries under various purchase agreements, dated March 8, 1988 (the "Receivables") for $6.9 million, which approximated fair value.

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

4. INVENTORIES

Inventories at December 31, 1994 and 1993 consist of:

	FINISHED (OR PURCHASED) GOODS	WORK-IN-PROCESS	RAW MATERIALS	TOTAL
	(In Thousands)			
1994:				
Air handling units	$ 2,461	$2,004	$ 8,737	$ 13,202
Machinery and industrial supplies	7,603	--	--	7,603
Automotive products	15,029	3,814	1,148	19,991
Chemical products	8,833	3,978	5,726	18,537
Total	$33,926	$9,796	$ 15,611	$ 59,333
1993 total	$24,197	$9,643	$ 11,801	$ 45,641

5. PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31, 1994	1993
	(In Thousands)	
Land and improvements	$ 4,409	$ 4,387
Buildings and improvements	20,342	19,576
Machinery, equipment and automotive	99,507	81,476
Furniture, fixtures and store equipment	5,760	4,951
Producing oil and gas properties	3,341	3,405
	133,359	113,795
Less accumulated depreciation, depletion and amortization	59,675	53,269
	$ 73,684	$ 60,526

6. FOREIGN SALES CONTRACT

In 1992, a subsidiary of the Company signed an agreement to supply a foreign customer with equipment, technology and technical assistance to manufacture certain types of automotive products. Payments scheduled under the contract totaled $44 million, $15.5 million of which has been billed (in accordance with the payment schedule) with $13.9 million collected by the Company as of December 31, 1994.

In March 1995, the subsidiary has negotiated a preliminary oral agreement in principle with the customer to revise the contract payment terms and the commitment by the subsidiary to purchase bearing products from the customer. Under the proposed revision, the subsidiary expects to receive approximately $4 million cash upon completion of the revision and $21 million in bearing products, after the subsidiary satisfies its revised purchase commitment and after the customer repays it debt associated with the contract and its revision, which receipt is not expected prior to the year 2000. In connection with this revision, the Company would amend its purchase commitment from a best efforts arrangement to a firm commitment to purchase approximately $6 million of bearing products over each of the next five years, at pre-determined prices, not in excess of market prices, subject to the customer's ability to deliver product to the Company meeting defined quality standards.

Revenues, costs and profits related to the contract are being recognized in two separate phases. The first phase involves the purchase, modification, development and delivery of the machinery, tooling, designs and other technical information and services. Sales recognized during this phase have been limited to actual cash collections and approximately $1.6 million originally expected to have been received in 1994 which is included in other assets in the accompanying consolidated balance sheet at December 31, 1994.

Contract revenues related to bearing products to be received under the $21 million delivery commitment discussed above, will be deferred until such products are received.

7. LONG-TERM DEBT

Long-term debt is detailed as follows:

	December 31, 1994	1993
	(In Thousands)	
Secured revolving credit facility with interest at a base rate of a certain bank plus a specified percentage (9.0% aggregate rate at December 31, 1994) (A)	$44,379	$ --
Secured loans of a subsidiary with interest payable quarterly at rates indicated (B):		
10.415% to 12.72% term loans	15,833	20,583
Revolving credit facility at a base rate of a certain bank plus a specified percentage (10.75% at December 31, 1994)	5,556	2,100
Secured construction loan with interest payable monthly at the "LIBOR rate" plus 3.1% (9.225% at December 31, 1994) (C)	12,750	--
Secured revolving loans with interest payable monthly at the prime rate of a bank affiliated with the lender plus a specified percentage	--	470
Other with interest at a rate of 7.5% to 13.0%	13,163	7,118
	91,681	30,271
Less current portion of long-term debt	9,716	9,763
Long-term debt due after one year	$81,965	$20,508

(A) In December 1994, the Company, certain subsidiaries of the Company and a bank entered into a series of six asset-based revolving credit facilities aggregating $65 million. The agreement provides for an initial term of three years; however, the agreement will automatically renew for successive 13-month terms, unless terminated by either party. The revolving loans are available based on varying percentages of eligible accounts receivable and inventory. At December 31, 1994, available borrowings aggregated $9.2 million on which the Company pays a commitment fee of .5%. The agreement provides for loans at the reference rate as defined (which approximates the national prime rate) plus .5%, or the Eurodollar rate plus 2.875%, with interest due monthly. The agreement also provides for the issuance of letters of credit of up to $11 million, subject to certain restrictions.

The agreement is secured by substantially all of the Company's receivables, inventory, proprietary rights, and proceeds thereof. The agreement contains financial covenants, including limitations on dividends, investments and capital expenditures, and requires

7. Long-Term Debt (continued)

maintenance of tangible net worth (escalating from $86 million in 1994 to $98 million in 1996), and debt ratios whereby the "borrowing groups'" debt (excluding the borrowings under this agreement) shall not exceed 85% of the Company's adjusted tangible net worth (as defined).

(B) This agreement between a subsidiary of the Company and two institutional lenders provides for two series of term loans and a revolving credit facility which provides a maximum available credit line of approximately $5.6 million as of December 31, 1994. The availability under the revolving credit facility reduces by $1.8 million in each 1995 and 1996 with the remainder due in March 1997. Annual principal payments of the term loans are $5.1 million in 1995 and escalate each year to a final payment of $5.5 million on March 31, 1997.

The agreement is secured by substantially all of the subsidiaries' assets, not otherwise pledged. It requires the Company to maintain certain financial ratios and contains other financial covenants, including working capital, fixed charge coverage and tangible net worth requirements and capital expenditure limitations. During 1994, the subsidiary obtained a waiver from the lender as it relates to the fixed charge coverage ratio, reducing the required minimum through November 1995. The subsidiary expects to be able to comply with the original covenant by such date. Payments to the parent company are limited to (i) the amount of income taxes that the subsidiary would pay if the subsidiary filed separate income tax returns, (ii) management and other fees required for reimbursement of reasonable costs and expenses, consistent with past practices and (iii) other payments to the parent company up to 25% or 50% of the cumulative net income of the subsidiary, depending on the total capitalization ratio, as defined, of the Company. As a result of the various restrictions under the agreement, the subsidiary is permitted to transfer approximately $272,000 of net assets to the parent company as of December 31, 1994.

(C) This agreement between a subsidiary of the Company and an institutional lender provides for a construction loan in the aggregate amount of $12.75 million of which the proceeds are to be used in the construction of a nitric acid plant. Interest during the construction period accrues at a rate equal to the LIBOR rate plus 3.10%. Upon completion of the plant, the loan converts to a term loan requiring 84 equal monthly payments of principal bearing interest, with interest equal to a fixed rate of the treasury rate plus 2.7%. This agreement is secured by the plant, equipment and machinery, and proprietary rights associated with the plant.

7. Long-Term Debt (continued)

Maturities of long-term debt for each of the five years after December 31, 1994 are: 1995-$9,716,000; 1996-$10,184,000; 1997-$54,938,000; 1998-$3,409,000; 1999-$3,581,000 and thereafter-$9,853,000.

Subsequent to December 31, 1994, the Company obtained waivers from two lenders relating to certain debt covenants. Although there can be no assurances, the Company expects to meet such covenants in future periods.

8. INCOME TAXES

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

	1994	1993	1992
	(In Thousands)		
Current:			
Federal	$(1,150)	$142	$ 51
State	450	667	412
	$ (700)	$809	$463

The approximate tax effects of each type of temporary difference and carryforward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 1994 and 1993 are as follows:

	1994	1993
	(In Thousands)	
DEFERRED TAX ASSETS		
Allowances for doubtful accounts not deductible for tax purposes	$ 982	$ 1,027
Partnership losses not deductible for tax purposes	2,294	2,294
Capitalization of certain costs as inventory for tax purposes	2,102	1,667
Net operating loss carryforward	16,734	15,409
Investment tax and alternative minimum tax credit carryforwards	1,466	1,292
Other	1,226	1,090
Total deferred tax assets	24,804	22,779
Less valuation allowance	14,717	13,559
Net deferred tax assets	$10,087	$ 9,220

8. Income Taxes (continued)

	1994	1993
	(In Thousands)	
DEFERRED TAX LIABILITIES		
Accelerated depreciation used for tax purposes	$ 7,751	$ 6,977
Inventory basis difference resulting from a business combination	2,139	2,139
Other	197	104
Total deferred tax liabilities	$10,087	$ 9,220

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

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income from continuing operations before provision (benefit) for income taxes" for each of the three years in the period ended December 31, 1994 are detailed below:

	1994	1993	1992
	(In Thousands)		
Provision for income taxes at federal statutory rate	$ 96	$ 4,215	$ 2,532
Changes in the valuation allowance related to deferred tax assets	(291)	(4,770)	(2,458)
State income taxes, net of federal benefit	297	259	92
Amortization of excess of purchase price over net assets acquired	139	191	153
Settlement of dispute with governmental agency	--	618	--
Utilization of regular and/or alternative minimum tax net operating loss carryforward	(1,300)	--	(309)
Alternative minimum tax	150	142	51
Other	209	154	402
Provision (benefit) for income taxes	$ (700)	$ 809	$ 463

At December 31, 1994, the Company has net operating loss ("NOL") carryforwards for tax purposes of approximately $42.9 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately $630,000 which expire beginning in 1995.

9. STOCKHOLDERS' EQUITY

STOCK OPTIONS

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

Activity in the Company's stock option plans during each of the three years in the period ended December 31, 1994 is as follows:

	1994	1993	1992
Outstanding options at beginning of year	556,664	1,340,300	2,501,700
Granted	54,000	14,000	280,000
Exercised	(29,500)	(791,636)	(1,411,400)
Surrendered, forfeited or expired	--	(6,000)	(30,000)
Outstanding options at end of year	581,164	556,664	1,340,300
At end of year:			
Prices of outstanding options	$ 1.13 to $ 9.00	$ 1.13 to $ 9.00	$ 1.13 to $ 3.44
Average option price per share	$ 2.84	$ 2.44	$ 2.10
Options exercisable	356,940	280,640	852,566
Options available for future grants	872,300	926,300	84,300

9. Stockholders' Equity (continued)

The Company's Board of Directors approved the grant of non-qualified stock options to the Company's outside directors, President and a key employee of one of the Company's subsidiaries, as detailed below. The option price was based on the market value of the Company's common stock at the date of grant and these options are exercisable at any time after the date of grant and expire five years from such date. During 1994, three of the Company's Directors exercised options to purchase 75,000 shares of the Company's stock at $2.63 per share. During 1993, one of the Company's directors exercised options to purchase 65,000 shares of the Company's stock at an average price of $2.26 per share. During 1992, three of the Company's directors exercised options to purchase 150,000 shares of the Company's stock at $1.25 per share and an option to purchase 50,000 shares at $1.25 per share expired.

DATE GRANTED OR EXTENDED	OPTION PRICE PER SHARE	NUMBER OF SHARES SUBJECT TO OPTIONS OUTSTANDING AT DECEMBER 31, 1994
April 1990	$1.375	100,000
June 1992	$3.125	45,000
June 1994 (A)	$2.625	165,000

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

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

9. Stockholders' Equity (continued)

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

PREFERRED SHARE PURCHASE RIGHTS

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

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

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

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

10. REDEEMABLE PREFERRED STOCK

Each share of the noncumulative redeemable preferred stock, $100 par value, is convertible into 40 shares of the Company's common stock at any time at the option of the holder; entitles the holder to one vote and is redeemable at par. The redeemable preferred stock provides for a noncumulative annual dividend of 10%, payable when and as declared. Dividend payments were current at December 31, 1994 and 1993.

11. NON-REDEEMABLE PREFERRED STOCK

The 20,000 shares of Series B cumulative, convertible preferred stock, $100 par value, are convertible, in whole or in part, into 666,666 shares of the Company's common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. Dividend payments were current at December 31, 1994 and 1993.

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

The Series 2 Preferred is not redeemable prior to June 15, 1996. The Series 2 Preferred will be redeemable at the option of the Company, in whole or in part, at $52.28 per share if redeemed on or after June 15, 1996, and thereafter at prices decreasing ratably annually to $50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. Dividend payments were current at December 31, 1994 and 1993.

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

11. Non-redeemable Preferred Stock (continued)

mandatory annual sinking fund redemption of five percent of the amount of Debentures initially issued, commencing June 15, 2003 (or the June 15 following their issuance, if later).

At December 31, 1994, the Company is authorized to issue an additional 248,403 shares of $100 par value preferred stock and an additional 5,000,000 shares of no par value preferred stock. Upon issuance, the Board of Directors of the Company is to determine the specific terms and conditions of such preferred stock.

12. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases certain property, plant and equipment. Future minimum payments on operating leases with initial or remaining terms of one year or more at December 31, 1994 are as follows:

	(In Thousands)
1995	$1,143
1996	763
1997	373
1998	253
1999	23
After 1999	35
	$2,590

Rent expense under all operating lease agreements, including month-to-month leases, was $3,149,000 in 1994, $2,595,000 in 1993 and $2,934,000 in 1992. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was $90,000 in 1994 and $120,000 in 1993 and 1992.

A subsidiary of the Company has an operating lease agreement for specified quantities of precious metals used in the subsidiary's production process. The lease, which expires in March 1995, requires, among other things, (i) rentals generally based on a percentage (5.75%) of the leased metals' market values, (ii) the subsidiary to provide to the lessor a letter of credit equal to at least 35% of the leased metals' market value (approximately $500,000 at December 31, 1994) and (iii) the subsidiary to purchase the leased metals at market value at the end of the lease term, if not renewed, or return to the lessor the quantities of metals subject to the lease.

12. Commitments and Contingencies (continued)

During 1993, the Company's Chemical Business acquired an additional nitric acid plant for approximately $1.9 million. The Chemical Business is in the process of moving such plant from Illinois and installing the plant in Arkansas. The Company anticipates the total expenditures to move and install the plant will be approximately $16.5 million, of which $12.5 million had been incurred at December 31, 1994.

LEGAL MATTERS

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

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

B. As a result of a preliminary environmental assessment report prepared by the State of Arkansas, the primary manufacturing facility of the Company's Chemical Business has been placed in the Environmental Protection Agency's ("EPA") tracking system of sites which are known or suspected to be a site of a release of hazardous waste. Inclusion in the EPA's tracking system does not represent a determination of liability or a finding that any response action is necessary. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment and advised the Company that the site has had certain releases of contaminants. On July 18, 1994, the Company received a report from the State of Arkansas which contained findings of violations of certain environmental laws and requested the Company to conduct further investigations to better determine the compliance status of and releases of contaminants at the Company. The Company has been advised that the State of Arkansas is currently preparing an administrative consent agreement to outline specific activities necessary to bring the Site into compliance and to remediate identified releases. While the Company is at this time unable to determine the ultimate cost of compliance with the expected administrative consent agreement, the Company has determined the subsidiary's cost to be at least $450,000; therefore, the Company has included a provision for environmental costs of $450,000 in the 1994 results of operations. Based on information presently available, the Company does not believe that compliance with the administrative consent agreement, or the assessment of penalties, or

12. Commitments and Contingencies (continued)

the facility being placed in the System, should have a material adverse effect on the Company or the Company's financial condition.

C. A subsidiary of the Company was named in April 1989 as a third party defendant in a lawsuit alleging defects in fan coil units installed in a commercial building. The amount of damages sought by the owner against the general contractor and the subsidiary's customer are substantial. The subsidiary's customer alleges that to the extent defects exist in the fan coil units, it is entitled to recovery from the subsidiary. The Company's subsidiary generally denies their customer's allegations and that any failures in the fan coil units were a result of improper design by the customer, improper installation or other causes beyond the subsidiary's control. The subsidiary has in turn filed claims against the suppliers of certain materials used to manufacture the fan coil units to the extent any failures in the fan coil units were caused by such materials. Discovery in these proceedings and settlement discussions are continuing. The Company does not believe resolution of the matter will have a material adverse effect on the Company or the Company's financial condition.

The Company, including its subsidiaries, is a party to various other claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management after consultation with counsel, all claims, legal actions (including those described above) and complaints are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts that unfavorable disposition would not have a material effect on the financial position or results of operations of the Company.

OTHER

During 1993 the Company settled an outstanding dispute with the U.S. Customs Service. Pursuant to the terms of the settlement agreement, the Company made a payment of $1.8 million.

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

In 1994, the Company guaranteed approximately $2 million of debt of a start-up aviation company in exchange for a 20% ownership interest, to which no value has been assigned as of December 31, 1994. This debt requires interest only payments until September 1996 at which time the outstanding principal and interest are due in full.

13. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution pension plan of which participation is available to substantially all full-time employees. The Company does not contribute to this plan, although it does pay for all costs associated with administering the plan, none of which are significant.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

CASH AND CASH EQUIVALENTS: Carrying value approximates fair value.

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

As of December 31, 1994 and 1993, carrying values of loans receivable approximated their estimated fair value.

INVESTMENT IN EQUITY SECURITIES: Fair values of investments in equity securities of closely-held companies have not been determined as estimation of such values are not practicable (carrying cost of $802,190).

BORROWED FUNDS: Fair values for fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair value.

The estimated fair value of the Company's long-term debt is $92.6 million and $31.8 million compared to the Company's carrying value of $91.7 million and $30.3 million at December 31, 1994 and 1993, respectively.

As of December 31, 1994, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair value.

15. SEGMENT INFORMATION

The Company and its subsidiaries operate principally in four industries.

CHEMICAL

This segment manufactures and sells chemical products for mining, agricultural, electronic, paper and other industries. Sales to customers of this segment, which primarily include coal mining companies throughout the United States and farmers in Texas, Missouri and Tennessee, are generally unsecured.

ENVIRONMENTAL CONTROL

This business segment manufactures and sells a variety of air handling and heat pump products for use in commercial and residential air conditioning and heating systems. Sales to customers of this segment, which primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world, are generally secured by a mechanic's lien, except for sales to original equipment manufacturers, which are generally unsecured.

INDUSTRIAL PRODUCTS

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

AUTOMOTIVE PRODUCTS

This segment manufactures and sells, generally on an unsecured basis, anti-friction bearings and other products for automotive applications to wholesalers, retailers and original equipment manufacturers located throughout the world.

Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across many different industries and geographic areas.

15. Segment Information (continued)

Information about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1994 is detailed below.

	1994	1993	1992
	(In Thousands)		
Sales:			
Chemical	$131,576	$114,952	$106,031
Environmental Control	69,914	69,437	54,812
Industrial Products	11,222	19,714	17,539
Automotive Products	32,313	28,513	19,991
	$245,025	$232,616	$198,373
Gross profit:			
Chemical	$ 25,700	$ 27,557	$ 26,572
Environmental Control	17,651	15,651	13,839
Industrial Products	1,316	5,160	4,904
Automotive Products	8,442	9,744	6,667
	$ 53,109	$ 58,112	$ 51,982
Operating profit (loss):			
Chemical	$ 12,809	$ 17,632	$ 18,427
Environmental Control	3,512	3,900	3,269
Industrial Products	(4,155)	2,120	257
Automotive Products	(1,462)	2,528	954
	10,704	26,180	22,907
General corporate expenses, net	(3,472)	(6,629)	(6,234)
Interest expense	(6,949)	(7,507)	(9,225)
Income before provision for income taxes	$ 283	$ 12,044	$ 7,448

15. Segment Information (continued)

	1994	1993	1992
	(In Thousands)		
Depreciation, depletion and amortization of property, plant and equipment:			
Chemical	$ 4,044	$ 3,696	$ 3,566
Environmental Control	$ 1,427	$ 1,015	$ 965
Industrial Products	$ 117	$ 118	$ 141
Automotive Products	$ 785	$ 502	$ 620
Additions to property, plant and equipment:			
Chemical	$ 15,532	$ 9,036	$ 3,916
Environmental Control	$ 3,722	$ 1,584	$ 400
Industrial Products	$ 74	$ 560	$ 471
Automotive Products	$ 1,203	$ 1,875	$ 769
Identifiable assets:			
Chemical	$ 94,972	$ 77,943	$ 67,175
Environmental Control	40,660	38,389	33,708
Industrial Products	18,423	22,688	20,902
Automotive Products	38,369	31,650	24,257
	192,424	170,670	146,042
Corporate assets	28,857	25,368	20,957
Total assets	$221,281	$196,038	$166,999

15. Segment Information (continued)

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

Gross profit by industry segment represents net sales less cost of sales. Gross profit of the Industrial Products and the Automotive Products segments reflects the results recognized on the long-term contract discussed in Note 6. Such results are divided equally between the two segments.

Operating profit by industry segment represents revenues less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, income taxes or interest expense. Operating profit of the Industrial Products and the Automotive Products segments reflects the results recognized on the long-term contract discussed in Note 6. Such results are divided equally between the two segments.

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

Revenues from unaffiliated customers include direct foreign export sales as follows:

GEOGRAPHIC AREA	1994	1993	1992
	(In Thousands)		
Mexico and Central and South America	$ 6,976	$ 6,419	$ 4,075
Canada	11,649	11,850	8,123
Slovakia	1,783	7,488	6,203
Other	16,195	11,100	4,767
	$36,603	$36,857	$23,168

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

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
		(Restated)		
1994				
Total revenues	$64,352	$69,744	$60,139	$55,734
Gross profit on net sales	$14,358	$15,230	$12,235	$11,286
Income (loss) from continuing operations	$ 1,858	$ 2,817	$ (913)	$(2,773)
Net income (loss)	$ 2,204	$27,255	$ (913)	$(4,079)
Net income (loss) applicable to common stock	$ 1,380	$26,447	$(1,718)	$(4,877)
Primary earnings (loss) per common share:				
Continuing operations	$ .07	$ .14	$ (.13)	$ (.27)
Net income	$ .10	$ 1.84	$ (.13)	$ (.37)
1993				
Total revenues	$53,393	$69,416	$58,674	$56,046
Gross profit on net sales	$13,286	$18,067	$13,454	$13,305
Income (loss) from continuing operations	$ 2,155	$ 5,614	$ 1,869	$ 1,597
Net income	$ 2,657	$ 5,758	$ 2,424	$ 1,560
Net income applicable to common stock	$ 2,580	$ 5,408	$ 1,616	$ 753
Primary earnings per common share:				
Continuing operations	$ .20	$ .37	$ .07	$ .05
Net income	$ .25	$ .38	$ .11	$ .05

Net income in the fourth quarter of 1993 was increased approximately $3.5 million for additions to fixed assets resulting from capitalizable expenditures previously being expensed and the collection of an insurance settlement relating to the foreign project inventory.

LSB Industries, Inc.

Schedule II -- Valuation and Qualifying Accounts

Years ended December 31, 1994, 1993 and 1992

(Dollars in Thousands)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS WRITE-OFFS/ COSTS INCURRED	BALANCE AT END OF YEAR
Allowance for doubtful accounts (1):				
1994	$2,583	$2,118	$1,551	$3,150
1993	$3,082	$ 439	$ 938	$2,583
1992	$3,354	$ 972	$1,244	$3,082
Product warranty liability:				
1994	$ 653	$ 667	$ 631	$ 689
1993	$ 613	$ 427	$ 387	$ 653
1992	$ 649	$ 547	$ 583	$ 613

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

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

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (the "Agreement") is executed as of the 2nd day of August, 1994, by Dr. Hauri AG, a corporation formed under the laws of Switzerland (the "Pledgor"), in favor of LSB Chemical Corp., an Oklahoma corporation (the "Pledgee").

WHEREAS, Compagnie Financiere du Tararois, an SARL formed under the laws of the Republic of France (the "Borrower"), of which all of the issued and outstanding capital stock is owned by Pledgor, has executed and delivered to Pledgee that certain Secured Promissory Note (the "Note") of even date herewith in the aggregate principal amount of seven million five hundred thousand French Francs (FRF 7,500,000);

WHEREAS, Pledgor, as the sole shareholder of Borrower, will materially benefit from the loan to Borrower represented by the Note; and

WHEREAS, Pledgor and Pledgee desire to have Pledgor grant to Pledgee a security interest in the Collateral (as hereinafter defined) as security for Borrower's performance of the terms and conditions of the Note, together with Pledgor's performance of certain obligations set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the parties hereto agree as follows:

Section 1. Grant of Security Interest.

(a) Upon the terms hereof, for value received, Pledgor hereby delivers, and grants to, Pledgee, a security interest in five thousand (5,000) shares of common stock, FRF 100 par value per share, of Borrower which represents all of the issued and outstanding capital stock of Borrower. Pledgor shall, simultaneously with the execution of this Agreement, deliver in pledge to Pledgee the stock certificates, registered in the name of Pledgor, representing all of the Pledged Shares, together with appropriate stock powers duly endorsed in blank.

(b) The term "Pledged Shares" as used herein shall also mean and include, without limitation, any cash or stock dividend and/or distribution or exchange of stock in connection with any reorganization, recapitalization, reclassification, or increase or reduction of capital, to which Pledgor shall become entitled for any reason whatsoever as an addition to, in substitution for, or in exchange for any of the aforesaid Shares.

(c) If Pledgor shall at any time become entitled to receive, or shall receive, any stock certificate (including, without limitation, any certificate representing a stock dividend or distribution in connection with any reclassification, increase or reduction of capital) or option, whether as an addition to, in substitution of, or in exchange for, any of the Pledged Shares, or otherwise, Pledgor agrees to accept the same as Pledgee's agent and to deliver promptly the same in pledge to Pledgee, in the exact form received, with appropriate stock powers relating thereto duly endorsed in blank, and such other documents as Pledgee shall request in order to perfect Pledgee's security interest therein.

(d) At any time and from time to time after an Event of Default (as hereinafter defined), Pledgee may cause all or any part of the Collateral (as hereinafter defined) to be transferred to or registered in its name or in the name of its nominee.

(e) All properties in which Pledgee is herein granted a security interest are hereinafter collectively referred to as the "Collateral."

Section 2. Obligations. This Agreement is made, and the security interests created hereby are granted to Pledgee, to secure the following Obligations (so called herein):

(a) Payment of the indebtedness evidenced by, and performance and discharge of each and every covenant, condition, and agreement contained in the Note, and any and all modifications, extensions, or renewals thereof, whether hereafter evidenced by the Note or otherwise;

(b) The due and punctual payment of any costs and expenses incurred in connection with the realization of the Collateral for which this Agreement provides; and

(c) Performance and discharge of each and every obligation, covenant, and agreement of Pledgor herein contained.

Section 3. Substituted Collateral. In the event that Pledgor, with the prior written consent of Pledgee (such consent being hereby required), substitutes other collateral acceptable to Pledgee in place and stead of all or any of the Collateral pursuant to the terms and provisions hereof, upon the delivery of such substituted collateral in pledge to Pledgee pursuant to a security agreement or other instrument reasonably acceptable to Pledgee, Pledgee will reassign and deliver to Pledgor the Collateral for which substitution is being effected.

Section 4. Additional Collateral. Pledgor hereby agrees and acknowledges that Borrower, of which Pledgor is the sole shareholder, has entered into an agreement to acquire a majority of the outstanding capital stock of Beutot S.A. ("Beutot"). As additional security for the Obligations hereunder, Pledgor hereby covenants and agrees that following the consummation of Borrower's acquisition of a controlling interest in Beutot, Pledgor shall cause the Borrower to have Beutot execute and deliver to Borrower a security agreement substantially in the form attached hereto as Exhibit "A" hereto, granting to

Borrower, among other things, a security interest in the Collateral (as therein defined) as security for any loans or other extensions of credit made by the Borrower to Beutot.

Section 5. Representations and Warranties of Pledgor.

(a) Pledgor represents and warrants to Pledgee and agrees that it owns and at all times will own, except with respect to one (1) disclosed potential sale of Pledged Shares, the Collateral from time to time pledged hereunder, free and clear of any mortgage, pledge, lien, charge or undisclosed encumbrance, except for the lien created hereby or any other lien created against the Collateral in favor of Pledgee, and that this Agreement constitutes and at all times will constitute a first, prior and valid security interest in the Collateral pledged hereunder, enforceable in accordance with its terms. Pledgor, at its expense, will warrant and defend the title to the Collateral against the claims of all third parties, except for claims, if any, known to Pledgee at the date hereof but not disclosed to Pledgor at or prior to the date hereof, and will execute and deliver all such further instruments, and take all such further action as from time to time may be requested by Pledgee, reasonably necessary in order to better assure and confirm the rights of Pledgee to all or any part of the Collateral, to maintain the lien or security interest created by this Agreement thereon as a valid and perfected security interest, to facilitate the carrying out of this Agreement, and to secure the rights and remedies of Pledgee.

(b) Pledgor further warrants and represents that it has full power and lawful authority to sell, transfer and assign the Collateral to Pledgee and to grant Pledgee a first, prior and valid security interest therein as herein provided, and the execution and delivery and the performance hereof are not in contravention of any indenture, agreement or undertaking to which Pledgor is a party or by which Pledgor is bound.

Section 6. Voting and Other Rights.

(a) So long as no Event of Default (as hereinafter defined) shall have occurred and be continuing, Pledgor may exercise all voting and other rights in respect of the Collateral, providing that Pledgor shall not exercise any of such rights in a manner which would be inconsistent with the terms of this Agreement, or any other agreement, document or instrument executed and delivered pursuant hereto, or which would otherwise have the effect of impairing the value of the Collateral.

(b) Upon the occurrence of an Event of Default, all voting rights of Pledgor shall cease and Pledgee shall, without notice, have the sole and exclusive right to exercise all voting and other rights with respect to the Collateral as if it were the absolute owner thereof. In order to facilitate Pledgee's exercise of such voting and other rights, Pledgor shall, if necessary, upon the written request of Pledgee, from time to time execute and deliver to Pledgee appropriate proxies.

(c) So long as no Event of Default shall have occurred and be continuing, all cash dividends and other cash distributions attributable to the Pledged Shares shall belong to Pledgor.

Section 7. Events of Default. The happening of any one of the following events (hereinafter called "Events of Default") shall constitute a default hereunder:

(a) failure to meet or perform any of the Obligations;

(b) the breach of any representation or warranty made in this Agreement, the Note, or that certain Stock Purchase Option. dated of even date herewith (the "Option"), by and between Pledgor and Pledgee; or in any certificate or instrument or agreement furnished by Borrower or Pledgor pursuant to this Agreement or the Note.

(c) failure to duly observe or perform any covenant, condition or agreement of Borrower or Pledgor, as applicable, pursuant to the terms of this Agreement, the Note or the Option, as applicable; or

(d) the filing of a petition of bankruptcy or for receivership, whether voluntary or involuntary, an assignment for the benefit of creditors, the consenting to or suffering of an appointment of a receiver or trustee for any substantial part of the assets that is not vacated within 30 days, or the consenting to or suffering of an attachment or execution upon any substantial part of the assets of Borrower or Pledgor, that is not released or satisfied within 30 days on behalf of Borrower or Pledgor, as applicable.

Section 8. Remedies. If an Event of Default shall have occurred, all Obligations shall become immediately due and payable, and Pledgee shall be entitled to all rights and remedies available to it under the law of the State of Oklahoma or otherwise available to him. If any notification of intended disposition of any of the Collateral is required by law, such notification, if mailed, shall be deemed reasonably and properly given if mailed at least five (5) business days before such disposition (unless a longer notice period is required by law), postage prepaid, addressed to Pledgor, at the address shown below. Any proceeds of any disposition of Collateral shall be applied by Pledgee first to the payment of costs and expenses incurred in connection with the Collateral, including reasonable attorneys' fees and legal expenses, then toward the payment of the Obligations, and any balance of such proceeds shall be paid by Pledgee to Pledgor. All rights and remedies of Pledgee expressed hereunder are in addition to all other rights and remedies possessed by him, including those under any other agreement or instrument relating to any of the Obligations or security therefor. No action of Pledgee permitted hereunder shall impair or affect the rights of Pledgee in and to the Collateral.

Section 9. No Waiver.

(a) No delay or failure to exercise, on the part of Pledgee, any right, power, or privilege hereunder or under any other agreement (or under any other instrument contemplated hereby or thereby) shall constitute a waiver thereof, nor shall any single or partial exercise of any other right, power, or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies herein provided are cumulative and are not exclusive of each other or any other remedies provided by law or otherwise available to Pledgee.

(b) Nothing in this Agreement shall be deemed a waiver or prohibition of Pledgee's right of counterclaim, offset or lien, or a waiver or release of any collateral security, guaranty, or (except to the extent expressly provided herein) other right or power now or hereafter held or enforceable by or available to Pledgee.

Section 10. Attorney-in-Fact. Pledgor hereby constitutes and appoints Pledgee, the attorney-in-fact of Pledgor for the purposes of carrying out the provisions of this Agreement and taking any action and executing any instrument which Pledgee may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest.

Section 11. Termination. This Agreement shall terminate upon the payment and performance in full of all the Obligations and delivery of the Collateral by Pledgee as hereinabove provided.

Section 12. Notices. All notices, written directions and other communications hereunder shall be in writing and shall be delivered in person or sent by registered or certified mail, return receipt requested, postage and fees prepaid, first class mail:

To Pledgee:

LSB Chemical Corp.
16 S. Pennsylvania
Oklahoma City, OK
U.S.A. 73107
Attention: Mr. Barry Golsen

To Pledgor:

Dr. Hauri AG
Hebelweg 1
5001 Aarau/Switzerland
Attention: Managing Director or President

Any party hereto may change the address designated for mailing by written notice to the other party. Notices shall be deemed to be given when delivered in person, or if placed in the mail as aforesaid, then five (5) days thereafter.

Section 13. Miscellaneous.

(a) Neither this Agreement nor any provision hereof may be amended, modified, waived, discharged or terminated orally nor may any of the Collateral be released other than as provided in this Agreement, except by an instrument in writing duly signed by or on behalf of all of the parties hereto.

(b) The Section headings used herein are for convenience of reference only and shall not define or limit the provisions of this Agreement.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma, exclusive of its laws with respect to conflict of laws. Wherever possible each such provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating any other provision of this Agreement. Pledgor agrees that any suit, action or proceeding with respect to this Agreement or the pledge of the Collateral, any amendments or replacements hereof or thereof may be brought in the state courts of, or the federal courts in, the State of Oklahoma, and Pledgor hereby irrevocably consents and submits to the jurisdiction of such courts for the purpose of any such suit, action or proceeding.

(d) This Agreement may not be assigned by Pledgor without the prior written consent of Pledgee. Subject to the preceding sentence, this Agreement and the terms, covenants and conditions hereof, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

LSB CHEMICAL CORP.

By: /s/ Barry H. Golsen
_____
Its: VP
_____

DR. HAURI AG

By: _____

Its: _____

beutot\pledge

STOCK PURCHASE OPTION

This Stock Purchase Option Agreement (the "Agreement"), dated as of June 15, 1994, by and between Dr. Hauri AG, a corporation formed under the laws of Switzerland (the "Grantor"), and LSB Chemical Corp., an Oklahoma corporation (the "Grantee"), sets forth the terms pursuant to which the Grantor grants to the Grantee an option to purchase (the "Option"), within the option period set forth herein, up to 100% of the issued and outstanding common stock, FF 100 par value per share (the "Covered Shares"), of Compagnie Financiere du Tararois, an SARL formed under the laws of the Republic of France (the "Company"). In consideration of the payment by the Grantee to the Grantor of US$10 and of the premises and the mutual and dependent promises hereinafter set forth. the parties hereto agree as follows:

1. Option to Purchase Covered Shares. Subject to the terms and conditions of this Agreement, the Grantor hereby grants to the Grantee the Option to purchase the Covered Shares. Such Option shall be exercisable by the Grantee, in whole or in part, at any time during the period beginning upon the earlier of (i) June 15, 1995, or (ii) the occurrence of a Triggering Event (as herein defined), and ending on June 15, 1999 (the "Exercise Period"). The term Triggering Event as used herein shall mean any one or more of the following:

(a) The occurrence of a default as defined in Section 7 of that certain Pledge Agreement, dated of even date herewith, pursuant to which the Grantor has granted to the Grantee a pledge of, and security interest in, the Covered Shares as security for the payment of the obligations therein set forth; and

(b) The transfer of ownership of twenty-five (25%) percent or more of the outstanding voting equity of the Grantor without the prior consent of the Grantee; the loss by the Grantor of its legal status as a corporation; or the loss by Grantor of its legal right or corporate power to perform its obligations under this Option.

2. Purchase Price. The aggregate purchase price for the Covered Shares shall be equal to FRF 750,000 (the "Purchase Price"), unless otherwise agreed to by the parties.

3. Payment of Purchase Price. The entire Purchase Price shall be payable at the Closing (as herein defined) by certified or bank cashier's check, made payable to the Grantor, forgiveness of indebtedness, or in such other manner as shall be mutually agreed upon by the parties hereto.

4. Notice of Exercise; Closing. The Grantee may exercise the Option at any time during the Exercise Period by providing notice to of its intention to do so to the Grantor. The Closing (so called herein) of the sale and purchase of the Covered Shares shall occur at the time and place and in the manner specified by Grantee. At Closing, the Grantor shall deliver to the Grantee, or its authorized representative, a certificate representing the Covered Shares, which shall be registered in the name of the Grantee, or its nominee, against payment therefor by the Grantee in the amount of the Purchase Price.

5. Representations and Warranties of the Grantor. The Grantor hereby represents and warrants to the Grantee that:

(a) The Company is a corporation duly incorporated, validly existing and is in good standing under the laws of the Republic of France.

(b) The capital stock of the Company consists of five thousand (5,000) shares of common stock, FRF 100 par value per share, of which the Covered Shares represent one hundred percent (100%) of the issued and outstanding shares. The Covered Shares have been duly authorized and are validly issued, fully paid and non-assessable; and the Grantor is the lawful owner of record and beneficially of the Covered Shares, free and clear of all security interests, liens, undisclosed encumbrances, claims and equities of every kind other than the liens and security interests created hereunder.

(c) This Agreement has been duly authorized by all necessary corporate action of the Grantor, has been duly executed and delivered by the Grantor, and is a legal, valid and binding obligation of the Grantor enforceable in accordance with its terms. Delivery of the Covered Shares at the Closing in accordance with this Agreement will vest good title to the Covered Shares in the Grantee, free and clear of all security interests, liens, encumbrances, claims and equities of every kind.

(d) The Company has not been actively engaged in any business activity prior to the date of this Agreement and has no liabilities of any kind, whether contingent or otherwise.

6. Conditions of Closing. Upon the exercise of the option, the

obligation of the Grantee to purchase and pay for the Covered Shares shall be subject, at the option of the Grantee, to the following conditions:

(a) The representations and warranties of the Grantor set forth in Section 5 shall have been true when made and shall be true at the Closing as if made again on such date, except that the representations made in subparagraph (d) of Section 5 shall be modified but only to the extent necessary to give effect to the acquisition by the Company of a majority of the capital stock of Beutot SA ("Beutot") contemplated by that certain Stock Purchase Agreement (so called herein), dated _____, pursuant to which the Company shall acquire the capital stock of Beutot;

(b) Neither the Company nor any of its subsidiaries shall have entered into any undisclosed material transaction, contract or agreement, of a type requiring the approval of its or their shareholders or boards or directors, as applicable, except (i) the acquisition of Beutot pursuant to the Stock Purchase Agreement and (ii) transactions entered in the ordinary course of business; and

(c) The Company shall not have amended its Certificate of Incorporation or Bylaws, or other documents performing similar function under the laws of France, except for the amendment to the Company's Certificate of Incorporation or similar document required by Section 8 hereof.

7. Covenants of the Company. The Grantor hereby covenants and agrees with the Grantee as follows:

(a) The Grantor, as the sole shareholder of the Company, shall cause the Company to include in its Certificate of Incorporation (or similar establishment document) a provision to restrict the Company's corporate powers in such a fashion as to prohibit the Company from engaging in any line of business other than the acquisition of Beutot and the HVAC business generally.

(b) Except as set forth in subparagraph (a) of this Section 7, the Grantor shall cause the Company not to undertake, and, as the sole shareholder of the Company, the Grantor shall not approve, (i) any amendment to the Certificate of Incorporation or Bylaws or similar establishment documents of the Company; (ii) any agreement or understanding to acquire, or be acquired by, any other entity or business enterprise, whether by merger, consolidation, purchase or sale of assets, or purchase or sale of stock, other than the acquisition of Beutot pursuant to the Stock Purchase Agreement; (iii) the issuance of any authorized but unissued shares of the capital stock of the Company or any series thereof; (iv) the incurrence of any material indebtedness or liability; or (v) any other undisclosed action that might have a material adverse affect on financial condition, results of operations, or the nature of the business currently engaged in by the Company (and upon its acquisition, Beutot).

8. Communications. All communications provided for herein shall be deemed sufficiently given if in writing and either personally delivered, or sent by certified or registered mail, postage prepaid, addressed to the party at the address set forth below, or at such other address as the party may subsequently designate:

(a) LSB Chemical Corp.
16 S. Pennsylvania
Oklahoma City, OR 73107
Attention: Barry Golsen

(b) Dr. Hauri AG
Hebelweg 1
5001 Aarau/Switzerland
Attention: Managing Director or President

9. Survival of Representations, Warranties and Covenants. All representations, warranties, covenants and agreements of the Grantor and the Grantee contained in this Agreement shall survive the delivery of the Covered Shares to the Grantee and shall continue to have full force and effect thereafter.

10. No Assignment; Successors. Neither party may assign this Agreement without the written consent of the other except that the Grantee may, without such consent, assign all of its rights and obligations hereunder to any other company that controls, is controlled by or is under common control with the Grantee.

11. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions hereof shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

12. Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute one agreement.

16. Governing Law. This Agreement shall be governed by, and construed in accordance with the laws of the State of Oklahoma, exclusive of its laws with respect to conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their duly authorized representatives as of the date first above written.

GRANTEE:

LSB CHEMICAL CORP.

