UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Amendment No. 2
FORM 10-K/A

(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, 1999

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	Over-the-Counter Bulletin Board*
$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2	Over-the-Counter Bulletin Board*

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

* Delisted from the New York Stock Exchange on July 6, 1999.

(Facing Sheet Continued)

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

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 May 31, 2000, the aggregate market value of the 7,656,337 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately $6,669,295 based on the closing sales price for the Company's common stock as reported for that date on the Over-the-Counter Bulletin Board. That amount does not include the 1,462 shares of voting Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company. An active trading market does not exist for the shares of Non-

Cumulative Preferred Stock.

As of May 31, 2000, the Registrant had 11,877,411 shares of common stock outstanding (excluding 3,285,957 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 hydronic fan coils and water source heat pumps as well as other products used in commercial and residential air conditioning systems (the "Climate Control Business"), and (iii) the purchase and sale of machine tools (the "Industrial Products Business").

The Company is pursuing a strategy of focusing on its core businesses and concentrating on product lines in niche markets where the Company has established or believes it can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of selected assets that are on its balance sheet and on which it is not realizing an acceptable return and does not reasonably expect to do so. In this regard, the Company has come to the conclusion that its Industrial and Automotive Products Businesses are non-core to the Company. As discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Industrial Products Business", the Company is currently evaluating opportunities to sell or realize its net investment in the Business. On April 5, 2000, the Company's Board of Directors approved a definitive plan to dispose of the Automotive Products Business. This plan will allow the Company to focus its efforts and financial resources on its core businesses. In an effort to make the Automotive Products Business viable so that it can be sold, on March 9, 2000, the Automotive Products Business acquired certain assets of the Zeller Corporation ("Zeller") representing Zeller's universal joint business. In connection with the acquisition of these assets, the Automotive Products Business assumed an aggregate of approximately $7.5 million (unaudited) in Zeller's liabilities, $4.7 million of which was funded by the Automotive Products Business primary lender. (The balance of the assumed liabilities is expected to be funded out of working capital of the Automotive Products Business). For the year ended December 31, 1999, the universal joint business of Zeller had unaudited sales of approximately $11.7 and a net loss of $1.5 million.

In connection with the Automotive Products Business plan of disposal, the Company's Board of Directors approved a sale of the Automotive Products Business to an identified third party, subject to completion of certain conditions (including approval from the Automotive Products Business' primary lender). This sale was completed by May 4, 2000. Upon completion of the sale of the Automotive Products Business, the Company received notes receivable in the approximate amount of $8.7 million, such notes being secured by a second lien on substantially all of the assets of the former Automotive Products Business. These notes, and any payments of principal and interest, thereon, are subordinated to the buyer's primary lender (which is the same lender that was the primary lender to the Automotive Products Business). The Company will receive no principal payments under the notes for the first two years following the sale of the Automotive Products Business. In addition, the buyer assumed substantially all of the Automotive Products Business' debts and obligations, which at December 31, 1999, prior to the Zeller acquisition, totaled $22.2 million.

The notes to be received by the Company will be secured by a lien on all of the assets of the buyer and its subsidiaries, with the notes to be received by the Company and liens securing payment of all of the notes subordinated to the buyer's primary lender and will be subject to any liens outstanding on the assets. As of May 4, 2000, the Automotive Products Business owed its primary lender approximately $14.1 million. After the sale, the Company remained a guarantor on certain equipment notes of the Automotive Products Business (which equipment notes have an outstanding principal balance of $4.5 million as of March 31, 2000) and continues to guaranty up to $1 million

of the revolving credit facility of the buyer, as it did for its Automotive Products Business. There are no assurances that the Company will be able to collect on the notes issued to the Company as consideration for the purchase or that the debts and obligations of the Automotive Products Business assumed by the buyer will be paid.

The Company has classified its investment in the Automotive Products Business as a discontinued operation, reserving its net investment of approximately $7.9 million in 1999. This reserve does not include the loss, if any, which may result if the Company is required to perform on its guaranties described above.

For the twelve month period ended December 31, 1999, 1998 and 1997, the Automotive Products Business had revenues of $33.4, $40.0 and $35.5 million, respectively and a net loss of $18.1, $4.4 and $9.7 million respectively. See Note 4 of Notes to Consolidated Financial Statements.