By: /s/ Barry H. Golsen VP
_____
Printed Name
Its:_____

GRANTOR:

Dr. HAURI AG

By: _____
Its:_____

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LOAN AND SECURITY AGREEMENT

by and between

BANKAMERICA BUSINESS CREDIT, INC.
as Lender

and

LSB INDUSTRIES, INC.
as Borrower

Dated: December 12, 1994

TABLE OF CONTENTS

SECTION

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is dated December 12, 1994, and is entered into by and between BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation, with offices at Two North Lake Avenue, Suite 400, Pasadena, California 91101 (the "Lender"), and LSB INDUSTRIES, INC., a Delaware corporation, with offices at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107 (the "Borrower" or "LSB").

W I T N E S S E T H

WHEREAS, the Borrower has requested the Lender to make available to the Borrower a revolving line of credit for loans and letters of credit in an amount not to exceed the Maximum Credit Facility as defined herein, which extensions of credit the Borrower will use (i) in part to repay certain of Borrower's obligations, and (ii) for Borrower's working capital needs and general business purposes; and

WHEREAS, of even date herewith, Lender has entered into five (5) related loan transactions with certain other Subsidiaries of LSB (which, along with Borrower, are referred to as the "Borrower Subsidiaries"); and

WHEREAS, Lender has agreed to make loans and letters of credit available to Borrower based on certain assets of the Borrower and thirteen (13) of Borrower's other Subsidiaries (the "Guarantor Subsidiaries"), which is secured by guaranties of the Guarantor Subsidiaries, and Borrower has represented to Lender that Borrower will, in turn, make such loans and letters of credit available to the Guarantor Subsidiaries; and

WHEREAS, the aggregate amount of all loans to be made by Lender to the Borrower Subsidiaries will not exceed Sixty-Five Million and No/100 Dollars ($65,000,000);

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

1. DEFINITIONS.

1.1 As used herein:

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

"Account Debtor" means each Person obligated to the Borrower or any Guarantor Subsidiary on an Account.

"Account Loans" means Loans based on Eligible Accounts.

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

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

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

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

"Aggregate LSB Gross Availability" means the sum of the amounts calculated as "Availability" under all of the LSB-Related Loan Agreements without taking into account the Gross Availability Reductions.

"Availability" means at any time the lesser of:

A. The Maximum Revolving Credit Line; or

B. The sum of:

(1) eighty-five percent (85%) of the value of Eligible

Accounts other than Eligible Accounts of the Industrial Division Guarantor Subsidiaries, plus eighty percent (80%) of the Eligible Accounts of the Industrial Division Guarantor Subsidiaries ("Accounts Availability"), plus

(2) the lesser of (a) the Maximum Inventory Advance Amount or (b) sixty percent (60%) of the value of Eligible Inventory; less

(3) the Availability Reductions; or

C. Six Million Dollars ($6,000,000) less the Availability Reductions.

"Availability Reductions" means the following amounts which reduce Availability:

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

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

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

(iv) the Environmental Compliance Reserve (Note: There is no Environmental Compliance Reserve as of the Closing Date); and

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

"Bank" means Bank of America National Trust and Savings Association in San Francisco, California.

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

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

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

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

"Closing Date" means the date of this Agreement, being the date first above written.

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

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

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

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

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

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

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

thereof is more than 30 days past due; notwithstanding the foregoing all advances to Borrower and the other Borrower Subsidiaries with respect to "eligible accounts" under the LSB-Related Loan Agreements that have terms of payment of more than one hundred eighty (180) days (the "180-Day Accounts") shall not exceed in the aggregate at any time the lesser of (i) $1,500,000 or (ii) five percent (5%) of the Gross LSB Accounts Availability (without taking into account the 180-Day Accounts);

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

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

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

(v) where an Account is not a valid, legally enforceable obligation of the Account Debtor thereunder or is subject to offset, counterclaim or other defenses on the part of such Account Debtor denying liability thereunder in whole or in part (provided, however, that claims under or relating to any warranty issues or claims by an Account Debtor as a result of the Borrower or a Guarantor Subsidiary purchasing products or supplies or having received services from such Account Debtor shall not render an Account ineligible);

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

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

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

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

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

(xi) which arises out of a sale to an Account Debtor on a

bill and hold, guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis;

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

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

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

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

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

(xvii) with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, West Virginia or any other state requiring the filing of a Business Activity Report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state, unless Borrower or the Guarantor Subsidiary that owns such Account has qualified to do business in New Jersey, Minnesota, West Virginia or such other states, or has filed a Notice of Business Activities Report with the applicable Division of Taxation, the Department of Revenue, or with such other state offices, as appropriate, for the then current year.

"Eligible Inventory" means Inventory valued at the lower of cost or market on a "first in-first out" ("FIFO") basis that constitutes raw materials (including raw materials stored or held by the Borrower or any Guarantor Subsidiary in the work-in-progress area and fifty percent (50%) of Inventory classified as components) and first quality finished goods and that (a) is not obsolete or unmerchantable, and (b) upon which the Lender has a first priority perfected Security Interest, and (c) the Lender otherwise deems eligible as the basis for Revolving Loans based on such other credit and collateral considerations as the Lender may from time to time establish in its reasonable discretion. Without intending to limit the Lender's discretion to establish other reasonable criteria of eligibility, no work-in-progress (except as otherwise provided above), service or spare parts, packaging, used parts, shipping materials, supplies, containers, defective Inventory, Inventory consisting of machines being rebuilt, Inventory acquired in trade in connection with the sale of other Inventory, slow-moving Inventory, Inventory in transit (except for Inventory in transit owned by Borrower or any Guarantor Subsidiary, covered by insurance, and in which Lender has a Security Interest), fifty percent (50%) of Inventory classified as components, or Inventory delivered to Borrower on consignment shall constitute Eligible Inventory. Except for Inventory in transit in which Lender has a perfected Security Interest, Eligible Inventory shall not include Inventory stored at locations other than those locations either owned by the Borrower or a Guarantor Subsidiary or locations for which a landlord's waiver acceptable to Lender or a consignment agreement (with appropriate UCC filings) has been signed by the owner of such location and delivered to Lender. In addition, the amount of all finished goods reserves (excluding reserves for "last-in-first-out" valuation) shown on the books of Borrower or any of the Guarantor Subsidiaries shall be deducted from the value of the Eligible Inventory as used in computing Availability, except to the extent that any such reserve has already been taken into account in connection with any of the above criteria.

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

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

Department of Transportation regulations.

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

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

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

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

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

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

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

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

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

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

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

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

"Facility Fee" has the meaning given to such term in Section 3.5.

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

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

"Fiscal Year" means LSB's fiscal year for financial accounting purposes. The current Fiscal Year of LSB will end on December 31, 1994.

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

"Gross Availability Reductions" means the sum of all "Availability Reductions" under the LSB-Related Loan Agreements.

"Gross LSB Accounts Availability" means the sum of the amounts calculated as "Accounts Availability" under all of the LSB-Related Loan Agreements less any Reserves established with respect to any of the LSB

Eligible Accounts in accordance with the LSB-Related Loan Agreements.

"Guarantor Subsidiaries" means Universal Tech Corporation, LSB Chemical Corp., L&S Automotive Products, Co. (f/k/a LSB Bearing Corp.), International Bearing, Inc., LSB Extrusion Co., Rotex Corporation, Tribonetics Corporation, Summit Machine Tool Systems, Inc., Hercules Energy Manufacturing Corporation, Morey Machinery Manufacturing Corporation, CHP Corporation, Koax Corp., and APR Corporation. Individually the Guarantor Subsidiaries shall be referred to as "Guarantor Subsidiary").

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

"Industrial Division Guarantor Subsidiaries" means Summit Machine Tool Systems, Inc., Hercules Energy Manufacturing Corporation, and Morey Machinery Manufacturing Corporation.

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

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

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

"Inventory Loans" means Loans based on Eligible Inventory.

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

"Latest Forecasts" means, (a) on the Closing Date and thereafter until the Lender receives new forecasts pursuant to Section 8.6, the forecasts of the Borrower's monthly financial condition, results of operations, and cash flows through the year ending December 31, 1996, attached hereto as Exhibit G-2; and (b) thereafter, the forecasts most recently received by the Lender pursuant to Section 7.2.

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

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

"Letter of Credit Fee" means the commissions charged under the Letter of Credit Agreement on the Outstanding Amount of each Letter of Credit.

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

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

"Loan Documents" means this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Subsidiary Guaranties, the Collateral Assignment of Notes and Liens, and all other agreements, instruments, and documents heretofore, now or hereafter evidencing, securing, guaranteeing or otherwise relating to the Obligations, the Collateral, the Security Interest, or any other aspect of the transactions contemplated by this Agreement, as the same may hereafter be amended, modified, restated and/or extended.

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

"LSB Borrowing Group" means the Borrower Subsidiaries and the Guarantor Subsidiaries.

"LSB Consolidated Group" means LSB and all of its Subsidiaries, including, but not limited to, the LSB Borrowing Group.

"LSB Eligible Accounts" means the then existing "Eligible Accounts" of all of the Borrower Subsidiaries and the Guarantor Subsidiaries under the LSB-Related Loan Agreements.

"LSB-Related Loan Agreements" means all of the following loan agreements: (i) this Agreement; (ii) the Loan and Security Agreement dated of even date herewith between Lender and L & S Bearing Co.; (iii) the Loan and Security Agreement dated of even date herewith between Lender, El Dorado Chemical Company and Slurry Explosive Corporation; (iv) the Loan and Security Agreement dated of even date herewith between Lender and Climate Master, Inc.; (v) the Loan and Security Agreement dated of even date herewith between Lender and International Environmental Corporation; and (vi) the Loan and Security Agreement dated of even date herewith between Lender and Summit Machine Tool Manufacturing Corp.

"Maximum Inventory Advance Amount" means, $32,500,000 less all then outstanding loans, advances, and outstanding Letters of Credit based on the Eligible Inventory of the LSB Borrowing Group under the LSB-Related Loan Agreements.

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

"Minimum Borrowing Commitment" means Five Million Dollars ($5,000,000).

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

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

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

"Patent and Trademark Assignments" means the Patent Security Agreement and the Trademark and Trade Names Security Agreement dated as of the date hereof, executed and delivered by the Borrower to the Lender to evidence and perfect the Lender's Security Interest in the Borrower's present and future patents, trademarks, trade names and related licenses and rights.

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

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

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

"Permitted Debt" means: (i) the Obligations; (ii) Debt set forth in the most recent Financial Statements delivered to the Lender, or the notes thereto; (iii) Debt incurred since the date of such Financial Statements to finance Capital Expenditures permitted hereby; (iv) Debt issued or assumed by Borrower in connection with an Acquisition permitted under Section 9.14 hereof; (v) Debt resulting from a judgment having been rendered against the Borrower that is being appealed by the Borrower in good faith and in a timely manner, for which an adequate reserve has been recorded on Borrower's books, and which is not fully covered by insurance; (vi) Subordinated Debt; (vii) Debt resulting from the refinancing of any other Permitted Debt as long as (a) such Debt does not exceed the amount of the refinanced Debt, and (b) such Debt does not result in payment acceleration of the refinanced Debt; (viii) Debt resulting from trade payables and other obligations arising in the ordinary course of business, (ix) other Debt not otherwise permitted by this definition in an amount not to exceed $5,000,000 at any one time, and (x) Debt of the Borrower to a member of the LSB Borrowing Group or to an Affiliate in accordance with Section 9.9 hereof. Notwithstanding the foregoing, Permitted Debt described in subsection (ix) of this definition, when combined with Permitted Debt allowed under subsection (ix) of the definition of Permitted Debt under all of the other LSB-Related Loan Agreements, shall not exceed $5,000,000 at any one time.

"Permitted Liens" means: (a) Liens for taxes not yet payable or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements, and further provided that, with respect to the Collateral, a stay of enforcement of any such

Lien is in effect; (b) Liens in favor of the Lender; (c) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting the Real Property; (d) Liens or deposits under workmen's compensation, unemployment insurance, social security and other similar laws, (e) Liens relating to obligations with respect to surety, appeal bonds, performance bonds, bids, tenders and other obligations of a like nature, (f) Liens existing as of the Closing Date and granted after the date hereof in connection with the Equipment, Real Property or other fixed assets, provided that such Liens attach only to such Property and the proceeds thereof, and so long as the indebtedness secured thereby does not exceed 100% of the fair market value of such Property at the time of acquisition; (g) Liens on goods consigned to the Borrower or a Guarantor Subsidiary or not owned by Borrower or a Guarantor Subsidiary so long as such Lien attaches only to such goods and so long as Lender has been given notice of such Lien, (h) mechanic, materialmen and other like Liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings and adequately reserved against, (i) statutory Liens in favor of landlords, (j) Liens against any life insurance policy or the cash surrender value thereof which relate to borrowings incurred to finance the premiums made under such policy; (k) Liens not to exceed $1,000,000 at any one time in amounts secured, which are junior in priority to the Security Interest and which arise or are placed inadvertently against the assets of Borrower or any Guarantor Subsidiary and are removed within ten (10) days from receipt of notice by the Borrower or such Guarantor Subsidiary of such Lien; and (l) Liens reflected on Exhibit A hereto.
"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, Public Authority, or any other entity.

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

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

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

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

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

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

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

obligations owing to the Borrower by its Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; and rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

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

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

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

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

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

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

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

"Revolver Facility" means the credit facility hereunder consisting of the provision for Revolving Loans and Letters of Credit.

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

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

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

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

"Subsidiary Guaranties" means the continuous guaranties of the Obligations made by the Guarantor Subsidiaries in favor of the Lender and delivered to the Lender pursuant to Section 10.2.

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

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

1.2 Accounting Terms. Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations

hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the Financial Statements.

1.3 Other Terms. All other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein. Wherever appropriate in the context, terms used herein in the singular also include the plural, and vice versa, and each masculine, feminine, or neuter pronoun shall also include the other genders.

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

2. LOANS AND LETTERS OF CREDIT.

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon the Borrower's request from time to time, make revolving loans (the "Revolving Loans") to the Borrower up to the limits of the Availability. The Lender, in its discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability or to be obligated to exceed the limits of the Availability on any other occasion. If the unpaid balance of the Revolving Loans exceeds the Availability (with Availability for this purpose determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated. The Borrower may request Revolving Loans either orally or in writing, provided, however, that each such request with respect to Reference Rate Loans shall be made no later than 1:00 p.m. (Los Angeles, California time). Each oral request for a Revolving Loan shall be conclusively presumed to be made by a person authorized by the Borrower to do so and the crediting of a Revolving Loan to the Borrower's deposit account, or transmittal to such Person as the Borrower shall direct, shall conclusively establish the obligation of the Borrower to repay such Revolving Loan. The Lender will charge all Revolving Loans and other Obligations to a loan account of the Borrower maintained with the Lender. All fees, commissions, costs, expenses, and other charges due from the Borrower pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by Lender and authorized to be charged to the Borrower pursuant to the Loan Documents, will be charged as Revolving Loans to the Borrower's loan account as of the date due from the Borrower or the date paid or incurred by the Lender, as the case may be.

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

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

3. INTEREST AND OTHER CHARGES

3.1 Interest.

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

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

(i) For all amounts charged as Revolving Loans other than Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one-half percent (1/2%) per annum (the "Reference Rate Margin") plus the Reference Rate; and

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: two and seven-eighths percent (2.875%) per annum (the "Eurodollar Margin") plus the Eurodollar Rate determined for the applicable Interest Period.

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

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

3.2 Eurodollar Borrowings: Conversion or Continuation.

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

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

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

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

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

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

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

(i) In the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on

which the next preceding Interest Period expires.

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

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

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

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

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

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

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

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

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

(e) Illegality. In the event that on any date Lender shall have reasonably determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties) that the making of, conversion into, or the continuation of, Lender's Eurodollar Rate Loans has become unlawful as the result of compliance by Lender or Bank in good faith with any law, governmental rule, regulation or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, and in any such event, Lender shall promptly give notice (by telephone confirmed in writing) to the Borrower of such determination. In such case and except as provided in Section 3.3(f), the obligation of Lender to make or maintain any Eurodollar Rate Loans during any such period shall be terminated at the earlier of the termination of the Interest Period then in effect or when required by law, and the Borrower shall, no later than the earlier of the termination of the Interest Period in effect at the time any such determination pursuant to this Section 3.3(e) is made, or when required by law, repay the Eurodollar Rate Loans, together with all interest accrued thereon.

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

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

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

(g) Compensation. In addition to such amounts as are required to be paid by the Borrower pursuant to the other Sections of this Article 3, the Borrower agrees to compensate the Lender for all expenses and liabilities, including, without limitation, any loss or expense incurred by Lender by

reason of the liquidation or reemployment of deposits or other funds acquired by Lender to fund or maintain the Lender's Eurodollar Rate Loans to the Borrower, which Lender sustains (i) if due to the fault of the Borrower a funding of any Eurodollar Rate Loans does not occur on a date specified therefor by Borrower in a telephonic or written request for borrowing or conversion/continuation, or a successive Interest Period does not commence after notice therefor is given pursuant to Section 3.2, (ii) if any voluntary or mandatory prepayment of any Eurodollar Rate Loans occurs for any reason on a date which is not the last scheduled day of an Interest Period, or (iii) as a consequence of any other failure by the Borrower to repay Eurodollar Rate Loans when required by the terms of this Agreement.

(h) Quotation of Eurodollar Rate. Anything herein to the contrary notwithstanding, if on any Eurodollar Interest Rate Determination Date no Eurodollar Rate is available by reason of the failure of Bank to be offered quotations in accordance with the definition of "Eurodollar Base Rate," the Lender shall give the Borrower prompt notice thereof and (i) any Eurodollar Rate Loan requested to be made at the Eurodollar Rate to be determined on any Eurodollar Interest Rate Determination Date shall be made as a Reference Rate Revolving Loan, and (ii) any notice given by the Borrower to convert any Loans into or to continue any Loans as Eurodollar Rate Loans at the Eurodollar Rate to be determined on any such Eurodollar Interest Rate Determination Date shall be ineffective.

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

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

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

3.4 Maximum Interest Rate.

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

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

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

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

3.5 Facility Fee. The Borrower will pay the Lender a facility fee in the amount of $28,850 on the Closing Date. The Lender and the Borrower agree that the Facility Fee shall be financed by the Lender as a Reference Rate Revolving Loan.

3.6 Capital Adequacy. If as a result of any regulatory change directly or indirectly affecting Lender or any of Lender's affiliated companies there shall be imposed, modified or deemed applicable any tax, reserve, special deposit, minimum capital, capital ratio, or similar requirement against or with respect to or measured by reference to loans made or to be made to Borrower hereunder, or to Letters of Credit issued on behalf of Borrower pursuant to the Letter of Credit Agreement, and the result shall be to increase the cost to Lender or to any of Lender's affiliated companies of making or maintaining any Revolving Loan or Letter of Credit hereunder, or reduce any amount receivable in respect of any such Revolving Loan and which increase in cost, or reduction in amount receivable, shall be the result of Lender's or Lender's affiliated company's reasonable allocation among all affected customers of the aggregate of such increases or reductions resulting from such event, then, within ten (10) days after receipt by Borrower of a certificate from Lender containing the information described in this Section 3.6 which shall be delivered to Borrower, Borrower agrees from time to time to pay Lender such additional amounts as shall be sufficient to compensate Lender or any of Lender's affiliated companies for such increased costs or reductions in amounts which Lender determines in Lender's reasonable discretion are material. Notwithstanding the foregoing, all such amounts shall be subject to the provisions of Section 3.4. The certificate requesting compensation under this Section 3.6 shall identify the regulatory change which has occurred, the requirements which have been imposed, modified or deemed applicable, the amount of such additional cost or reduction in the amount receivable and the way in which such amount has been calculated.

3.7 Unused Line Fee. For every month during the term of this Agreement, the Borrower shall pay the Lender a fee (the "Unused Line Fee") in an amount equal to one-half percent (.50%) per annum, multiplied by the amount by which (a) the Minimum Borrowing Commitment then in effect exceeds (b) the average closing daily unpaid balance of all Loans and all issued but undrawn Letters of Credit during such month, with the unpaid balance calculated for this purpose by applying payments immediately upon receipt. Such a fee, if any, shall be calculated on the basis of a year of three hundred sixty (360) days and actual days elapsed, and shall be payable to the Lender on the first day of each month prior to the termination of this Agreement commencing January 1, 1995 and on the termination of this Agreement, with respect to the prior month or portion thereof.

4. PAYMENTS AND PREPAYMENTS.

4.1 Revolving Loans. The Borrower shall repay the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest thereon, upon the termination of this Agreement. In addition, the Borrower shall pay to the Lender, on demand, the amount by which the unpaid principal balance of the Revolving Loans at any time exceeds the Availability at such time (with Availability for this purpose determined as if the amount of the Revolving Loans were zero).

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

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

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

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

6. COLLATERAL.

6.1 Grant of Security Interest.

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

Collateral under the UCC and other applicable laws.

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

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

6.3 Location of Collateral. The Borrower represents and warrants to the Lender that: (a) Exhibit D hereto is a correct and complete List of the Borrower's chief executive office, the location of its books and records as well as the books and records of the Guarantor Subsidiaries, the locations of the Collateral, and the locations of all of its other places of business; and (b) Exhibit H correctly identifies any of such facilities and locations that are not owned by the Borrower or the Guarantor Subsidiaries and sets forth the names of the owners and lessors of, and, to the best of the Borrower's knowledge, the holders of any mortgages on such facilities and locations. Except for Inventory that is consigned by a Borrower or a Guarantor Subsidiary to a customer or warehouse, the Borrower agrees that it will not maintain, nor will it allow any Guarantor Subsidiary to maintain, any Collateral at any location other than those listed on Exhibit D, and it will not otherwise change or add to any of such locations, unless it gives the Lender at least thirty (30) days prior written notice and executes or has executed, such financing statements and other documents that the Lender requests in connection therewith.

6.4 Title to, Liens on, and Sale and Use of Collateral. The Borrower represents and warrants to the Lender that: (a) all Collateral is and will continue to be owned by the Borrower or a Guarantor Subsidiary free and clear of all Liens whatsoever, except for the Security Interest and other Permitted Liens; (b) the Security Interest will not be subject to any prior Lien except the Permitted Liens; (c) the Borrower and each Guarantor Subsidiary will use, store, and maintain the Collateral with all reasonable care and will use the Collateral for lawful purposes only; and (d) neither the Borrower nor the Guarantor Subsidiaries will, without the Lender's prior written approval, sell, or dispose of or permit the sale or disposition of any Collateral, except for (i) sales of Inventory in the ordinary course of business, and (ii) as otherwise provided or allowed by this Agreement or any of the other Loan Documents. The inclusion of Proceeds in the Collateral shall not be deemed the Lender's consent to any sale or other disposition of the Collateral except as expressly permitted herein.

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

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

6.7 Insurance. The Borrower shall insure the Collateral and Equipment against loss or damage by fire with extended coverage, theft, burglary, pilferage, loss in transit, and such other hazards as the Lender shall specify, in amounts, under policies and by insurers acceptable to the Lender. Borrower shall also maintain flood insurance, in the event of a designation of the area in which any Real Property is located as "flood prone" or a "flood risk area," as defined by the Flood Disaster Protection Act of 1973, in an amount to be reasonably determined by Lender, and shall comply with the additional requirements of the National Flood Insurance Program as set forth therein. The Borrower shall cause the Lender to be named in each such policy as secured party of the Inventory that constitutes part of the Collateral and loss payee or additional insured, in a manner acceptable to the Lender, as to the Collateral. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than thirty (30) days prior written notice to the Lender in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Lender shall not be impaired or invalidated by any act or neglect of the Borrower or the owner of any premises where Collateral is located nor by the use of such premises for purposes more hazardous than are permitted by such policy. All premiums for such insurance shall be paid by the Borrower when due, and certificates of insurance and, if requested, photocopies of the policies shall be delivered to the Lender. If the Borrower fails to procure such insurance or to pay the premiums therefor when due, the Lender may (but shall not be required to) do so and charge the costs thereof to the Borrower's loan account. After becoming aware of any loss, damage or destruction to Collateral, the Borrower shall promptly notify the Lender of any such loss, damage, or destruction that exceeds $200,000, whether or not covered by insurance. The Lender is hereby authorized to collect all insurance proceeds directly following the occurrence of an Event of Default that is continuing. After deducting from such proceeds the expenses, if any, incurred by Lender in the collection or handling thereof, if an Event of Default has occurred and is continuing, the Lender may apply such proceeds to the reduction of the Obligations, in such order as Lender determines, or at the Lender's option may permit or require the Borrower to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction. If no Event of Default has occurred and is continuing, Lender hereby authorizes Borrower to collect all such insurance proceeds and to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction.

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

6.9 Accounts. (a) The Borrower hereby represents and warrants to the Lender that: (i) each existing Account represents, and each future Account will represent, a bona fide sale or lease and delivery of goods by the Borrower or a Guarantor Subsidiary, or rendition of services by the Borrower or a Guarantor Subsidiary, in the ordinary course of business; (ii) each existing Account is, and each future Account will be, for a liquidated amount payable by the Account Debtor thereon on the terms set forth in the invoice therefor or in the schedule thereof delivered to the Lender, without offset, deduction, defense, or counterclaim (other than claims relating to warranty issues); (iii) no payment will be received with respect to any Account, and no credit, discount, or extension, or agreement therefor will be granted to any Account, except as reported to or otherwise agreed to by the Lender in accordance with this Agreement; (iv) each copy of an invoice requested by and

delivered to the Lender by the Borrower will be a genuine copy of the original invoice sent to the Account Debtor named therein; and (v) all goods described in each invoice will have been delivered to the Account Debtor and all services described in each invoice will have been performed, except where the Account Debtor has previously agreed in writing to accept billings for such goods.

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

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

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

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

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

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

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

6.11 Inventory. The Borrower and each Guarantor Subsidiary represents and warrants to the Lender that all of the Inventory is and will be held for sale or lease, or to be furnished in connection with the rendition of services, in the ordinary course of business, and is and will be fit for such purposes. The Borrower and each Guarantor Subsidiary will cause the Inventory to be kept in good and marketable condition, at its own expense. The Borrower agrees that all Inventory produced by the Borrower or any Guarantor Subsidiary in the United States will be produced in accordance with the Federal Fair Labor Standards Act of 1938. The Borrower will conduct a physical count of the Inventory at least once per Fiscal Year, except as otherwise agreed to between the Lender and the Borrower, and will, upon request of the Lender, supply the Lender with a copy of such count accompanied by a report of the value of such Inventory (valued at the lower or cost, on a first-in, first-out basis, or market value). Neither the Borrower nor any Guarantor Subsidiary will, without the Lender's written consent, allow any Inventory to be sold on a bill and hold basis (except as provided in subsection (xiii) of the definition of Eligible Accounts set forth in this Agreement), guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis.

6.12 Documents and Instruments. The Borrower and each Guarantor Subsidiary represents and warrants to the Lender that: (a) all Documents and Instruments describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete, valid, and genuine and (b) all goods evidenced by such Documents and Instruments were, at the time of their sale, owned by the Borrower or such Guarantor Subsidiary free and clear of all Liens other than Permitted Liens.

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

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

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

6.16 Release of Collateral and Borrower.

(a) If the Borrower or any Guarantor Subsidiary sells or otherwise finances an Account that does not qualify as an Eligible Account, and the proceeds from the sale or financing of such Account is received or is to be received by the Borrower or such Guarantor Subsidiary, then the Lender's Security Interest in such Account shall be automatically terminated and the Lender shall immediately release its Security Interest in and to such Account.

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

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

7. BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.

7.1 Books and Records. The Borrower shall maintain, at all

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

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

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

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

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

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

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

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

(g) Promptly upon their becoming available, copies of each proxy statement, financial statement and report which LSB sends to its stockholders

or files with the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

8. GENERAL WARRANTIES AND REPRESENTATIONS.

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

8.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents. The Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the other Loan Documents, to incur the Obligations, and to grant the Security Interest. The Borrower has taken all necessary corporate action to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents. No consent, approval, or authorization of, or filing with, any Public Authority, and no consent of, any other Person, is required in connection with the Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents, except for (a) those already duly obtained, (b) those required to perfect the Lender's Security Interest, and (c) the compliance with any of the conditions precedent set forth in Sections 10.4 and 10.11 hereof. This Agreement and the other Loan Documents have been duly executed and delivered by the Borrower and constitute the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms without defense, setoff, or counterclaim. The Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents do not and will not conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any Lien upon the Property of the Borrower (except as contemplated by this Agreement and the other Loan Documents) by reason of the terms of (a) any

material mortgage, lease, agreement, or instrument to which the Borrower is a party or which is binding upon it, (b) any judgment, law, statute, rule or governmental regulation applicable to the Borrower, or (c) the Certificate or Articles of Incorporation or By-Laws of the Borrower.

8.2 Validity and Priority of Security Interest. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in the Lender's favor and when all proper filings, recordings, and other actions necessary to perfect such Liens have been made or taken such Liens will constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for Permitted Liens, securing all the Obligations and enforceable against the Borrower and all third parties after payment of the obligations due Congress under the Congress Loan Agreement and Household under the Household Working Capital Agreement and termination of all of the Agreements for Purchase of Receivables between Borrower and Prime upon payment of the obligations due Bank IV by Prime under the Prime Loan Agreement.

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

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

8.5 Subsidiaries and Affiliates. Exhibit F is a correct and complete list of the name and relationship to the Borrower of each and all of the Borrower's Subsidiaries and other Affiliates, which list may be amended by Borrower from time to time as LSB adds new or additional Subsidiaries or Affiliates. Each Subsidiary is (a) duly incorporated and organized and validly existing in good standing under the laws of its state of incorporation set forth on Exhibit F and (b) qualified to do business as a foreign corporation and in good standing in the states set forth opposite its name on Exhibit F, which are the only states in which such qualification is necessary in order for it to own or lease its Property and conduct its business, except where the failure to so qualify would not have a material adverse effect on the LSB Borrowing Group taken as a whole.

8.6 Financial Statements and Projections.

(a) LSB has delivered to the Lender the audited consolidated balance sheet and related statements of income, retained earnings, statements of cash flows, and changes in stockholders' equity for LSB, as of December 31, 1993 and for the Fiscal Year then ended, accompanied by the report thereon of LSB's independent certified public accountants. LSB has also delivered to the Lender the unaudited consolidated balance sheets and related statements of income and cash flows for LSB, as at September 30, 1994 and for the nine months and three months then ended. Such financial statements are attached hereto as Exhibit G-1. All such financial statements have been prepared in accordance with GAAP and present accurately and fairly the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

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

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

8.8 Solvency. The Borrower is solvent prior to and after giving effect to the making of the Revolving Loans, and after taking into account Intercompany Accounts.

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

8.10 Real Property; Leases. Exhibit H hereto is a correct and complete list of all real property owned by the Borrower, and all leases and subleases of real property by the Borrower as lessee or sublessee where Collateral is located. Each of such leases and subleases is valid and enforceable in accordance with its terms and is in full force and effect and no material default by any party to any such lease or sublease exists.

8.11 Proprietary Rights. Exhibit B hereto is a correct and complete list of all of the Proprietary Rights owned by Borrower. None of the Proprietary Rights is subject to any licensing agreement or similar arrangement except as set forth on Exhibit B. To the Borrower's knowledge, none of the Proprietary Rights infringes on or conflicts with any other

Person's Property. The Proprietary Rights described on Exhibit B constitute all of the Property of such type necessary to the current and anticipated future conduct of the Borrower's business.

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

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

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

8.15 Environmental Laws. Except as disclosed on Exhibit M hereto, and as hereafter disclosed by Borrower to Lender in writing, and to the Borrower's knowledge:

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

(b) No notice, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental entity with respect to any generation, treatment, storage, recycling, transportation or disposal of any hazardous or toxic waste (including petroleum products and radioactive materials) generated or used ("Hazardous Substances") by the Borrower or any Guarantor Subsidiary, which would have a material adverse effect on the LSB Borrowing Group, taken as a whole;

(c) Neither Borrower nor any Guarantor Subsidiary has received any request for information that is likely to lead to a claim, any notice of claim, demand or other notification that the Borrower or any Guarantor Subsidiary is or may be potentially responsible with respect to any clean up of any threatened or actual release of any Hazardous Substance;

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

(e) Neither Borrower nor any Guarantor Subsidiary has knowingly transported any Hazardous Substances to any location which is listed on the National Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), which is the subject of any federal or state enforcement actions which may lead to claims against Borrower or any Guarantor Subsidiary for clean up costs, remedial work, damages to natural resources or for personal injury claims, including, but not limited to, claims under CERCLA which would have a material adverse effect on the LSB Borrowing Group, taken as a whole.

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

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

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

8.16 No Violation of Law. Except as disclosed in Exhibit J or in reports filed by LSB prior to the Closing Date with the Securities and Exchange Commission, to the Borrower's knowledge, neither the Borrower nor any Guarantor Subsidiary is in violation of any law, statute, regulation,

ordinance, judgment, order, or decree applicable to it which violation would have a material adverse effect on the LSB Borrowing Group, taken as a whole.

8.17 No Default. Neither the Borrower nor any Guarantor Subsidiary is in default with respect to any note, loan agreement, mortgage, lease, or other agreement to which the Borrower or any Guarantor Subsidiary is a party or bound, where the amount owed by Borrower or any Guarantor Subsidiary under such note, loan agreement, mortgage, lease, or other agreement exceeds $750,000.

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

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

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

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

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

8.23 No Material Adverse Change. No material adverse change has occurred in the Property, business, operations, or conditions (financial or otherwise) of the LSB Borrowing Group, taken as a whole, since the date of the Financial Statements delivered to the Lender, except as otherwise disclosed in that Special Report to LSB Shareholders dated September 15, 1994 and in the reports filed by LSB with the Securities and Exchange Commission, if any.

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

9. AFFIRMATIVE AND NEGATIVE COVENANTS. The Borrower and, where applicable, each Guarantor Subsidiary covenants that, so long as any of the Obligations remain outstanding or this Agreement is in effect:

9.1 Taxes and Other Obligations. The Borrower and each Guarantor Subsidiary, no later than ten days after such payments become due, shall: (a) file when due (including extensions) all tax returns and other reports which it is required to file, pay when due all taxes, fees, assessments and other governmental charges against it or upon its Property, income, and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and shall provide to the Lender, upon request, satisfactory evidence of its timely

compliance with the foregoing; and (b) pay all Debt owed by it within normal business terms and consistent with past practices; provided, however, that neither the Borrower nor any Guarantor Subsidiary need pay any tax, fee, assessment, governmental charge, or Debt, or perform or discharge any other obligation, that it is contesting in good faith by appropriate proceedings diligently pursued.

9.2 Corporate Existence and Good Standing. The Borrower and each Guarantor Subsidiary shall maintain its corporate existence and its qualification and good standing in all states necessary to conduct its business and own its Property, except where the failure to so qualify would not have a material adverse effect on the Borrower or such Guarantor Subsidiary, and shall obtain and maintain all licenses, permits, franchises and governmental authorizations necessary to conduct its business and own its Property.

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

9.4 Environmental Laws. Except as disclosed to Lender in writing prior to the Closing Date in connection with Section 8.15, the Borrower and each Guarantor Subsidiary will use all reasonable efforts to conduct its business in substantial compliance with all Environmental Laws applicable to it, including, without limitation, those relating to the generation, handling, use, storage, and disposal of hazardous and toxic wastes and substances. The Borrower shall take prompt and appropriate action to respond to any noncompliance with Environmental Laws and shall regularly report to the Lender on such response. Without limiting the generality of the foregoing, whenever there is potential noncompliance with any Environmental Laws, the Borrower shall, at the Lender's request and the Borrower's expense: (a) cause an independent environmental engineer acceptable to the Lender to conduct such tests of the site where the Borrower's or any Guarantor Subsidiary's noncompliance or alleged noncompliance with Environmental Laws has occurred and prepare and deliver to the Lender a report setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof; and (b) provide to the Lender a Supplemental report of such engineer whenever the scope of the environmental problems, or the Borrower's response thereto or the estimated costs thereof, shall materially change.

9.5 Mergers, Consolidations, Acquisitions, or Sales. Neither the Borrower nor any Guarantor Subsidiary shall enter into any transaction of merger, reorganization, or consolidation in which Borrower or, in the case of the Guarantor Subsidiaries, another Guarantor Subsidiary, is not the survivor or transfer, sell, assign, lease, or otherwise dispose of all or substantially all of its Property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except (i) sales of Inventory in the ordinary course of its business, or (ii) after thirty (30) days prior written notice to Lender, mergers or consolidations of the Borrower into any of the Borrower Subsidiaries or a merger of a Borrower Subsidiary or Guarantor Subsidiary into the Borrower or the sale of all or substantially all of the assets of the Borrower to any of the Borrower Subsidiaries or the sale of all or substantially all of the assets of a Borrower Subsidiary or Guarantor Subsidiary to the Borrower.

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

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

9.8 Prepayment. The Borrower shall not voluntarily prepay any Debt, except the Obligations in accordance with the terms of this Agreement.

9.9 Transactions with Affiliates. Except (a) as set forth below, (b) as set forth in Section 9.14 hereof, or (c) as otherwise provided in this Agreement, the Borrower shall not sell, transfer, distribute, or pay any money or Property to any Affiliate, or lend or advance money or Property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any Property, of any Affiliate, or become liable on any secured Guaranty of the indebtedness, dividends, or other obligations of any Affiliate, except nothing contained herein shall limit or restrict the Borrower from (i) performing any agreements entered into with an Affiliate prior to the date hereof, or (ii) engaging in other transactions with Affiliates in the normal course of business, in amounts and upon terms disclosed to the Lender, and which are no less favorable to the Borrower than would be obtainable in a comparable arm's length transaction with a third party who is not an Affiliate. Subject to applicable law, Borrower and other members of the LSB Borrowing Group may borrow any amounts from each other and repay such amounts on terms agreed to between them without any limitations.

9.10 Plans and Compensation. The Borrower shall not take any action, or shall fail to take any action, that will cause or be reasonably

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

9.11 Reserved.

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

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

9.14 Distributions and Restricted Investments. Borrower shall not (a) directly or indirectly declare or make, or incur any liability to make, any Distribution, or (b) make any Restricted Investments, except: (i) Borrower may make and receive Distributions and Restricted Investments by the other members of the LSB Borrowing Group; (ii) so long as no Event of Default has occurred and is continuing, currently scheduled Dividends by LSB and performance of all of the terms, provisions and conditions by LSB, relating to or in connection with or arising out of any and all series of LSB's preferred stock issued and outstanding as of the date hereof and the payments of an annual cash dividend on its Common Stock in an amount equal to $.06 a share payable on a semi-annual basis; (iii) Borrower may make Restricted Investments to any of its Subsidiaries other than the members of the LSB Borrowing Group, provided, however, that the sum of all such Restricted Investments from Borrower and all other members of the LSB Borrowing Group shall not exceed $200,000 in the aggregate per annum; (iv) Borrower may make Restricted Investments in Affiliates outstanding as of the date hereof; (v) Borrower may make other Restricted Investments consituting Acquisitions not otherwise permitted above in this Section as long as such Restricted Investments when aggregated with all other Restricted Investments for the same Acquisition from all members of the LSB Borrowing Group do not exceed $2,000,000 in cash investments and issued and/or assumed interest-bearing debt per Acquisition and $10,000,000 in cash investments and issued and/or assumed interest-bearing debt in the aggregate for all such Acquisitions per annum; provided, however, that interest-bearing debt of the acquired company which Lender in its sole and absolute discretion agrees to refinance as a working capital facility shall not be included in the $2,000,000 and the $10,000,000 limitations; and further provided that nothing in this subsection (v) shall be construed to imply Lender's willingness in advance to provide any such refinancing; and (vi) Borrower may purchase up to $2,500,000 in the aggregate of its treasury stock from the Closing Date through December 31, 1996 in accordance with the following schedule: (x) up to $500,000 of treasury stock may be purchased from the Closing Date through March 31, 1995, (y) up to $1,500,000 of treasury stock may be purchased from the Closing Date through December 31, 1995, and (z) up to $2,500,000 of treasury stock may be purchased from the Closing Date through December 31, 1996.

9.15 Capital Expenditures. Borrower shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Borrowing Group during the following periods would exceed the following amounts: Fiscal Year ending December 31, 1994: $20,000,000; Fiscal Year ending December 31, 1995: $6,000,000, and each Fiscal Year thereafter; provided, however, that if the aggregate amount of Capital Expenditures made or incurred by the LSB Borrowing Group during the Fiscal Year ending December 31, 1994 (the "1994 Actual Capital Expenditures") is less than $20,000,000, then the $6,000,000 amount available during the Fiscal Year ending December 31, 1995 shall be increased by the difference between $20,000,000 and the 1994 Actual Capital Expenditures.

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1994				$ 86,000,000
Fiscal Year Ending December 31, 1995	$ 85,000,0001	$ 88,000,0001	$ 90,000,0001	$ 92,000,0001
Fiscal Year Ending December 31, 1996	$ 92,000,0001	$ 94,000,0001	$ 96,000,0001	$ 98,000,0001
Each Fiscal Quarter during each Fiscal Year ending thereafter:				$ 98,000,0001

9.17 Debt Ratio. The ratio of Debt of the LSB Borrowing Group (excluding all loans to any Borrower Subsidiary from the Lender) to Adjusted Tangible Net Worth will not be greater than the ratio of 0.85 to 1.0.

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

10. CLOSING; CONDITIONS TO CLOSING. The Lender will not be obligated to make any Loans or issue any Letters of Credit at the Closing unless the following conditions precedent have been satisfied as reasonably determined by the Lender:

10.1 Representations and Warranties; Covenants; Events. The Borrower's representations and warranties contained in this Agreement and the other Loan Documents shall be correct and complete as of the Closing Date; the Borrower shall have performed and complied with all covenants, agreements, and conditions contained herein and in the other Loan Documents which are required to have been performed or complied with on or before the Closing Date; and there shall exist no Event of Default on the Closing Date.

10.2 Delivery of Documents. The Borrower shall have delivered, or cause to be delivered, to the Lender the documents listed on Exhibit N hereto and such other documents, instruments and agreements as the Lender shall request in connection herewith, duly executed by all parties thereto other than the Lender, and in form and substance satisfactory to the Lender and its counsel.

10.3 Aggregate LSB Gross Availability. After taking into account the Revolving Loans made to and the Letters of Credit issued to or for the benefit of the Borrower Subsidiaries under the LSB-Related Loan Agreements on the Closing Date, there shall be remaining Aggregate LSB Gross Availability of at least ten percent (10%) of the Aggregate LSB Gross Availability calculated prior to the making of such Revolving Loans and the issuance of such Letters of Credit.

10.4 Termination of Liens. The Lender shall have received such duly executed UCC-3 Termination Statements and other instruments, in form and substance satisfactory to the Lender, as shall be necessary to terminate and satisfy all Liens on the Property of the Borrower and its Subsidiaries except Permitted Liens, including, but not limited to, (a) payment of the obligations due (i) Congress Financial Corporation ("Congress") under the Loan Agreement, dated March 29, 1994, as amended ("Congress Loan Agreement"), and (ii) Household Commercial Financial Services, Inc. ("Household") under the Second Amended and Restated Working Capital Loan Agreement, dated as of January 21, 1992, between Household, El Dorado Chemical and Slurry, as amended ("Household Working Capital Agreement"), which Congress Loan Agreement and Household Working Capital Agreement will be paid in full upon the closing of the LSB-Related Loan Agreements using proceeds from Loans made on the Closing Date, and (b) termination of all of the Agreements for Purchase of Receivables between the Borrower and Prime Financial Corporation ("Prime"), which termination will require payment by Prime of the obligations due Bank IV Oklahoma, N.A. ("Bank IV") under the Loan Agreement, dated March 30, 1994, as amended, between Prime and Bank IV ("Prime Loan Agreement") at the closing of the LSB-Related Loan Agreements using proceeds from Loans made on the Closing Date.

10.5 Facility Fee. The Borrower shall have paid in full the Facility Fee.

10.6 Required Approvals. The Lender shall have received certified copies of all consents or approvals of any Public Authority or other Person which the Lender reasonably determines is required in connection with the transactions contemplated by this Agreement.

10.7 No Material Adverse Change. Except as disclosed in that Special Report to LSB Shareholders dated September 15, 1994, there shall have occurred no material adverse change in the Borrower's and the Subsidiaries' business or financial condition or in the Collateral taken as a whole, since September 30, 1994, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect.

10.8 Proceedings. All proceedings to be taken in connection with the transactions contemplated by this Agreement, and all documents contemplated in connection herewith, shall be satisfactory in form and substance to the Lender and its counsel.

10.9 Legal Opinions. The Lender shall have received from counsel to the Borrower such legal opinions as the Lender may reasonably require with respect to the Loan Documents.

10.10 September 30, 1994 Quarterly Financial Statements. The Lender shall have received LSB's and the Subsidiaries' consolidated September 30, 1994, unaudited quarterly financial statements.

10.11 Repurchase of Accounts from Prime. The Borrower and each member of the LSB Borrowing Group shall have repurchased from Prime under terms and conditions acceptable to Lender all of the outstanding Accounts previously sold by Borrower and the other members of the LSB Borrowing Group which will be owned by members of the LSB Borrowing Group as of the Closing Date and will serve as Collateral under the LSB-Related Loan Agreements using proceeds from the Loan made on the Closing Date. Borrower and the other members of the LSB Borrowing Group shall own such Accounts free and clear of all liens, claims and encumbrances, and Prime and each of its secured lenders shall have released all of its security interests in such Accounts. The documents evidencing such repurchase shall be in form and substance satisfactory to Lender and its counsel.

10.12 Conditions Precedent to Each Loan. The obligation of the Lender to make each Revolving Loan or to provide for the issuance of any Letter of Credit after the Closing and after the initial Revolving Loans on the Closing Date are made, shall be subject to the further conditions precedent that on the date of any such extension of credit, the following statements shall be true, and the acceptance by the Borrower of any extension of credit shall be deemed to be a statement to the effect set forth in clauses (i) and (ii), with the same effect as the delivery to the Lender of a

certificate signed by the chief executive officer and chief financial officer of the Borrower, dated the date of such extension of credit, stating that:

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

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

11. DEFAULT; REMEDIES.

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

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

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

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

(d) any default by Borrower under any material agreement or instrument (other than an agreement or instrument evidencing the lending of money), which default would have a material adverse effect on the LSB Borrowing Group, taken as a whole, and such default continues for thirty (30) days after such breach first occurs; provided, however, that such grace period shall not apply, and an Event of Default shall exist, promptly upon such breach, if such breach may not, in Lender's reasonable determination, be cured by Borrower during such thirty (30) day grace period;

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

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

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

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

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

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

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

(l) any loss, theft, damage or destruction of any item or items

of Collateral occurs which: (i) materially and adversely affects the operation of the Borrower's and the Guarantor Subsidiaries' business taken as a whole; or (ii) is material in amount and is not adequately covered by insurance;

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

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

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

11.2 Remedies.

(a) If an Event of Default exists, the Lender may, without notice to or demand on the Borrower, do one or more of the following at any time or times and in any order: (i) reduce the amount of or refuse to make Revolving Loans and restrict or refuse to arrange for Letters of Credit; (ii) terminate this Agreement; (iii) declare any or all Obligations to be immediately due and payable (provided however that upon the occurrence of any Event of Default described in Sections 11.1(f), 11.1(g), or 11.1(h), all Obligations shall automatically become immediately due and payable); and (iv) pursue its other rights and remedies under the Loan Documents and applicable law. The foregoing shall not be construed to limit the Lender's discretion to take the actions described in clause (i) of this subparagraph (a) at any other time.

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

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

(d) If the Lender terminates this Agreement upon an Event of

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

12. TERM AND TERMINATION. The initial term of this Agreement shall be three (3) years from the Closing Date (the "Termination Date"). This Agreement shall automatically be renewed thereafter for successive thirteen (13) month terms, unless this Agreement is terminated as provided below. The Lender and the Borrower shall each have the right to terminate this Agreement, without premium or penalty, at the end of the initial term or at the end of any renewal term by giving the other written notice not less than sixty (60) days prior to the end of such term by registered or certified mail. The Borrower may also terminate this Agreement at any time during its initial term or any renewal periods if: (a) it gives the Lender sixty (60) days prior written notice of termination by registered or certified mail; (b) it pays and performs all Obligations on or prior to the effective date of termination; and (c) except as otherwise provided herein, it pays the Lender, on or prior to the effective date of termination, (i) two percent (2%) of the average daily balance of the Loans and Letters of Credit outstanding under the Revolver Facility for the preceding one hundred eighty day (180) day period (or from the Closing Date up to and including the date of termination if less than one hundred eighty (180) days from the Closing Date) if such termination is made on or prior to the first anniversary of the Closing Date; and (ii) one percent (1%) of the average daily balance of the Loans and Letters of Credit outstanding under the Revolver Facility for the preceding one hundred eighty (180) day period if such termination is made after the first anniversary but on or prior to the second anniversary of the Closing Date; provided, however, that prior to an Event of Default that is continuing, the Borrower may prepay at any time all outstanding Obligations due hereunder without penalty or premium as provided in clause (c) above if (i) Lender under any condition or for any reason changes the advance rates relating to Eligible Accounts or Eligible Inventory from that set forth in the definition of Availability contained herein, provided further that nothing contained in this clause shall be construed as allowing the Lender to make any such change, or (ii) a public offering by LSB of its securities (equity or debt) is consummated and the proceeds thereof are used to prepay the Obligations after the date hereof. The Lender may also terminate this Agreement without notice upon an Event of Default that has not been cured or otherwise waived to Lender's satisfaction. Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations shall become immediately due and payable. Notwithstanding the termination of this Agreement, until all Obligations are paid and performed in full, the Lender shall retain all its rights and remedies hereunder (including, without limitation, in all then existing and after-arising Collateral).

13. MISCELLANEOUS.

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

13.2 No Implied Waivers. No act, failure or delay by the Lender shall constitute a waiver of any of its rights and remedies. No single or partial waiver by the Lender of any provision of this Agreement, or any other Loan Document, or of breach or default hereunder or thereunder, or of any right or remedy which the Lender may have, shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion. No waiver by the Lender shall affect its rights to require strict performance of this Agreement.

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

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

13.5 Consent to Jurisdiction and Venue; Service of Process; Arbitration.

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

enforcement of any judgment obtained in such forum, or the taking of any action under this Agreement to enforce the same, in any appropriate jurisdiction.

(b) NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT TO THE CONTRARY, ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES, INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL AT THE REQUEST OF EITHER PARTY HERETO BE DETERMINED BY ARBITRATION. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The arbitration shall be conducted within Oklahoma County, Oklahoma. The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). Judgment upon the arbitration award may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(c) No provision of subparagraph (a) shall limit the right of either party to this Agreement to exercise self-help remedies such as setoff, foreclosure against or sale of any Collateral, or obtaining provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any proceeding after the occurrence of an Event of Default. The exercise of a remedy does not waive the right of either party to resort to arbitration or reference.

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

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

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

13.9 Fees and Expenses. The Borrower shall pay to the Lender on demand all costs and expenses that the Lender pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement and the other Loan Documents, including, without limitation: (a) attorneys' and paralegals' fees and disbursements of counsel to the Lender; (b) costs and expenses (including attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien and title searches and title insurance; (d) fees and other charges for recording and

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

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

If to the Lender: BankAmerica Business Credit, Inc.
Two North Lake Avenue, Suite 400
Pasadena, California 91101
Attn: Mr. Charles Burtch
Executive Vice President

with a copy to: Bank of America - Business Credit Legal Dept.
10124 Old Grove Road
San Diego, California 92131
Attn: Thomas G. Montgomery, Esq.
Assistant General Counsel

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

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

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

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

and with a copy to: Hastie and Steinhorn
3000 Oklahoma Tower
210 Park Avenue
Oklahoma City, Oklahoma 73102
Attn: Irwin H. Steinhorn, Esq.

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

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

13.12 Binding Effect; Assignment; Disclosure. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors and assigns of the parties hereto: provided, however, that no interest herein may be assigned by the Borrower without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any interest in the Obligations or any part thereof. The Borrower agrees that the Lender may use the Borrower's name in advertising and promotional materials and in conjunction therewith disclose the general terms of this Agreement.

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

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

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

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

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

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

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

"BORROWER":

LSB INDUSTRIES, INC.

By:
Jack E. Golsen
President

"LENDER":

BANKAMERICA BUSINESS CREDIT, INC.

By:
Joyce White
Senior Vice President

ACKNOWLEDGED AND AGREED TO:

Each of the following "Guarantor Subsidiaries" hereby grants to the Lender a Security Interest in and to the Collateral owned by such Guarantor Subsidiary pursuant to Section 6.1 hereof and has executed this Agreement solely to acknowledge its agreement to comply with and be bound by all those particular warranties, representations, covenants and agreements set forth herein that are expressly applicable to the Guarantor Subsidiaries by the terms of this Agreement.

UNIVERSAL TECH CORPORATION

By:
Tony M. Shelby

Vice President

LSB CHEMICAL CORP.

By:
Tony M. Shelby
Vice President

L&S AUTOMOTIVE PRODUCTS, CO.
(formerly known as LSB Bearing Corp.)

By:
Tony M. Shelby
Vice President

INTERNATIONAL BEARING, INC.

By:
Tony M. Shelby
Vice President

LSB EXTRUSION CO.

By:
Tony M. Shelby
Vice President

ROTEX CORPORATION

By:
Tony M. Shelby
Vice President

TRIBONETICS CORPORATION

By:
Tony M. Shelby
Vice President

SUMMIT MACHINE TOOL SYSTEMS, INC.

By:
Tony M. Shelby
Vice President

HERCULES ENERGY MANUFACTURING
CORPORATION

By:
Tony M. Shelby
Vice President

MOREY MACHINERY MANUFACTURING
CORPORATION

By:
Tony M. Shelby
Vice President

CHP CORPORATION

By:
Tony M. Shelby
Vice President

KOAX CORP.

By:
Tony M. Shelby
Vice President

APR CORPORATION

By:
Tony M. Shelby
Vice President

EXHIBITS TO LOAN AGREEMENT

EXHIBIT A - Permitted Liens

EXHIBIT B - Proprietary Rights

EXHIBIT C	-	Guarantor Subsidiaries
EXHIBIT D	-	List of Borrower's Locations
EXHIBIT E	-	Corporate History
EXHIBIT F	-	Subsidiaries and Affiliates
EXHIBIT G-1	-	Financial Statements
EXHIBIT G-2	-	Pro Forma Financial Statements
EXHIBIT H	-	Real Property Descriptions: Premises
EXHIBIT I	-	Trade Names, Trade Styles, Terms of Sale
EXHIBIT J	-	Pending Litigation
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EXHIBIT N	-	Closing Documents
EXHIBIT O	-	Letter of Credit Financing Agreement - Supplement to Loan and Security Agreement
EXHIBIT P	-	Notice of Borrowing

LOAN AND SECURITY AGREEMENT

by and among

BANKAMERICA BUSINESS CREDIT, INC.
as Lender

and

EL DORADO CHEMICAL COMPANY
and
SLURRY EXPLOSIVES CORPORATION
as Borrowers

Dated: December 12, 1994

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SECTION

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT (this "Agreement") is dated December 12, 1994, and is entered into by and among BANKAMERICA BUSINESS CREDIT INC., a Delaware corporation, with offices at Two North Lake Avenue, Suite 400, Pasadena, California 91101 (the "Lender"), and EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, with offices at 16 Pennsylvania Avenue, Oklahoma City, Oklahoma 73107 ("EDC"), and SLURRY EXPLOSIVES CORPORATION, an Oklahoma corporation, with offices at 5700 N. Portland, Oklahoma City, Oklahoma 73112 ("Slurry", and together with EDC, referred to individually herein as a "Borrower" and collectively as the "Borrowers").

W I T N E S S E T H

WHEREAS, the Borrowers have requested the Lender to make available to the Borrowers a revolving line of credit for loans and letters of credit in an amount not to exceed the Maximum Credit Facility as defined herein, which extensions of credit the Borrower will use (i) in part to repay certain of Borrowers' obligations, and (ii) for Borrowers' working capital needs and general business purposes; and

WHEREAS, Slurry is a wholly-owned subsidiary of EDC, and Slurry will receive direct and indirect benefit from the transactions contemplated by this Agreement; and

WHEREAS, of even date herewith, Lender has entered into five (5) related loan transactions with LSB Industries, Inc., a Delaware corporation ("LSB"), the corporation which owns 100% of the stock of LSB Chemical Corp. which, in turn, owns 100% of the stock of EDC, and with certain other "Borrower Subsidiaries" as defined herein; and

WHEREAS, the aggregate amount of all loans to be made by Lender to the Borrower Subsidiaries will not exceed Sixty-Five Million and No/100 Dollars ($65,000,000);

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

1. DEFINITIONS.

1.1 As used herein:

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

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

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

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

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

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

"Aggregate LSB Gross Availability" means the sum of the amounts

calculated as "Availability" under all of the LSB-Related Loan Agreements without taking into account the Gross Availability Reductions.

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

"Availability" means at any time the lesser of:

A. The Maximum Revolving Credit Line, or

B. The sum of:

(1) eighty-five percent (85%) of the value of Eligible Accounts ("Accounts Availability"), plus

(2) the lesser of (a) the Maximum Inventory Advance Amount or (b) sixty percent (60%) of the value of Eligible Inventory; less

(3) the Availability Reductions.

"Availability Reductions" means the following amounts which reduce Availability:

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

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

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

(iv) the Environmental Compliance Reserve (Note: There is no Environmental Compliance Reserve as of the Closing Date); and

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

"Bank" means Bank of America National Trust and Savings Association in San Francisco, California.

"Borrower Subsidiaries" means LSB, Borrowers, L&S Bearing Co., Climate Master, Inc., International Environmental Corporation and Summit Machine Tool Manufacturing Corp.

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

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

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

"Closing Date" means the date of this Agreement, being the date first above written.

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

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

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

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

"Documents" means all "documents" (as defined in the UCC) or other receipts covering, evidencing or representing goods now owned or hereafter acquired by either Borrower.

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

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

(i) where such Account is "Past Due". For the purposes of this provision, "Past Due" means: (a) where the Account has terms of payment of less than ninety-one (91) days from the invoice date, the payment thereof is more than 90 days past due; and (b) where the Account has terms of payment of ninety-one to three hundred sixty (91 to 360) days from the Invoice Date, the payment thereof is more than 30 days past due; notwithstanding the foregoing all advances to either Borrower and the other Borrower Subsidiaries with respect to "eligible accounts" under the LSB-Related Loan Agreements that have terms of payment of more than one hundred eighty (180) days (the "180-Day Accounts") shall not exceed in the aggregate at any time the lesser of (i) $1,500,000 or (ii) five percent (5%) of the Gross LSB Accounts Availability (without taking into account the 180-Day Accounts);

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

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

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

(v) where an Account is not a valid, legally enforceable obligation of the Account Debtor thereunder or is subject to offset, counterclaim or other defenses on the part of such Account Debtor denying liability thereunder in whole or in part (provided, however, that claims under or relating to any warranty issues or claims by an Account Debtor as a result of either Borrower purchasing products or supplies or having received services from such Account Debtor shall not render an Account ineligible);

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

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

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

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

reasonable satisfaction with respect to such Account;

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

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

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

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

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

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

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

(xvii) with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, West Virginia or any other state requiring the filing of a Business Activity Report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state, unless the appropriate Borrower has qualified to do business in New Jersey, Minnesota, West Virginia or such other states, or has filed a Notice of Business Activities Report with the applicable Division of Taxation, the Department of Revenue, or with such other state offices, as appropriate, for the then current year.

"Eligible Inventory" means Inventory of either Borrower valued at the lower of cost or market on a "first in-first out" ("FIFO") basis that constitutes raw materials (including raw materials stored or held by a Borrower in the work-in-progress area and fifty percent (50%) of Inventory classified as components) and first quality finished goods and that (a) is not obsolete or unmerchantable, and (b) upon which the Lender has a first priority perfected Security Interest, and (c) the Lender otherwise deems eligible as the basis for Revolving Loans based on such other credit and collateral considerations as the Lender may from time to time establish in its reasonable discretion. Without intending to limit the Lender's discretion to establish other reasonable criteria of eligibility, no work-in-progress (except as otherwise provided above), service or spare parts, packaging, used parts, shipping materials, supplies, containers, defective Inventory, Inventory consisting of machines being rebuilt, Inventory acquired in trade in connection with the sale of other Inventory, slow-moving Inventory, Inventory in transit (except for Inventory in transit owned by a Borrower, covered by insurance, and in which Lender has a Security Interest), fifty percent (50%) of Inventory classified as components, Olin acid inventory, Inventory consisting of Ireco exchange items or Inventory delivered to either Borrower on consignment shall constitute Eligible Inventory. Except for Inventory in transit in which Lender has a perfected Security Interest, Eligible Inventory shall not include Inventory stored at locations other than those locations either owned by either Borrower or locations for which a landlord's waiver acceptable to Lender or a consignment agreement (with appropriate UCC filings) has been signed by the owner of such location and delivered to Lender. In addition, the amount of all finished goods reserves (excluding reserves for "last-in-first-out" valuation) shown on the books of a Borrower shall be deducted from the value of the Eligible Inventory as used in computing Availability, except to the extent that any such reserve has already been taken into account in connection with any of the above criteria.

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

"Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, and consent decrees relating to hazardous substances, and environmental matters applicable to the Borrowers', or either of their, business and facilities (whether or not owned by it). Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act, 42 U.S.C. section 6901 et

seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. section 9601 et seq., as amended: the Toxic Substances Control Act, 15 U.S.C. section 2601 et seq., as amended; the Clean Water Act, 33 U.S.C. section 466 et seq., as amended; the Clean Air Act, 42 U.S.C. section 7401 et seq., as amended; state and federal superlien and environmental cleanup programs; and U.S. Department of Transportation regulations.

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

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

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

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

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

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

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

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

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

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

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

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

"Facility Fee" has the meaning given to such term in Section 3.5.

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

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

"Fiscal Year" means LSB's fiscal year for financial accounting purposes. The current Fiscal Year of LSB will end on December 31, 1994.

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

"Gross Availability Reductions" means the sum of all "Availability Reductions" under the LSB-Related Loan Agreements.

"Gross LSB Accounts Availability" means the sum of the amounts calculated as "Accounts Availability" under all of the LSB-Related Loan Agreements less any Reserves established with respect to any of the LSB Eligible Accounts in accordance with the LSB-Related Loan Agreements.

"Guarantor Subsidiaries" means Universal Tech Corporation, LSB Chemical Corp., L&S Automotive Products, Co. (f/k/a LSB Bearing Corp.), International Bearing, Inc., LSB Extrusion Co., Rotex Corporation, Tribonetics Corporation, Summit Machine Tool Systems, Inc., Hercules Energy Manufacturing Corporation, Morey Machinery Manufacturing Corporation, CHP Corporation, Koax Corp., and APR Corporation.

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

"HCFS Loan Agreement" shall mean the Amended and Restated Secured Credit Agreement dated as of January 21, 1992 by and among Borrowers, Household Commercial Financial Services, Inc., Connecticut Mutual Life Insurance Company and C. M. Life Insurance Company, and any other lenders from time to time parties to in the HCFS Loan Agreement.

"Instruments" means all "instruments", "chattel paper" or "letters of credit" (each as defined in the UCC) including, but not limited to, promissory notes, drafts, bills of exchange and trade acceptances, now owned or hereafter acquired by either Borrower.

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

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

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

"Inventory Loans" means Loans based on Eligible Inventory.

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

"Latest Forecasts" means, (a) on the Closing Date and thereafter until the Lender receives new forecasts pursuant to Section 8.6, the forecasts which include EDC's and Slurry's monthly financial condition, results of operations, and cash flows through the year ending December 31, 1996, attached hereto as Exhibit G-2; and (b) thereafter, the forecasts most recently received by the Lender pursuant to Section 7.2.

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

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

"Letter of Credit Fee" means the commissions charged under the Letter of Credit Agreement on the Outstanding Amount of each Letter of Credit.

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

"Loans" means, collectively, all loans and advances provided for in Article 2.

"Loan Documents" means this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Subsidiary Guaranties, and all other agreements, instruments, and documents heretofore, now or hereafter evidencing, securing guaranteeing or otherwise relating to the Obligations, the Collateral, the Security Interest, or any other aspect of the transactions contemplated by this Agreement, as the same may hereafter be amended, modified, restated and/or extended.

"LSB" has the meaning given in the recitals to this Agreement.

"LSB Borrowing Group" means the Borrower Subsidiaries and the

Guarantor Subsidiaries.

"LSB Consolidated Group" means LSB and all of its Subsidiaries, including, but not limited to, the LSB Borrowing Group.

"LSB Eligible Accounts" means the then existing "Eligible Accounts" of all of the Borrower Subsidiaries and the Guarantor Subsidiaries under the LSB-Related Loan Agreements.

"LSB-Related Loan Agreements" means all of the following loan agreements: (i) this Agreement; (ii) the Loan and Security Agreement dated of even date herewith between Lender and LSB; (iii) the Loan and Security Agreement dated of even date herewith between Lender and L & S Bearing Co.; (iv) the Loan and Security Agreement dated of even date herewith between Lender and Climate Master, Inc.; (v) the Loan and Security Agreement dated of even date herewith between Lender and International Environmental Corporation; and (vi) the Loan and Security Agreement dated of even date herewith between Lender and Summit Machine Tool Manufacturing Corp.

"Maximum Inventory Advance Amount" means $32,500,000 less all then outstanding loans, advances, and outstanding Letters of Credit based on Eligible Inventory of the LSB Borrowing Group under the LSB-Related Loan Agreements.

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

"Minimum Borrowing Commitment" means Thirty Million Dollars ($30,000,000).

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

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

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

"Patent and Trademark Assignments" means the Patent Security Agreement and the Trademark and Trade Names Security Agreement dated as of the date hereof, executed and delivered by either Borrower, to the Lender to evidence and perfect the Lender's Security Interest in the Borrowers' present and future patents, trademarks, trade names and related licenses and rights.

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

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

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

"Permitted Debt" means: (i) the Obligations; (ii) Debt set forth in the most recent Financial Statements delivered to the Lender, or the notes thereto; (iii) Debt incurred since the date of such Financial Statements to finance Capital Expenditures permitted hereby; (iv) Debt issued or assumed by either Borrower in connection with an Acquisition permitted under Section 9.14 hereof; (v) Debt resulting from a judgment having been rendered against either Borrower that is being appealed by such Borrower in good faith and in a timely manner, for which an adequate reserve has been recorded on such Borrower's books, and which is not fully covered by insurance; (vi) Subordinated Debt; (vii) Debt resulting from the refinancing of any other Permitted Debt as long as (a) such Debt does not exceed the amount of the refinanced Debt, and (b) such Debt does not result in payment acceleration of the refinanced Debt; (viii) Debt resulting from trade payables and other obligations arising in the ordinary course of business; (ix) other Debt not otherwise permitted by this definition in an amount not to exceed $5,000,000 at any one time; (x) Debt of either Borrower to a member of the LSB Borrowing Group or to an Affiliate in accordance with Section

9.9 hereof; and (xi) Debt of either of the Borrowers under the HCFS Loan Agreement or any other loan documents referred to or entered into in connection with the HCFS Loan Agreement. Notwithstanding the foregoing, Permitted Debt described in subsection (ix) of this definition, when combined with Permitted Debt allowed under subsection (ix) of the definition of Permitted Debt under all of the other LSB-Related Loan Agreements, shall not exceed $5,000,000 at any one time.

"Permitted Liens" means: (a) Liens for taxes not yet payable or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements, and further provided that, with respect to the Collateral, a stay of enforcement of any such Lien is in effect; (b) Liens in favor of the Lender; (c) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting the Real Property; (d) Liens or deposits under workmen's compensation, unemployment insurance, social security and other similar laws, (e) Liens relating to obligations with respect to surety, appeal bonds, performance bonds, bids, tenders and other obligations of a like nature, (f) Liens existing as of the Closing Date and granted after the date hereof in connection with either Borrower's Equipment, Real Property or other fixed assets, provided that such Liens attach only to such Property and the proceeds thereof, and so long as the indebtedness secured thereby does not exceed 100% of the fair market value of such Property at the time of acquisition; (g) Liens on goods consigned to either Borrower or not owned by either Borrower so long as such Lien attaches only to such goods and so long as Lender has been given notice of such Lien, (h) mechanic, materialmen and other like Liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings and adequately reserved against, (i) statutory Liens in favor of landlords, (j) Liens against any life insurance policy or the cash surrender value thereof which relate to borrowings incurred to finance the premiums made under such policy; (k) Liens not to exceed $1,000,000 at any one time in amounts secured, which are junior in priority to the Security Interest and which arise or are placed inadvertently against either Borrower's assets and are removed within ten (10) days from receipt of notice by either such Borrower of such Lien; and (l) Liens reflected on Exhibit A hereto.

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

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

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

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

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

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

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

"Receivables" means all of either Borrower's now owned or hereafter arising or acquired: Accounts (whether or not earned by performance), including Accounts owed to such Borrower by any of its Subsidiaries or Affiliates (but excluding Accounts arising solely from the sale of Equipment, Real Property or other fixed assets), together

with all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; proceeds of any letters of credit naming such Borrower as beneficiary except such letters of credit as are issued solely in connection with the purchase or sale of Equipment, Real Property or other fixed assets; contract rights, chattel paper, instruments, documents, general intangibles (including, without limitation, causes in action, causes of action, tax refunds, tax refund claims, Reversions and other amounts payable to such Borrower or to a Guarantor Subsidiary from or with respect to any Plan, rights and claims against shippers and carriers, rights to indemnification and business interruption insurance), and all forms of obligations owing to such Borrower (including, without limitation, obligations owing to such Borrower by its Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; and rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

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

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

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

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

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

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

"Reversions" means any funds which may become due to the Borrowers, or either of them, in connection with the termination of any Plan.

"Revolver Facility" means the credit facility hereunder consisting of the provision for Revolving Loans and Letters of Credit.

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

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

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

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

"Subsidiary Guaranties" means the continuous guaranties of the Obligations made by the Guarantor Subsidiaries in favor of the Lender and delivered to the Lender pursuant to Section 10.2.

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

Pension Plan, or (f) the partial or complete withdrawal of the Borrowers, or either of them, or any Related Company from a Multi-employer Plan, or (g) the withdrawal of the Borrowers, or either of them, from any state workers' compensation system.

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

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

1.3 Other Terms. All other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein. Wherever appropriate in the context, terms used herein in the singular also include the plural, and vice versa, and each masculine, feminine, or neuter pronoun shall also include the other genders.

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

2. LOANS AND LETTERS OF CREDIT.

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon a Borrower's request from time to time, make revolving loans (the "Revolving Loans") to EDC and Slurry up to the limits of the Availability. The Lender, in its discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability, or to be obligated to exceed the limits of the Availability on any other occasion. If the unpaid balance of the Revolving Loans exceeds the Availability (with the Availability for this purpose determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated. Either Borrower may request Revolving Loans either orally or in writing, provided, however, that each such request with respect to Reference Rate Loans shall be made no later than 1:00 p.m. (Los Angeles, California time). Each oral request by either Borrower for a Revolving Loan shall be conclusively presumed to be made by a person authorized by such Borrower to do so and the crediting of a Revolving Loan to the Borrowers' deposit account, or transmittal to such Person as either Borrower shall direct, shall conclusively establish the joint and several obligation of the Borrowers to repay such Revolving Loan. The Lender will charge all Revolving Loans and other Obligations to a loan account of the Borrowers maintained with the Lender. All fees, commissions, costs, expenses, and other charges due from the Borrowers, or either of them, pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by Lender and authorized to be charged to the Borrowers, or either of them, pursuant to the Loan Documents, will be charged as Revolving Loans to the Borrowers' loan account as of the date due from the Borrowers or the date paid or incurred by the Lender, as the case may be.

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

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

3. INTEREST AND OTHER CHARGES

3.1 Interest.

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

(i) For all amounts charged as Revolving Loans other than Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one-half percent (1/2%) per annum (the "Reference Rate Margin") plus the Reference Rate; and

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: two and seven-eighths percent (2.875%) per annum (the "Eurodollar Margin") plus the Eurodollar Rate determined for the applicable Interest Period.

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

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

3.2 Eurodollar Borrowings: Conversion or Continuation.

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

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

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

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

3.3 Special Provisions Governing Eurodollar Rate Loans. Notwithstanding any other provisions to the contrary contained in this

Agreement, the following provisions shall govern with respect to Eurodollar Rate Loans as to the matters covered:

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

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

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

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

(iii) Neither Borrower may select an Interest Period for any Eurodollar Rate Loan, which Interest Period expires later than the Stated Termination Date.

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

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

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

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

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

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

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

(e) Illegality. In the event that on any date Lender shall have reasonably determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties) that the making of, conversion into, or the continuation of, Lender's Eurodollar Rate Loans has become unlawful as the result of compliance by Lender or Bank in good faith with any law, governmental rule, regulation or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, and in any such event, Lender shall promptly give notice (by telephone confirmed in writing) to the Borrowers of such determination. In such case and except as provided in Section 3.3(f), the obligation of Lender to make or maintain any Eurodollar Rate Loans during any such period shall be terminated at the earlier of the termination of the Interest Period then in effect or when required by law, and the appropriate Borrower shall, no later than the earlier of the termination of the Interest Period in effect at the time any such determination pursuant to this Section 3.3(e) is made, or when required by law, repay the Eurodollar Rate Loans, together with all interest accrued thereon.

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

(i) Upon written notice to the Lender, either Borrower may release Lender from its obligations to make or maintain Loans as

Eurodollar Rate Loans and in such event, such Borrower shall, at the end of the then current Interest Period (or at such earlier time as prepayment is otherwise required), convert all of the Eurodollar Rate Loans into Reference Rate Loans in the manner contemplated by Section 3.2, but without satisfying the advance notice requirements therein; or

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

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

(h) Quotation of Eurodollar Rate. Anything herein to the contrary notwithstanding, if on any Eurodollar Interest Rate Determination Date no Eurodollar Rate is available by reason of the failure of Bank to be offered quotations in accordance with the definition of "Eurodollar Base Rate," the Lender shall give the Borrowers prompt notice thereof and (i) any Eurodollar Rate Loan requested to be made at the Eurodollar Rate to be determined on any Eurodollar Interest Rate Determination Date shall be made as a Reference Rate Revolving Loan, and (ii) any notice given by the Borrowers, or either of them, to convert any Loans into or to continue any Loans as Eurodollar Rate Loans at the Eurodollar Rate to be determined on any such Eurodollar Interest Rate Determination Date shall be ineffective.

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

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

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

3.4 Maximum Interest Rate.

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

(b) No agreements, conditions, provisions or stipulations contained in this Agreement or any other instrument, document or agreement among the Borrowers, or either of them, and the Lender or default of the Borrowers, or the exercise by the Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Agreement or any other agreement among the Borrowers, or either of them, and the Lender, or the arising of any contingency whatsoever, shall entitle the Lender to collect, in any event, interest exceeding the Maximum Legal Rate and in no event shall the Borrowers, or either of them, be obligated to pay interest exceeding such Maximum Legal Rate and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel the Borrowers, or either of them, to pay a rate of interest exceeding the Maximum Legal Rate, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such Maximum Legal Rate. In the event any interest is charged in excess of the Maximum Legal Rate ("Excess"), each Borrower acknowledges and stipulates that any such charge shall be the result of an accidental and bona fide error, and such Excess shall be, first, applied to reduce the principal then unpaid hereunder; second, applied to reduce the Obligations; and third, returned to the Borrowers, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Each Borrower recognizes that, with fluctuations in the Applicable Interest Rate and the Maximum Legal Rate, such an unintentional result could inadvertently occur. By the execution of this Agreement, each Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by such Borrower of such Excess, and (ii) neither Borrower shall seek or pursue any other remedy, legal or equitable, against Lender, based in whole or in part upon the charging or receiving of any interest in excess of the maximum authorized by applicable law. For the purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by the Lender in connection with this Agreement shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

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

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

3.5 Facility Fee. The Borrowers jointly and severally promise to pay the Lender a facility fee in the amount of $175,000 on the Closing Date. The Lender and the each Borrower agree that the Facility Fee shall be financed by the Lender as a Reference Rate Revolving Loan.

3.6 Capital Adequacy. If as a result of any regulatory change directly or indirectly affecting Lender or any of Lender's affiliated companies there shall be imposed, modified or deemed applicable any tax, reserve, special deposit, minimum capital, capital ratio, or similar requirement against or with respect to or measured by reference to loans made or to be made to the Borrowers, or either of them, hereunder, or to Letters of Credit issued on behalf of the Borrowers, or either of them, pursuant to the Letter of Credit Agreement, and the result shall be to increase the cost to Lender or to any of Lender's affiliated companies of making or maintaining any Revolving Loan or Letter of Credit hereunder, or reduce any amount receivable in respect of any such Revolving Loan and which increase in cost, or reduction in amount receivable, shall be the result of Lender's or Lender's affiliated company's reasonable allocation among all affected customers of the aggregate of such increases or reductions resulting from such event, then, within ten (10) days after receipt by Borrowers of a certificate from Lender containing the information described in this Section 3.6 which shall be delivered to Borrowers, each Borrower agrees from time to time to pay Lender such additional amounts as shall be sufficient to compensate Lender or any of

Lender's affiliated companies for such increased costs or reductions in amounts which Lender determines in Lender's reasonable discretion are material. Notwithstanding the foregoing, all such amounts shall be subject to the provisions of Section 3.4. The certificate requesting compensation under this Section 3.6 shall identify the regulatory change which has occurred, the requirements which have been imposed, modified or deemed applicable, the amount of such additional cost or reduction in the amount receivable and the way in which such amount has been calculated.

3.7 Unused Line Fee. For every month during the term of this Agreement, the Borrowers shall pay the Lender a fee (the "Unused Line Fee") in an amount equal to one-half percent (.50%) per annum, multiplied by the amount by which (a) the Minimum Borrowing Commitment then in effect exceeds (b) the average closing daily unpaid balance of all Loans and all issued but undrawn Letters of Credit during such month, with the unpaid balance calculated for this purpose by applying payments immediately upon receipt. Such a fee, if any, shall be calculated on the basis of a year of three hundred sixty (360) days and actual days elapsed, and shall be payable to the Lender on the first day of each month prior to the termination of this Agreement commencing January 1, 1995 and on the termination of this Agreement, with respect to the prior month or portion thereof.

4. PAYMENTS AND PREPAYMENTS.

4.1 Revolving Loans. The Borrowers jointly and severally promise to repay the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest thereon, upon the termination of this Agreement. In addition, the Borrowers jointly and severally promise to pay to the Lender, on demand, the amount by which the unpaid principal balance of the Revolving Loans at any time exceeds the Availability at such time (with Availability for this purpose determined as if the amount of the Revolving Loans were zero).

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

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

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

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

6. COLLATERAL.

6.1 Grant of Security Interest.

(a) As security for the Obligations, each Borrower hereby grants to the Lender a continuing security interest in, lien on, and assignment of: (i) all Receivables and Inventory, wherever located and whether now existing or hereafter arising or acquired; (ii) all Documents and Instruments representing such Receivables; (iii) all guaranties, collateral, liens on, or security interests in, letters of credit, and other rights, agreements, and property securing or relating to payment of Receivables; (iv) all books, records, ledger cards, data processing records, computer software, and other property at any time evidencing or relating to any of the foregoing; (v) all monies, securities, and other property now or hereafter held, or received by, or in transit to, Lender from or for Borrowers, or either of them, and all of each Borrower's deposit accounts containing proceeds of any of the foregoing, and all credits, and balances with Lender existing at any time; and (vi) all Proceeds and products of all of the foregoing in any form, including, without limitation, amounts payable under any policies of insurance insuring the foregoing against loss or damage, and all increases and profits received from all of the foregoing (all of the foregoing, together with all other property in which Lender may at any time be granted a Lien, being herein collectively referred to as the "Collateral"). The Lender shall have all of the rights of a secured party with respect to the Collateral under the UCC and other applicable laws.

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

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

6.3 Location of Collateral. Each Borrower represents and warrants to the Lender that: (a) Exhibit D hereto is a correct and complete List of such Borrower's chief executive office, the location of its books and records, the locations of the Collateral, and the locations of all of its other places of business; and (b) Exhibit H correctly identifies any of such facilities and locations that are not owned by such Borrower and sets forth the names of the owners and lessors of, and, to the best of such Borrower's knowledge, the holders of any mortgages on such facilities and locations. Except for Inventory that is consigned by a Borrower to a customer or warehouse, each Borrower agrees that it will not maintain any Collateral at any location other than those listed on Exhibit D, and it will not otherwise change or add to any of such locations, unless it gives the Lender at least thirty (30) days prior written notice and executes such financing statements and other documents that the Lender requests in connection therewith.

6.4 Title to, Liens on, and Sale and Use of Collateral. Each Borrower represents and warrants to the Lender that: (a) all Collateral is and will continue to be owned by such Borrower free and clear of all Liens

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

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

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

6.7 Insurance. The Borrowers shall insure the Collateral and its Equipment against loss or damage by fire with extended coverage, theft, burglary, pilferage, loss in transit, and such other hazards as the Lender shall specify, in amounts, under policies and by insurers acceptable to the Lender. The Borrowers shall also maintain flood insurance, in the event of a designation of the area in which any Real Property is located as "flood prone" or a "flood risk area," as defined by the Flood Disaster Protection Act of 1973, in an amount to be reasonably determined by Lender, and shall comply with the additional requirements of the National Flood Insurance Program as set forth therein. The Borrowers shall cause the Lender to be named in each such policy as secured party of the Inventory that constitutes part of the Collateral and loss payee or additional insured, in a manner acceptable to the Lender, as to the Collateral. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than thirty (30) days prior written notice to the Lender in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Lender shall not be impaired or invalidated by any act or neglect of the Borrowers, or either of them, or the owner of any premises where Collateral is located nor by the use of such premises for purposes more hazardous than are permitted by such policy. All premiums for such insurance shall be paid by the Borrowers when due, and certificates of insurance and, if requested, photocopies of the policies shall be delivered to the Lender. If either Borrower fails to procure such insurance or to pay the premiums therefor when due, the Lender may (but shall not be required to) do so and charge the costs thereof to the Borrowers' loan account. After becoming aware of any loss, damage or destruction to Collateral, the Borrowers shall promptly notify the Lender of any such loss, damage, or destruction that exceeds $200,000, whether or not covered by insurance. The Lender is hereby authorized to collect all insurance proceeds directly following the occurrence of an Event of Default that is continuing. After deducting from such proceeds the expenses, if any, incurred by Lender in the collection or handling thereof, if an Event of Default has occurred and is continuing, the Lender may apply such proceeds to the reduction of the Obligations, in such order as Lender determines, or at the Lender's option may permit or require the Borrowers, or either of them, to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction. If no Event of Default has occurred and is continuing, Lender hereby authorizes the Borrowers to collect all such insurance proceeds and to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction.

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

or reports of the Collateral are prepared by an accounting service or other agent, such Borrower hereby authorizes such service or agent to deliver such records, reports, and related documents to the Lender.