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 17 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.

All discussions below are that of the Businesses continuing and accordingly exclude the Discontinued operations of the Automotive Products Business and the Australian subsidiary's operations sold in 1999. See discussion above and Notes 4 and 5 of the Notes to the Consolidated Financial Statements.

Chemical Business

General

The Company's Chemical Business manufactures three principal product lines that are derived from anhydrous ammonia: (1) fertilizer grade ammonium nitrate for the agricultural industry, (2) explosive grade ammonium nitrate for the mining industry and (3) concentrated, blended and mixed nitric acid for industrial applications. In addition, the Company also produces sulfuric acid for commercial applications primarily in the paper industry. The Chemical Business products are sold in niche markets where the Company believes it can establish a position as a market leader. See "Special Note Regarding Forward-Looking Statements". The Chemical Business' principal manufacturing facility is located in El Dorado, Arkansas ("El Dorado Facility"), and its other manufacturing facilities are located in Hallowell, Kansas, Wilmington, North Carolina, and Baytown, Texas.

For each of the years 1999, 1998 and 1997, approximately 26%, 29% and 31% of the respective sales of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 13%, 14% and 16% of the Company's consolidated sales for each respective year. For each of the years 1999, 1998 and 1997, approximately 34%, 47% and 53% of the respective sales of the Chemical Business consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 17%, 23% and 27% of the Company's 1999, 1998 and 1997 consolidated sales, respectively. For each of the years 1999, 1998 and 1997, approximately 40%, 24% and 16% of the respective sales of the Chemical Business consisted of the Industrial Acids for sale in the food, paper, chemical and electronics industries, which represented approximately 20%, 12% and 9% of the Company's 1999, 1998 and 1997 consolidated sales, respectively. Sales of the Chemical Business accounted for approximately 50%, 49% and 52% of the Company's 1999, 1998 and 1997 consolidated sales, respectively.

Agricultural Products

The Chemical Business produces ammonium nitrate, a nitrogen-based fertilizer, at the El Dorado Facility. In 1999, the Company sold approximately 135,000 tons of ammonium nitrate fertilizer to farmers, fertilizer dealers and distributors located primarily in the south central United States (143,000 and 184,000 tons in 1998 and 1997, respectively).

Ammonium nitrate is one of several forms of nitrogen-based fertilizers which includes anhydrous ammonia. Although, to some extent, the various forms of nitrogen-based fertilizers are interchangeable, each has its own characteristics which produce agronomic preferences among end users. Farmers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices.

The Chemical Business markets its ammonium nitrate primarily in Texas, Arkansas and the surrounding regions. This market, which is in close proximity to its El Dorado Facility, includes a high concentration of pasture land and row crops which favor ammonium nitrate over other nitrogen-based fertilizers. The Company has developed their market position in Texas by emphasizing high quality products, customer service and technical advice. Using a proprietary prilling process, the Company produces a high performance ammonium nitrate fertilizer that, because of its uniform size, is easier to apply than many competing nitrogen-based fertilizer products. The Company believes that its "E-2" brand ammonium nitrate fertilizer is recognized as a premium product within its primary market. In addition, the Company has developed long term relationships with end users through its network of 20 wholesale and retail distribution centers.

In 1998 and 1999, the Chemical Business has been adversely affected by the drought conditions in the mid-south market during the primary fertilizer season, along with the importation of low priced Russian ammonium nitrate, resulting in lower sales volume and lower sales price for certain of its products sold in its agricultural markets. The Chemical Business is a member of an organization of domestic fertilizer grade ammonium nitrate producers which is seeking relief from unfairly low priced Russian ammonium nitrate. This industry group filed a petition in July 1999 with the U.S. International Trade Commission and the U.S. Department of Commerce seeking an antidumping investigation and, if warranted, relief from Russian dumping. The International Trade Commission has rendered a favorable preliminary determination that U.S. producers of ammonium nitrate have been injured as a result of Russian ammonium nitrate imports. In addition, the U.S. Department of Commerce has issued a preliminary affirmative determination that the Russian imports were sold at prices that are 264.59% below their fair market value. On May 19, 2000, the U.S. and Russian governments entered into an agreement to limit volumes and set minimum prices for Russian ammonium nitrate exported to the United States. As a result of this agreement, the antidumping investigation has been suspended. The U.S. industry or Russian exporters may, however, request completion of the investigation. If the investigation is completed with final affirmative findings by the Department of Commerce and the International Trade Commission, an antidumping order will automatically be put in place in the event of termination or violation of the agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Special Note Regarding Forward-Looking Statements".