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

(b) Neither Borrower shall re-date any invoice or sale or make sales on extended dating beyond that customary in such Borrower's business or extend or modify any Account which alters its eligibility status, or, with respect to ineligible Accounts, which are inconsistent with prudent business practice and industry standards. If either Borrower becomes aware of any matter adversely affecting any Account in an amount in excess of $100,000, including information regarding the Account Debtor's creditworthiness, such Borrower will promptly so advise the Lender.

(c) Neither Borrower shall accept any note or other instrument (except a check or other instrument for the immediate payment of money) with respect to any Eligible Account without the Lender's written consent. If the Lender consents to the acceptance of any such instrument, it shall be considered as evidence of the Account and not payment thereof and either such Borrower will, upon Lender's request, promptly deliver such instrument to the Lender appropriately endorsed. Regardless of the form of presentment, demand, notice of dishonor, protest, and notice of protest with respect thereto, either such Borrower will remain liable thereon until such instrument is paid in full.

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

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

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

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

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

6.11 Inventory. Each Borrower represents and warrants to the Lender that all of the Inventory is and will be held for sale or lease, or to be furnished in connection with the rendition of services, in the ordinary course of each such Borrower's business, and is and will be fit for such purposes. Each Borrower will keep the Inventory in good and marketable condition, at its own expense. Each Borrower agrees that all Inventory produced by such Borrower in the United States will be produced in accordance

with the Federal Fair Labor Standards Act of 1938. Each Borrower will conduct a physical count of the Inventory at least once per Fiscal Year, except as otherwise agreed to between the Lender and such Borrower, and will, upon request of the Lender, supply the Lender with a copy of such count accompanied by a report of the value of such Inventory (valued at the lower or cost, on a first-in, first-out basis, or market value). Neither Borrower will, without the Lender's written consent, sell any Inventory on a bill and hold basis (except as provided in subsection (xiii) of the definition of Eligible Accounts set forth in this Agreement), guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis.

6.12 Documents and Instruments. Each Borrower represents and warrants to the Lender that: (a) all Documents and Instruments describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete, valid, and genuine and (b) all goods evidenced by such Documents and Instruments were, at the time of their sale, owned by such Borrower free and clear of all Liens other than Permitted Liens.

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

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

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

6.16 Release of Collateral and the Borrowers.

(a) If either Borrower sells or otherwise finances an Account that does not qualify as an Eligible Account, and the proceeds from the sale or financing of such Account is received or is to be received by either such Borrower, then the Lender's Security Interest in such Account shall be automatically terminated and the Lender shall immediately release its Security Interest in and to such Account.

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

(c) Upon payment in full of all Obligations, Lender shall

immediately release its Security Interest in and to all of the Collateral.

7. BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.

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

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

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

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

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

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

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

(f) No sooner than ninety (90) days and no less than thirty (30)

days prior to the beginning of each Fiscal Year, projected consolidated and consolidating balance sheets, statements of income and expense, and statements of cash flow for each Borrower and Subsidiaries as at the end of and for each Fiscal Quarter of such Fiscal Year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. GENERAL WARRANTIES AND REPRESENTATIONS.

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

8.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents. Each Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the other Loan Documents, to incur the Obligations, and to grant the Security Interest. Each Borrower has taken all necessary corporate action to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents. No consent, approval, or authorization of, or filing with, any Public Authority, and no consent of, any other Person, is required in connection with such Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents, except for (a) those already duly obtained, (b) those required to perfect the Lender's Security Interest, and (c) the compliance

with any of the conditions precedent set forth in Sections 10.4 and 10.11 hereof. This Agreement and the other Loan Documents have been duly executed and delivered by each Borrower and constitute the legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms without defense, setoff, or counterclaim. Neither Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents will conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any Lien upon the Property of either Borrower (except as contemplated by this Agreement and the other Loan Documents) by reason of the terms of (a) any material mortgage, lease, agreement, or instrument to which either Borrower is a party or which is binding upon it, (b) any judgment, law, statute, rule or governmental regulation applicable to either Borrower, or (c) the Certificate or Articles of Incorporation or By-Laws of either Borrower.

8.2 Validity and Priority of Security Interest. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in the Lender's favor and when all proper filings, recordings, and other actions necessary to perfect such Liens have been made or taken such Liens will constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for Permitted Liens, securing all the Obligations and enforceable against the Borrowers and all third parties after payment of the obligations due Congress under the Congress Loan Agreement and Household under the Household Working Capital Agreement and termination of all of the Agreements for Purchase of Receivables between the Borrowers and Prime upon payment of the obligations due Bank IV by Prime under the Prime Loan Agreement.

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

8.4 Corporate Name; Prior Transactions. Neither Borrower has, during the past five years, been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its Property out of the ordinary course of business, except as set forth on Exhibit E.

8.5 Subsidiaries and Affiliates. Exhibit F is a correct and complete list of the name and relationship to the Borrowers of each and all of each Borrower's Subsidiaries and other Affiliates, which list may be amended by Borrower from time to time as LSB adds new or additional Subsidiaries or Affiliates. Each Subsidiary is (a) duly incorporated and organized and validly existing in good standing under the laws of its state of incorporation set forth on Exhibit F and (b) qualified to do business as a foreign corporation and in good standing in the states set forth opposite its name on Exhibit F, which are the only states in which such qualification is necessary in order for it to own or lease its Property and conduct its business, except where the failure to so qualify would not have a material adverse effect on the LSB Borrowing Group taken as a whole.

8.6 Financial Statements and Projections.

(a) LSB has delivered to the Lender the audited consolidated balance sheet and related statements of income, retained earnings, statements of cash flows, and changes in stockholders' equity for LSB, as of December 31, 1993 and for the Fiscal Year then ended, accompanied by the report thereon of LSB's independent certified public accountants. LSB has also delivered to the Lender the unaudited consolidated balance sheets and related statements of income and cash flows for LSB, as at September 30, 1994 and for the nine months and three months then ended. Such financial statements are attached hereto as Exhibit G-1. All such financial statements have been prepared in accordance with GAAP and present accurately and fairly each Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

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

8.7 Capitalization. LSB's authorized capital stock consists of (i) 75,000,000 shares of Common Stock, par value $.10 per share; (ii) 250,000 shares of Preferred Stock, par value $100 per share; and (iii) 5,000,000 shares of Class C Preferred Stock, no par value. EDC's authorized capital stock consists of 25,000 shares of Common Stock, par value $1.00 per share. Slurry's authorized capital stock consists of 10,000 shares of Common Stock, par value $1.00 per share.

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

8.9 Title to Property. Except for Permitted Liens, and except for Property which either Borrower leases, each Borrower has, to its

knowledge, good and marketable title in fee simple to the real property listed in Exhibit H and good, indefeasible, and merchantable title to all of its other Property free of all Liens except Permitted Liens.

8.10 Real Property; Leases. Exhibit H hereto is a correct and complete list of all real property owned by each Borrower, and all leases and subleases of real property by each Borrower as lessee or sublessee where Collateral is located. Each of such leases and subleases is valid and enforceable in accordance with its terms and is in full force and effect and no material default by any party to any such lease or sublease exists.

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

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

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

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

8.15 Environmental Laws. Except as disclosed on Exhibit M hereto, and as hereafter disclosed by the Borrowers to Lender in writing, and to each Borrower's knowledge:

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

(b) No notice, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental entity with respect to any generation, treatment, storage, recycling, transportation or disposal of any hazardous or toxic waste (including petroleum products and radioactive materials) generated or used ("Hazardous Substances") by the Borrowers, which would have a material adverse effect on the LSB Borrowing Group, taken as a whole;

(c) Neither Borrower has received any request for information that is likely to lead to a claim, any notice of claim, demand or other notification that either Borrower is or may be potentially responsible with respect to any clean up of any threatened or actual release of any Hazardous Substance;

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

(e) Neither Borrower has knowingly transported any Hazardous Substances to any location which is listed on the National Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), which is the subject of any federal or state enforcement actions which may lead to claims against either Borrower for clean up costs, remedial work, damages to natural resources or for personal injury claims, including, but not limited to, claims under CERCLA which would have a material adverse effect on the LSB Borrowing Group, taken as a whole.

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

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

(h) Each Borrower shall promptly forward a copy to Lender of any

environmental written inspections, investigations or studies prepared by or to be prepared by such Borrower relating to Properties now owned, operated or leased by such Borrower; provided, however, that neither Borrower makes any representation or warranty with respect to environmental inspections, investigations, studies, audits, tests, reviews or other analyses conducted by or on behalf of Lender.

8.16 No Violation of Law. Except as disclosed in Exhibit J or in reports filed by LSB prior to the Closing Date with the Securities and Exchange Commission, to each Borrower's knowledge, neither Borrower is in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it which violation would have a material adverse effect on the LSB Borrowing Group, taken as a whole.

8.17 No Default. Neither Borrower is in default with respect to any note, loan agreement, mortgage, lease, or other agreement to which such Borrower is a party or bound, where the amount owed by such Borrower under such note, loan agreement, mortgage, lease, or other agreement exceeds $750,000.

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

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

8.20 Use of Proceeds. None of the transactions contemplated in this Agreement (including, without limitation, the use of certain proceeds from such loans) will violate or result in the violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including, without limitation, Regulations G, T, U and X of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), 12 C.F.R., Chapter II. Neither Borrower owns or intends to carry or purchase any "margin stock" within the meaning of said Regulation G. None of the proceeds of the loans will be used, directly or indirectly, to purchase or carry (or refinance any borrowing, the proceeds of which were used to purchase or carry) any "security" within the meaning of the Securities Exchange Act of 1934, as amended.

8.21 Private Offerings. Neither Borrower has, directly or indirectly, offered the Revolving Loans for sale to, or solicited offers to buy part thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser other than Lender. Each Borrower hereby agrees that neither it nor anyone acting on its behalf has offered or will offer the Revolving Loan or any part thereof or any similar securities for issue or sale to or solicit any offer to acquire any of the same from anyone so as to bring the issuance thereof within the provisions of Section 5 of the Securities Act of 1933, as amended.

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

8.23 No Material Adverse Change. No material adverse change has occurred in the Property, business, operations, or conditions (financial or otherwise) of the LSB Borrowing Group, taken as a whole, since the date of the Financial Statements delivered to the Lender, except as otherwise disclosed in that Special Report to LSB Shareholders dated September 15, 1994 and in the reports filed by LSB with the Securities and Exchange Commission, if any.

8.24 Debt. After giving effect to the making of each Revolving Loan, neither Borrower has Debt except Permitted Debt.

9. AFFIRMATIVE AND NEGATIVE COVENANTS. Each Borrower covenants that,

so long as any of the Obligations remain outstanding or this Agreement is in effect:

9.1 Taxes and Other Obligations. Each Borrower, no later than ten days after such payments become due, shall: (a) file when due (including extensions) all tax returns and other reports which it is required to file, pay when due all taxes, fees, assessments and other governmental charges against it or upon its Property, income, and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and shall provide to the Lender, upon request, satisfactory evidence of its timely compliance with the foregoing; and (b) pay all Debt owed by it within normal business terms and consistent with past practices; provided, however, that neither Borrower need pay any tax, fee, assessment, governmental charge, or Debt, or perform or discharge any other obligation, that it is contesting in good faith by appropriate proceedings diligently pursued.

9.2 Corporate Existence and Good Standing. Each Borrower shall maintain its corporate existence and its qualification and good standing in all states necessary to conduct its business and own its Property, except where the failure to so qualify would not have a material adverse effect on such Borrower, and shall obtain and maintain all licenses, permits, franchises and governmental authorizations necessary to conduct its business and own its Property.

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

9.4 Environmental Laws. Except as disclosed to Lender in writing prior to the Closing Date in connection with Section 8.15, each Borrower will use all reasonable efforts to conduct its business in substantial compliance with all Environmental Laws applicable to it, including, without limitation, those relating to such Borrower's generation, handling, use, storage, and disposal of hazardous and toxic wastes and substances. Each Borrower shall take prompt and appropriate action to respond to any noncompliance with Environmental Laws and shall regularly report to the Lender on such response. Without limiting the generality of the foregoing, whenever there is potential noncompliance with any Environmental Laws, each Borrower shall, at the Lender's request and the Borrowers' expense: (a) cause an independent environmental engineer acceptable to the Lender to conduct such tests of the site where either Borrower's noncompliance or alleged noncompliance with Environmental Laws has occurred and prepare and deliver to the Lender a report setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof; and (b) provide to the Lender a Supplemental report of such engineer whenever the scope of the environmental problems, or either Borrower's response thereto or the estimated costs thereof, shall materially change.

9.5 Mergers, Consolidations, Acquisitions, or Sales. Neither Borrower shall enter into any transaction of merger, reorganization, or consolidation in which the Borrower is not the survivor, or transfer, sell, assign, lease, or otherwise dispose of all or substantially all of its Property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except (i) sales of Inventory in the ordinary course of its business, or (ii) after thirty (30) days prior written notice to Lender, mergers or consolidations of such Borrower into any of the Borrower Subsidiaries or a merger of a Borrower Subsidiary or Guarantor Subsidiary into such Borrower or the sale of all or substantially all of the assets of such Borrower to any of the Borrower Subsidiaries or the sale of all or substantially all of the assets of a Borrower Subsidiary or Guarantor Subsidiary to such Borrower.

9.6 Guaranties. Neither Borrower shall make, issue, or become liable on any secured Guaranty, except Guaranties in favor of the Lender and endorsements of instruments for deposit.

9.7 Debt. Neither Borrower shall incur or maintain any Debt other than Permitted Debt.

9.8 Prepayment. Neither Borrower shall voluntarily prepay any Debt, except the Obligations in accordance with the terms of this Agreement.

9.9 Transactions with Affiliates. Except (a) as set forth below, (b) as set forth in Section 9.14 hereof, or (c) as otherwise provided in this Agreement, neither Borrower shall sell, transfer, distribute, or pay any money or Property to any Affiliate, or lend or advance money or Property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any Property, of any Affiliate, or become liable on any secured Guaranty of the indebtedness, dividends, or other obligations of any Affiliate, except nothing contained herein shall limit or restrict either Borrower from (i) performing any agreements entered into with an Affiliate prior to the date hereof, or (ii) engaging in other transactions with Affiliates in the normal course of business, in amounts and upon terms disclosed to the Lender, and which are no

less favorable to such Borrower than would be obtainable in a comparable arm's length transaction with a third party who is not an Affiliate. Subject to applicable law, each Borrower and other members of the LSB Borrowing Group may borrow any amounts from each other and repay such amounts on terms agreed to between them without any limitations.

9.10 Plans and Compensation. Neither Borrower shall take any action, or shall fail to take any action, that will cause or be reasonably expected to cause any representation or warranty contained in Section 8.18 (other than the listing of Pension Plans on Exhibit L), if made on and again as of any date on or after the date of this Agreement, to not be true and, without limitation and without excusing such violation, if such a prohibited action or inaction occurs or fails to occur, such Borrower shall notify Lender in writing of the nature of the resulting consequences or expected consequences, and a description of the action such Borrower or any Subsidiary is taking or proposing to take with respect thereto and, when known, any action taken by the Internal Revenue Service of the Department of Labor, or the PBGC, with respect thereto.

9.11 Business Conducted. Neither Borrower shall engage, directly or indirectly, in any line of business which materially differs from the business in which such Borrower is engaged on the Closing Date, except with respect to a different line of business resulting from an Acquisition as permitted under Section 9.14.

9.12 Liens. Neither Borrower nor any of such Borrower's Subsidiaries shall create, incur, assume, or permit to exist any Lien on any Property now owned or hereafter acquired by any of them, except Permitted Liens.

9.13 New Subsidiaries. Neither Borrower shall, directly or indirectly, organize or acquire any new subsidiary which would have any interest in the Collateral.

9.14 Distributions and Restricted Investments. Neither Borrower shall (a) directly or indirectly declare or make, or incur any liability to make, any Distribution, or (b) make any Restricted Investments, except: (i) each Borrower may make and receive Distributions and Restricted Investments by the other members of the LSB Borrowing Group; (ii) so long as no Event of Default has occurred and is continuing, currently scheduled Dividends by LSB and performance of all of the terms, provisions and conditions by LSB, relating to or in connection with or arising out of any and all series of LSB's preferred stock issued and outstanding as of the date hereof and the payments by LSB of an annual cash dividend on its Common Stock in an amount equal to $.06 a share payable on a semi-annual basis; (iii) each Borrower may make Restricted Investments to any Subsidiary of LSB other than the members of the LSB Borrowing Group, provided, however, that the sum of all such Restricted Investments from each such Borrower and all other members of the LSB Borrowing Group shall not exceed $200,000 in the aggregate per annum; (iv) each Borrower may make Restricted Investments in Affiliates outstanding as of the date hereof; and (v) each Borrower may make other Restricted Investments constituting Acquisitions not otherwise permitted above in this Section as long as such Restricted Investments when aggregated with all other Restricted Investments for the same Acquisition from all members of the LSB Borrowing Group do not exceed $2,000,000 in cash investments and issued and/or assumed interest-bearing debt per Acquisition and $10,000,000 in cash investments and issued and/or assumed interest-bearing debt in the aggregate for all such Acquisitions per annum; provided, however, that interest-bearing debt of the acquired company which Lender in its sole and absolute discretion agrees to refinance as a working capital facility shall not be included in the $2,000,000 and the $10,000,000 limitations; and further provided that nothing in this subsection (v) shall be construed to imply Lender's willingness in advance to provide any such refinancing.

9.15 Capital Expenditures. Neither Borrower shall make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Borrowing Group during the following periods would exceed the following amounts: Fiscal Year ending December 31, 1994: $20,000,000; Fiscal Year ending December 31, 1995 and each Fiscal Year thereafter: $6,000,000; provided, however, that if the aggregate amount of Capital Expenditures made or incurred by the LSB Borrowing Group during the Fiscal Year ending December 31, 1994 (the "1994 Actual Capital Expenditures") is less than $20,000,000, then the $6,000,000 amount available during the Fiscal Year ending December 31, 1995 shall be increased by the difference between $20,000,000 and the 1994 Actual Capital Expenditures.

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1994				$ 86,000,000
Fiscal Year Ending December 31, 1995	$ 85,000,0001	$ 88,000,0001	$ 90,000,0001	$ 92,000,0001
Fiscal Year Ending December 31, 1996	$ 92,000,0001	$ 94,000,0001	$ 96,000,0001	$ 98,000,0001
Each Fiscal Quarter during each Fiscal Year ending thereafter:				$ 98,000,0001

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

Agreement between LSB and the Lender and by the purchase of treasury stock in the amount of $885,000 in October and November, 1994.

9.17 Debt Ratio. The ratio of Debt of the LSB Borrowing Group (excluding all loans to any Borrower Subsidiary from the Lender) to Adjusted Tangible Net Worth will not be greater than the ratio of 0.85 to 01.0.

9.18 Compliance with Financial Covenants in Household Agreement. Borrowers will remain at all times in full compliance with the financial covenants currently set forth in Sections 10.6, 10.7, 11.1, 11.2 and 11.4 of the HCFS Loan Agreement as they exist as of the Closing Date and notwithstanding any modifications or amendments hereafter agreed to by Borrowers and Household Commercial Financial Services, Inc.

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

10. CLOSING; CONDITIONS TO CLOSING. The Lender will not be obligated to make any Loans or issue any Letters of Credit at the Closing unless the following conditions precedent have been satisfied as reasonably determined by the Lender:

10.1 Representations and Warranties; Covenants; Events. Each Borrower's representations and warranties contained in this Agreement and the other Loan Documents shall be correct and complete as of the Closing Date; each Borrower shall have performed and complied with all covenants, agreements, and conditions contained herein and in the other Loan Documents which are required to have been performed or complied with on or before the Closing Date; and there shall exist no Event of Default on the Closing Date.

10.2 Delivery of Documents. The Borrowers shall have delivered, or cause to be delivered, to the Lender the documents listed on Exhibit N hereto and such other documents, instruments and agreements as the Lender shall request in connection herewith, duly executed by all parties thereto other than the Lender, and in form and substance satisfactory to the Lender and its counsel.

10.3 Aggregate LSB Gross Availability. After taking into account the Revolving Loans made to and the Letters of Credit issued to or for the benefit of the Borrower Subsidiaries under the LSB-Related Loan Agreements on the Closing Date, there shall be remaining Aggregate LSB Gross Availability of at least ten percent (10%) of the Aggregate LSB Gross Availability calculated prior to the making of such Revolving Loans and the issuance of such Letters of Credit.

10.4 Termination of Liens. The Lender shall have received such duly executed UCC-3 Termination Statements and other instruments, in form and substance satisfactory to the Lender, as shall be necessary to terminate and satisfy all Liens on the Property of each Borrower and its Subsidiaries except Permitted Liens, including, but not limited to, (a) payment of the obligations due (i) Congress Financial Corporation ("Congress") under the Loan Agreement, dated March 29, 1994, as amended ("Congress Loan Agreement"), and (ii) Household Commercial Financial Services, Inc. ("Household") under the Second Amended and Restated Working Capital Loan Agreement, dated as of January 21, 1992, between Household, El Dorado Chemical and Slurry, as amended ("Household Working Capital Agreement"), which Congress Loan Agreement and Household Working Capital Agreement will be paid in full upon the closing of the LSB-Related Loan Agreements using proceeds from Loans made on the Closing Date, and (b) termination of all of the Agreements for Purchase of Receivables between each Borrower and Prime Financial Corporation ("Prime"), which termination will require payment by Prime of the obligations due Bank IV Oklahoma, N.A. ("Bank IV") under the Loan Agreement, dated March 30, 1994, as amended, between Prime and Bank IV ("Prime Loan Agreement") at the closing of the LSB-Related Loan Agreements using proceeds from Loans made on the Closing Date.

10.5 Facility Fee. The Borrowers shall have paid in full the Facility Fee.

10.6 Required Approvals. The Lender shall have received certified copies of all consents or approvals of any Public Authority or other Person which the Lender reasonably determines is required in connection with the transactions contemplated by this Agreement.

10.7 No Material Adverse Change. Except as disclosed in that Special Report to LSB Shareholders dated September 15, 1994, there shall have occurred no material adverse change in either Borrower's, LSB's, and the Subsidiaries' business or financial condition or in the Collateral taken as a whole, since September 30, 1994, and the Lender shall have received a certificate of each Borrower's and LSB's chief executive officer to such effect.

10.8 Proceedings. All proceedings to be taken in connection with the transactions contemplated by this Agreement, and all documents contemplated in connection herewith, shall be satisfactory in form and substance to the Lender and its counsel.

10.9 Legal Opinions. The Lender shall have received from counsel to the Borrowers such legal opinions as the Lender may reasonably require with respect to the Loan Documents.

10.10 September 30, 1994 Quarterly Financial Statements. The Lender shall have received LSB's and the Subsidiaries' consolidated September

30, 1994, unaudited quarterly financial statements.

10.11 Repurchase of Accounts from Prime. Each Borrower and each member of the LSB Borrowing Group shall have repurchased from Prime under terms and conditions acceptable to Lender all of the outstanding Accounts previously sold by each Borrower and the other members of the LSB Borrowing Group which will be owned by members of the LSB Borrowing Group as of the Closing Date and will serve as Collateral under the LSB-Related Loan Agreements using proceeds from the Loans made on the Closing Date. Each Borrower and the other members of the LSB Borrowing Group shall own such Accounts free and clear of all liens, claims and encumbrances, and Prime and each of its secured lenders shall have released all of its security interests in such Accounts. The documents evidencing such repurchase shall be in form and substance satisfactory to Lender and its counsel.

10.12 Conditions Precedent to Each Loan. The obligation of the Lender to make each Revolving Loan or to provide for the issuance of any Letter of Credit after the Closing and after the initial Revolving Loans on the Closing Date are made, shall be subject to the further conditions precedent that on the date of any such extension of credit, the following statements shall be true, and the acceptance by the Borrowers, or either of them, of any extension of credit shall be deemed to be a statement to the effect set forth in clauses (i) and (ii), with the same effect as the delivery to the Lender of a certificate signed by the chief executive officer and chief financial officer of each Borrower, dated the date of such extension of credit, stating that:

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

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

11. DEFAULT; REMEDIES.

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

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

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

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

(d) any default by either Borrower under any material agreement or instrument (other than an agreement or instrument evidencing the lending of money), which default would have a material adverse effect on the LSB Borrowing Group, taken as a whole, and such default continues for thirty (30) days after such breach first occurs; provided, however, that such grace period shall not apply, and an Event of Default shall exist, promptly upon such breach, if such breach may not, in Lender's reasonable determination, be cured by either such Borrower during such thirty (30) day grace period;

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

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

(g) an involuntary petition shall be filed or an action or proceeding otherwise commenced against either Borrower seeking reorganization, arrangement or readjustment of such Borrower's debts or for any other relief

under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing and remain undismissed or unvacated for a period of sixty (60) days;

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

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

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

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

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

(m) LSB ceases to control either Borrower (the term control having the meaning given to it in the definition of Affiliate herein);

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

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

(p) an event of default exists under any of the other LSB-Related Loan Agreements; and

(q) an event of default occurs under the HCFS Loan Agreement (as defined in Section 9.18 of this Agreement).

11.2 Remedies.

(a) If an Event of Default exists, the Lender may, without notice to or demand on the Borrowers, or either of them, do one or more of the following at any time or times and in any order: (i) reduce the amount of or refuse to make Revolving Loans and restrict or refuse to arrange for Letters of Credit; (ii) terminate this Agreement; (iii) declare any or all Obligations to be immediately due and payable (provided however that upon the occurrence of any Event of Default described in Sections 11.1(f), 11.1(g), or 11.1(h), all Obligations shall automatically become immediately due and payable); and (iv) pursue its other rights and remedies under the Loan Documents and applicable law. The foregoing shall not be construed to limit the Lender's discretion to take the actions described in clause (i) of this subparagraph (a) at any other time.

(b) If an Event of Default exists: (i) the Lender shall have, in addition to all other rights, the rights and remedies of a secured party under the UCC; (ii) the Lender may, at any time, take possession of the Collateral and keep it on either Borrower's premises, at no cost to the Lender, or remove any part of it to such other place or places as the Lender may desire, or, the Borrowers shall, upon the Lender's demand, at the Borrowers' cost, assemble the Collateral and make it available to the Lender at a place reasonably convenient to the Lender; and (iii) the Lender may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as the Lender deems advisable, in its sole discretion, and may, if the Lender deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, each Borrower agrees that any notice by the Lender of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable notice to the Borrowers if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or is delivered personally against receipt, at least five (5) days prior to such action to each Borrower's address specified in or pursuant to Section 13.10. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Lender receives payment, and if the buyer defaults in payment, the Lender may resell the Collateral without further notice to either Borrower. In the event the Lender seeks to take possession of all or any portion of the

Collateral by judicial process, each Borrower irrevocably waives: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required; (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (c) any requirement that the Lender retain possession and not dispose of any Collateral until after trial or final judgment. Each Borrower agrees that the Lender has no obligation to preserve rights to the Collateral or marshal any Collateral for the benefit of any Person. Following the occurrence of an Event of Default that is continuing, the Lender is hereby granted a license or other right to use, without charge, each Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter or any similar property, in completing production of, advertising or selling any Collateral, and each Borrower's rights under all licenses and all franchise agreements shall inure to the Lender's benefit, as long as such does not violate in any manner such other loan agreements that may be in place at such time. The proceeds of sale shall be applied first to all expenses of sale, including attorneys' fees, and second, in whatever order the Lender elects, to all Obligations. The Lender will return any excess to the Borrowers and the Borrowers shall remain liable for any deficiency.

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

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

12. TERM AND TERMINATION. The initial term of this Agreement shall be three (3) years from the Closing Date (the "Termination Date"). This Agreement shall automatically be renewed thereafter for successive thirteen (13) month terms, unless this Agreement is terminated as provided below. The Lender and the Borrowers shall each have the right to terminate this Agreement, without premium or penalty, at the end of the initial term or at the end of any renewal term by giving the other written notice not less than sixty (60) days prior to the end of such term by registered or certified mail. Each Borrower may also terminate this Agreement at any time during its initial term or any renewal periods if: (a) it gives the Lender sixty (60) days prior written notice of termination by registered or certified mail; (b) it pays and performs all Obligations on or prior to the effective date of termination; and (c) except as otherwise provided herein, it pays the Lender, on or prior to the effective date of termination, (i) two percent (2%) of the average daily balance of the Loans and Letters of Credit outstanding under the Revolver Facility for the preceding one hundred eighty day (180) day period (or from the Closing Date up to and including the date of termination if less than one hundred eighty (180) days from the Closing Date) if such termination is made on or prior to the first anniversary of the Closing Date; and (ii) one percent (1%) of the average daily balance of the Loans and Letters of Credit outstanding under the Revolver Facility for the preceding one hundred eighty (180) day period if such termination is made after the first anniversary but on or prior to the second anniversary of the Closing Date; provided, however, that prior to an Event of Default that is continuing, the Borrowers may prepay at any time all outstanding Obligations due hereunder without penalty or premium as provided in clause (c) above if (i) Lender under any condition or for any reason changes the advance rates relating to Eligible Accounts or Eligible Inventory from that set forth in the definition of Availability contained herein, provided further that nothing contained in this clause shall be construed as allowing the Lender to make any such change, or (ii) a public offering by LSB of its securities (equity or debt) is consummated and the proceeds thereof are used to prepay the Obligations after the date hereof. The Lender may also terminate this Agreement without notice upon an Event of Default that has not been cured or otherwise waived to Lender's satisfaction. Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations shall become immediately due and payable. Notwithstanding the termination of this Agreement, until all Obligations are paid and performed in full, the Lender shall retain all its rights and remedies hereunder (including, without limitation, in all then existing and after-arising Collateral).

13. MISCELLANEOUS.

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

13.2 No Implied Waivers. No act, failure or delay by the Lender shall constitute a waiver of any of its rights and remedies. No single or partial waiver by the Lender of any provision of this Agreement, or any other Loan Document, or of breach or default hereunder or thereunder, or of any right or remedy which the Lender may have, shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion. No waiver by the Lender shall affect its rights to require strict performance of this Agreement.

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

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

13.5 Consent to Jurisdiction and Venue; Service of Process; Arbitration.

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

(b) NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT TO THE CONTRARY, ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES, INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL AT THE REQUEST OF EITHER PARTY HERETO BE DETERMINED BY ARBITRATION. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The arbitration shall be conducted within Oklahoma County, Oklahoma. The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). Judgment upon the arbitration award may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(c) No provision of subparagraph (a) shall limit the right of either party to this Agreement to exercise self-help remedies such as setoff, foreclosure against or sale of any Collateral, or obtaining provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any proceeding after the occurrence of an Event of Default. The exercise of a remedy does not waive the right of either party to resort to arbitration or reference.

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

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

Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all indemnified matters incurred by Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.

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

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

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

If to the Lender: BankAmerica Business Credit, Inc.
Two North Lake Avenue, Suite 400
Pasadena, California 91101
Attn: Mr. Charles Burtch
Executive Vice President

with a copy to: Bank of America - Business Credit Legal Dept.
10124 Old Grove Road
San Diego, California 92131
Attn: Thomas G. Montgomery, Esq.
Assistant General Counsel

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

and

If to EDC: El Dorado Chemical Company
16 Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: Tony M. Shelby
Vice President

or

if to Slurry: Slurry Explosives Corporation
5700 N. Portland
Oklahoma City, Oklahoma 73112
Attn: Tony M. Shelby
Vice President

with a copy to: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101

Attn: David M. Shear, Esq.
General Counsel

and with a copy to: Hastie and Steinhorn
3000 Oklahoma Tower
210 Park Avenue
Oklahoma City, Oklahoma 73102
Attn: Irwin H. Steinhorn, Esq.

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

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

13.12 Binding Effect; Assignment; Disclosure. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors and assigns of the parties hereto: provided, however, that no interest herein may be assigned by the Borrowers, or either of them, without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any interest in the Obligations or any part thereof. Each Borrower agrees that the Lender may use such Borrower's name in advertising and promotional materials and in conjunction therewith disclose the general terms of this Agreement.

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

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

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

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

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

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

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

"BORROWERS":

EL DORADO CHEMICAL COMPANY

By:
Tony M. Shelby
Vice President

SLURRY EXPLOSIVES CORPORATION

By:
Tony M. Shelby
Vice President

"LENDER":

BANKAMERICA BUSINESS CREDIT, INC.

By:
Joyce White
Senior Vice President

EXHIBITS TO LOAN AGREEMENT

EXHIBIT A	-	Permitted Liens
EXHIBIT B	-	Proprietary Rights
EXHIBIT C	-	Guarantor Subsidiaries
EXHIBIT D	-	List of Borrower's Locations
EXHIBIT E	-	Corporate History
EXHIBIT F	-	Subsidiaries and Affiliates
EXHIBIT G-1	-	Financial Statements
EXHIBIT G-2	-	Pro Forma Financial Statements
EXHIBIT H	-	Real Property Descriptions: Premises
EXHIBIT I	-	Trade Names, Trade Styles, Terms of Sale
EXHIBIT J	-	Pending Litigation
EXHIBIT K	-	Labor Matters
EXHIBIT L	-	ERISA Matters
EXHIBIT M	-	Schedule of Environmental Matters
EXHIBIT N	-	Closing Documents
EXHIBIT O	-	Letter of Credit Financing Agreement - Supplement to Loan and Security Agreement
EXHIBIT P	-	Notice of Borrowing

Exhibit 10.10

AGREEMENT
FOR
PURCHASE AND SALE OF ANHYDROUS AMMONIA

THIS AGREEMENT is made this 1st day of January, 1994, by and between Farmland Industries, Inc. (hereinafter "Seller"), a Kansas corporation, with its principal place of business in Kansas City, Missouri, and El Dorado Chemical Company (hereinafter "Buyer"), an Oklahoma corporation, with its principal place of business in El Dorado, Arkansas.

WITNESSETH

WHEREAS, Seller represents that it has the right to sell certain quantities of anhydrous ammonia as hereinafter defined; and
WHEREAS, Seller desires to sell and Buyer wishes to purchase the quantities of anhydrous ammonia herein stipulated upon the conditions, covenants, and agreements contained herein;

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, Seller and Buyer agree as follows:

1. QUANTITY: Seller shall sell, transfer, convey, and deliver to Buyer, and Buyer shall purchase and accept from Seller, not less than thirty-four thousand (34,000) tons, nor more than fifty-one thousand (51,000) tons of anhydrous ammonia during each quarter for use at El Dorado Chemical Company, EL Dorado, Arkansas via the Gulf Central Pipeline or rail. All references herein to quarters shall mean calendar quarters. Volumes are exclusive of any tons supplied to El Dorado Chemical Company from customers of El Dorado Chemical Company under tolling or conversion agreements. Seller shall not be required to sell more than twenty-two thousand (22,000) tons in any one calendar month. During the term of this Agreement, Seller shall make available each quarter the amount of anhydrous ammonia forecasted by Buyer. In the event Buyer does not take receipt of any amount made available in accordance with Buyer's quarterly forecast, Seller shall have the right to invoice Buyer for, and Buyer shall pay, within ten (10) days receipt of invoice, the full purchase price the month the shortfall occurred for that quantity of Product computed in accordance with the provisions of this Agreement. Any tons billed in a period and not shipped in that period ("Shortfall Tons") will be shipped and accepted no later than the end of the following quarter. The first Product taken in the following quarter will be the Shortfall Tons from the previous quarter. Notwithstanding the above, Buyer may take Shortfall Tons, if not fully taken in the quarter following the forecast for such tons, at a time such tons are reasonably available to Seller. Any tons shipped at a later date shall not reduce the minimum ton requirement for that quarter. Buyer's failure to forecast purchases does not relieve it from its quarterly purchase obligations set forth in this paragraph. In the event Buyer fails to provide a forecast, Buyer will be deemed to have forecasted the minimum thirty-four thousand (34,000) ton per quarter. Failure of the parties to forecast quarterly tonnage shall not excuse Buyer from its obligation to pay for minimum volume hereunder.

2. FORECAST OF BUYER'S PURCHASES: During the term of this Agreement, Buyer shall forecast quarterly by month, its purchases for each quarter of the contract year. Buyer shall make this quarterly forecast and deliver it to Seller on or before the 15th day of the month preceding the quarter.

3. TERM: This Agreement shall commence at 12:01 a.m., Central Standard Time, January 1, 1994, and shall continue until 11:59 p.m., Central Standard Time, December 31, 1996, unless terminated earlier in accordance with the provisions hereof and shall continue in effect thereafter for successive periods of three (3) years each, subject to the right of either party to terminate this Agreement effective December 31, 1996 or upon December 31 of the last year of each renewal period thereafter upon no less than one hundred eighty (180) days prior written notice.

5. VERIFICATION OF POLLOCK, LA NATURAL GAS PRICES: Buyer shall have the right, at any time during the term of this Agreement, to request Seller to provide documentation to a mutually acceptable audit firm to verify that excess charges for natural gas have not been made.

6. DELIVERY/FREIGHT:

(a) Pipeline - As shipper of record Seller shall invoice Buyer for all actual Gulf Central Pipeline tariff charges plus a ten cents ($.10) per short ton meter fee for tons transported by pipeline to Buyer's El Dorado, Arkansas facility. Seller will credit Buyer for all shrink refunds allowed Seller by the Gulf Central Pipeline on tons transported to El Dorado during the term of the Agreement.

(b) Rail - Freight charges on rail shipments shall be invoiced to Buyer at either (a) the then current railroad tariff rate, or (b) a negotiated contract freight rate as agreed by the parties. Seller may invoice Buyer and Buyer shall pay Seller tank car demurrage at a daily rate of Fifty Dollars ($50) per car per day for each day commencing with the eighth day after constructive placement of the car at Buyer's destination. Such rail shipments shall be priced at the time of the order by Seller.

7. INVOICES AND PAYMENT: Seller shall deliver invoices to Buyer as soon after the end of each calendar month as is reasonably possible. Buyer shall make payment to Seller for each month's purchases, on or before the fifteenth (15th) day of the following month. Payment shall be made by wire transfer to such bank or banks as Seller shall designate. If at any time during the term of this Agreement, Buyer becomes delinquent in payment or in Seller's reasonable judgment there has occurred a material adverse change in the financial condition of Buyer which could reasonably be expected to impair

Buyer's ability to carry out its financial obligations to Seller, Seller shall have the sole and exclusive right to require the Buyer to open an irrevocable letter of credit for the benefit of Farmland Industries, Inc., at a bank or banks, acceptable to Farmland Industries, Inc. for an amount not to exceed the result of multiplying twenty-two thousand (22,000) tons by the contract price per ton of Product in the most recently completed calendar month.

8. DEFAULT AND NONPAYMENT: Default in payment, or failure to perform any of the terms and conditions of this Agreement, shall constitute a default by either party to this Agreement. In the event that either party (i) defaults in making payment provided for herein when due or (ii) defaults in the performance of any other material obligation provided for herein and, if such default is susceptible of cure, fails to cure any such default of a material obligation within 30 days of receipt of written notice from the non-defaulting party thereof, the non-defaulting party shall have the right, by giving written notice to the defaulting party, to immediately terminate this Agreement.

On the occurrence of a default by either party, the nondefaulting party shall have the option to terminate this Agreement without liability of any kind as to future shipments; to alter credit terms provided to Buyer; to stop any Product in transit; to treat any default as substantially impairing the value of the whole Agreement, and hence a breach thereof. If Buyer does not pay any invoice on its due date, then all outstanding invoices of Seller to Buyer under this or any other agreement shall become immediately due and payable, and Seller may assess a finance charge of one and five-tenths percent (1.5%) per month, or the maximum legal rate, if less, on remittances not received by their due date. On the occurrence of a default by either party, the defaulting party shall be liable to the non-defaulting party for all costs, losses, and expenses incurred by such non-defaulting party by reason thereof, including reasonable attorneys' fees.

9. PRODUCT SPECIFICATION: "Product", where used in this Agreement, means anhydrous ammonia solution of commercial grade, having ammonia (NH_3) content of not less than ninety-nine and five tenths percent (99.5%), having water content of not more than five-tenths percent (0.5%), and having oil content of not more than five (5) parts per million. Anhydrous ammonia tendered to any pipeline shall meet or exceed such pipeline's Product quality specifications for anhydrous ammonia shipped therein. Seller shall be nominated as shipper of record on those volumes of anhydrous ammonia sold pursuant to this Agreement and shipped via Gulf Central Pipeline.

10. DETERMINATION OF WEIGHTS: "Ton", where used in this Agreement, means two thousand pounds (2,000 lbs.) avoirdupois, as measured by Gulf Central Pipeline meter tickets if delivery is made by pipeline, by bills of lading if delivery is made by rail or truck.

11. MANUFACTURE AND DELIVERY: Seller specifically reserves the right to manufacture at, or exchange to, and to deliver from, any origin, all of the anhydrous ammonia transferred to the location scheduled and agreed to quarterly pursuant to this Agreement.

12. DISCLAIMER OF WARRANTIES: There are no warranties which extend beyond the description on the face hereof, and SELLER MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, WHETHER OF MERCHANTABILITY OR FITNESS FOR ANY PURPOSE OR AGAINST INFRINGEMENT OR OTHERWISE. Buyer assumes all risk and liability for the use of the Product purchased, whether used singly or in combination with other substances and for loss, damage, or injury to persons, or property of Buyer or others arising out of the use or possession of the Product; Buyer agrees to indemnify Seller from loss (including costs of defense) in connection with claims arising from use or possession of the Product.

13. CLAIMS BY BUYER OR SELLER: Notices by Seller or Buyer of claims as to Product delivered, or for the nondelivery thereof, shall be made within thirty (30) days after delivery, or the date fixed for delivery, as the case may be, and failure to give such notice shall constitute a waiver by Seller or Buyer of all claims in respect thereto. Buyer's sole claim for loss or damage arising from nondelivery of Product hereunder shall be the difference between the price for the Product specified in this Agreement and the average price of such Product then charged by major suppliers of Product at the point of shipment specified in this Agreement, duly adjusted for freight charges. In no event shall any claims of any kind be greater than, nor shall Seller in any event be liable for, any amount in excess of the purchase price of the Product in respect of which a claim is made. SELLER SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, ARISING FROM SELLER'S PERFORMANCE OR BREACH OF THIS AGREEMENT AND/OR USE OR POSSESSION OF THE PRODUCT, OR FOR LOSS OF PROFIT FROM RESALE OF PRODUCT. No suit or legal proceeding arising upon this Agreement shall be maintainable against Seller or Buyer unless commenced or made within one (1) year after passing of title to Product, or delivery of or failure to delivery Product hereunder.

14. CONFLICTING TERMS: Notwithstanding any provision therein to the contrary, no term in Seller's or Buyer's purchase order, acknowledgment form or other document which conflicts with the terms hereof or increases Seller's or Buyer's obligations hereunder, shall be binding on either party unless accepted in writing by both parties hereunder.

15. WAIVER: Any waiver by Seller or Buyer of any term, provision, or condition of this Agreement, or of any default hereunder in any one or more instances shall not be deemed to be a further or continuing waiver of such term, provision or condition, or of any subsequent default hereunder.

16. FORCE MAJEURE: Neither party will be liable for failure to perform or for delay in performing this Agreement where such failure or delay is occasioned by acts of any government, compliance with law or government regulations, acts of God, war, riots, insurrections, civil commotion or disturbances, fire, flood, or accident or by any other cause or circumstances

whether of like or different character, beyond the control of the party affected thereby, including a declaration of force majeure by El Dorado Chemical Company. Failure to obtain a supply of Product by Seller from a third party supplier shall not be an event of force majeure that can be exercised by Seller, herein referred to as "events for force majeure". The party asserting that an event of force majeure has occurred shall send the other party notice thereof by cable or telex no later than three (3) days after the beginning of such claimed event setting forth a description of the event of force majeure, an estimate of its effect upon the party's ability to perform its obligations under this Agreement and the duration thereof. The notice shall be supplemented by such other information or documentation as the party receiving the notice may reasonably request. As soon as possible after the cessation of any event of force majeure, the party which asserted such event shall give the other party written notice of such cessation. Whenever possible, each party shall give the other party notice of any threatened or impending event of force majeure. If an event of force majeure affecting Seller or Buyer performance by the party affected (the "affected party") shall be excused during the continuation of the event of force majeure and the other party shall send written notice to the affected party whether the notifying party elects to (a) reduce the quantity of Product specified in this Agreement by the amount which cannot be delivered or received and/or (b) reschedule deliveries on a commercially reasonable basis for delivery during the remainder of the applicable Contract Year.

"In the event of force majeure affecting Seller, Seller shall allocate its available Product to Buyer in the same proportion as the quantity delivered to Buyer's El Dorado, Arkansas facility hereunder during the twelve (12) months preceding the event of force majeure is to the total quantity of all Product sold or used by Seller during such twelve (12) month period." (Provided, however, the total Product Buyer received shall not exceed the quantities in Article 2.) In the event Seller has not given written notice of cessation of force majeure, and such event of force majeure prevents deliveries of Product for more than thirty (30) consecutive days, Buyer shall have the right to terminate this Agreement.

17. CHANGE IN STATUS

Acquisition of Plant. In the event that El Dorado Chemical Company or affiliated company having a common parent acquires more than fifty percent (50%) interest in and to a plant or company that produces or has the capacity to produce anhydrous ammonia, Buyer may upon twelve (12) months written notice to Seller, terminate this Contract and thereafter have no further responsibility to accept or pay for any quantity of anhydrous ammonia hereunder.

18. COMMISSION/BROKER FEES: Seller and Buyer represent that they are dealing with each other, that neither is the agent of the other, and that no broker or agent has been involved, either directly or indirectly, in consummating this Agreement and the sale of anhydrous ammonia hereunder. SELLER AGREES TO INDEMNIFY, PROTECT AND SAVE BUYER HARMLESS from the claims of any person or entity for commissions or finder's fees or similar fees in connection with the transaction set forth herein where the claimant alleges that his or its contact with this transaction is traceable to Seller. BUYER AGREES TO INDEMNIFY, PROTECT, AND SAVE SELLER HARMLESS from the entity for commissions or finder's fees or similar fees in connection with the transaction set forth herein where the claimant alleges that his or its contact with this transaction is traceable to Buyer.

19. TAXES: Any and all taxes of any type whatsoever levied, prior to passage of title, against anhydrous ammonia transferred pursuant to this Agreement shall be paid by Seller promptly as required by law. Any and all taxes of any type whatsoever levied against the anhydrous ammonia at or upon, or subsequent to, passage of title shall be paid by Buyer promptly as required by law. Title to and risk of loss of the Product shall pass to the Buyer as the Product progressively passes into tank cars, and/or pipeline. Notwithstanding any provision to the contrary in this Agreement, with regard to sales/purchases of Product pursuant to this Agreement Buyer shall pay any and all taxes or charges that are due and owing under the federal Superfund (Comprehensive Environmental Response, Compensation and Liability Act of 1986) statutes, or regulations promulgated thereunder, as amended. Notwithstanding any provision to the contrary in this Agreement with regard to sales/purchases of Product pursuant to this Agreement, Buyer shall pay any and all taxes and charges that may become in the future due and owing because of the future enactment of any state law or regulation establishing a state tax or fee of any kind whatsoever on the manufacturing and/or sale of anhydrous ammonia or any constituent part thereof. All taxes hereunder are in addition to those prices described herein.

20. NOTICES: No notice, actual or constructive, shall be effective against any party unless it is (1) in writing; (2) signed by the party giving the notice; and (3) sent by registered mail, postage prepaid, or personally served on the party intended to receive said notice.

The address to be used on a mailed notice for each party shall be as follows:

To Seller:

Farmland Industries, Inc. (via mail/fax)
P. O. Box 7305, Dept. 314
Kansas City, Missouri 64116
FAX 816/459-5913

Farmland Industries, Inc. (via delivery
3315 N. Oak Trafficway service)
Kansas City, Missouri 64116

To Buyer:

El Dorado Chemical Company (via mail/fax)

P.O. Box 231
El Dorado, Arkansas 71731
FAX: 501/863-1426
Attn: Kevin Brown

El Dorado Chemical Co. (via mail/fax)
16 S. Pennsylvania
Oklahoma City, OK 73007
FAX: 405/235-5067
Attn: James Wewers
David Shear

21. ALTERNATE DISPUTE RESOLUTION: In the event of any controversy arising out of or relating to this Contract, or any breach thereof, the parties agree to submit the dispute for resolution by Mini-trial, unless both parties agree that such procedure is inappropriate for the matter in controversy. Such Mini-trial shall be conducted in accordance with the Center for Public Resources (CPR) Mini-trial Agreement for Business Disputes, a copy of which is attached and may be initiated by either party by a written request to the other party.

In the event the parties are unable to resolve the controversy through the Mini-trial, the dispute shall be submitted to binding arbitration in accordance with the rules of the Missouri Arbitration Act. V.A.M.S. 435 et. seq. (or Uniform Arbitration Act). Such arbitration shall be initiated by either party by notifying the other party in writing and requesting a panel of five (5) arbitrators from the American Arbitration Association. Alternate strikes shall be made to the panel commencing with the party requesting the arbitration until one name remains. Such individual shall be the arbitrator for the controversy. The party requesting the arbitration shall notify the arbitrator who shall hold a hearing(s) within 60 days of the notice. The arbitrator shall render a decision within 20 days after the conclusion of the hearing(s). Judgment upon the award rendered by the Arbitrator may be entered in any Court having jurisdiction thereof. All fees for such arbitration will be divided equally between the parties.

22. MISCELLANEOUS: Buyer may offer to supply natural gas to Farmland Industries for only their monthly quantity of anhydrous ammonia for delivery at either Texas Gas or Truckline and/or LIG to be redelivered to Farmland, (Pollock), Louisiana plant. Seller will then add the appropriate interstate tariff rate as established by the transporting pipeline plus the procurement cost of two cents ($ .02) per MMBTU previously listed in Paragraph 4(b)1 of this Contract. Buyer must offer natural gas to Seller not less than fifteen (15) days before the close of the current month for the upcoming month. Seller must accept or reject this offer within ten (10) business days before the close of the current month. This option to offer natural gas must be made to the Administrative Assistant to the Vice President of Purchasing, Engineering, and Emerging Technologies.

This Agreement expresses the whole agreement of the parties. There are no promises, conditions, or obligations, other than those enumerated herein. This Agreement shall supersede all previous or contemporaneous communications, representations, or agreement, verbal or written, between or among the parties. No usage of trade or prior course of dealing or performance between Buyer and Seller shall be deemed to modify the terms of this Agreement.

This Agreement shall not be assigned by either party without the prior written consent of the other party except that either party may assign its interest under this Agreement to a successor to all or any substantial portion (more than 50%) of its business or assets, or to any parent, subsidiary, or affiliated company having a common parent. Any purported assignment of this Agreement or any part thereof, except as set forth above, shall be void.

This Agreement shall not be modified except in writing signed by the party to be charged.

No termination of this Agreement shall affect the rights or obligations theretofore accrued.

Headings are for reference only, and do not affect the meaning of any paragraph.

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect. Remedies herein reserved are cumulative and in addition to any other or further remedies Seller or Buyer may have at law or in equity.

This Agreement shall be governed in all respects, including, but not limited to, interpretation and performance by the laws of the State of Kansas.

No terms and conditions of this Agreement shall be binding on either Seller or Buyer, until this Agreement is signed and attested by authorized representatives of both Seller and Buyer.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first above written.

FARMLAND INDUSTRIES, INC.	EL DORADO CHEMICAL COMPANY
(Seller)	(Buyer)

By: ____________________
Title: __________________

Date: __________________

By: ____________________
Title: __________________

Date: __________________

CHEMICAL GROUP OF MONSANTO

Contract for Toll Manufacturing

Contract: # T 1084A00

With: El Dorado Chemical Company

Prepared by:

Chemical Group of Monsanto
800 North Lindbergh Boulevard
St. Louis, Mo. 63167

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PROCESSING AGREEMENT dated January 1, 1994 between Monsanto Company, a Delaware corporation with general offices at 800 North Lindbergh Boulevard, St. Louis, Missouri 63167 ("Monsanto") and El Dorado Chemical Company, an Oklahoma corporation with general offices at Old Smackover Highway 7B, El Dorado, Arkansas 71730 ("Contractor").

1. DEFINITIONS. As used in this Agreement, the following terms shall have the following defined meanings:

(a) "Material" shall mean the material to be provided by Monsanto to Contractor, as described in Schedule A hereof, which Material shall meet the Material specifications attached hereto and made a part hereof.

(b) "Product" shall mean the product described in Schedule B to be produced by Contractor hereunder from the Material supplied by Monsanto, which Product shall meet the Product specifications attached hereto and made a part hereof.

(c) "Services" shall mean the services to be provided or performed by Contractor pursuant to this Agreement at Contractor's Facilities with respect to the Material and Product, including but not limited to the following: to receive, handle and store, in suitable facilities free from contamination, the Material required for the production of Product; to receive, order, handle and store sufficient additional raw materials, if any, required for the production of Product; to process the Material into Product; to sample and test the Product for quality and to promptly deliver to Monsanto written reports on the results of such sampling and testing, all according to the written

instructions of Monsanto and as may be set forth or referred to in Schedule C; to keep records of each shipment of Product showing pertinent information relating thereto including, without implied limitation, the loaded weight and assay of Product and to provide one copy of each record to Monsanto; to load and ship the Product to Monsanto's Plant (as hereinafter defined) at such times as may be designated by Monsanto; dispose of all wastes and residues generated in connection with the performance of services hereunder in a safe and lawful manner; and to provide all operations, labor, supervision, equipment, tools, machinery, facilities, supplies and materials (excepting the Material) necessary or appropriate for Contractor's performance hereunder.

(d) "Facility" shall mean Contractor's plant located near El Dorado, Arkansas

(e) "Plant" shall mean Monsanto's W. G. Krummrick Plant located at Sauget, Illinois.

2. TERM. The term of this Agreement shall commence on the date first stated above and shall continue in full force and effect through December 31, 1998. However, either party may terminate this Agreement at any time upon notice to the other party if performance of this Agreement or the sale or use of the Product is held to be a violation of, in whole or in part, any governmental laws, ordinances, orders, rules, regulations and actions of the United States and of any state, county, township or municipal subdivision or other municipal subdivision or other governmental agency that would materially affect such party's performance under this Agreement. Sections 7, 8, 9, 10, 11, 12 and 14 shall survive any termination or expiration of this Agreement. Further either party may terminate this Agreement immediately without liability by providing written notice to the other party hereto if such other party is in breach or default under any of its obligations under this Agreement and said breach or default shall continue unremedied for thirty (30) days after written notice thereof is received by such defaulting party.

Monsanto may terminate this Agreement if Monsanto decides to process the Material to Product itself, decides to terminate the product which is produced from the Product or decides to sell the business of the product which is produced from the Product. In the event of the sale of such business Monsanto will exercise good faith efforts to assign this Agreement to such buyer if Contractor so desires.

3. CHANGE IN MATERIAL, PROCESS OR PROCEDURE. Prior to making any change in raw material or methods of manufacture employed in producing Product hereunder which Contractor knew, or should have known, would make such Product unsuitable to Monsanto, Contractor shall notify Monsanto of Contractor's intent to do so.

If, at any time, any Product to be supplied to Monsanto does not meet specifications set forth in Schedule B attached hereto, or the process or procedure utilized by the Contractor for manufacture of such Product changes materially without Monsanto's prior written consent so that, in either event, such Product is unsuitable to Monsanto, Monsanto may notify Contractor of such problem and thereafter suspend shipments hereunder. Monsanto agrees to work in good faith with Contractor to attempt to resolve any such problem. However, if no resolution satisfactory to both parties, is achieved within thirty (30) days after the giving of such notice, Monsanto may terminate this Agreement, without liability upon at least thirty (30) days' prior written notice.

4. REQUIREMENTS, QUANTITY, CONVERSION RATIO AND INVENTORIES OF MATERIAL

(a) Except as otherwise expressly provided in this Agreement, Contractor agrees to perform Services and deliver all of Monsanto's requirements for the Product to Monsanto in accordance with the requirements of this Agreement.

(b) Except as otherwise expressly provided in this Agreement, Monsanto agrees that during the term of this Agreement (i) the Contractor shall process all of Monsanto's requirements for the Product pursuant to the terms hereof and (ii) Monsanto shall purchase from the Contractor all of its requirements for the Product. In the event Monsanto at any time is offered a lower conversion fee for Product of equal quality in quantities greater than one half of the total requirements by a reputable manufacturer and furnished Contractor proof of same, Contractor shall supply Product at the lower conversion fee or permit Monsanto to purchase such quantity elsewhere. If Monsanto should purchase such quantity elsewhere, Contractor may give notice of pricing revisions to Monsanto. If no agreement satisfactory to both parties, is achieved within thirty (30) days after the giving of such notice, either party may terminate this Agreement, without liability, upon at least thirty (30) days' prior written notice.

Monsanto shall be allowed to take up to six tank cars of Product from a third party supplier in order to certify the quality of the Product. After such certification of quality of Product from a third party in the event Contractor is unable to supply Product to Monsanto from its Facility, Contractor shall purchase at its expense certificated Product from the third party and supply such Product to Monsanto at the Services Fee then stated in the Agreement. This third party certification shall be accomplished by December 31, 1994. A re-certification of the third party shall be completed by December 31, 1996 using up to six tank cars of Product.

(c) Contractor shall convert Material delivered to Contractor by Monsanto hereunder into Product for Monsanto at the Facility at the following Conversion Ratio ("Conversion Ratio"):

For each ton of Material supplied by Monsanto to Contractor hereunder, Contractor shall produce and deliver to Monsanto 3.31 tons of Product (100% acid basis).

Monsanto estimates its requirements hereunder to be approximately 26,000 to

28,000 tons of Product (100% acid basis) per Contract Year to be taken in approximately equal monthly installments. This volume is not to be considered a guaranteed volume. For purposes of enabling Contractor to plan its production Monsanto shall supply to Contractor estimated monthly Product volumes per Schedule D.

Within thirty (30) days of termination or expiration of this Agreement, a final Material balance shall be sent to Monsanto. Should balance show that Monsanto is owed Material, Contractor will make provisions to tender Material to Monsanto within sixty (60) days of termination or expiration of this Agreement. Material will be tendered on the Gulf Central Pipeline System at an injection point between Fortier, Louisiana and Sterlington, Louisiana.

In order for Contractor to comply with this Agreement, Monsanto recognizes that Monsanto must supply Material to Contractor on an uninterrupted basis, which Material is to be provided to Contractor by Monsanto at Monsanto's cost and expense. Monsanto shall, at its expense and cost, delivery Material to Contractor at a rate which is sufficient, through application of the Conversion Ratio set forth in this Section 4(c) to produce the quantities of Product required by Monsanto hereunder, and to maintain at the Facility such appropriate amount of inventory of Material so that Contractor can comply with the terms hereof. Monsanto shall maintain a minimum amount of inventory of Material at the Facility of 500 tons at all times.

Notwithstanding anything herein to the contrary, the Contractor's obligations under this Agreement to perform the Services hereunder and to deliver Product to Monsanto are subject to and conditioned upon Monsanto having delivered to Contractor Material in sufficient time and in a sufficient amount through application of the Conversion Ratio set forth in this Section 4(c), for Contractor to perform the Services and produce the quantities of Product required to be produced by Contractor for and delivered to Monsanto hereunder.

5. SERVICES FEE. As consideration for Contractor's delivery of Product to Monsanto in accordance with this Agreement, Monsanto agrees to pay Contractor a Services Fee as set forth in Schedule E attached hereto and made a part hereof. The Services Fee shall constitute the total financial obligation of Monsanto to Contractor as to the purchase price for the Product.

6. DELIVERY; TITLE AND RISK OF LOSS.

(a) Delivery of Material by Monsanto to Contractor hereunder shall be made at the Facility in accordance with the terms of the Section called "Delivery Schedule" set forth in Schedule D attached hereto and made a part hereof, or otherwise as may be mutually agreed by the parties.

(b) Title to and other incidents of ownership of:
(i) The Material and the Product processed hereunder (all collectively called "Monsanto's Material") shall be in Monsanto and shall remain the property of Monsanto at all times, subject to Monsanto's compliance with the terms of this Agreement;
(ii) All other products, by-products, wastes and residues resulting from the processing of the Material, shall pass to Contractor as they are generated in the performance of Services hereunder and shall remain the property of the Contractor.

(c) Contractor shall be liable to Monsanto for all contamination, loss or damage to Monsanto's Material after such is delivered to the Facility and to the Product until such Product is delivered to Monsanto's Plant, unless contamination is caused by reason of force majeure. In the event Contractor shall be liable or responsible to Monsanto pursuant to this paragraph, Contractor shall pay to Monsanto on demand, Monsanto's cost of the Material and/or Product contaminated, lost or damaged, based on Monsanto's manufacturing and other costs, plus freight expense, less net salvage value, if any, received by Monsanto. Monsanto shall make a reasonable effort under the then prevailing circumstances to dispose of the damaged Material and/or Product at a fair and reasonable value indicating in advance to Contractor the amount of net salvage value to be credited to Contractor.

7. CONTRACTOR'S AND MONSANTO'S COVENANTS AND WARRANTIES

(a) Contractor covenants with and warrants to Monsanto that:
1. Contractor has the requisite experience, knowledge and expertise, suitable facilities and qualified personnel and legal right to perform the Services hereunder in a sound, safe, lawful and workmanlike manner;
2. Contractor hereto recognizes the importance of maintaining a safe and healthful workplace and knows and understands the potential health, safety and/or environmental considerations associated with the Material and the Product and the toxic nature of the Material and all other products, by-products and residues resulting from or in any way referred to the processing of the Material. Certain information as to the character of the Material and certain recommended precautions for exposure to and handling of the Material and Product have been provided to Contractor by Monsanto as described or referred to in the Material Safety Data attached hereto as Schedule I. Contractor shall advise and inform its employees, agents, representatives and subcontractors of the nature of the Material and Product and the potential hazards connected with it prior to such individuals' employment in connection with the Product. Contractor hereto shall see that all appropriate safety and handling precautions are followed and shall take all appropriate actions to ensure a healthful workplace and the safety and well-being of persons, property and the environment in the performance of their respective duties hereunder. Each party hereto agrees to inform the other in writing of any toxic or otherwise hazardous property relating to the Material or Product which becomes known to Contractor or Monsanto subsequent to the date of this Agreement.
3. Contractor will perform Services in a sound, safe, lawful and workmanlike manner, and that the Product produced and delivered by it hereunder shall conform to the attached Product specifications;
4. Contractor will own and dispose of all products, by-products, wastes

and residues resulting from the processing of the Material.

(b) Each party hereto agrees to comply with all laws, ordinances, orders, rules, regulations and actions of the United States and of any state, county, township or municipal subdivision or other governmental agency which may now or hereafter be applicable to this Agreement, including but not limited to those pertaining to employee safety and health and environmental protection and TSCA Section 8 (a) through Section 8 (e) and that it has obtained and will maintain in effect all permits, licenses and other documentation required now or hereafter in order to comply with such governmental laws, ordinances, orders, rules, regulations and actions and shall furnish copies of same to the other party upon its request.

8. INVOICING AND INVENTORIES. Contractor shall invoice Monsanto for Product delivered to Monsanto hereunder and Monsanto shall pay Contractor the amounts covered by such invoices in accordance with the Section "INVOICING AND INVENTORIES" in Schedule F attached hereto and made a part hereof.

9. WARRANTIES.

(a) Subject to subparagraphs (c) and (f) of this Section 9 Monsanto warrants title and that the Material delivered to Contractor hereunder shall meet the specifications set forth in Schedule A. Except as otherwise provided in the preceding sentence and except as otherwise provided in this Agreement, MONSANTO MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, OR ANY OTHER MATTER WITH RESPECT TO ANY MATERIAL DELIVERED UNDER THIS AGREEMENT, WHETHER OR NOT SUCH MATERIAL MEETS SUCH SPECIFICATIONS and whether alone or in combination with any other material.

(b) Subject to subparagraphs (d) and (e) of this Section 9, Contractor warrants that the Product delivered to Monsanto hereunder shall meet the specifications set forth in Schedule B Except as otherwise provided in the preceding sentence and except as otherwise provided in this Agreement, CONTRACTOR MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND EXPRESS OR IMPLIED AS TO MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE OR ANY OTHER MATTER WITH RESPECT TO ANY PRODUCT DELIVERED UNDER THIS AGREEMENT WHETHER OR NOT SUCH PRODUCT MEETS SUCH SPECIFICATIONS and whether used alone or in combination with any other material.

(c) Subject to Section 9(f) hereof, all claims by the Contractor for any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) relating to breach by Monsanto of its warranties contained in Section 9(a) hereof shall be deemed waived unless made in writing and received by Monsanto within ninety (90) days after receipt of the material in respect to which such claim is made, provided that as to any such cause not reasonably discoverable within such ninety (90) day period (including that discoverable only in processing, further manufacture or other use) any claim shall be made in writing and received by Monsanto within one hundred eighty (180) days after Contractor's receipt of the material in respect to which such claim is made, or within sixty (60) days after Contractor learns of the facts giving rise to such claim, whichever shall first occur. Failure of Monsanto to receive written notice of any such claim within the applicable time period shall be deemed an absolute and unconditional waiver by Contractor of such claim.

(d) Subject to Section 9(e) hereof, all claims by Monsanto for any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) relating to breach by Contractor of its warranties contained in Section 9(b) hereof or for late or failure to deliver Product to Monsanto shall be deemed waived unless made in writing and received by Contractor within ninety (90) days after Monsanto's receipt of the Product in respect to which such claim is made, or if such claim is for non-delivery of Product within ninety (90) days after the date upon which such Product was to have been delivered provided that as to any such cause not reasonably discoverable within such ninety (90) day period (includinq that discoverable only in processing, further manufacture, other use or resale), any claim shall be made in writing and received by Contractor within one hundred eighty (180) days after Monsanto's receipt of the Product in respect to which such claim is made, or within sixty (60) days after Monsanto learns of the facts giving rise to such claim, whichever shall first occur. Failure of Contractor to receive written notice of any such claim within the applicable period shall be deemed an absolute and unconditional waiver by Monsanto of such claim.

(e) Except for the extent covered by Section 11, Monsanto's exclusive remedy, and Contractor's total liability, with respect to defective Product or Services supplied or to be supplied under this Agreement (whether such cause be based in contract negligence, strict liability, other tort or otherwise) shall (i) if Monsanto's claim related solely to any loss or damage to Materials supplied by it, not exceed the then current market value of the lost or damaged Materials plus freight or, at Contractor's election, the replacement thereof, or (ii) if Monsanto's claim relates to Products supplied by Contractor, not exceed an amount equal to the sum of any Services Fee and freight charges actually paid by Monsanto with respect to the Product as to which the claim is made plus the then current market value of the Materials supplied by Monsanto and used therein, or, at the election of Monsanto, the replacement thereof with Product produced from Material supplied by and at the sole expense of Contractor. In no event shall the Contractor be liable to Monsanto for any indirect, incidental, consequential or punitive damages however caused. Contractor shall not be liable for, and Monsanto assumes liability for, all personal injury and property damage connected with the handling, transportation, possession, or further processing of Product after delivery to Monsanto hereunder, whether such Products are used alone or in combination with any other material.

(f) Contractor's exclusive remedy, and Monsanto's total liability, with respect to all defective Material supplied or to be supplied hereunder by Monsanto to Contractor (whether such cause by based in contract, negligence, strict liability, other tort or otherwise) shall in no event exceed the then

current market value of the Material for which the claim is made, or at the election of Monsanto, the replacement thereof with Material. In no event shall Monsanto be liable to Contractor for any indirect incidental, consequential or punitive damages resulting from such defective material. Monsanto shall not be liable for, and Contractor assumes liability for, all personal injury and property damage connected with the handling, possession, processing, further manufacture of other use of such Material after delivery to Contractor hereunder, whether such Material is used alone or in combination with any other material.

10. INDEMNIFICATION. Except as otherwise provided in this Section 10, Contractor shall indemnify and hold harmless Monsanto, its present, past and future employees and agents, from and against any and all claims, liabilities, suits, and proceedings, judgments, orders, fines, penalties, damages, losses, costs and expenses (including, without limitation, costs of defense, amounts paid in settlement (provided such settlement is paid with the consent of Contractor) and reasonable attorneys' fees and expenses) (all of the foregoing herein collectively called "Liabilities, Proceedings, and Damages") arising out of actions against Monsanto brought by an independent third party in connection with (a) any of Monsanto's Material, or any part thereof, while in the possession or custody of Contractor and resulting from Contractor's negligence; (b) Contractor's negligence relating to any Services or any other activities or operations of or by Contractor, its employees or agents under or related to this Agreement; (c) any failure of Contractor or any of its employees or agents to observe or comply with any of Contractor's duties or obligations under this Agreement, including, without limiting the generality of the foregoing, any failure to observe or comply with any applicable laws ordinances, codes, orders, rules or regulations and including any failure to properly dispose of wastes relating to this Agreement. The foregoing obligations of Contractor shall include, but not be limited to, any and all Liabilities, Proceedings and Damages arising due to the Contractor's negligence resulting in (i) injury to or death of any person (including, without limitation, employees or agents of Contractor or Monsanto), (ii) damage to or loss or destruction of any property (including, without limitation, property of Contractor or Monsanto, or their employees or agents), and (iii) any contamination of, injury or damage to or adverse effect on persons, animals, aquatic and wildlife, vegetation, waters or the environment.

The foregoing indemnification shall apply regardless of the basis of liability or legal principle involved (including, without limitation, contract, warranty, negligence, strict liability, other tort, violation of law or otherwise), but shall not apply to Liabilities, Proceedings and Damages to the extent caused by (i) Monsanto's negligence or willful or criminal misconduct or (ii) Monsanto's breach or default of any of the terms or provisions or any of its duties or obligations under this Agreement.

11. INSURANCE.

(a) Contractor shall not begin the performance under this Agreement until:

(i) It has obtained all the insurance hereinafter required; and

(ii) It has furnished Monsanto with certificates of insurance satisfactory to Monsanto evidencing such required insurance; and

(iii) Copies of any provisions in Contractor's contract of insurance excluding coverage for pollution have been provided to Monsanto.

(b) Every contract of insurance providing the coverages required herein shall provide that such coverage shall not be terminated or reduced without the insurance carrier first giving Monsanto at least thirty (30) days' prior written notice thereof, and Contractor shall make such arrangements as are necessary to ensure that no termination, reduction or cancellation of the insurance required herein becomes effective until thirty (30) days after Monsanto receives such notice.

(c) Contractor shall take out and maintain, at its expense, during the term of this Agreement, and for a minimum of two (2) years following the expiration or termination of this Agreement, at least the following insurance in insurance companies satisfactory to Monsanto:

COVERAGE	LIMITS
(1) Worker's Compensation	Statutory
(2) Employers' Liability	$500,000 each occurrence
(3) Comprehensive General Liability (Bodily Injury)	$1,000,000 each occurrence
(4) Comprehensive General Liability (Property Damage)	$1,000,000 each occurrence
(5) Automobile Liability (Bodily Injury and Property Damage)	$1,000,000 combined single limit

(d) The insurance certificates evidencing the required coverage shall include a certification that the above-described insurance coverages include coverage for Contractor's contractual liability under this Agreement.

(e) Contractor shall secure from the company carrying Contractor's Worker's Compensation insurance a waiver of subrogation in favor of Monsanto and its employees and shall furnish to Monsanto a copy of said waiver.

(f) Notwithstanding any other provision of this Agreement, Contractor's general liability insurance shall (i) be provided on an "occurrence" form of policy, (ii) name Monsanto as an additional insured, and (iii) include coverage for all of Contractor's contractual liability under Section 10 with limits not less than those set forth above. Additionally, the required certificates shall indicate that such general liability insurance coverage will be primary to any other valid and collectible insurance.

(g) The insurance requirements set forth herein are minimum coverage

requirements and are not to be construed in any way as a limitation on Contractor's liability under this Agreement.

12. NOTIFICATION OF CITATIONS AND CLAIMS. Contractor agrees that it will promptly notify Monsanto of any of the following which relates to or is connected with any Services furnished pursuant to this Agreement: (i) any warning, citation, indictment, claim, lawsuit, or proceeding issued or instituted by any federal, state or local governmental entity or agency against or upon Contractor, (ii) the revocation of any license or permit issued to Contractor by any such entity or agency, or (iii) any other claim (including, without limitation, claims for Workmen's Compensation) or lawsuit against Contractor for personal injury, death or property damage.

13. EXCUSE OF PERFORMANCE. The performance or observance by either party of any obligations of such party under this Agreement may be suspended by it in whole or in part in the event of any of the following which prevents such performance or observance: Act of God, war, riot, fire, explosion, accident, flood, sabotage, strike, lockout, injunctions, inability to obtain fuel, power, raw materials, labor, containers or transportation facilities, breakage or failure of machinery or apparatus, national defense requirements, compliance with governmental laws, regulations, orders or action, or any other cause (whether similar or dissimilar) beyond the reasonable control of such party; provided however, that the party so prevented from complying with its obligations hereunder shall immediately notify in writing the other party thereof and such party so prevented shall exercise diligence in an endeavor to remove or overcome the cause of such inability to comply and provided further that neither party shall be required to settle a labor dispute against its own best judgment. Deliveries suspended or not made by reason of this Section shall be cancelled without liability, but this Agreement shall otherwise remain unaffected. Nothing in this Section 13 shall excuse Monsanto from paying contractor the Service Fee for Products delivered by Contractor to Monsanto, or excuse Contractor from performance or observance of its obligations under this Agreement by reason of its failure or inability to observe or comply with Section 7 (b) of this Agreement.

14. SECRECY PROVISIONS. Contractor shall treat and maintain and cause its employees and agents to treat and maintain as Monsanto's confidential property and not use or disclose to others during the term of this Agreement and for five (5) years thereafter except as is necessary to perform the work hereunder any written information (including any technical information, experience or data) supplied by Monsanto to Contractor and marked as "confidential information" regarding Monsanto's products, plans, programs, plants, processes, costs, equipment, operations or customers which may be heretofore or hereafter to Contractor, its employees or agents in the performance of this Agreement without in each instance securing the prior written consent of Monsanto. Contractor shall also treat as confidential and shall not use or disclose to others, information relating to the chemical composition or specifications of the Material or Product or the quantity of Material or Product delivered to it by Monsanto or Product produced by Contractor.

Upon the expiration or termination of this Agreement, or at any earlier time at Monsanto's request, Contractor shall deliver to Monsanto all writings, drawings, memoranda and other material, including all copies and extracts thereof, delivered to Contractor by Monsanto prior to or during the term of this Agreement, which contain or relate to said Monsanto confidential information.

The provisions of this Section 14 shall not apply to any information referred to in this Section which Contractor establishes (i) has been published and has become part of the public domain other than by acts or omissions of Contractor, its employees or agents, (ii) has been furnished or made known to Contractor by third parties (other than those acting directly or indirectly for or on behalf of Monsanto) as a matter of legal right and without restriction on disclosure or use, or (iii) was lawfully in Contractor's possession prior to disclosure thereof by Monsanto to Contractor and was not acquired by Contractor, its employees or agents directly or indirectly from Monsanto. Further, notwith-standing anything herein to the contrary, any disclosures required by law of such confidential information shall not be deemed a breach of this Section 14.

15. PATENT INFRINGEMENT. Contractor shall defend all suits and claims for infringement of any patent rights relating to the Services and shall hold Monsanto, its present, past and future employees and agents harmless from loss, liability, costs and expenses on account thereof. Monsanto shall defend all suits and claims for infringement of patent rights related to the Materials and Product and shall hold Contractor, its present, past and future employees and agents harmless for loss, liability, costs and expenses on account thereof.

16. TAXES. Unless otherwise specifically set forth in this Agreement, Contractor shall pay all applicable sales, consumer, use, service, occupation, privilege or other similar taxes required by law relating to the Services (including interest and penalties, if any) without reimbursement by Monsanto. Contractor shall also pay all federal income, excise and privilege taxes and all state and local income taxes, if any, relating to the Services without reimbursement by Monsanto. Any property tax assessable against the Product shall be paid by Monsanto, and Monsanto shall pay all sales, consumer, use, excise, service, occupation, privilege, income or other similar taxes required by law (local, state or federal) relating to the Material or Product (including interest and penalties, if any) without reimbursement by Contractor.

17. INDEPENDENT CONTRACTOR. Contractor is and shall always remain an independent contractor in its performance of this Agreement. The provisions of this Agreement shall not be construed as authorizing or reserving to Monsanto any right to exercise any control or direction over the operations activities, employees or agents of Contractor in connection with this Agreement, it being

understood and agreed that the entire control and direction of such operations activities, employees or agents shall remain with Contractor as an independent contractor. Neither party to this Agreement shall have any authority to employ any person as an employee or agent for or on behalf of the other party to this Agreement for any purpose, and neither party to this Agreement, nor any person performing any duties or engaging in any work at the request of such party, shall be deemed to be an employee or agent of the other party to this Agreement.

18. ASSIGNMENT. Neither party shall, whether by operation of law or otherwise, assign or otherwise transfer any of its rights nor delegate the performance of its obligations under this Agreement without the other party's prior written consent and any attempted assignment, transfer or delegation without such content shall be void and of no effect. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

19. NOTICE. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been sufficiently given if delivered by hand or deposited in the United States mails, postage prepaid, addressed as specified on Schedule G attached hereto and made a part hereof or to such other address as may be specified from time to time in a written notice given by such party. Both parties agree to acknowledge receipt of any notice delivered in person.

20. MISCELLANEOUS.

(a) This Agreement constitutes the full understanding of the parties, a complete allocation of risks between them and a complete and exclusive statement of the terms and conditions of this Agreement with respect to the subject matter hereof; and all prior agreements, negotiations, dealings and understandings, whether written or oral, regarding the subject matter hereof, are hereby superseded and merged into this Agreement. No conditions, usage of trade, course of dealing or performance, understanding or agreement purporting to modify, vary, explain or supplement the terms or conditions of this Agreement shall be binding unless hereafter made in writing and signed by the party to be bound, and this Agreement shall not be considered amended or modified by a purchase order, acknowledgement or acceptance of purchase order or shipping instruction forms containing terms or conditions at variance with or in addition to those set forth in this Agreement. No waiver by either party with respect to any breach or default or of any right or remedy and no course of dealing or performance shall be deemed to constitute a continuing waiver of any other breach or default or of any other right or remedy, unless such waiver be expressed in writing signed by the party to be bound.

(b) If Monsanto furnishes technical or other advice to Contractor, whether or not at Contractor's request, Monsanto shall not be liable for, and Contractor assumes all risk of, such advice and the results thereof, unless such technical or other advice is given in bad faith or resulting from the gross negligence of Monsanto. No inspection or review by Monsanto of the Facility or Contractor's operations shall relieve Contractor of any of its obligations under this Agreement.

(c) As used in this Agreement, employees or agents of a party hereto shall be deemed to include such party's past, present and future officers and directors.

(d) Section headings as to the contents of particular sections are for convenience only and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular sections to which they refer.

(e) The validity, interpretation and performance of this Agreement and any dispute connected herewith shall be governed and construed in accordance with the laws of the State of Missouri.

(f) If any term or provision of this Agreement or any application thereof shall be invalid or unenforceable, the remainder of this Agreement or any other application of such term or provision shall not be affected thereby.

EL DORADO CHEMICAL COMPANY	MONSANTO COMPANY
BY /s/ James L. Wewers	BY /s/ Gary J. Page
TITLE President	TITLE Director, Trans-portation and Distribution

SCHEDULE A

08/01/88

"MATERIAL"

ANHYDROUS AMMONIA SPECIFICATIONS

CHARACTERISTICS	LIMITS	METHOD NO.
Water	0.25% min. 0.50% max.	EDC-400
Oil	5 ppm max.	EDC-410
% Anhydrous Ammonia NH3	99.5% min.	Calculated by difference
Iron	1 ppm max.	EDC-420

EL DORADO CHEMICAL COMPANY
P.O. BOX 231
EL DORADO, ARKANSAS 71731-0231
(501) 883-1400 FAX NUMBER: (501) 883-1428

PRODUCT SPECIFICATION SHEET

EFFECTIVE DATE: 07-May-92

ISSUE NUMBER: 12

SUPERSEDES: 11

PRODUCT NAME: NITRIC ACID

PRODUCT CODE: 7000200

PRODUCT GRADE: CONCENTRATED
98% (MONSANTO GRADE)

APPROVALS:

PLANT MANAGER:

/s/ 6/8/92

PRODUCTION MANAGER:

/s/ Marlyn Roberts 6-4-92

QUALITY CONTROL MANAGER:

/s/ Ken Lane J T Carter

MARKETING PRODUCT MGR:

/s/ Ann T. O'Donnell 6/12/92

GENERAL PRODUCT DESCRIPTION

A LIGHT YELLOW SOLUTION HAVING AN ODOR OF NITROGEN DIOXIDE

PRODUCT CHARACTERISTICS:

TEST FREQUENCY	PROPERTY	SPECIFICATION LIMITS	TYPICAL VALUES	TEST METHOD NO.
(R)	ASSAY (as %HNO3)	96.0% Max.	98.97%	EDC-141
(R)	SULFATE (as %H2804)	0.07% Max.	0.047%	EDC-130
(R)	IRON (as Fe)	7.3 ppm Max.	2.87 ppm	EDC-110
(R)	OXIDES OF NITROGEN (AS N203)	0.15% Max.	0.04% (WINTER) 0.10% (SUMMER)	EDC-145
(A)	LEAD SALTS	0.10% Max.	5 ppm	EDC-143
(A)	ASH	0.10% Max.	<0.01%	EDC-144
(A)	NITROBODIES	NIL	NIL	EDC-160
(A)	CHLORIDES (AS HC)	5.0 ppm Max.	2.0 ppm	EDC-140
(B)	ALUMINUM (AS A)	75.0 ppm Max.	12.5 ppm (WINTER)	AA
(R)	TURBIDITY	(SEE NOTE: #1)	CLEAR	VISUAL

NOTE #1: CLEAR WITH NO VISIBLE RESIDUE

* THE PRODUCT MEETS THE 0.15% N203 LIMIT AT THE TIME OF SHIPPING. DUE TO NORMAL BUILDUP, THE VALUE IS LIKELY TO BE HIGHER UPON DELIVERY DURING HOT WEATHER CONDITIONS.