Explosives

The Chemical Business manufactures low density ammonium nitrate-based explosives including bulk explosives used in surface mining. In addition, the Company manufactures and sells a branded line of packaged explosives used in construction, quarrying and other applications, particularly where controlled explosive charges are required. The Company's bulk explosives are marketed primarily through eight distribution centers, five of which are located in close proximity to the customers' surface mines in the coal producing states of Kentucky, Missouri, Tennessee and West Virginia. The Company emphasizes value-added customer services and specialized product applications for its bulk explosives. Most of the sales of bulk explosives are to customers who work closely with the Company's technical representatives in meeting their specific product needs. In

addition, the Company sells bulk explosives to independent wholesalers and to other explosives companies. Packaged explosives are used for applications requiring controlled explosive charges and typically command a premium price and produce higher margins. The Company's Slurry packaged explosive products are sold nationally and internationally to other explosive companies and end-users.

In August, 1999, the Company sold substantially all the assets of its wholly owned Australian subsidiary, Total Energy Systems Limited and its subsidiaries. See "Note 5 to Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations".

Industrial Acids

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

EDNC Baytown Plant

Subsidiaries within the Company's Chemical Business entered into a series of agreements with Bayer Corporation ("Bayer")(collectively, the "Bayer Agreement"). Under the Bayer Agreement, El Dorado Nitrogen Company ("EDNC") acted as an agent to construct and, upon completion of construction, is operating a nitric acid plant (the "EDNC Baytown Plant") at Bayer's Baytown, Texas chemical facility.

Under the terms of the Bayer Agreement, EDNC leases the EDNC Baytown Plant pursuant to a leveraged lease from an unrelated third party with an initial lease term of ten years from the date on which the EDNC Baytown Plant became fully operational (in May 1999). Bayer will purchase from EDNC all of its requirements for nitric acid to be used by Bayer at its Baytown, Texas facility for ten years following May 1999. EDNC will purchase from Bayer its requirements for anhydrous ammonia for the manufacture of nitric acid as well as utilities and other services. Subject to certain conditions, EDNC is entitled to sell to third parties the amount of nitric acid manufactured at the EDNC Baytown Plant which is in excess of Bayer's requirements. The Bayer Agreement provides that Bayer will make certain net monthly payments to EDNC which will be sufficient for EDNC to recover all of its costs, as defined, plus a profit. The Company estimates that at full production capacity based on terms of the Bayer Agreement and subject to the price of anhydrous ammonia, the EDNC Baytown Plant is anticipated to generate approximately $35 million in annual gross revenues. See "Special Note Regarding Forward-Looking Statements". Upon expiration of the initial ten-year term from the date the EDNC Baytown Plant became operational, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer Agreement may opt against renewal.

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

In January, 1999, the contractor constructing the EDNC Baytown Plant informed the Company that it could not complete construction alleging a lack of financial resources. The Company and certain other parties involved in this project demanded the contractors bonding company to provide funds necessary for subcontractors to complete construction. The Company, the contractor, the bonding company and Bayer entered into an agreement which provided that the bonding company pay $12.9 million for payments to subcontractors for work performed prior to February 1, 1999. In addition, the contractor agreed to provide, on a no cost basis, project management and to incur

certain other additional costs through the completion of the contract. Because of this delay, an amendment was entered into in connection with the Bayer Agreement. The amendment extended the requirement date that the plant be in production to May 31, 1999, and fully operational by June 30, 1999. The construction of the EDNC Baytown Plant was completed in May 1999, and EDNC began producing and delivering nitric acid to Bayer at that time. Sales by EDNC to Bayer out of the EDNC Baytown Plant production during 1999, were approximately $17.2 million. Financing of the EDNC Baytown Plant was provided by an unaffiliated lender. Neither the Company nor EDC has guaranteed any of the repayment obligations for the EDNC Baytown Plant. In connection with the leveraged lease, the Company entered into an interest rate forward agreement to fix the effective rate of interest implicit in such lease. See "Special Note Regarding Forward-Looking Statements" and Note 2 of Notes to Consolidated Financial Statements.