(R) ROUTINE ANALYSIS (A) CHECKED AT INTERVALS

* (B) THE ANALYSIS IS PERFORMED TWICE PER WEEK ON A BATCH BASIS

	NCB	01/11/91	/s/ W. Herman 4/1/91

PLANT	REVISION NO.	REVIEW DATE	SUPT. MANUFACTURING
W.G. Krummrich Plant	1	02/01/94	/s/ J. D. Garrison 3/12/91

MATERIAL (TRADE NAME)
Nitric Acid

TOTAL QUALITY LEADER
/s/T. M. Kreinbrook 3-19

MATERIAL (CHEMICAL NAME)
Nitric Acid

PLANT PURCHASING AGENT
/s/R. O. Cardwell 3/27/91

CHEMICAL FORMULA

HNO3

GROUP LEADER, R & D
/s/E. D. Clemons 2/20/91

OTHER:

SAMPLE FOR ANALYSIS
1 x 8 Ounce GGS Bottle

MGR. PRODUCT SAFETY
/s/J. E. Downes 4/2

APPROVED SUPPLIERS
El Dorado Chemical Company

Characteristics	Limits	Typical	Method No.
Appearance	Lt. yellow to red brown liquid		10,201
Color (Bleach 42 degree Be' Acid Solution)	50 APHA, Max.	--	11,902
H2SO4	0.07% Max.	0.06%	10,203
HC1	5 ppm Max.	1 ppm	10,204
Foreign Odor	None	None	10,207
Nitric Acid (HNO3)	97.5% Min.	98.5%	10,200
Lead Salts	0.1% Max.	0.002%	--
Ash	0.1% Max.	0.0007%	--
Iron	15 ppm Max.	3 ppm	--
Oxides of Nitrogen as N2O3	0.15% Max.	0.015%	--

Supplier's certificate of analysis to be sent on day of shipment to Chief Chemist, Monsanto Company, 500 Monsanto Ave., Sauget, IL 62206-1198.

(UNCONTROLLED DOCUMENT)

SCHEDULE C

01/01/94

SPECIAL INSTRUCTIONS

(Sampling, Testing, Packaging, Labeling, Shipping)

Contractor shall sample every shipment of Product manufactured under this Agreement and test for acid concentration (% by weight), sulfate, oxides of nitrogen, iron and aluminum. Contractor shall retain for a period of two (2) months the laboratory sample from each shipment sufficient in size to permit at least one (1) complete reanalysis of specification properties.

Packaging of Product is covered in Schedule D, entitled "Delivery Schedule".

Product shall be properly prepared and tendered for transportation in accordance with the United States Department of Transportation Hazardous Materials Regulations, including but not limited to (i) product classification, (ii) containers, (iii) loading, (iv) placarding and (v) shipping paper preparation.

SCHEDULE D
01/01/94

DELIVERY SCHEDULE

All shipments of Product from Contractor to Monsanto will be made F.O.B. the Facility, and shipped freight collect. Product shall be shipped in aluminum tank cars furnished and maintained by Contractor. At some future time Contractor and Monsanto agree to consider Contractor contracting of freight and reimbursement by Monsanto if advantageous rates can be achieved.

Monsanto shall supply to Contractor an estimated Product usage rate forecast for each calendar month. This information shall be provided to Contractor no later than five working days before the end of the prior calendar month. In addition, Monsanto and the Contractor shall communicate verbally on an as - needed basis, but not less than twice each week to review the status of inbound Product shipments, released rail cars, and changes in previously reported Product usage rates.

Further, Monsanto shall supply Contractor with a schedule of planned shutdowns of the Plant as soon as the dates are available.

Contractor shall, in good faith, meet Monsanto's "rolling inventory" Product requirement of l,000 tons (100% acid basis). Product requirement of 1,000 tons (100% acid basis). Rolling inventory is the sum of Product shipped from the Facility to Monsanto and Product in place at the Plant. Should Contractor or Monsanto desire to exceed the 1,000 tons "rolling inventory" requirement, a verbal agreement between both parties is necessary.

From time to time, the Contractor may be required to ship by tank truck. In the event said tank truck shipment is caused by the Contractor's inability to supply Product in tank cars, in the quantity as defined by Monsanto's usage rate forecast, as specified in this Schedule D, Contractor shall pay the difference in freight charges between tank truck and tank car.

In the event said tank truck shipment is caused by Monsanto's (i) change in usage rate forecast, as specified in this Section D, or (ii) inadequate supply of Material, Monsanto shall pay the freight charges for tank truck shipment.

In the event said tank truck shipment is caused by a third party, the payment of the difference in freight charges between tank truck and tank car shall be negotiated on a case by case basis. Any use of tank truck must be approved in advance by the Monsanto Representative.

Contractor's weights of Product will govern unless proven to be in error. For all shipments made by tank car, Contractor's weights will be those weights of Product made by the Union Pacific Railroad Company on their scales.

Delivery of Material to Contractor hereon shall be made by the Gulf Central Pipeline System with all costs for delivery to be born by Monsanto, or otherwise as may be mutually agreed to by the parties. Measurements of material by the Gulf Central Pipeline System metering point at the Facility will govern as weights of Material.

If either receiving party should question the Material or Product weights, the shipping party shall promptly supply the receiving party with adequate substantiation thereof. Empty Product tankcars are stick measured upon return to Contractor. Heals greater than one inch will be credited to Monsanto.

The above Delivery Schedule shall be reviewed on an annual basis with the Monsanto Representative and Contractor's Customer Service XXXXXXXXX Representative.

SCHEDULE F
01/01/94

INVOICES AND INVENTORIES

Contractor will use its best efforts to mail invoices for the Service Fee relative to Product delivered to Monsanto hereunder within seven (7) days of the date of shipment of such Product by Contractor from Facility. Terms of payment shall be net cash due thirty (30) days from date of receipt of the invoice.

Product Service Fee invoices shall be sent to:

The Chemical Group of Monsanto Company
Arrangement Section
Attn: T. Smith - F3ED
800 North Lindbergh Blvd.
St. Louis, Missouri 63167

Copies of Product Service Fee invoices will be sent to others within Monsanto per written instructions from The Monsanto Representative.

Contractor recognizes that Monsanto needs to have an uninterrupted supply of Product. Subject to the terms of this Agreement and Monsanto maintaining with Contractor at the Facility an inventory of Material in accordance with the terms of this Agreement, Contractor agrees to maintain an appropriate inventory of Product of between 800 and 1,200 tons at the Facility.

Contractor shall send Monsanto a monthly summary report of all Product Service Fee invoices and material balances. An example of this report is described in Schedule H.

ELDORADO.PA

SCHEDULE G
01/01/94

REPRESENTATIVES AND NOTICES

The Monsanto Representative for this contract shall be Mr. Robert E. Howard (Monsanto telephone number (314) 694-8054, mail code G5NA). The Monsanto Representative shall answer any technical and commercial questions relating to this contract.

Notices by either party shall be made in writing through a contract representative. "Monsanto Contract Representative" shall mean:

Mr. William F. Parker (F2WB)
Manager - Toll Manufacture
The Chemical Group of Monsanto Company
800 North Lindbergh Blvd.
St. Louis, Missouri 63167

and whose telephone number is:
(314) 694-7030

"Contractor Representative" shall mean:

Ms. Anne T. O'Donnell
Manager, Industrial Chemicals
El Dorado Chemical Company
P.O. Box 419082
St. Louis, Missouri 63141-1782

and whose telephone number is:
(314) 991-2853

Both Monsanto and Contractor shall have the right to change such representative at any time upon prior written notice to the other party.

ELDORADO.PA

29-Jun-88 08/01/88

SCHEDULE H

EL DORADO CHEMICAL CO./MONSANTO CO.
CONCENTRATED NITRIC ACID CONVERSION

MONTHLY PRODUCT INVOICES AND MATERIAL BALANCE

MAY 1988

ACID TONNAGE

SHIP DATE	SHIPPER NUMBER	INVOICE NUMBER	RAIL CAR NUMBER	TONS AS SHIPPED	ASSAY PERCENT	TONS ACID 100% BASIS	EQUIV. NH3 TONS
04-May	41323	86462	MCPX 6017	95.65	99.46%	95.133	28.741
05-May	41324	86905	ECDX 6200	125.95	99.50%	125.320	37.861
09-May	41325	88186	ECDX 2352	54.25	99.05%	53.735	16.234
09-May	41326	87000	ECDX 2353	61.85	99.36%	61.454	18.566
09-May	41327	87001	ECDX 2359	61.70	98.84%	60.984	18.424
16-May	41328	88187	ECDX 6201	124.70	98.92%	123.353	37.267
17-May	41329	88188	ECDX 6202	123.45	98.97%	122.178	36.912
17-May	41330	87887	ECDX 6015	95.15	99.07%	94.265	28.479
18-May	41331	88189	ECDX 6207	123.10	98.90%	122.339	36.961
23-May	41332	88602	ECDX 2357	61.95	98.46%	60.996	18.428
23-May	41333	88603	ECDX 2358	60.80	99.06%	60.228	18.196
24-May	41334	88708	ECDX 6200	123.90	98.85%	122.475	37.002
26-May	42645	88855	ECDX 6007	94.60	98.86%	93.522	28.254
26-May	42646	88856	ECDX 6010	95.05	99.16%	94.252	28.475
27-May	42647	89024	GATX 27013	99.10	99.24%	98.347	29.712
27-May	42648	89165	ECDX 2350	59.20	98.74%	58.454	17.660
27-May	42649	89166	ECDX 2352	60.35	98.55%	59.475	17.968
31-May	42650	89167	MONX 6204	120.75	98.93%	119.458	36.090
28-May	42651	89025	MCPX 6016	97.40	98.93%	96.358	29.111
May	42652	89168	ECDX 6015	94.75	98.85%	93.660	28.296
					TOTALS:	1815.988	548.637

CONTRACT YEAR-TO-DATE BALANCE
AUGUST 1987 THRU JULY 1988(TONS XH3)

BAL. DUE MONSANTO AT END OF PRIOR CONTRACT YEAR:	799.757
YTD NH3 OWED TO MONSANTO:	912.866
PLUS CURRENT MONTH DELIVERIES:	498.500
MONSANTO TOTAL YTD:	1411.366
LESS CURRENT MONTH CONVERTED:	548.637
BALANCE OWED TO MONSANTO THRU MAY:	862.729

SUBMITTED BY: /s/A. T. O'Donnell Date: 6/3/88

YTD SHIPMENTS TO MONSANTO(TONS OF NITRIC): 22361.787

SCHEDULE I
EL DORADO CHEMICAL COMPANY
P.O. Box 231
EL DORADO, ARKANSAS 71731-0231
Plant Emergency Phone No.:
(501) 863-1400
Chemtrec: 1-800-424-9300

El Dorado Chemical Company
Product Name
CONCENTRATED
NITRIC ACID (98%)

PRODUCT IDENTIFICATION

Chemical Name:	Concentrated Nitric Acid
Synonyms:	Hydrogen Nitrate, Aqua Fortis, White Fuming Nitric Acid
Chemical Formula:	HNO3
Concentration Range:	98 to 100%
CAS Reg. Number:	7697-37-2
DOT Proper Shipping Name:	Nitric Acid (other than red fuming with more than 70 percent nitric acid)
DOT/IMO Hazard Class:	8
DOT I.D. Number:	UN 2031
DOT Label(s)/Placard(s):	CORROSIVE
DOT Emergency Response Guide Number:	Guide Number 44
Hazardous Substance(s)/ RQ(s):	Yes - 1,000 lbs. (See Additional Comments)
U.S. Surface Freight Classification:	NITRIC ACID, 8, UN 2031, PG I, RQ

WARNING STATEMENTS

DANGER!
THIS PRODUCT IS A STRONG OXIDIZER!
LIQUID AND VAPOR CAUSE SEVERE BURNS
HARMFUL IF INHALED AND MAY CAUSE DELAYED LUNG INJURY
SPILLAGE MAY CAUSE FIRE OR LIBERATE DANGEROUS GAS

PRECAUTIONARY MEASURES

Do not breathe vapor.
Do not get in eyes, on skin, on clothing.
Keep container closed.
Use with adequate ventilation.
Wash hands and/or other exposed areas thoroughly after handling.

EMERGENCY AND FIRST AID PROCEDURES

IN CASE OF EYE OR SKIN CONTACT, immediately flush with plenty of water for at least 15 minutes while removing contaminated clothing and shoes. Call a physician. Wash clothing before reuse.

IF INHALED, remove to fresh air. If not breathing give artificial respiration, preferably mouth-to-mouth. If breathing is difficult, give oxygen. Call a physician.

IF INGESTED, and the victim is conscious, give large amounts of water or preferably milk. Do not induce vomiting. Transport the victim to a medical facility immediately.

PROTECTION INFORMATION

Eye Protection:	Wear chemical safety goggles and face shield when there is potential for eye and/or facial contact with the liquid. Provide eye baths in the immediate area of potential exposure.
Skin Protection:	Wear impervious PVC or Neoprene rubber gloves and protective long-sleeved clothes when there is potential for skin contact with the liquid. Wear impervious rubber boots, aprons and/or suits as appropriate when splashing is likely. Remove contaminated clothing promptly and launder before reuse. Provide a safety shower in the immediate vicinity of potential exposure.
Respiratory Protection:	Wear an NIOSH approved full face respirator or a positive pressure self-contained breathing apparatus as appropriate for protection. When worn, chemical safety goggles are removed. Consult with respirator manufacturers to determine the appropriate type of equipment for a given application.
Ventilation:	Provide sufficient ventilation to control exposure levels below airborne exposure limits of 0.2 ppm. Local exhaust ventilation is preferred.

FIRE PROTECTION INFORMATION

Flash Point:	Not Applicable; strong oxidizing agent
Ignition Temperature:	Not Applicable
Flammable Limits:	Not Applicable
Extinguishing Media:	In case of FIRE, soak with water.
Special Fire Fighting Instructions:	Wear full acid protective clothing with self-contained breathing apparatus. Evacuate area and stay upwind.
Unusual Fire and Explosion Hazards:	Powerful oxidizing agent. May cause explosion when in contact with oxidizable materials such as H_2S, nitrate, wood, cellulose, or other organic material.

HEALTH HAZARD DATA

Acute Effects:	Nitric acid is highly corrosive, suffocating, and fuming. The dilute acid can cause mild irritation, harden skin epithelium without destruction and cause chronic skin irritation. The concentrated acid severely burns and stains the skin, destroys the tissues and burns the eyes. Inhalation of nitric acid vapors is injurious to the lungs. Evidences of lung damage following exposure characteristically appear after a 4-30 hour delay. This, in the form of lung edema, may be severe and sometimes fatal.
Chronic Effects:	Continued exposure to nitric acid fumes can erode the teeth and is severely irritating and corrosive to the mucous membranes of the respiratory tract.
Ingestion:	Ingestion of concentrated nitric acid causes immediate pain and burning of the mouth, throat, and stomach. Symptoms may range from nausea, vomiting, circulatory collapse, to death.
Carcinogenic Status:	None suspected.
Airbone Exposure Limits:	Product: CONCENTRATED NITRIC ACID (98%)--100% by wt. Exposure should be kept below these limits: Nitric Acid: OSHA PEL/TWA--2 ppm (8 hr) ACGIH TLV(X)/TWA--2 ppm (8 hr) STEL--4 ppm (15 min)

PHYSICAL DATA

Appearance and Odor:	Colorless to light brown liquid with acrid odor.
Water Solubility:	Miscible
Weight % HNO3:	98.0 minimum
Specific gravity @ 60/60F:	1.5088
Bulk Density, lbs/gal (60F, 100F):	12.52, 12.80
Freezing Point, F(Approx.):	-42
Boiling Point, F(Approx.):	183
Viscosity, cp @ 20C(68F):	1.0
Vapor Density (Air=1):	>1
pH:	<1
Vapor Pressure (mm Hg):	51.0 @ 25C(77F)
Evaporation Rate (Butyl Acetate=1):	>1

REACTIVITY DATA:

Conditions to Avoid:	Avoid contact with organic refuse (wood, alcohol, turpentine, charcoal, etc.)
Incompatibility:	Nitric acid is a strong oxidizer. Avoid contact with organic materials, reducing agents, alkali, and metallic powders. Corrodes most metals.
Hazardous Decomposition Products:	Oxides of nitrogen, a toxic gaseous material, are produced.
Hazardous Polymerization:	Does not occur.

SPILL, LEAK & DISPOSAL INFORMATION

For a SPILL or LEAK, keep upwind of leak. Evacuate enclosed places until gas has dispersed. Flush away spill by flooding with water applied quickly to entire spill. Wear self-contained breathing apparatus if necessary to enter spill area.

Avoid skin, eye and respiratory contact - See Protection Information.

Flush small leaks and spills with large quantities of water. Where possible, contain and dilute large spills; then neutralize with limestone, soda ash, or liquid caustic soda.

Caution: Neutralization can produce vigorous reactions, boiling, and fumes. Remain upwind, evacuate downwind, if necessary. Dispose of any neutralization sludges or heavily contaminated soils in an approved landfill.

NOTE: Cleaned-up material is an RCRA Hazardous Waste. Comply with federal, state and local regulations for waste disposal.

REGULATORY INFORMATION

TOXIC SUBSTANCES CONTROL ACT (TSCA):

This substance is listed on the Toxic Substances Control Act inventory.

SUPPLIER NOTIFICATION REQUIREMENTS:

This product, concentrated nitric acid, is subject to the reporting requirements of Section 313 of Title III of the Superfund Amendments and Reauthorization Act (SARA) of 1986 and 40 CFR-Part 372.

HAZARD CATEGORIES, per 40 CFR-Part 370:
HEALTH: Immediate (Acute), Delayed (Chronic)
PHYSICAL: Reactivity, Oxidizer

ADDITIONAL COMMENTS:

Concentrated nitric acid is a designated "Hazardous Substance". Spills of 1000

pounds or greater must be reported to the E.P.A. Call the National Response Center at 800-424-8802, or a regional office.

EFFECTIVE DATE: July, 1992 SUPERSEDES: September, 1991

FOR ADDITIONAL NON-EMERGENCY INFORMATION CONTACT: (314) 991-2853

El Dorado Chemical Company
P.O. Box 419082
St. Louis, Missouri 63141-1782

MATERIAL SAFETY DATA Concentrated Nitric Acid (98%)

LOAN AND SECURITY AGREEMENT

(DSN Plant)

Dated October 31, 1994

between

DSN CORPORATION,

as Borrower

and

THE CIT GROUP/EQUIPMENT FINANCING, INC.,

as Lender

LOAN AND SECURITY AGREEMENT
(DSN Plant)

This LOAN AND SECURITY AGREEMENT (the "Agreement"), dated October 31, 1994, is made and entered into by and between DSN CORPORATION, an Oklahoma corporation (the "Borrower"), and THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation (the "Lender").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and of any loans or other credit facilities now or hereafter made to Borrower by Lender, the parties hereto covenant and agree as follows:

ARTICLE 1
DEFINITIONS

The following capitalized terms have the following meanings when used in this Agreement:

"AFFILIATE" means any of LSB, EDC, LSBC, Prime Financial Corp., Total Energy Systems, Ltd., Slurry Explosive Corporation, Universal Tech Corporation, LSB Holdings, Inc., and any other Person controlling or controlled by or under common control with LSB Industries, Inc. or any of their Subsidiaries, successors or assigns.

"ASSIGNMENT OF CONSTRUCTION CONTRACT, PLANS AND SPECIFICATIONS" means the Assignment of Construction Contract Plans and Specifications in form and substance satisfactory to the Lender, wherein the Lender is assigned the Construction Contract and the Plans and Specifications as security for the Obligations.

"BONDING COMPANY" means American Bonding Company, the company issuing payment and performance bond No. 9417875 in connection with the construction of the DSN Plant.

"BUSINESS DAY" means any day which is not a Saturday, Sunday or day on which banks in New York are required or permitted to close.

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

"COLLATERAL" means: (i) all personal property referred to in Section 3.1; (ii) all real property interests of Borrower in the DSN Plant Location, the DSN Plant and the Ground Lease and the Ground Sublease; and (iii) all other property and interests in property, real or personal, now owned or leased or hereafter acquired or leased, which is hereafter pledged or assigned to Lender as collateral security for payment of any of the Obligations.

"CONSENT TO ENCUMBRANCE" means that certain Consent to Encumbrance of Leasehold Estate and Landlord's Waiver of even date herewith executed by Northwest Financial Corporation and Borrower in favor of Lender.

"CONSTRUCTION CONSULTANT" means Brown & Root, Inc., and any subsequent consultant, selected by Lender as Construction Consultant under Section 2.2(c) hereof.

"CONSTRUCTION CONTRACT" means, collectively, that certain correspondence dated November 22, 1993 and November 24, 1993, between EDC and Systems Contracting Corporation, which has been assigned to Borrower, together with all other correspondence with Systems Contracting Corporation and all other construction contracts and equipment purchase contracts related to the construction of the DSN Plant.

"CONSTRUCTION PERIOD" means the period commencing on the date hereof and ending on the first to occur of: (i) March 31, 1995 or (ii) the DSN Plant Completion Date.

"CONSULTING AGREEMENT" means the Consulting Agreement dated October 31, 1994 between EDC and DSN relating to the DSN Plant.

"CONTRACTOR" means Systems Contracting Corporation and each other Person who has entered into a Construction Contract with, or which has been assigned to, Borrower.

"CONTRACTORS' CONSENTS" means, collectively, the Contractor's Consent and Certification executed by each Contractor in favor of Lender.

"DEFAULT" means any Event of Default or event which, with notice or passage of time or both, would constitute an Event of Default.

"DISBURSEMENT SCHEDULE" means the disbursement schedule and budget annexed to this Agreement as Exhibit "D", in form and substance acceptable to Lender.

"DISCLOSURE SCHEDULE" means the disclosure schedule annexed to this Agreement as Exhibit "A".

"DSN PLANT" means Borrower's direct strong nitric acid plant located at the DSN Plant Location.

"DSN PLANT EQUIPMENT LEASE" means that lease dated to be effective as of the date hereof between Borrower as lessor and EDC as lessee with respect to the DSN Plant and including
the Equipment relating thereto.

"DSN PLANT COMPLETION DATE" means the date on which Lender reasonably determines that all of the following have occurred: (a) Borrower and EDC shall have certified to Lender in writing that the DSN Plant has been fully constructed and completed in substantial accordance with the Plans and Specifications and is in operation, that the DSN Plant as completed complies with applicable zoning, building and land use laws, and that the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the Consulting Agreement are in full force and effect; (b) the Construction Consultant shall have confirmed to Lender that construction of the DSN Plant has been completed in substantial accordance with the Plans and Specifications, and that direct connection has been made to all pipelines, supply lines, and all water, gas, sewer, telephone and electrical facilities necessary for the operation and use of the DSN Plant, (c) a valid notice of completion has been filed for record in the Office of the County Recorder for the County in which the DSN Plant is located, (d) all inspections by any applicable governmental entities necessary to permit the start-up of the DSN Plant have been completed and all necessary certificates and approvals for occupation and operation of the DSN Plant have been obtained, and (e) the period for filing mechanics' and materialmen's liens has expired without any material liens having been filed or recorded or lien waivers have been obtained from contractors which performed more than $50,000 of work or provided more than $50,000 of materials, or, where applicable, Lender's Title Policy has fully insured against mechanics' or materialmen's liens.

"DSN PLANT LOCATION" means the location of the DSN Plant at El Dorado, Union County, Arkansas, more particularly described in Exhibit "C."

"EDC" means El Dorado Chemical Company, an Oklahoma corporation.

"ENVIRONMENTAL LAWS" means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidance, orders and consent decrees relating to hazardous substances, discharges, releases or disposals of pollutants, solid waste or hazardous materials, or any other environmental matters applicable to the Borrower's business, the DSN Plant or the DSN Plant Location. Such laws and regulations include the Resource Conservation and Recovery Act, 42 U.S.C. section 6901 et seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. section 9601 et seq., as amended; the Toxic Substances Control Act, 15 U.S.C. section 2602 et seq., as amended; the Clean Water Act, 33 U.S.C. section 466 et seq., as amended; the Clean Air Act, 42 U.S.C. section 7401 et seq., as amended; state

and federal superlien and environmental cleanup programs; and U.S. Department of Transportation regulations. The terms "hazardous substance" and "release" shall have the meanings specified in the Federal Comprehensive Environmental Responsibility Cleanup and Liability Act of 1980, as the definition of such terms may be subsequently modified, supplemented or amended ("CERCLA") and the terms "solid waste" and "disposal" shall have the meanings specified in the Federal Resource Conservation and Recovery Act of 1976, as the definition of such terms may be subsequently modified, supplemented or amended ("RCRA"; provided, however, that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment; and provided, further, however, that to the extent a parcel of real property is situated in a state or other jurisdiction in which the applicable laws may establish a meaning for "hazardous substance," "release," "solid waste," or "disposal" which is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply.

"EQUIPMENT" means all now or hereafter acquired equipment (as that term is defined in the UCC) now or hereafter located at the DSN Plant or relating to the DSN Plant, including machinery, data processing hardware and software, furniture, fixtures, trade fixtures, leasehold improvements, office equipment, strong acid plant equipment, storage tanks, strong acid building structure, compressor building, refrigeration facilities, piping, valves, plant equipment, machinery, electronics, instrumentation, panels, control systems and other tangible personal property and all accessions, accretions, replacements and additions to Equipment, and all other component and auxiliary parts used or to be used in connection with or attached to any of the same, and all manuals, drawings, instructions, warranties and rights with respect thereto wherever any of the foregoing is located.

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

"EVENT OF DEFAULT" means any event so described in Section 8.1.

"FAIR MARKET VALUE" means the price that a knowledgeable buyer would be willing to pay a knowledgeable seller, neither being under any duress to buy or sell and both having reasonable knowledge of relevant facts, for the machinery and equipment in place and in operation, taking advantage of all leasehold and site improvements designed to facilitate its operation, with the seller accurately and completely representing the existing condition and operability of the machinery and equipment to the buyer. Consideration is given to each asset's contribution to the operating facility, or the contribution of all the assets as a whole, whichever appropriately addresses production capabilities of the plant. It is assumed that all specially designed and built machinery and equipment will continue to be utilized in the manner for which it was originally intended.

"FINANCIAL STATEMENT" means any financial statement given to the Lender pursuant to Section 6.1.

"FISCAL YEAR" means, as to any Person, such Person's fiscal year for financial accounting purposes. The Borrower's current Fiscal Year ends on December 31, 1994.

"FUNDING DATE" means the date on which the initial advance is made.

"GAAP" means, as of any date of determination, generally accepted accounting principles consistently applied during each interval and from interval to interval.

"GROUND LEASE" means the lease agreement dated as of October 31, 1994 between the Borrower and Northwest Financial Corporation pursuant to which Northwest Financial Corporation granted Borrower the right to occupy the real property associated with the DSN Plant and to construct, use, occupy and sublease the DSN Plant at the DSN Plant Location.

"GROUND SUBLEASE" means the sublease dated October 31, 1994 of the Ground Lease from DSN to EDC.

"GUARANTOR" means any Person who has executed a Guaranty in favor of the Lender with respect to the Obligations, including LSB and LSBC.

"GUARANTY" means each continuing guaranty executed and delivered by LSB, LSBC and any other Guarantor in form and substance acceptable to Lender guarantying the Obligations.

"HAZARDOUS SUBSTANCE" means any substance, material or waste (including petroleum and petroleum products) which is or becomes designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant," or which is or becomes similarly designated, classified or regulated, under any Environmental Laws.

"INDEBTEDNESS" means, as to any Person, (a) all indebtedness of such Person for borrowed money, (b) that portion of the obligations of such Person under capital leases which is properly recorded as a liability on a balance sheet of that Person prepared in accordance with GAAP, (c) any obligation of such Person that is evidenced by a promissory note or other instrument representing an extension of credit to such Person, whether or not for borrowed money, or any obligation of such Person for the deferred purchase price of property or services (other than trade or other accounts payable in the ordinary course of business in accordance with terms customary to DSN or its Affiliates), (d) any obligation of such Person that is secured by a Lien on assets of such Person, whether or not that Person has assumed such obligation or whether or not such obligation is non-recourse to the credit of such Person, but only to the extent of the fair market value of the assets so subject to the Lien, (e) obligations of such Person arising under acceptance facilities or under facilities for the discount of accounts receivable of such

Person and (f) obligations of such Person for unreimbursed draws under letters of credit issued for the account of such Person.

"LATE CHARGE RATE" shall mean a rate per annum equal to the higher of 3% over the applicable interest rate set forth in Section 2.4 or 18%, but not to exceed the highest rate permitted by applicable law.

"LEASEHOLD MORTGAGE" means the leasehold mortgage, in form and substance satisfactory to Lender, wherein Lender is granted a first priority Lien in Borrower's right, title and interest in the DSN Plant Location, the DSN Plant, the Ground Lease, and the Ground Sublease.

"LIBOR RATE" means the rate of interest equal to the 30-day London Interbank Offered Rate. The Libor Rate shall be that which is reported and published in The Wall Street Journal for the 15th day of each month (if the 15th day is not a day for which The Wall Street Journal reports the Libor Rate, then on the first preceding day for which The Wall Street Journal reports the Libor Rate), and shall become effective as of the first day of the calendar month succeeding such determination and shall continue in effect to, and including, the last day of such calendar month. If The Wall Street Journal ceases to be published, or ceases to publish the Libor Rate, then the Libor Rate shall be that which is reported and published on the day specified above in any similar publicly available source designated by Lender.

"LIEN" means any mortgage, deed of trust, pledge, deed to secure debt, hypothecation, assignment, encumbrance, lien (statutory or other), security interest or other security agreement, including any conditional sale or other title retention agreement. "Lien" includes reservations, exceptions, easements, leases and other restrictions and encumbrances affecting real property. For purposes hereof a Person shall be deemed to own property acquired or held pursuant to a conditional sale or similar security arrangement.

"LOAN" shall have the meaning assigned in Section 2.1.

"LOAN DOCUMENTS" means, collectively:

a. this Agreement
b. the Note
c. the DSN Plant Equipment Lease
d. the Assignment of the DSN Plant Equipment Lease
e. the acknowledgment and Consent to Assignment of the DSN Plant Equipment Lease
f. sufficient UCC-1 Financing Statements for filing in Arkansas and Oklahoma
g. the Leasehold Mortgage with Assignment to Leases and Rents
h the Guaranty (LSB)
i. the Guaranty (LSBC)
j. the Consent to Encumbrance
k. Request for Advance
l. the Assignment of Construction Contract, Plans and Specifications
m. the Tenant Subordination Agreement
n. the Contractors' Consents

and any other opinions, resolutions, certificates, documents or agreements of any nature or type heretofore or hereafter executed or delivered by Borrower, Affiliates or Guarantors to Lender pursuant to this Agreement or any Loan Document in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated or extended.

"LSB" means LSB Industries, Inc., a Delaware corporation.

"LSBC" means LSB Chemical Corp., an Oklahoma corporation.

"MIXED ACID PLANT LOAN" means that certain loan in the original principal amount of approximately $1,075,200 to be made by Lender to Borrower pursuant to the Mixed Acid Plant Loan Documents.

"MIXED ACID PLANT LOAN DOCUMENTS" means that certain Loan and Security Agreement (Mixed Acid Plant) which the parties intend to prepare and execute between Lender and Borrower, and all other "Loan Documents" described therein, relating to a loan by Lender to Borrower to finance the acquisition and construction of a mixed acid plant in North Carolina.

"NOTE" means the promissory note which evidences the Loan, substantially in the form of Exhibit "B".

"OBLIGATIONS" means and includes the aggregate of the unpaid principal balance of the Loan and all accrued interest thereon, and all other loans, indebtedness, debts, liabilities, obligations, interest, fees, premiums, guarantees, amounts, indemnities, reimbursements, covenants and duties owing by the Borrower to the Lender under any one or more of the Loan Documents, of every kind and description (whether or not evidenced by any note or other instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising. "Obligations" include: (i) all interest, fees, charges or other costs and payments that the Borrower is required to pay to the Lender under or as a result of the Loan Documents or by law and (ii) all costs and expenses described in Section 2.7 or otherwise required to be paid by the Borrower to the Lender pursuant to any Loan Document.

"PENSION PLAN" means any pension plan as defined in Section 3(2) of ERISA which is a multi employer plan or a single employer plan as defined in Section 4001 of ERISA and subject to Title IV of ERISA and which is: (i) a plan maintained by the Borrower, or any Subsidiary or any Related Company; (ii) a plan to which the Borrower, or any Subsidiary or any Related Company contributes or is required to contribute; (iii) a plan to which the Borrower,

or any Subsidiary or any Related Company was required to make contributions at any time during the five calendar years preceding the date of this Agreement; or (iv) any other plan with respect to which the Borrower, or any Subsidiary or any Related Company has incurred or may incur liability, including contingent liability, under Title IV of ERISA, either to such plan or to the Pension Benefit Guaranty Corporation.

"PERMITTED LIENS" means: (i) Liens for taxes not yet payable or being contested in good faith and by appropriate proceedings diligently pursued, provided that the reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor; (ii) mechanics' and similar liens incurred in the ordinary course of business or in the construction of the DSN Plant, not to exceed, at any given time, an aggregate of $150,000.00, securing non-overdue obligations or for which an adequate bond has been posted; (iii) Liens in favor of the Lender; (iv) Liens described on the Disclosure Schedule as such Disclosure Schedule is in effect on the date hereof; and (v) all exceptions and Liens identified in the Title Policy.

"PERSON" means any individual, trust, firm, partnership, corporation or any other form of public, private or governmental entity or authority.

"PLANS AND SPECIFICATIONS" means those Plans and Specifications related to the construction of the DSN Plant, which Plans and Specifications must be acceptable to Lender.

"PROCEEDS" means all products and proceeds (as defined in the UCC) of any Collateral, and all proceeds of any such proceeds, including all awards for taking by eminent domain, all proceeds of fire or other insurance and all proceeds obtained as a result of any legal action or proceeding with respect to any Collateral.

"RAIL CAR LOAN" means that certain loan in the original principal amount of approximately $1,169,800, made by Lender to Borrower pursuant to Rail Car Loan Documents.

"RAIL CAR LOAN DOCUMENTS" means that certain Loan and Security Agreement (Rail Car) which the parties intend to prepare and execute between Lender and Borrower, and all other "Loan Documents" described therein, relating to a loan by Lender to Borrower to acquire ten new nitric acid rail cars.

"RELATED COMPANY" means any member of any controlled group of corporations (as defined in the Code) of which the Borrower is a party, or any trade or business (whether or not incorporated) which together with the Borrower would be treated as a single employer under Section 4001 of ERISA.

"REPORTABLE EVENT" shall have the meaning assigned to that term in Title IV of ERISA, including a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a creation of operations described in Section 4062(e) of ERISA.

"REQUEST FOR ADVANCE" means a certificate executed and delivered by Borrower in form acceptable to Lender which contains all of the information as described in Section 2.2(b) hereof.

"SECURITY INTEREST" collectively means the Liens created for the benefit of the Lender pursuant to the Loan Documents.

"SUBSIDIARY" means any present or future corporation of which more than 50% of the outstanding stock having by its terms the ordinary voting power to elect a majority of the board of directors, managers or trustees of such corporation is at the time, directly or indirectly through one or more intermediaries, owned or controlled by the Borrower and/or one or more of its Subsidiaries, irrespective of whether or not, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency. If at any time, and only for so long as, the Borrower has no Subsidiaries, provisions of this Agreement which refer to Subsidiaries shall be of no force and effect insofar a they pertain to Subsidiaries although they shall remain in full force and effect as to all other Persons in question.

"TENANT SUBORDINATION AGREEMENT" means that certain Subordination, Nondisturbance, Estoppel and Attornment Agreement dated October 31, 1994, executed by EDC and Borrower in favor of Lender.

"TERM OUT PERIOD" has the meaning assigned to such term in Section 2.3(b) of this Agreement.

"TITLE POLICY" means the policy of title insurance referred to in Section 2.9 hereof.

"TREASURY RATE" means the rate per annum equal to the yield to maturity for the U.S. Treasury Security having a remaining term to maturity closest to five (5) years as at (and shall be fixed as of) the close of business on the third Business Day prior to the first day of the Term Out Period, as such yield to maturity is reported on page 5 ("U.S. Treasury and Money Markets") of the information ordinarily provided by Telerate Systems Incorporated (provided that if Telerate Systems Incorporated ceases to report such information, then such information shall be taken from any publicly available source of similar data designated by Lender).

"UCC" means the Uniform Commercial Code (or any successor statute) as from time to time in effect in any applicable jurisdiction.

ARTICLE 2
THE LOAN

Section 2.1 THE LOAN. On the basis of the covenants, agreements and representations of Borrower contained herein and subject to the terms and conditions hereinafter set forth, Lender agrees to lend to Borrower and Borrower agrees to borrow from Lender a sum not to exceed the principal amount of TWELVE MILLION SEVEN HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS ($12,750,000.00) (the "Loan"), the proceeds of which are to be disbursed by Lender exclusively for the payment of the following costs and expenses as hereinafter provided: (i) costs and expenses incurred in connection with the construction of the DSN Plant; (ii) other costs and expenses incidental to the DSN Plant; and (iii) costs and expenses incurred in connection with the Loan and Borrower's undertakings hereunder, which proceeds shall be disbursed in accordance with the Disbursement Schedule and as follows:

(a) RECORDATION DISBURSEMENTS. Upon recordation of the Leasehold Mortgage, provided that the title insurer has issued or irrevocably committed in writing to issue to Lender the Title Policy, Lender shall disburse to the Persons entitled thereto the amounts (if acceptable to Lender) necessary to pay all or portions of: (i) out of pocket costs, charges, expenses and legal fees incurred by (A) Lender and payable by Borrower hereunder or (B) Borrower in connection with title charges and premiums, tax and lien service charges, recording fees, escrow fees, real property taxes and assessments, and insurance premiums payable in connection with the Loan; and (ii) other DSN Plant costs and expenses theretofore incurred by Borrower, all in accordance with the applicable provisions of the Disbursement Schedule.

(b) COURSE-OF-CONSTRUCTION DISBURSEMENTS. Subsequent to recordation of the Leasehold Mortgage and subject to the provisions of this Agreement, including without limitation the provisions contained in Section 2.2 hereof, Lender shall disburse to Borrower, or if reasonably deemed necessary by Lender, Lender shall disburse directly to such Persons as have actually supplied labor, materials or services in connection with or incidental to the construction of the DSN Plant, and subject to the applicable retention percentage set forth in the Construction Contract, such sums as are required to be used and which shall be used only for the payment of (i) the costs and expenses of any of Borrower's undertakings in this Agreement, the Note, the Leasehold Mortgage or any of the other Loan Documents, (ii) interest on borrowings under the Note, (iii) the costs and expenses of Lender which are payable by Borrower or reimbursable by Borrower as set forth herein, and (iv) the costs and expenses of the labor and materials used in constructing the DSN Plant and costs and expenses incidental thereto, with all disbursements under this Agreement to be made in accordance with the applicable provisions of the Disbursement Schedule.

Section 2.2 DISBURSEMENT METHODS.

(a) Notwithstanding any other terms of this Agreement, the disbursements under the Loan shall be capped at $5,000,000 until such time as LSB and certain of its subsidiaries shall have in full force and effect, a new $75,000,000 revolving credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender.

(b) REQUEST FOR ADVANCE. From time to time, but not more frequently than twice per month, Borrower shall furnish to Lender, separately with respect to each request for any disbursement of proceeds of the Loan, a Request for Advance duly signed and sworn to with all blanks appropriately filled in, setting forth such details concerning construction of the DSN Plant as Lender shall require, including (i) a detailed breakdown of the applicable percentages of completion and costs of the various phases of construction of the DSN Plant, showing the amounts expended to date for such construction and the amounts then due and unpaid, an itemized estimate of the amount necessary to complete construction of the DSN Plant in its entirety, and a certification by Borrower and Mr. Leo Hilinski or his designee that construction of the DSN Plant to the date of such certificate complies with the Plans and Specifications; (ii) a list of the names and addresses of all materials dealers, laborers and subcontractors to whom payments are due under such Request for Advance; and (iii) if required by Lender, receipted invoices or bills of sale and unconditional partial releases of lien (on forms approved by Lender) from each materials dealer, laborer and subcontractor who has done work or furnished materials for construction of the portion of the DSN Plant covered by each such Request for Advance acknowledging acceptance of such payment in satisfaction of Borrower's obligations. A Request for Advance must be for an amount not less than $500,000. Lender may disburse a part of the funds requested if it approves part but not all of the Request for Advance.

(c) CONSTRUCTION CONSULTANT. Throughout the course of construction of the DSN Plant, Lender will employ, at Borrower's sole cost and expense, Construction Consultant or Consultants who shall review as agent for Lender all construction activities undertaken in regard to the DSN Plant, which Construction Consultant(s) shall certify or otherwise indicate to Lender that construction of the DSN Plant to the date of each Request for Advance and certificate of Borrower is as set forth in the Request for Advance and certificate submitted by Borrower, that such construction substantially complies with the Plans and Specifications and that the progress of construction is such that the construction of the DSN Plant will be completed within the Construction Period, with each such certificate and indication from such inspector or inspectors to be a further condition precedent to Lender's approval of Borrower's then submitted Request for Advance. Lender may change Construction Consultants or modify the terms of its agreement with any Construction Consultant, if deemed reasonably necessary by Lender.

(d) DISBURSEMENTS; DEFICIENCIES. The proceeds of the Loan disbursed under this Agreement shall be evidenced by the Note and shall be

secured by the Borrower's interest in the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the other Collateral, and all such proceeds shall be disbursed, as aforesaid, directly to and to reimburse such Persons, or to Borrower to reimburse such Persons as have actually supplied labor, materials or services in connection with or incidental to construction of the DSN Plant, or to reimburse Borrower in the event Borrower shall have already paid such Persons. In no event shall Lender be required to disburse any amount which, in Lender's reasonable opinion, will either (i) reduce the total undisbursed amount of the Loan below the amount necessary to pay for the balance of the work, labor and materials necessary fully to complete construction of the DSN Plant in accordance with the Plans and Specifications, or (ii) reduce the undisbursed amount of Loan proceeds allocated to the cost category described in any paragraph contained in the Disbursement Schedule below the amount which Lender reasonably deems sufficient to pay in full the costs to which such amount is allocated. In the event any amount in a cost category of the Disbursement Schedule is deficient, and Borrower has not made alternative payment arrangements for the costs in question, then upon ten (10) days' written notice from Lender, Borrower shall furnish Lender with paid invoices, bills and receipts indicating that Borrower has paid, from Borrower's own funds, for the costs of completing the construction of the DSN Plant or the costs in the cost category in question, as the case may be, in a sufficient amount to make the undisbursed amount of the Loan or the undisbursed portion thereof under the cost category in question sufficient to pay for the entire balance of the costs of completing the construction of the DSN Plant or the entire balance of the costs in such cost category, but only if such work has been performed and materials have been provided.

(e) LIMITATIONS ON DISBURSEMENTS. Disbursements of Loan proceeds shall be made by Lender only to defray costs actually incurred by Borrower and in accordance with the Disbursement Schedule. Disbursements on account of the direct costs of constructing the DSN Plant shall be limited to the lesser of (i) the actual cost to Borrower of work and labor performed on the DSN Plant and materials incorporated into the DSN Plant or suitably stored at the DSN Plant Location or (ii) the actual value (as determined by Lender in its reasonable discretion) of said work and labor performed and materials stored; disbursements on account of indirect or "soft" costs relating to the construction of the DSN Plant, the Loan, the preparation of the Plans and Specifications, and all of the other transactions contemplated hereby shall be limited to the actual amounts of such costs as indicated by invoices, statements, vouchers, receipts or other written evidence satisfactory to Lender.

(f) CONTINUATION AND DATE-DOWN ENDORSEMENTS. After recordation of the Leasehold Mortgage and as a condition precedent to each disbursement under the Loan after the initial advance, Borrower shall, at its own cost and expense, deliver or cause to be delivered to Lender from time to time such continuation and date-down endorsements to be attached to the Title Policy in form and substance satisfactory to Lender, as Lender deems necessary to insure the priority of the Leasehold Mortgage as a valid first priority lien on the DSN Plant Location and the DSN Plant as of the date of and including the amount covered by each such disbursement, and Borrower agrees to furnish to the title insurer such surveys and other information as are reasonably required by Lender or the title insurer to enable the title insurer to issue such endorsements to Lender.

(g) CHANGE ORDERS. Borrower shall not permit any amendments or modifications of the Plans and Specifications, the Construction Contract or any subcontracts, or the performance of any work pursuant to such amendments or modifications, which individually exceed $250,000 or, when added to the cumulative amount of all net increases in the prices payable under the Construction Contract and all such subcontracts resulting from all such amendments and modifications theretofore permitted by Borrower, would result in a net increase in the total price payable under all such subcontracts in excess of $750,000.

(h) OTHER GENERAL CONDITIONS. No Request for Advance will include (i) any amounts previously disbursed hereunder, (ii) any costs not approved, certified or verified as provided above, (iii) any costs for which payment reimbursement was previously requested by Borrower and for which proof of payment has been requested but not yet received by Lender, and/or (iv) any real estate taxes, mechanics' liens, security interests, claims or other charges against the Collateral, or any interest, fees or other costs which Borrower may have failed to pay in accordance with this Agreement or the other Loan Documents. If Lender considers that its best interest and the best interest of the completion of the construction lies in accelerating the amounts to be advanced hereunder, it shall be entitled to do so, and no such advance shall be deemed to be a waiver of any condition contained herein.

Section 2.3 REPAYMENT OF THE LOAN. The Borrower promises to repay the Loan as follows:

(a) During the Construction Period, monthly interest payments on outstanding principal balance of the Loan at the applicable rate set forth in Section 2.4 shall be paid to Lender commencing December 1, 1994 and on the first day of each month thereafter.

(b) The principal balance outstanding under the Note, and all accrued and unpaid interest, and all other Obligations owing under any of the Loan Documents shall be due and payable in full on the date on which the Construction Period terminates; provided, however, that if the Construction Period ends on the DSN Plant Completion Date, then the Loan shall be converted to a term Loan and shall be extended for a period (the "Term Out Period") commencing on the day immediately succeeding the last day of the Construction Period and ending on the date which is eight-four (84) months after such date, subject to the following terms and conditions:

(i) no uncured Default has occurred and is continuing, and no material adverse change in the business, financial condition or operations of Borrower, any Guarantor or EDC shall have occurred;

(ii) any undisbursed Loan proceeds existing at the end of the Construction Period shall be cancelled, and Borrower shall have no further right to request or receive any further disbursements of Loan proceeds, provided, that this limitation shall not apply if Borrower demonstrates to Lender that additional conforming costs and expenses have been incurred in connection with the DSN Plant and Lender approves such additional costs and expenses for payment from such undisbursed Loan Proceeds prior to the commencement of the Term Out Period;

(iii) Lender shall have determined, based upon an appraisal of the DSN Plant conducted at Borrower's sole expense by an independent appraiser selected by Lender, that the Fair Market Value of the DSN Plant and the Equipment equals or exceeds the outstanding principal balance of the Loan. This shall be performed and completed not later than January 1, 1995;

(iv) LSB and certain of its subsidiaries shall have entered into a new $75,000,000 credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender;

(v) commencing on the first day of the first month which begins not less than 31 days after the last day of the Construction Period and thereafter on the first day of each subsequent month, Borrower shall pay to Lender during the Term Out Period in eighty-four (84) consecutive, equal monthly payments of principal and interest, calculated by fully amortizing the outstanding principal balance of the Loan as of the commencement of the Term Out Period over an 84-month period at the applicable interest rate set forth in Section 2.4; and

(vi) the principal balance outstanding under the Note, and all accrued and unpaid interest not sooner paid when due under the Note, and all other Obligations of Borrower owing under any and all of the Loan Documents, shall due and payable in full on the last day of the Term Out Period.

(c) In the event the Loan is not converted to a term Loan because Borrower has chosen to finance the DSN Plant with a lender other than Lender, not due to any default by Lender, then in addition to all other sums owing on the date on which the Construction Period ends, Borrower shall pay to Bank a termination fee equal to five percent (5%) of the outstanding principal balance of the Loan as of the date on which the Construction Period ends.

The Borrower's obligation to pay all amounts payable hereunder is absolute and unconditional and shall not be affected by any circumstance of any character whatsoever, including (i) any setoff, counterclaim, recoupment, defense, abatement or reduction or any right which the Borrower may have against the Lender, the manufacturer or supplier of any of the Equipment or anyone else for any reason whatsoever; (ii) the invalidity, enforceability or disaffirmance of this Agreement or any other Loan Document related hereto; or (iii) the prohibition of or interference with the use or possession-by the Borrower of all or any part of the DSN Plant Location or the Equipment, for any reason whatsoever.

Section 2.4 INTEREST CHARGES. During the Construction Period, the outstanding principal balance of the Loan shall bear interest at a rate per annum equal to the Libor Rate plus 3.10%. During the Term Out Period, the outstanding principal balance of the Loan shall bear interest at a per annum rate equal to the Treasury Rate plus 2.70%. In each instance, interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.5 LATE CHARGE RATE. In the event the Borrower fails to pay any amount hereunder when due, the amount due shall bear charges thereon calculated at the Late Charge Rate. At any time when any Event of Default has occurred, irrespective of any cure periods, and continues for over ten (10) days, the Borrower will pay interest on the Loan at the Late Charge Rate.

Section 2.6 MAXIMUM INTEREST. In no event shall the interest charged with respect to the Obligations exceed the maximum amount permitted under applicable law. Notwithstanding anything to the contrary herein or elsewhere, if at any time the rate of interest called for hereunder or under the Note or other Loan Document (the "Stated Rate") exceeds the highest rate of interest permissible under any applicable law (the "Maximum Lawful Rate"), then for so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the Stated Rate is less than the Maximum Lawful Rate, the Borrower shall, to the extent permitted by law, continue to pay interest at the Maximum Lawful Rate until such time as the total interest received by the Lender is equal to the total interest which the Lender would have received had the Stated Rate been (but for the operation of this provision) the interest rate payable. Thereafter, the interest rate payable shall be the Stated Rate unless and until the Stated Rate again exceeds the Maximum Lawful Rate, in which event this provision shall again apply.

Section 2.7 EXPENSES. The Borrower agrees to pay on demand all reasonable out of pocket costs and expenses (including reasonable legal, appraisal, accounting, auditing and similar fees) incurred at any time, before or after the Obligations are paid in full, in connection with (i) the enforcement, attempted enforcement, amendment or termination of this Agreement or any of the other Loan Documents, the performance of any of the Borrower's duties under this Agreement and the other Loan Documents or any exercise by Lender of its rights and remedies under this Agreement or any other of the Loan Documents, including in connection with a reorganization or bankruptcy reorganization of the Borrower or any Affiliate; (ii) the filing or recordation of all documents or instruments relating to the Collateral; (iii) realizing upon or protecting any Collateral and enforcing and collecting any Obligations or guaranty thereof; and (iv) any Default or Event of Default. The Borrower also agrees to reimburse the Lender, on the Funding Date, for its legal fees for outside counsel plus any appraisal fees, recording and search fees and related expenses, including travel and other out of pocket expenses of the Lender's agents and its counsel, incurred by it in connection with the preparation, negotiation, execution, closing and delivery of the Loan Documents.

Section 2.8 PREPAYMENT. No prepayment of the Loan shall be permitted during the Construction Period or prior to the date which is forty-two (42) months after the date on which the Term Out Period begins. Thereafter, provided no Default has occurred and is continuing, the Borrower may prepay the Loan in whole, but not in part, on the first day of any month, upon at least thirty (30) Business Days' prior written notice to the Lender. Such prepayment of the Loan shall be accompanied by the payment of all principal, all accrued but unpaid interest on the Loan to the date of prepayment and all outstanding and unpaid costs, fees and expenses. In addition, the prepayment of the Loan shall be made with a prepayment fee in an amount equal to the greater of (a) two percent (2.0%) of the outstanding principal balance of the Loan being prepaid, or (b) the excess, if any, of (i) the present value of the principal and interest payments which would have been payable during the remainder of the Term Out Period in the absence of the prepayment, using a discount rate equal to one percent (1.0%) plus the yield to maturity, as of the Third Business Day prior to the date on which the prepayment is made, on U.S. Treasury Securities having a remaining term to maturity closest to the remaining average life of the Loan, as such yield to maturity is reported on page 5 ("U.S. Treasury and Money Markets") of the information ordinarily provided by Telerate Systems Incorporated, over (ii) the principal amount being prepaid.

Section 2.9 CONDITIONS OF LENDING. The obligation of the Lender to make the initial and any subsequent advance under the Loan is subject to the prior satisfaction (or waiver in writing and signed by Lender in its sole discretion) of each of the following conditions precedent:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties made by the Borrower and the Guarantors in the Loan Documents and any certificate, document or financial or other written statement furnished at any time under or in connection herewith shall be true and correct in all material respects on and as of the date given and on and as of the date of the Funding Date as if made on and as of such date and otherwise in exactly the same language.

(b) COMPLIANCE. The Borrower shall have complied and shall then be in compliance with all the terms, covenants and conditions of the Loan Documents.

(c) NO DEFAULT. No Default shall have occurred and be continuing.

(d) NO MATERIAL ADVERSE CHANGE. No material adverse change shall have occurred with respect to the business, financial condition or operations of the Borrower since the financial statement of LSB dated December 31, 1993 and the Lender shall have received a certificate from the Chief Executive Officer of the Borrower to that effect; and no material adverse change shall have occurred with respect to the business, financial condition or operations of EDC or any Guarantor, as may be determined by Lender in the exercise of its reasonable discretion.

(e) DELIVERY OF DOCUMENTS. Each of the Loan Documents, the Ground Lease, the DSN Plant Equipment Lease and the Ground Sublease shall have been executed and delivered to the Lender in form and substance satisfactory to the Lender and shall be in full force and effect.

(f) NO CHANGE IN LAW. No change in state or federal law shall have been enacted or proposed which would make the Loan unlawful to the Lender.

(g) REVIEW OF REAL PROPERTY RECORDS. Prior to the initial advance the Lender shall have reviewed and approved the real property records and encumbrances relating to the DSN Plant Location, including the Ground Lease and the Ground Sublease.

(h) LANDLORD/MORTGAGEE WAIVERS. Prior to the initial advance the Borrower shall have provided to the Lender such Landlord/Mortgagee Waivers, in form, substance and number as may be reasonably required by the Lender.

(i) MORTGAGE AND TITLE INSURANCE. Prior to the initial advance, the Lender shall have received the Leasehold Mortgage

encumbering Borrower's interest under the Ground Lease and the Ground Sublease, in form and priority as may be acceptable to the Lender in its sole discretion, and the Leasehold Mortgage shall have been recorded and any recording fees and any Arkansas intangible recording tax shall have been paid in full. The Lender shall also have received an ALTA lender's policy of title insurance, issued by a title insurer acceptable to Lender, in form, amount and with such priority and endorsements as the Lender may reasonably require, including:

(i) Coverage against mechanics' liens;

(ii) An endorsement insuring the continuing priority of subsequent advances;

(iii) A single tax parcel endorsement; and

(iv) Proof that all real estate taxes for the Premises due and owing as of the Closing Date have been paid.

(j) OPINIONS OF COUNSEL. Prior to the initial advance the Lender shall have received an opinion of legal counsel for Borrower, LSB, LSBC and EDC, in form and substance satisfactory to the Lender and its counsel, which opinion will include, among other things, opinions affirming the Borrower's authority to enter into this Agreement, the perfection and priority of the Security Interest, LSB's and LSBC's authority to enter into the Guaranties and EDC's authority to enter into the DSN Plant Equipment Lease and the Ground Lease, the Ground Sublease, and the enforceability of the Loan Documents.

(k) ENVIRONMENTAL COMPLIANCE. Not later than ten (10) days prior to the initial advance, the Lender shall have received and found satisfactory an environmental report on the DSN Plant location in form acceptable to the Lender. Subject to Borrower's environmental representations and warranties, Lender acknowledges that an acceptable report has been received by Lender.

(l) BOND. The Bonding Company shall have named Lender as an additional insured.

(m) CONSULTANT'S CONSTRUCTION REPORT. Lender shall have received a report from the Construction Consultant regarding such matters as Lender may reasonably request.

(n) PERMITS. Lender and the Construction Consultant shall have received evidence that Borrower has obtained all necessary governmental approvals, permits and other approvals (or no impediment exists to them being timely obtained) for completion and operation of the DSN Plant and other improvements to be constructed pursuant to the Plans and Specifications, including building, site plan, and such other permits or approvals as are requested by Lender, and that all such permits and approvals are or are expected to be in full force and effect, with no appeal of the granting of any thereof having been made.

(o) CONTRACTOR'S CONSENTS. Lender shall receive a complete copy of the fully executed Contractor's Consents, if any, which shall permit assignment thereof to Lender and its successors and assigns and shall recognize Lender as a permitted assignee of such Construction Contract.

(p) UCC SEARCHES. Prior to the initial advance Lender shall have received UCC searches for Oklahoma and Arkansas reflecting Lender's first priority lien in the personal property Collateral.

(q) LOAN FEE AND EXPENSES. The Borrower shall have paid in full the up front fee referenced in Section 2.12 hereof and, from the initial funding, the expenses referenced in Section 2.7 hereof.

(r) CERTIFICATE OF GOOD STANDING AND TAX CLEARANCes. Prior to the initial advance the Lender shall have received certified copies indicating the Borrower is in good standing under the laws of its state of incorporation and qualified to do business in the states where it does business and such tax clearance certificates as may be required by the Lender.

(s) PROCEEDINGS. All proceedings and actions shall have been taken in connection with the transactions contemplated by this Agreement, and all documents contemplated in connection herewith shall be satisfactory in form and substance to the Lender and its counsel.

(t) EVIDENCE OF INSURANCE. Prior to the initial advance the Lender shall receive evidence of all insurance required by the terms of this Agreement and the Loan Documents.

(u) TERMINATION OF LIENS. Prior to the initial advance the Lender shall have received duly executed UCC termination statements and other instruments in form and substance satisfactory to the Lender, as shall be necessary to terminate and satisfy any Liens on the Collateral except for Permitted Liens.

(v) CERTIFICATE OF INCUMBENCY OF BORROWER. Prior to the initial advance Lender shall have received a certificate of incumbency of Borrower signed by the Borrower's Secretary or

Assistant Secretary, which certificate shall certify the names of the officers of the Borrower authorized to execute any Loan Documents and any other related documents on behalf of Borrower, together with the signatures of such officers, and Lender may conclusively rely on such certificate until receipt of a further certificate of the Secretary or Assistant Secretary of Borrower cancelling or amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(w) RESOLUTIONS OF BORROWER. Prior to the initial advance Lender shall have received a certified copy of all corporate proceedings of Borrower evidencing that all action required to be taken in connection with the authorization, execution, delivery, and performance of this Agreement, the other Loan Documents, the Lease and the DSN Plant Equipment Lease, and the transactions contemplated hereby and thereby, has been duly taken.

(x) CERTIFICATE OF INCUMBENCY OF EACH GUARANTOR. Prior to the initial advance Lender shall have received a certificate of incumbency of each Guarantor signed by such Guarantor's Secretary or Assistant Secretary, which certificate shall certify the names of the officers of such Guarantor authorized to execute the Guaranty and any other related documents on behalf of such Guarantor, together with the signatures of such officers, and Lender may conclusively rely on such certificate until receipt of a further certificate of the Secretary or Assistant Secretary of such Guarantor cancelling of amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(y) RESOLUTIONS OF EACH GUARANTOR. Prior to the initial advance Lender shall have received a certified copy of all corporate proceedings of each Guarantor evidencing that all action required to be taken in connection with the authorization, execution, delivery and performance of the Guaranty to be executed by such Guarantor, and the transactions contemplated thereby, has been duly taken.

(z) REFERENCES. Prior to the initial advance Lender shall have received, reviewed and found satisfactory bank and customer references for EDC and each Guarantor.

(aa) $75,000,000 CREDIT FACILITY. Prior to the initial advance, LSB and certain of its subsidiaries shall have received and accepted an executed commitment to lend, and shall be in the process of completing a new $75,000,000 credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender.

(ab) OTHER REQUIRED DOCUMENTATION. Borrower shall execute and/or deliver such other documents, instruments, agreements or items as Lender may reasonably require.

Section 2.10 PLACE AND FORM OF PAYMENTS. Unless the Lender otherwise directs in writing, all payments and prepayments permitted or required by any Loan Document shall be made in immediately available funds and not later than the time necessary for good funds to be credited on the same day received at the Lender's account in accordance with the instructions annexed hereto as Rider 2.10 or to such other location as the Lender shall hereafter designate to the Borrower in writing. Whenever any payment is stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest or fees.

Section 2.11 HOLD BACK. Lender will hold back construction fund advances in an amount of $2,500,000 until such time as Lender shall have determined, based upon an appraisal of the DSN Plant performed at Borrower's sole cost and expense by an independent appraiser selected by Lender, that the Fair Market Value of the DSN Plant is at least equal to $12,750,000.

Section 2.12 COMMITMENT FEE. In consideration of the Lender's commitment to enter into this Agreement, the Mixed Acid Plant Loan Documents and the Rail Car Loan Documents, the Borrower acknowledges that the Lender has previously received a non-refundable fee in the amount of $124,950, paid in connection with the Lender's proposal and commitment.

ARTICLE 3
SECURITY FOR THE OBLIGATIONS

Section 3.1 GRANT OF SECURITY INTEREST. As collateral security for the prompt and due payment and performance of the Obligations and all Indebtedness of Borrower to Lender under the Mixed Acid Plant Loan Documents and the Rail Car Loan Documents, the Borrower hereby assigns to the Lender and grants to the Lender a continuing lien on and security interest in all of the Borrower's right, title and interest in and to the following property, present or future, tangible or intangible, now owned or existing or hereafter acquired or arising:

(a) All documents, instruments, rentals and other rights to payment relating to the DSN Plant, the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the Consulting Agreement and all other agreements, contracts, chattel paper, contract rights, rights to payment and insurance policies and surety bonds relating thereto, and the Plans and Specifications and all Construction Contracts, and all proceeds of all of the foregoing;

(b) All general intangibles, trade secrets, computer

programs, software, customer lists, trademarks, trade names, patents, licenses, copyrights, technology, processes, proprietary information, and insurance proceeds relating to the DSN Plant;

(c) All books and records, including books of account and ledgers of every kind and nature, all electronically recorded data relating to Borrower or the business thereof, all receptacles and containers for such records, and all files and correspondence relating to the DSN Plant;

(d) All Equipment, goods, including all inventory, machinery, tools, molds, dies, furniture, furnishings, fixtures, trade fixtures, motor vehicles and all other goods used in connection with or in the conduct of Borrower's business relating to the DSN Plant;

(e) All accessions, appurtenances, components, repairs, repair parts, spare parts, replacements, substitutions, additions, issue and/or improvements to or of or with respect to any of the foregoing;

(f) All rights, remedies, powers and/or privileges of Borrower with respect to any of the foregoing; and

(g) Any and all Proceeds and products of any of the foregoing, including all money, rentals, accounts, general intangibles, deposit accounts, documents, instruments, chattel paper, goods, insurance proceeds, and any other tangible or intangible property received upon the sale or disposition of any of the foregoing.

Except in the ordinary or normal course of its operations in Section 7.6 herein, Borrower has no right to dispose of or sell any of the above-described Collateral.

Section 3.2 CONTINUING OBLIGATION. Except with respect to those Permitted Liens and those liens which by law are accorded a first priority, the Borrower shall take all action necessary to grant the Lender a valid first priority lien on and security interest in all Collateral on the Funding Date, and to maintain at all times the validity, enforceability, perfection and first priority of the Security Interest. Until the Obligations are fully paid and satisfied, the Borrower will at all times do, make, execute, deliver, record, register or file all such financing statements, fixture filings, deeds of trust, mortgages, assignments, certificates, charges, instruments, acts, pledges, assignments and transfers (or cause the same to be done) and will deliver to the Lender such instruments constituting or evidencing the Collateral, as the Lender may request, to assure, continue or establish the validity, enforceability, perfection and first priority (except for Permitted Liens) of the Security Interest. To the extent permitted by applicable law, the Borrower hereby authorizes the Lender to: (i) sign Borrower's name and on behalf of such Borrower to execute and file mortgages, deeds of trust, financing statements, and notices of lien necessary to protect or perfect the security interest granted herein in any or all of the Collateral and (ii) file a carbon, photocopy or other reproduction of this Agreement or any of the other Loan Documents as a financing statement in each case which the Lender, in its discretion, deems necessary or desirable to perfect or maintain the perfection of the Security Interest.

ARTICLE 4
ADMINISTRATION OF THE COLLATERAL

Section 4.1 THE EQUIPMENT. The Borrower, at its own cost and expense, will keep, or cause EDC to keep, the Equipment in good operating condition and repair, except for normal wear and tear, and will not waste or destroy, or allow EDC to waste or destroy, such Equipment, or any part thereof, or be negligent in the care and use thereof and will make all necessary replacements thereof and repairs thereto. The Borrower shall promptly inform the Lender of any material additions to such Equipment and of any material loss, damage, or destruction of such Equipment. The Borrower will not permit any Equipment to become a fixture to any real property or an accession to any other personal property, unless the Lender has a first priority perfected Security Interest in such real or personal property or has been provided with such waivers or consents as the Lender may reasonably require. The Borrower shall, promptly upon the Lender's request, deliver to Lender any and all evidence of ownership of such Equipment.

Section 4.2 NO LENDER LIABILITY. The Lender shall have no duty of care with respect to any Collateral unless and until it takes the same into its own possession or control. The Lender shall be deemed to have satisfied its duty of due care with respect to Collateral in its custody and control if it accords to such Collateral treatment substantially equal to the treatment the Lender accords its own property, or if the Lender takes such action with respect to the Collateral as the Borrower requests in writing, but no failure to comply with any such request nor any omission to do any such act requested by the Borrower shall be presumptively deemed, from that failure or omission, an absence of reasonable care. The Lender shall not be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof, unless caused by the Lender's gross negligence or willful misconduct. The Lender does not, by anything contained herein or in any other Loan Document or otherwise, assume any obligation of the Borrower under the Ground Lease, the Ground Sublease, or the DSN Plant Equipment Lease or any other contract or agreement assigned to Lender or in which Lender is granted a security interest, and the Lender shall not be

responsible in any way for the performance by the Borrower of any of the terms and conditions thereof.

Section 4.3 USE OF EQUIPMENT; IDENTIFICATION.

(a) The Borrower shall use the Equipment in a careful and proper manner, will comply with and conform to all governmental laws, rules and regulations relating thereto, and will cause the Equipment to be operated properly or in substantial accordance with the manufacturer's or supplier's instructions or manuals and only by competent and duly qualified personnel.

(b) The Borrower shall not move any of the Equipment from the DSN Plant Location without the prior written consent of CIT.

(c) Upon Lender's written request and at the Borrower's sole expense, the Borrower shall attach to each item of Equipment a notice satisfactory to Lender disclosing Lender's security interest in such item of Equipment.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into this Agreement and to make the Loan, the Borrower represents and warrants to the Lender as set forth below. The representations and warranties of the Borrower contained in this Article V and otherwise herein and in any other Loan Document shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Lender and shall survive the execution and delivery of this Agreement and the other Loan Documents and the making of the Loan.

Section 5.1 ORGANIZATION AND QUALIFICATION. The Borrower is duly incorporated and organized and is validly existing as a corporation in good standing under the laws of the State of Oklahoma, with all power (corporate or otherwise) to own or lease and operate the DSN Plant and its other properties and assets and to carry on its business in the manner in which such business is now conducted. The Borrower is duly licensed and qualified to do business and is in good standing in the state of Arkansas and in every other state where failure to be so licensed or qualified and in good standing would have a material adverse effect on its business, properties or assets.

Section 5.2 CONCERNING THE LOAN DOCUMENTS. The Borrower has the power to authorize, execute and deliver the Loan Documents to which Borrower is a party, to incur and perform its Obligations hereunder and thereunder, and, as applicable, to grant the Security Interest. The Borrower has duly taken all necessary corporate action to authorize the execution, delivery and performance of such Loan Documents, and no consent, approval or authorization of, or declaration or filing with, any governmental or other public body, or any other Person (including without limitation any stockholders, trustees or holders of Indebtedness of the Borrower), is required in connection with such authorization, execution, delivery and performance by the Borrower or the consummation of the transactions contemplated hereby or thereby. Such Loan Documents have been duly authorized, executed and delivered by or on behalf of the Borrower, and constitute the legal, valid and binding Obligations of the Borrower and are enforceable against the Borrower in accordance with their respective terms.

Section 5.3 GUARANTIES. Each Guarantor has the power to authorize, execute and deliver its Guaranty and to incur and perform its obligations under its Guaranty. Each Guarantor has duly taken all necessary corporate action to authorize the execution, delivery and performance of its Guaranty, and no consent, approval or authorization of, or declaration or filing with, any governmental or other public body, or any other Person (including without limitation any stockholders, trustees or holders of Indebtedness of such Guarantor), is required in connection with such authorization, execution, delivery and performance by such Guarantor. Each Guarantor's Guaranty has been duly authorized, executed and delivered by or on behalf of such Guarantor, and constitutes the legal valid and binding obligations of such Guarantor and is enforceable against such Guarantor in accordance with its terms.

Section 5.4 EQUIPMENT. All Equipment is in good operating order and condition and repair, except for ordinary wear and tear, is used or useful in the business of the Borrower and is readily moveable without harm or damage. The invoices previously delivered to the Lender by the Borrower respecting the Equipment are genuine, true and accurate, and the descriptions and locations of the Equipment set forth in the Disclosure Schedule are true, complete and accurate.

Section 5.5 THE DSN PLANT. Construction of the DSN Plant is in full compliance with all requirements of the DSN Plant Equipment Lease and the Ground Lease; the description of the DSN Plant Location in Exhibit "C," and the description of the Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease in Article 1 above is accurate and complete. The Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease are valid and enforceable in accordance with their respective terms and are in full force and effect. Neither the Borrower nor any other party to the Ground Lease, the Ground Sublease or the DSN Plant Equipment Lease is in default of its obligations thereunder or has delivered or received any notice of default under the Lease or the Equipment Lease (as applicable) which default has not been waived or cured.

Section 5.6 TITLE TO THE DSN PLANT AND EQUIPMENT; SECURITY INTEREST. Except for the Security Interest and Permitted Liens and all

items set forth in the Title Policy, under the Ground Lease and subject to the right of quiet enjoyment under the Ground Sublease and the DSN Plant Equipment Lease, the Borrower has good, and merchantable title to the DSN Plant and all Equipment and other Collateral, and neither the DSN Plant nor any of such Equipment nor any other Collateral is or will be subject to any Lien. The provisions of the Loan Documents create legal, valid and enforceable security interests in and liens on the DSN Plant and all Equipment and other Collateral, and the Loan Documents and such UCC and real property filings create a perfected and continuing first priority security interest upon the DSN Plant and all the Equipment and other Collateral securing the Obligations, and are enforceable against the Borrower and all third parties.

Section 5.7 FINANCIAL CONDITION. The Borrower has furnished to the Lender LSB's consolidated and consolidating financial statements as of December 31, 1993, accompanied by the report of LSB's independent certified public accountants, which statements present fairly in all material respects the consolidated and consolidating financial position of LSB and its consolidated Affiliates as of the date thereof. Such financial statements have been prepared in accordance with GAAP. From the date of such financial statements to the date of the execution of this Agreement, there has not been any material adverse change from the financial condition reflected in such financial statements or in the Borrower's business or condition since the date thereof. As of the date hereof, the Borrower has no direct or contingent material liabilities which are not provided for or reflected in such financial statements.

Section 5.8 LITIGATION. There are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or EDC as it may affect the Ground Lease, the Ground Sublease or the DSN Plant Equipment Lease, nor to the knowledge of Borrower is there any basis therefor on the date of this Agreement.

Section 5.9 DISCLOSURE. No representation or warranty made by the Borrower hereunder and no written information, exhibit, report, document or certificate furnished by or on behalf of the Borrower or any Affiliate to the Lender in connection with this Agreement, contained or will contain, as of its date or as of the Funding Date, any material mis-statement of fact or omits, as of its date, to state a material fact or any fact necessary to make the statements contained therein not misleading. There is no fact known to the Borrower that materially adversely affects or that, insofar as the Borrower can now reasonably foresee, may materially adversely affect, the condition, financial or otherwise, operations, properties or prospects of the Borrower and Affiliates, or the ability of the Borrower to carry out its Obligations under any Loan Document.

Section 5.10 TAX RETURNS AND PAYMENTS. The Borrower has filed all federal, state and local tax returns and other reports which it was required by law to file on or prior to the date hereof and has paid all taxes, assessments, fees and other governmental charges and penalties and interest, if any, payable against it or its property, income or franchise, that are due and payable, and Borrower does not have any knowledge of any actual or proposed deficiency or additional assessment in connection therewith. The charges, accruals and reserves on the books of Borrower in respect of federal, state and local taxes for all open years, and for the current fiscal year, make adequate provision for all unpaid tax liabilities for such periods.

Section 5.11 COMPLIANCE WITH OTHER INSTRUMENTS. Neither the Borrower nor EDC is in violation of any material term or provision of its certificate of incorporation or by-laws, or of any material mortgage, indenture, contract, agreement, instrument, or other undertaking to which the Borrower or EDC is a party or which purports to be binding on Borrower or EDC, or any of the assets of Borrower or EDC (including the Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease), or, except as disclosed to Lender pursuant to Section 5.14 hereof, of any judgment, decree, order or any material statute, rule or governmental regulation applicable to it. The execution, delivery and performance of this Agreement and the other Loan Documents do not and will not violate or otherwise conflict with any such term or provision or result in the creation of any security interest, lien, charge or encumbrance upon any of the Collateral, except the Security Interest.

Section 5.12 PENSION PLANS. The Borrower has not participated in any "prohibited transactions", as defined in Section 4975 of the Internal Revenue Code, that could subject the Borrower to any tax or penalty imposed by said Section 4975 (other than prohibited transactions that have been "corrected", as defined in said Section 4975). Since the effective date of the Employee Retirement Income Security Act of 1974, as from time to time amended ("ERISA"), the Borrower has not incurred any "accumulated funding deficiency", as such term is defined in Section 302 of ERISA (other than any accumulated funding deficiency that has been "corrected", as defined in Section 4971(c)(2) of the Internal Revenue Code.

Section 5.13 LABOR RELATIONS. To the best knowledge of Borrower after due inquiry, Borrower and EDC are in material compliance with the Fair Labor Standards Act with respect to the DSN Plant. To the best knowledge of Borrower after due inquiry, neither the Borrower nor EDC, with respect to the DSN Plant, is engaged in any unfair labor practice. To the best knowledge of Borrower after due inquiry, there are: (i) no unfair labor practice complaints pending or, to the best knowledge of the Borrower, threatened against the Borrower or EDC and no grievance or arbitration proceedings arising out of or under collective bargaining agreements are so pending or, to the best knowledge of the Borrower, threatened; (ii) no strikes, work stoppages or controversies pending or threatened between the Borrower or EDC and any of their employees (other than employee grievances arising in the ordinary course of business); and

(iii) no union representation questions exist with respect to the employees of the Borrower or EDC and no union organizing activities taking place which would have a material adverse effect on the financial condition, results of operations or business of the Borrower or EDC;

Section 5.14 ENVIRONMENTAL LAWS. Except as disclosed by Borrower to Lender by delivery to Lender of copies of documents publicly filed with the Securities and Exchange Commission, a report of the Arkansas Department of Pollution and Control and Ecology to EDC dated July 18, 1994, an environmental report of Woodward Clyde regarding the DSN Plant Location, and correspondence from Borrower and Affiliates regarding the DSN Plant Location (all collectively referred to as "Environmental Disclosure Documents"), to the best knowledge of Borrower after due inquiry, as of the date hereof (a) the operations of the Borrower or EDC (with respect to the DSN Plant) comply in all material respects with all applicable Environmental Laws; (b) none of the operations of the Borrower or EDC (with respect to the DSN Plant) is subject to any judicial or administrative proceeding alleging the violation of any Environmental Laws; (c) none of the operations of the Borrower or EDC (with respect to the DSN Plant) is the subject of federal or state investigation evaluating whether any remedial action is needed to respond to a release of any Hazardous Substance into the environment; (d) neither the Borrower nor EDC (with respect to the DSN Plant) has filed any notice under any federal or state law indicating past or present treatment, storage or disposal of a Hazardous Substance or reporting a spill or release of a Hazardous Substance into the environment; and (e) neither the Borrower nor EDC (with respect to the DSN Plant) has any known material contingent liability in connection with any release of any Hazardous Substance into the environment. The materiality standard used in this Section 5.14 shall be exceeded if the facts giving rise to a breach or breaches of the representations or warranties contained herein might result in liability in excess of $1,000,000 in the aggregate.

Section 5.15 TRADE NAMES. Other than as disclosed on the Disclosure Schedule, the Borrower, during the past five years, has not used any corporate name other than its present corporate name (which is set forth in the introductory paragraph of this Agreement) and has not been known by or used any fictitious, trade or "doing business" name.

Section 5.16 SUBSIDIARIES. The Disclosure Schedule contains a correct and complete list of the name and relationship to the Borrower of each and all of the Borrower's Subsidiaries, if any, and the location of the chief executive office of each Subsidiary.

Section 5.17 LOANS AND AFFILIATE PAYMENTS. The Disclosure Schedule fully and completely sets forth all notes and Indebtedness together with the amount and schedule of any material payments owed by Borrower to officers, directors, stockholders and Affiliates of Borrower.

Section 5.18 PERMITS, LICENSES. Borrower possesses all material permits, franchises, contracts and licenses required and owns or has the right to use all trademarks, trade names, patents and fictitious name rights necessary to enable it to conduct the business in which it is engaged without conflict with the rights of others.

Section 5.19 BROKER'S OR TRANSACTION FEES. Borrower has no obligation to any Person for any finder's, broker's or investment banker's fee in connection with the transactions contemplated hereby.

Section 5.20 TAXPAYER ID NO. AND CHIEF EXECUTIVE OFFICE. Borrower's taxpayer identification number is 731456545. Borrower's chief executive office is located at 16 South Penn, Oklahoma City, OK 73107, and Borrower's principal place of business is located in Oklahoma City.

Section 5.21 NO DEFAULT. No Default has occurred under this Agreement.

ARTICLE 6
AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that, so long as all or any portion of the Obligations remain unpaid or unsatisfied, it will, at its own cost and expense:

Section 6.1 FINANCIAL AND OTHER INFORMATION. Promptly furnish to the Lender or its agents all such financial or other information as the Lender shall reasonably request, and, at the request of the Lender, notify its auditors and accountants that the Lender is authorized to obtain such information directly from them. Without limitation of the foregoing, the Borrower will furnish to the Lender in such detail as the Lender shall request:

(a) Not later than 120 days after the close of each Fiscal Year of the Borrower, unaudited balance sheets of the Borrower as at the end of such Fiscal Year and related unaudited statements of income, expense and retained earnings and statements of cash flow of the Borrower for such year, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting in all material respects the financial position of the Borrower and the results of operations of the Borrower for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements shall be accompanied by a certificate of the chief financial officer or chief accounting officer of Borrower.

(b) Not later than 90 days after the close of each fiscal quarter of Borrower, unaudited balance sheets of the Borrower as at the end of such period, and unaudited statements of income and

expense from the beginning of the Fiscal year to the end of each such period, for the Borrower, all in reasonable detail, fairly presenting in all material respects the financial position and results of operations of the Borrower, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(e). Such statements shall be accompanied by a certificate of the chief financial officer or accounting officer of Borrower stating that, based upon such examination or investigation as such officer shall have deemed necessary to enable him to render an informed opinion in respect thereof, to the best of his knowledge and belief the financial statements are materially correct and no Default exists under this Agreement and is continuing except for those, if any, described in such certificate in reasonable detail.

(c) Not later than 120 days after the close of each Fiscal Year of EDC, audited consolidated and unaudited consolidating balance sheets of EDC and its consolidated Subsidiaries as at the end of such Fiscal Year and related audited consolidated and unaudited consolidating audited statements of income, expense and retained earnings and statements of cash flow of EDC and its consolidated Subsidiaries for such year, all in reasonable detail, fairly presenting in all material respects the financial position of EDC and its consolidated Subsidiaries and the results of operations of EDC and its consolidated Subsidiaries for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements required hereunder shall be examined and accompanied by a report of independent certified public accountants which shall not contain any qualifications or exceptions as to scope.

(d) Not later than 90 days after the close of each fiscal quarter of EDC, unaudited consolidated and consolidating balance sheets of EDC and its consolidated Subsidiaries as at the end of such period, and consolidated and consolidating statements of income and expense from the beginning of the Fiscal Year to the end of each such period, for EDC and its consolidated Subsidiaries, all in reasonable detail, fairly presenting in all material respects the consolidated and consolidating financial position and results of operations of EDC and its consolidated Subsidiaries, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(c) above, and certified to be materially correct by the chief financial officer or the chief accounting officer of EDC.

(e) Not later than 120 days after the close of each Fiscal Year of LSB, LSB's 10K Report filed with the Securities and Exchange Commission, the audited consolidated and unaudited consolidating balance sheets of LSB and its consolidated Affiliates as at the end of such Fiscal Year and related audited consolidated and unaudited consolidating statements of income, expense and retained earnings and audited statements of cash flow of LSB and its consolidated Affiliates for such year, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position of LSB and its consolidated Affiliates and the results of operations of LSB and its consolidated Affiliates for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements required hereunder shall be examined and accompanied by a report of independent certified public accountants which shall not contain any qualifications as to scope; and such report shall also be accompanied by a certificate of such accountants stating that in the course of performing their examination such accountants did not become aware of the existence of any default under this Agreement, except for those, if any, described in such certificate in reasonable detail. In addition, the chief financial officer or accounting officer of LSB shall provide a certificate which shall also include a statement by such officer that no breach, default or event of default has occurred and is continuing under any document to which LSB or any consolidated Affiliate is a party that evidences any Indebtedness of LSB or any such Affiliate which exceeds, individually or together with any related Indebtedness, $5,000,000, or if any such breach, default or event of default has occurred, explaining the nature of such breach, default or event of default and the status thereof. Such certificate shall also include a statement from such officer that LSB is in compliance with all covenants contained in this Agreement relating to the financial condition of LSB, and such statement shall be accompanied by the calculations of such financial covenants.

(f) Not later than 90 days after the close of each fiscal quarter of LSB, LSB's 10Q Report filed with the Securities and Exchange Commission and the unaudited consolidated balance sheets of LSB and its consolidated Affiliates as at the end of such period, and unaudited consolidated statements of income and expense from the beginning of the Fiscal year to the end of each such period, for LSB and its consolidated Affiliates, all in reasonable detail, fairly presenting in all material respects the consolidated financial position and results of operations of LSB and Affiliates, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(e) above. Such statements shall be accompanied by a certificate of the chief financial officer or the chief accounting officer of LSB stating that, based upon such examination or investigation as such officer shall have deemed necessary to enable him to render an informed opinion in respect thereof, to the best of his knowledge and belief, such financial statements are materially correct and no Default under this Agreement exists and is continuing except for those, if any, described in such certificate in reasonable detail. Such certificate shall also include a statement from such officer that LSB is in compliance with all financial covenants contained in

this Agreement relating to the financial condition of LSB, and such statement shall be accompanied by the actual calculations of such financial covenants.

(g) Promptly after the Borrower or any Affiliate receives the same, copies of management letters provided to the Borrower by its independent certified public accountants;

(h) Promptly after their preparation, copies of any and all proxy statements, financial statements, and reports which the Borrower, or LSB or EDC sends to its shareholders or holders of its Indebtedness, and copies of any and all periodic special reports, as well as registration statements, filed by the Borrower, LSB or EDC with the Securities and Exchange Commission or similar State authority;

(i) Deliver to the Lender within 30 days of the end of each quarter, a compliance certificate signed by the Borrower's Chief Financial Officer or the Chief Accounting Officer certifying that the Borrower is in compliance with all of the terms and conditions of the Agreement and that no Default exists.

(j) Such additional information as the Lender may from time to time reasonably request regarding the financial and business affairs of the Borrower or any Subsidiary or Guarantor and which are kept in the ordinary course of business.

Section 6.2 ACCESS. At all reasonable times, and from time to time, permit the Lender or its agents to inspect the Collateral and to audit, examine and make extracts from or copies of any of its books, ledgers, reports, correspondence and other records.

Section 6.3 TAXES. Promptly pay and discharge all taxes, assessments and other governmental charges prior to the date on which same are past due, establish adequate reserves for the payment of such taxes, assessments and other governmental charges, make all required withholding and other tax deposits, and, upon request, provide the Lender with receipts or other proof that any or all of-such taxes, assessments or governmental charges have been paid in a timely fashion; provided, however, that nothing contained herein shall require the payment of any tax, assessment or other governmental charge so long as its validity is being contested in good faith and by appropriate proceedings diligently conducted.

Section 6.4 MAINTENANCE OF PROPERTIES; INSURANCE. At the Borrower's sole cost and expense, defend all Collateral against the claims or demands of all other parties; keep the Collateral in good operating condition and repair and in compliance with all laws (except normal wear and tear); and insure all Equipment, the DSN Plant and DSN Plant Location against risk, in coverage, form and amount satisfactory to the Lender with a carrier reasonably acceptable at all times to Lender with no greater deductible amount than $250,000 per occurrence. Insurance on the Equipment, the DSN Plant and the DSN Plant Location shall be in an amount equal to the greater of the full replacement value thereof, or 100% of the outstanding balance of the Loan. The Borrower shall also maintain (a) builder's all risk completed value hazard insurance covering 100% of the replacement cost of the DSN Plant and Equipment during the course of construction in the event of fire, lightning, windstorm, earthquake, vandalism, malicious mischief and all other risks normally covered by "all risk" policies in the area where the DSN Plant is located (including loss by flood if the DSN Plant is located in an area designated as subject to the danger of flood); (b) product liability insurance in an amount customary for the businesses conducted by the Borrower; and (c) general public liability insurance in an amount satisfactory to Lender, but in no event less than Fifteen Million Dollars ($15,000,000) per occurrence, for bodily injury and property damage. The Borrower and EDC shall also maintain workers' compensation insurance in accordance with Borrower's and EDC's usual practices. Each insurance policy shall be endorsed in favor of the Lender as additional loss payee in form and substance satisfactory to the Lender, and provide that any proceeds payable thereunder will be paid to the Borrower and the Lender as their interest may appear. Each policy shall provide that if such insurance is cancelled for any reason whatsoever, or if any substantial change is made in the coverage which affects the Lender, or if such insurance is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to the Lender until 30 days after receipt by the Lender of written notice from the carrier thereof. The Borrower hereby directs all insurers under such policies to pay all proceeds with respect to losses of Collateral to the Borrower and to Lender. With respect to occurrences giving rise to insurance proceeds paid with respect to losses, the Lender shall, so long as no uncured Default exists, release such proceeds to the Borrower after receipt of evidence of satisfactory repair, replacement or reconstruction of the assets subject to such casualty.

Section 6.5 BUSINESS. Take all necessary steps to preserve its corporate existence and its right to conduct business in all state in which the nature of its business or the ownership of it property requires such qualification.

Section 6.6 COMPLIANCE. Use reasonable efforts to comply in all material respects with all applicable laws and duly observe all valid requirements of all applicable governmental authorities, including all statutes, rules and regulations relating to public and employee health and safety and social security and withholding taxes. The Borrower may contest or dispute any taxes, assessments or impositions in good faith, so long as such contest or dispute does not result in the creation or incurring of any liens against the Lender's Collateral and the Borrower maintains adequate reserves as required under GAAP for the satisfaction of the disputed tax, assessment or imposition.

Section 6.7 LITIGATION. Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, promptly notify the Lender in writing of any action, suit, proceeding, or counterclaim against, or of any investigation of, the Borrower, the DSN Plant Location or any of the Collateral, if: (i) the outcome of such litigation, proceeding, counterclaim, or investigation would materially and adversely affect the Collateral or the finances or operations of Borrower or EDC; or (ii) such litigation, proceeding, counterclaim, or investigation questions the validity of this Agreement or any other Loan Document or any action taken or to be taken pursuant thereto. Borrower shall furnish to the Lender such information regarding any such litigation, proceeding, counterclaim, or investigation as the Lender shall request.

Section 6.8 ENVIRONMENTAL LAWS.

(a) Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, give written notice to Lender immediately upon receipt of any notice that (i) the operations of the Borrower or EDC with respect to the DSN Plant are not in material compliance with requirements of applicable Environmental Laws; (ii) the Borrower or EDC with respect to the DSN Plant is subject to federal or state investigation evaluating whether any remedial action is needed to respond to the release of any Hazardous Substance into the environment which would have a material adverse effect on Borrower; or (iii) any properties or assets of the Borrower or EDC with respect to the DSN Plant are subject to an Environmental Lien. As used herein, "Environmental Lien" means a lien in favor of any governmental entity for (A) any liability under any Environmental Laws, or (B) damages arising from or costs incurred by such governmental entity in response to a release of a Hazardous Substance into the environment.

(b) Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, without limiting the generality of any of the Borrower's other covenants and agreements, the operations of the Borrower or EDC with respect to the DSN Plant shall at all times comply in all material respects with all applicable Environmental Laws. The materiality standard used in this Section 6.8 shall be exceeded if the facts giving rise to a breach or breaches of the covenant herein is likely to result in liability in excess of $500,000 in the aggregate.

Section 6.9 NOTICES. Promptly notify the Lender in writing of any Default or of any default by any party under any Construction Contract, the Ground Lease, Ground Sublease, the DSN Plant Equipment Lease, the Consulting Agreement, or as required by Sections 6.7 and 6.8 of this Agreement. The failure of the Borrower to promptly give the Lender such notice of any Default of which it is aware, shall, at the Lender's option, eliminate any cure period for such Default.

Section 6.10 TANGIBLE NET WORTH. LSB shall maintain at all times, on a consolidated basis, a minimum tangible net worth of $80,000,000 after subtracting treasury stock and $92,800,000 before subtracting treasury stock. Notwithstanding the foregoing, the tangible net worth after subtracting treasury stock shall not be less than $83,000,000 at December 31, 1995 and $85,000,000 at December 31, 1996 and thereafter. The term tangible net worth is defined as total stockholders' equity, after deducting any treasury stock, less all assets that are considered intangible assets under GAAP (including but not limited to goodwill, patents, trademarks, certain deferred charges (as approved by Lender) and customer lists).

Section 6.11 CHANGE OF OWNERSHIP. LSB shall at all times hold not less than one hundred percent (100%) of each class of stock of LSBC and, at all times, LSBC shall hold, directly or indirectly, one hundred percent (100%) of each class of stock of the Borrower.

Section 6.12 USE OF PROCEEDS. Use the proceeds of the Loan for construction and equipment costs, fees and expenses in accordance with Article 2 hereof.

Section 6.13 BOOKS. Keep proper books of record and account in which full, true and correct entries in accordance with GAAP will be made of all dealings or transactions in relation to its business and activities.

ARTICLE 7
NEGATIVE COVENANTS

So long as all or any portion of the Obligations remains unpaid, the Borrower covenants and agrees that, without the Lender's prior written consent, which consent will not be unreasonably withheld, the Borrower shall not:

Section 7.1 CORPORATE STRUCTURE. Merge, reorganize or consolidate with or acquire any Person or make any investment in the securities of any Person.

Section 7.2 DIVIDENDS, DISTRIBUTIONS, REDEMPTIONS. Declare or pay any dividends or other distributions upon any stock or make any distribution of the Borrower's property or assets or redeem, retire, purchase or otherwise acquire, directly or indirectly, the Borrower's stock.

Section 7.3 LOANS, INVESTMENTS, AFFILIATE PAYMENTS, SALARIES. Make any loans or other advances of money (other than compensation) to any

Person; make any payments to any officers, directors, stockholders or Affiliates on any existing loans except as set forth on the Disclosure Schedule or pursuant to the Ground Lease or Administrative Services Agreement between Borrower and LSB, or payments to LSB for the Borrower's pro rata share of taxes with respect to the Borrower's business, or permit the annual compensation and all other direct and indirect remuneration to its officers to increase more than fifteen percent (15%) per year.

Section 7.4 CHANGE IN BUSINESS, STRUCTURE OR BUSINESS LOCATION. Make any material change in the capital structure or any of Borrower's business objectives, purposes and operations; engage, directly or indirectly, in any business other than ownership of the DSN Plant, the railcars acquired with the Rail Car Loan, the Mixed Acid Plant financed by the Mixed Acid Plant Loan, and all items related thereto; or change the location of its chief executive office without thirty days' prior written notice to Lender.

Section 7.5 GUARANTIES. Borrower shall not guaranty or otherwise, in any way, become liable with respect to the Indebtedness or liabilities of any Person.

Section 7.6 SALE OF PROPERTY. Offer to sell, convey, assign, transfer, exchange, lease (except pursuant to the DSN Plant Equipment Lease, the Ground Sublease or to the extent permitted in the Mixed Acid Plant Loan Documents or the Rail Car Loan Documents) or otherwise dispose of any Collateral, or, on an annual basis, any other real or personal property having a value in excess of $25,000, except sales of supplies, equipment and inventory in the ordinary course of the Borrower's business and trade-ins on new purchases, provided that Lender shall have a first priority perfected lien on any new purchases of property.

Section 7.7 PREPAYMENT. Borrower shall not prepay any Indebtedness, except the Obligations in accordance with this Agreement.

Section 7.8 LIENS. Create, incur, assume or suffer to exist any Lien upon any Collateral, the DSN Plant Equipment Lease or the Ground Lease, except Liens in favor of the Lender and Permitted Liens and the DSN Plant Equipment Lease, the Ground Sublease and the Consulting Agreement.

Section 7.9 NEGATIVE PLEDGE ON LEASES. Pledge, encumber, transfer or assign any of its right, title or interest in any of the real property Collateral relating to the DSN Plant Location.

Section 7.10 PENSION PLANS. To the knowledge of Borrower, with respect to all Pension Plans: (a) incur any liability to the Pension Benefit Guaranty Corporation; (b) participate in any prohibited transaction involving any of such plans or any trust created thereunder which would subject the Borrower to a tax or penalty on prohibited transactions imposed under Code Section 4975 or ERISA; (c) fail to make any contribution which it is obligated to pay under the terms of such plan; (d) allow or suffer to exist any occurrence of a Reportable Event, or any other event or condition which presents a risk of termination by the Pension Benefit Guaranty Corporation of any such plan; or (e) incur any withdrawal liability with respect to any multiemployer Pension Plan which is not fully bonded.

Section 7.11 BORROWER'S NAME. Change Borrower's corporate name or use any trade name or style unless the Borrower shall first give the Lender thirty days prior written notice of the change in question.

Section 7.12 CHANGES TO DSN PLANT DOCUMENTS. Make any alterations, amendments or modifications of any provisions of (a) the DSN Plant Equipment Lease, (b) the Ground Lease, (c) the Ground Sublease, (d) the Consulting Agreement, or (e) the Administrative Services Agreement dated September 19, 1994 between LSB and the Borrower.

Section 7.13 OTHER DEBTS. Except for Permitted Liens, Borrower shall not have outstanding or incur any direct or contingent Indebtedness (other than those to Lender) or lease obligations (other than the Ground Lease, DSN Plant Equipment Lease and Ground Sublease) or to become liable for the Indebtedness of others without Lender's written consent. This does not prohibit:

(a) Acquiring goods, supplies, services or merchandise on normal trade credit, or payroll obligations or obligations under the Administrative Services Agreement between LSB and Borrower;

(b) Endorsing negotiable instruments received in the usual course of business;

(c) Debts, lines of credit and leases in existence on the date of this Agreement and disclosed to Lender on the Disclosure Schedule; or

(d) Taxes, Indebtedness associated with the construction of the DSN Plant and lawsuits.

Section 7.14 TRANSACTIONS WITH AFFILIATES. Not to enter transactions with any Affiliate on terms less favorable than those available to Borrower from persons or entitles not affiliated with Borrower except:

(a) taxes on consolidated tax returns;

(b) the DSN Plant Equipment Lease;

(c) the Ground Lease;

(d) the Ground Sublease;

(e) the Consulting Agreement; and

(f) the Administrative Services Agreement.

None of the agreements in this Section 7.14(b) through (f) may be amended or modified with Lender's prior written consent.

ARTICLE 8
DEFAULT

Section 8.1 Events of Default. The occurrence of any one or more of the following events for any reason whatsoever shall constitute an Event of Default:

(a) Any failure to pay any of the Obligations when due;

(b) Any representation or warranty made by the Borrower in any Loan Document or in any Financial Statement or other certificate furnished by the Borrower or any Affiliate at any time to the Lender shall prove to be untrue in any material respect as of the date on which made;

(c) Except with respect to cure periods as otherwise set forth herein or therein, default shall occur in the observance or performance of any of the other covenants and agreements contained in any Loan Document and Borrower has not cured such default within ten (10) days of Borrower's receipt of written notice identifying such failure, or if any such agreement, instrument or document shall terminate or become void or unenforceable without the written consent of Lender and Borrower refuses to execute valid and enforceable substitute documents;

(d) The DSN Plant Completion Date has not occurred prior to the end of the Construction Period;

(e) Any Event of Default under the Mixed Acid Plant Loan Documents, the Rail Car Loan Documents and Borrower has not cured such Event of Default within any cure period provided therein;

(f) Any default by the Borrower under any material agreement or instrument with any third party (other than an agreement or instrument evidencing the lending of money) if such default continues for thirty (30) days after such breach first occurs;

(g) Any default by the Borrower in any payment on any indebtedness or obligation owed to any trade creditor in excess of $100,000 in the aggregate beyond any period of grace provided with respect thereto and Borrower is not contesting same in good faith and diligently;

(h) Any uncured default beyond any applicable grace period by LSB or any of its Subsidiaries under any agreement or instrument evidencing any loan, extension of credit or other Indebtedness of LSB or any of its Subsidiaries in an amount equal to or greater than $5,000,000;

(i) Any material part of the Collateral shall be nationalized, expropriated, condemned, seized or otherwise appropriated, or custody or control of such Collateral or of the Borrower shall be assumed by any public authority or any court of competent jurisdiction at the instance of any public authority;

(j) One or more judgments for the payment of money aggregating an excess of $1,000,000 (if not adequately covered by insurance) shall be rendered against the Borrower or EDC and there is a failure to pay or to bond and stay enforcement of such judgment and commence appropriate proceedings to appeal such judgment within the applicable appeal period or, after such appeal is filed, Borrower or EDC fails to diligently prosecute such appeal or such appeal is denied;

(k) The Borrower, EDC or any Guarantor shall: (i) file a voluntary petition in bankruptcy or file a voluntary petition or an answer or otherwise commence any action or proceeding seeking reorganization, arrangement or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing, or consent to, approve of, or acquiesce in, any such petition, action or proceeding; (ii) apply for or acquiesce in the appointment of a receiver, assignee, liquidator, sequestrator, custodian, trustee or similar officer for it or for all or a substantial part of its property; (iii) make an assignment for the benefit of creditors; or (iv) admit in writing that is unable generally to pay its debts as they become due;

(l) An involuntary petition shall be filed or an action or proceeding otherwise commenced seeking reorganization, arrangement or readjustment of the Borrower's EDC's or any Guarantor's debt or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing; or a receiver, assignee, liquidator, sequestrator, custodian, trustee or similar officer for the Borrower or EDC or any Affiliate or any Guarantor or for all or a substantial part of their property shall be appointed involuntarily; or a warrant of attachment, execution or similar process shall be issued against any substantial part of the property of the Borrower,

EDC or any Guarantor; and any of the foregoing remain undismissed or undischarged for a period of 60 days;

(m) The Borrower, EDC or any Guarantor shall file a certificate of dissolution under applicable state law or shall be liquidated, dissolved or wound-up or shall commence or have commenced against it any action or proceeding for dissolution, winding-up or liquidation, or shall take any corporate action in furtherance thereof without Lender's prior written consent;

(n) The Security Interest shall cease to be a valid and perfected first priority security interest in any material portion of the Collateral then in existence and Borrower refuses to or cannot promptly cure any deficiency and restore the Lender's valid and first perfected priority security interest;

(o) A material default shall occur in any Construction Contract, the Consulting Agreement, the DSN Plant Equipment Lease, the Ground Lease or the Ground Sublease and same are not being contested diligently and in good faith, or the DSN Plant Equipment Lease, the Lease, or the Ground Sublease shall expire or otherwise terminate or become unenforceable;

(p) any Guarantor revokes or terminates any guaranty relating to the Obligations or defaults under the terms of any such guaranty; or

Section 8.2 RIGHTS UPON DEFAULT. Upon the occurrence and during the continuance of any Event of Default:

(a) The Lender may declare all the Obligations not otherwise due to be forthwith due and payable, (provided that, in the case of the occurrence of any Event of Default described in Sections 8.l(i) or (j), all the Obligations shall forthwith become due and payable without such declaration) whereupon the unpaid amount of the Obligations (including any applicable prepayment penalty) shall become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. Upon such acceleration, Lender shall not be obligated to advance any further funds relating to the custodian of the DSN Plant.

(b) Notwithstanding the foregoing in Section 8.2(a) but subject to the provisions of Section 9.10, the effect of an event described in Section 8.1(a) as an occurrence of an Event of Default shall be after Lender gives notice of such payment Default to Borrower and Borrower shall not have paid such amount within three (3) days of such Notice. The effect as an Event of Default of any other event described in Section 8.1 may be waived by Lender in writing.

(c) In addition to all other rights provided herein or at law, the Lender shall have all of the rights and remedies of a secured party under the UCC and all of the rights and remedies granted under each of the Loan Documents. At any time when an Event of Default has occurred and is continuing, the Lender may enter any premises where the Collateral is located, take physical possession of the Collateral or any part thereof, and maintain such possession on the Borrower' premises or remove any or all of the Collateral to such other place or places as the Lender desires in its sole discretion. If the Lender exercises its right to take possession of any Collateral upon the occurrence and during the continuance of any Event of Default, the Borrower, upon the Lender's demand, will assemble the Collateral and at the Lender's option, make it available to the Lender at the Borrower' premises at which it is located or deliver it to such place or places as the Lender directs. The Borrower hereby waives to the full extent permitted by law all rights to notice and hearing prior to the Lender's exercise of its rights to take possession of the Collateral without judicial process or to replevy, claim and deliver, attach or levy upon the Collateral ex parte. The Lender shall not be under any obligation to marshall any assets in favor of the Borrower or any other party or against or in payment of any or all of the Obligations.

(d) The Lender may sell and deliver any or all of the Collateral at public or private sale, for cash, upon credit or otherwise, at such prices and upon such terms as the Lender, in its sole discretion, deems advisable, all in accordance with the applicable provisions of the UCC including the standard of commercial reasonableness.

(e) The requirement of reasonable notice with respect to a disposition of the Collateral shall be met if such notice is mailed both by regular and certified mail, postage prepaid to the Borrower at the address as set forth herein at least ten days before the time of the event of which notice is being given. Subject to the provisions of any applicable Loan Document or law governing the enforcement of liens or security interests, the Lender may be the purchaser at any public sale, and to the extent permitted by applicable law, at any private sale, free from any right of redemption, which the Borrower also waives.

(f) The Proceeds of any sale of any of the Collateral shall be applied first to all costs and expenses of sale, including attorneys' fees, and second to the payment (in whatever order the Lender elects) of all of the Obligations. The Lender will return any excess Proceeds to the Borrower, subject to the claims of any other parties with an interest in the Collateral or the Proceeds, and the Borrower shall remain liable to the Lender for any deficiency. If

any Collateral is sold by the Lender upon credit or for future delivery, the Lender shall not be liable for the failure of the purchaser to pay for such Collateral, and in such event the Lender may resell the same.

(g) The Lender may exercise any right or remedy it may have at law or in equity with respect to the Obligations or the subject matter of this Agreement. The rights and remedies provided for herein are cumulative and not exclusive of any other of such rights and remedies or any other rights or remedies provided by law.

(h) Upon any Default, and during any applicable cure period, Lender shall not be obligated to make any further advances or Loans to Borrower.

ARTICLE 9
MISCELLANEOUS

Section 9.1 SURVIVAL. All agreements, representations and warranties contained in this Agreement or made in writing by or on behalf of the Borrower in connection with the transactions contemplated hereby shall survive the execution and delivery of this Agreement, notwithstanding any investigation at any time made by the Lender.

Section 9.2 WAIVER OF NOTICES. No notice to or demand on the Borrower which the Lender is not required hereunder or by law to give but nevertheless may elect to give shall entitle the Borrower to any other or further notice or demand in the same, similar or other circumstances.

Section 9.3 ASSIGNMENT. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto; provided, however, that no interest herein may be assigned by the Borrower without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any interest in the Obligations or any part thereof. In the event of any such assignment by the Lender, the Borrower agrees that such assignment by the Lender shall be free from any set-off, counterclaim defense or other claim that any such Borrower may have against such assignee, without waiving any claim such Borrower may have against the Lender. The terms "Lender" and "Borrower" as used herein shall include the respective successors and assigns of such parties.

Section 9.4 COMPLETE AGREEMENT MODIFICATION. This Agreement is intended by the Borrower and the Lender to be the final, complete and exclusive expression of the agreement between them and supersedes all prior agreements and understandings regarding the DSN Plant. No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made, except by a written agreement signed by the Borrower and a duly authorized officer of the Lender.

Section 9.5 APPLICABLE LAW. This Agreement and the Loan Documents (except to the extent, if any, expressly provided to the contrary in any Loan Document) shall be governed by, construed, applied and enforced in accordance with the laws of the State of New York.

Section 9.6 INDEMNIFICATION.

(a) If after receipt of any payment of all or any part of the Obligations, the Lender is for any reason compelled to surrender such payment to any person or entity, because such payment is determined to be void or voidable as a preference, impermissible setoff, or a diversion of trust funds, or for any other reason, Borrower's Obligations under the Note shall continue in full force and the Borrower shall indemnify and hold the Lender harmless for, the amount of such payment surrendered. The provisions of this Section shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Section and shall be deemed to have been conditioned upon such payment having become final and irrevocable. The provisions of this Section shall survive the termination of this Agreement.

(b) The Borrower hereby indemnifies and holds the Lender, and its directors, officers, agents, employees and counsel, harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind (except claims brought by the Borrower against the Lender for breach of this Agreement of the Loan Documents) including without limitation, court costs and attorneys' fees imposed on or incurred by or asserted against any of them, whether direct, indirect or consequential arising out of or by reason of any litigation, investigations, claims, or proceedings whether based on any federal, state or local laws or other statutes or regulations commenced or threatened, which arise out of or are in any way based upon the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement or any other Loan Document, or any undertaking or proceeding relating to any of the transactions contemplated hereby or by any act, omission to act, event or transaction related or attended thereto, except this indemnification shall not apply to any losses, liabilities, damages, injuries, costs, expenses and claims caused by the gross negligence or willful misconduct of Lender.

(c) The Borrower hereby indemnifies the Lender and agrees to hold the Lender harmless from and against any and all

losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever (including, without limitation, court costs and attorneys' fees) which at any time or from time to time may be paid, incurred or suffered by, or asserted against the Lender for, with respect to, or as a direct result of the violation by the Borrower of the Environmental Laws or any laws or regulations relating to Hazardous Substance, treatment, storage, disposal, generation and transportation, air, water and noise pollution, soil or ground or water contamination, the handling, storage or release into the environment of Hazardous Substance, or with respect to, or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, properties utilized by the Borrower or EDC with respect to the DSN Plant in the conduct of their respective business into or upon any land, the atmosphere, or any watercourse, body of water or wetland, of any Hazardous Substance (including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under the Environmental Laws).

(d) Without limiting any of the foregoing, if, by reason of any suit or proceeding of any kind, nature or description against the Borrower, which, in the Lender's sole discretion makes it advisable for the Lender to seek counsel for protection and preservation of its Liens, security or assets or to defend its own interest, such reasonable expenses and counsel fees shall be allowed to the Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.

Section 9.7 STAMP OR OTHER TAX. Should any stamp, excise, sales, use or other tax, including mortgage, conveyance, deed, intangible or recording taxes become payable in respect of this Agreement, or any other Loan Document, any Obligations, or any Collateral, or any modification hereof or thereof, the Borrower shall pay the same (including interest and penalties, if any) and shall hold the Lender harmless with respect thereto, except for income taxes of Lender as a result thereof.

Section 9.8 CAPTIONS. The captions of the various sections of this Agreement have been inserted only for purposes of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any provision hereof.

Section 9.9 NOTICES. All notices or other communications which are required or permitted hereunder to be given to any party shall be in writing and shall be deemed sufficiently delivered if delivered personally or by registered or certified mail, return receipt requested, or by nationally recognized overnight delivery service, to the address set forth below or to such other address as each party may designate for itself by like notice. Such notice or communication shall be deemed to have been given on the date delivered; or if refused, on the date refused; or if marked, on the date of actual receipt of such mailing as evidenced by the return receipt.

If to the Lender:
The CIT Group/Equipment Financing, Inc.
1211 Avenue of the Americas
New York, New York 10036
Attn: Senior Vice President, Credit

If to the Borrower:
DSN Corporation
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: President

Any such notice, demand, or request shall be deemed given upon receipt, refusal of delivery or return for failure to be called for.

Section 9.10 NO WAIVER, LENDER PERFORMANCE. No course of dealing between the Borrower and the Lender and no delay or omission by the Lender in exercising any right or remedy hereunder or under any other Loan Document or with respect to any Obligations shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies of the Lender hereunder or under any other Loan Document shall be cumulative. Upon the failure of the Borrower to perform any of its duties under this Agreement the Lender may, but shall not be obligated to, perform any or all such duties and the Borrower will upon demand reimburse the Lender for all reasonable costs, fees and expenses incurred in connection therewith.

Section 9.11 EVIDENCE OF OBLIGATIONS; ADMISSIBILITY OF LENDER'S BOOKS AND RECORDS. The Borrower agrees that the Lender's books and records showing the Obligations shall be admissible in any action or proceeding arising herefrom.

Section 9.12 NO LIABILITY FOR BROKERS. The Borrower covenant and agree that the Lender shall have no liability for, and the Borrower hereby indemnifies and holds the Lender harmless against, any brokerage fee or finder's fee or other commission, or claim therefor, arising in connection with the transactions contemplated by this Agreement.

Section 9.13 FURTHER ASSURANCES. The Borrower shall, at its expense, do, execute and delivery such further acts and documents as the

Lender from time to time reasonably requires for the assuring and confirming to the Lender of the rights created or intended to be created hereunder, or for carrying out the intention or facilitating the performance of the terms of any Loan Document or for assuring the validity, perfection, priority or enforceability of any Lien under any Loan Document.

Section 9.14 COUNTERPARTS. This Agreement and the other Loan Documents may be executed by the parties hereto and thereto in any number of separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 9.15 NOTICE OF BREACH BY LENDER. Borrower agrees to give the Lender notice of any action or inaction by Lender or any agent or attorney of the Lender in connection with this Agreement, any other Loan Document, or the Obligations of Borrower under this Agreement or any other Loan Document that may be actionable against Lender or any agent or attorney of Lender or a defense to payment of any Obligations of Borrower under this Agreement or any other Loan Document, for any reason, including commission of a tort or violation of any contractual duty or duty implied by law. Borrower agrees, to the fullest extent that it may lawfully do so, that unless such notice is given promptly (and in any event within fifteen (15) days after Borrower has knowledge, or with the exercise of reasonable diligence could have had knowledge, of any such action or inaction), Borrower shall not assert, and Borrower shall be deemed to have waived, any claim or defense arising therefrom to the extent that the Lender could have mitigated such claim or defense after receipt of such notice.

Section 9.16 Time. Time is of the essence.

Section 9.17 EXHIBITS. Exhibits "A", "B", "C", "D" and "E" attached hereto are incorporated herein by this reference.

Section 9.18 AUTHORIZATION TO DATE, COMPLETE BLANKS AND CORRECT ERRORS. The Borrower hereby irrevocably authorizes Lender and Lender's agents, representatives and employees to date, complete any blank spaces contained in, and to correct any errors appearing in, this Agreement, the other Loan Documents or in any other document relating hereto or thereto.

Section 9.19 NO ORAL AGREEMENTS; ENTIRE AGREEMENT. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT, INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT, ARE NOT ENFORCEABLE. TO PROTECT BORROWER AND LENDER FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS REACHED BY BORROWER AND LENDER COVERING SUCH MATTERS ARE CONTAINED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, WHICH AGREEMENT AND OTHER LOAN DOCUMENTS ARE A COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENTS BETWEEN BORROWER AND LENDER, EXCEPT AS BORROWER AND LENDER MAY LATER AGREE IN WRITING TO MODIFY THEM. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE ENTIRE AGREEMENT AND UNDERSTANDING BETWEEN THE PARTIES HERETO AND SUPERSEDE ALL PRIOR AGREEMENTS AND UNDERSTANDINGS (ORAL OR WRITTEN) RELATING TO THE SUBJECT MATTER HEREOF. THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT WAS DRAFTED WITH THE JOINT PARTICIPATION OF THE RESPECTIVE PARTIES THERETO AND SHALL BE CONSTRUED NEITHER AGAINST NOR IN FAVOR OF ANY PARTY, BUT RATHER IN ACCORDANCE WITH THE FAIR MEANING THEREOF.

Section 9.20 Venue and Jurisdiction. THIS AGREEMENT AND ANY OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK. BORROWER HEREBY IRREVOCABLY CONSENTS AND AGREES THAT ANY LEGAL ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN ANY WAY IN CONNECTION WITH THIS AGREEMENT MAY BE INSTITUTED OR BROUGHT IN THE COURTS OF THE STATE OF NEW YORK, IN THE COUNTY OF NEW YORK, OR THE UNITED STATES DISTRICT COURTS FOR THE SOUTHERN DISTRICT OF NEW YORK, AS LENDER MAY ELECT, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, BORROWER HEREBY IRREVOCABLY ACCEPTS AND SUBMITS TO, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF ANY SUCH COURT, AND TO ALL PROCEEDINGS IN SUCH COURTS. BORROWER IRREVOCABLY CONSENTS TO SERVICE OF ANY SUMMONS AND/OR LEGAL PROCESS BY REGISTERED OR CERTIFIED UNITED STATES AIR MAIL, POSTAGE PREPAID, TO BORROWER AT THE ADDRESS SET FORTH IN SECTION 9.9 HEREOF, SUCH METHOD OF SERVICE TO CONSTITUTE, IN EVERY RESPECT, SUFFICIENT AND EFFECTIVE SERVICE OF PROCESS IN ANY SUCH LEGAL ACTION OR PROCEEDING. NOTHING IN THIS AGREEMENT SHALL AFFECT THE RIGHT TO SERVICE OF PROCESS OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR LIMIT THE RIGHT OF LENDER TO BRING ACTIONS, SUITS OR PROCEEDINGS IN THE COURTS OF ANY OTHER JURISDICTION. BORROWER FURTHER AGREES THAT FINAL JUDGMENT AGAINST IT IN ANY SUCH LEGAL ACTION, SUIT OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION, WITHIN OR OUTSIDE THE UNITED STATES OF AMERICA, BY SUIT ON THE JUDGMENT, A CERTIFIED OR EXEMPLIFIED COPY OF WHICH SHALL BE CONCLUSIVE EVIDENCE OF THE FACT AND THE AMOUNT OF LIABILITY.

Section 9.21 Waiver of Trial by Jury. THE PARTIES TO THIS AGREEMENT ACKNOWLEDGE THAT JURY TRIALS OFTEN ENTAIL ADDITIONAL EXPENSES AND DELAYS NOT OCCASIONED BY NONJURY TRIALS. THE PARTIES TO THIS AGREEMENT AGREE AND STIPULATE THAT A FAIR TRIAL MAY BE HAD BEFORE A STATE OR FEDERAL JUDGE BY MEANS OF A BENCH TRIAL WITHOUT A JURY. IN VIEW OF THE FOREGOING, AND AS A SPECIFICALLY NEGOTIATED PROVISION OF THIS AGREEMENT, EACH PARTY TO THIS AGREEMENT EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY A COURT TRIAL WITHOUT

A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

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

"Borrower"	"Lender"
DSN CORPORATION, an Oklahoma corporation	THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation
By _____	By_____
_____ (Printed Name & Title)	_____ (Printed Name & Title)

Agreed as to Article 6:

LSB INDUSTRIES, INC.,
a Delaware corporation

By _____

_____
[Printed Name & Title]

EXHIBIT "A"

Disclosure Schedule

EXHIBIT "B"

Promissory Note

EXHIBIT "C"

Legal Description of DSN Plant Location

EXHIBIT "D"

Disbursement Schedule

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Exhibits

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PRIMARY EARNINGS PER SHARE COMPUTATION

	1994 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	13,673,971	13,659,691	13,555,191	13,214,701
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	360	-	180	260
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	6,833	24,846	2,549	283
Purchases of treasury stock; calculated on weighted average basis	(20,000)	(29,176)	(102,599)	(118,796)
	13,661,164	13,655,361	13,455,321	13,096,448
Common Stock equivalents:				
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	934,807	877,794	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(247,510)	(238,754)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	-	-
	752,417	703,800	-	-
	14,413,581	14,359,161	14,054,914	13,096,448
Earnings (loss) for primary earnings (loss) per share:				
Net earnings (loss)	$2,203,665	$27,254,968	$ (912,514)	$(4,078,630)
Dividends on cumulative convertible preferred stocks:				
Series B	(76,145)	(60,000)	(60,000)	(60,000)
Series 2 Class C	(747,500)	(747,500)	(745,469)	(738,531)
Earnings (loss) applicable to common stock	$1,380,020	$26,447,468	$(1,717,983)	$(4,877,161)
Earnings (loss) per share	$.10	$1.84	$(.12)	$(.37)

LSB INDUSTRIES, INC. Exhibit 11.1
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PRIMARY EARNINGS PER SHARE COMPUTATION

	Year ended December 31, 1994
Net earnings applicable to common stock	$21,232,344
Weighted average number of common and common equivalent shares (average of four quarters above)	13,831,128
Earnings per share	$1.54

LSB INDUSTRIES, INC. Exhibit 11.1
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FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	1994 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31

Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	13,661,164	13,655,361	13,455,320	13,096,448
Shares issuable upon exercise of options and warrants	934,807	877,794	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(247,510)	(238,754)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	-	-
Common shares issuable upon conversion of convertible note payable	4,000	4,000	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	666,666	666,666	-	-
Series 2	-	3,956,000	-	-
	15,084,247	18,985,827	13,455,321	13,096,448
Earnings (loss) for fully diluted earnings (loss) per share:				
Net earnings (loss)	$ 2,203,665	$27,254,968	$ (912,514)	$(4,078,630)
Interest on convertible note	180	180	-	-
Dividends on cumulative convertible preferred stocks:				
Series B	-	-	(60,000)	(60,000)
Series 2 Class C	(747,500)	-	(745,469)	(738,531)
Earnings (loss) applicable to common Stock	$1,456,345	$27,255,148	$(1,717,983)	$(4,877,161)
Earnings (loss) per share	$.10	$1.44	$(.13)	$(.37)

	Year ended December 31, 1994
Net earnings applicable to common stock	$22,116,349
Weighted average number of common and common equivalent shares (average of four quarters above)	15,155,461
Earnings per share	$1.46

LSB INDUSTRIES, INC.
PRIMARY EARNINGS PER SHARE COMPUTATION

	1993 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	7,393,674	12,706,305	12,894,505	13,314,904
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	1,070	100	80	450
Common shares issued on conversion of convertible preferred stock; calculated on weighted average basis	1,304,070	-	-	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	19,500	114,951	392,170	226,147
Purchases of treasury stock; calculated on weighted average basis	-	-	(69,541)	(25,050)
Sale of stock; calculated on weighted average basis	5,843	-	-	-
	8,724,157	12,821,356	13,217,214	13,516,450
Common Stock equivalents:				
Shares issuable upon exercise of				

options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	2,069,776	1,940,325	1,475,106	1,118,493
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(513,253)	(446,403)	(313,033)	(272,252)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640	66,460	65,930
	1,624,333	1,560,562	1,228,533	912,171
	10,348,490	14,381,918	14,445,747	14,428,621
Earnings for primary earnings per share:				
Net earnings	$2,657,133	$5,758,100	$2,423,644	$1,560,567
Dividends on cumulative preferred preferred stock	(77,220)	(60,000)	(60,000)	(60,000)
Dividends on convertible, exchange-able Class C preferred stock (6.5% (6.5% annually beginning June 16, 1993), $.18 per share on June 15,1993	0	(290,183)	(747,500)	(747,500)
Earnings applicable to common stock	$2,579,913	$5,407,917	$1,616,144	$ 753,067
Earnings per share	$.25	$.38	$.11	$.05

LSB INDUSTRIES, INC. Exhibit 11.1
PRIMARY EARNINGS PER SHARE COMPUTATION Page 5 of 6

	Year ended December 31, 1993
Net earnings applicable to common stock	$10,357,041
Weighted average number of common and common equivalent shares (average of four quarter above)	13,401,194
Earnings per share	$.77

LSB INDUSTRIES, INC. Exhibit 11.1
Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	1993 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	8,724,157	12,821,356	13,217,214	13,516,450
Shares issuable upon exercise of options and warrants	2,069,776	1,940,325	1,475,106	1,118,493
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(495,004)	(408,527)	(308,015)	(272,252)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640	66,460	65,930
Common shares issuable upon conversion of convertible note payable	4,000	4,000	4,000	4,000
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	666,666	666,666	666,666	666,666
Series 1, net of shares held in treasury	3,748,470	-	-	-
Series 2 Class C	-	1,494,489	-	-
	14,785,875	16,584,949	15,121,431	15,099,288

Earnings for fully diluted earnings per share:				
Net earnings	$2,657,133	$5,758,100	$2,423,644	$1,560,567
Interest on convertible note	180	180	180	180
Dividends on cumulative preferred stocks	-	-	(747,500)	(747,500)
Earnings applicable to common stock	$2,657,313	$5,758,280	$1,676,324	$ 813,247
Earnings per share	$.18	$.35	$.11	$.05

	Year ended December 31, 1993
Net earnings applicable to common stock	$10,905,164
Weighted average number of common and common equivalent shares (average of four quarters above)	15,397,886
Earnings per share	$.71

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SUBSIDIARIES OF LSB INDUSTRIES, INC.

Aerobit Industries, Limited, an Israeli corporation

APR Corporation, an Oklahoma corporation

CHP Corporation, an Oklahoma corporation

Climate Master, Inc., a Delaware corporation

Climate Mate, Inc., a Canadian corporation

Climatex, Inc., a Texas corporation

Clipmate Corporation, an Oklahoma corporation

DSN Corporation, an Oklahoma corporation

El Dorado Chemical Company, an Oklahoma corporation

The Environmental Group, Inc., an Oklahoma corporation

Equipos Climatec S.A. de C.V., a Mexican corporation

Explosives Equipment Corporation, an Oklahoma corporation

Morey Machinery Manufacturing Corporation, an Oklahoma corporation

Hercules Energy Mfg. Corporation, an Oklahoma corporation

International Bearings, Inc., an Oklahoma corporation

International Environmental Corporation, an Oklahoma corporation

Koax Corp., an Oklahoma corporation

L & S Automotive Products Co., an Oklahoma corporation

L & S Automotive Technologies, Inc., an Oklahoma corporation

L & S Bearing Co., an Oklahoma corporation

LSB Chemical Corp., an Oklahoma corporation

LSB Europa Limited, an Oklahoma corporation

LSB Extrusion Co., an Oklahoma corporation

LSB Financial Corp., an Oklahoma corporation

LSB Indonesia Corporation, an Oklahoma corporation

LSB International Corp., an Oklahoma corporation

LSB South America Corporation, an Oklahoma Corporation

LSB Nitrogen Corporation, an Oklahoma corporation

Northwest Capital Corporation, an Oklahoma corporation

SUBSIDIARIES OF LSB INDUSTRIES, INC. (CONTINUED)

Northwest Energy Enterprises, Inc., an Oklahoma corporation

Northwest Financial Corporation, an Oklahoma corporation

Prime Financial Corporation, an Oklahoma corporation

Rotex Corporation, an Oklahoma corporation

Saffron Corporation, an Oklahoma corporation

Slurry Australia Pty. Limited, an Australian corporation

Summit Machine Tool Inc. Corp., an Oklahoma corporation

Summit Machine Tool Manufacturing Corp., an Oklahoma corporation

Summit Machine Tool Systems, Inc., an Oklahoma corporation

Total Energy Systems, Limited, and Australian corporation

Tower IV Corporation, an Oklahoma corporation

Tower Land Development Corp., an Oklahoma corporation

Tribonetics Corporation, an Oklahoma corporation

Universal Tech Corporation, an Oklahoma corporation

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Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans of LSB Industries, Inc. and the Registration Statement (Form S-3, No. 33-69800) of LSB Industries, Inc. and in the related Prospectus of our report dated March 21, 1995, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1994.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
April 10, 1995

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LSB INDUSTRIES, INC.
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YEAR	
	DEC-31-1994
	DEC-31-1994
	2,610
	0
	42,720
	2,000
	59,333
	111,049
	133,359
	59,675
	221,281
	48,565
	81,965
	1,462
	152
	48,000
	41,147
	221,281
	245,025
	249,969
	191,916
	191,916
	49,221
	450
	6,949
	283
	(700)
	983
	584
	22,900
	0
	24,467
	1.54
	1.46