Raw Materials

Anhydrous ammonia represents the primary component in the production of most of the products of the Chemical Business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Chemical Business normally purchases approximately 200,000 tons of anhydrous ammonia per year for use in its manufacture of its products. Due to lower sales in 1999, the Company purchases of anhydrous ammonia were approximately 151,000 tons.

During 1999, the Chemical Business purchased its raw material requirements of anhydrous ammonia from three suppliers at an average cost per ton of approximately $145 compared to approximately $154 per ton in 1998 and approximately $184 per ton in 1997. During the second half of 1999, the majority of the Chemical Business' raw material purchases were made under one contract as supply contracts with the other two suppliers were terminated. In October, 1999, the Chemical Business renegotiated its remaining contract, which provides the Chemical Business with an extended term to purchase the anhydrous ammonia it was required to purchase as of December 31, 1999 (96,000 tons). Under the renegotiated contract, the Chemical Business is to purchase the 96,000 tons at a minimum of 2,000 tons of anhydrous ammonia per month during 2000 and 3,000 tons per month in 2001 and 2002, at prices which could exceed or be less than the then current spot market price for anhydrous ammonia. In addition, under the renegotiated requirements contract the Company is committed to purchase 50% of its remaining requirements of anhydrous ammonia through 2002 from this third party at prices which will approximate the then current spot market price. In January, 2000, the supplier under this requirement contract agreed to supply the Chemical Business other requirements for anhydrous ammonia for a one (1) year term at approximately the then current spot market price, which one (1) year agreement is terminable on 120 days notice.

During the second half of 1998 and during 1999, an excess supply of nitrate based products, caused, in part, by the import of Russian nitrate, has caused a significant decline in the sales prices. This decline in sales price has resulted in the cost of anhydrous ammonia purchased under the above contract when combined with manufacturing and distribution costs, to exceed anticipated future sales prices. See "Special Note Regarding Forward-Looking Statements," and Note 16 of Notes to Consolidated Financial Statements.

The Company believes that it could obtain anhydrous ammonia from other sources in the event of a termination of the above-referenced contract.

Seasonality

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

weather conditions and other circumstances beyond the control of the Company. The agricultural markets serviced by the Chemical Business have sustained a drought resulting in a lack of demand for the Chemical Business' fertilizer products during the 1998 and 1999 fall and spring planting seasons and have had a material adverse effect of the Company.

Regulatory Matters

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

Competition

The Chemical Business competes with other chemical companies in its markets, many of whom have greater financial and other resources than the Company. The Company believes that competition within the markets served by the Chemical Business is primarily based upon price, service, warranty and product performance.

Developments in Asia

During 1999, the Chemical Business sold substantially all of the assets of its Australian subsidiary. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 5 to Consolidated Financial Statements for a discussion of the terms of the sale and the loss sustained by the Company as a result of the disposition of the Chemical Business' Australian subsidiary.

Climate Control Business

General

The Company's Climate Control Business manufactures and sells a broad range of standard and custom designed hydronic fan coils and water source heat pumps as well as other products for use in commercial and residential heating ventilation and air conditioning ("HVAC") systems. Demand for the Climate Control Business' products is driven by the construction of commercial, institutional and residential buildings, the renovation of existing buildings and the replacement of existing systems. The Climate Control Business' commercial products are used in a wide variety of buildings, such as: hotels, motels, office buildings, schools, universities, apartments, condominiums, hospitals, nursing homes, extended care facilities, supermarkets and superstores. Many of the Company's products are targeted to meet increasingly stringent indoor air quality and energy efficiency standards. The Climate Control Business accounted for approximately 46%, 45% and 42% of the Company's 1999, 1998 and 1997 consolidated sales, respectively.

Hydronic Fan Coils

The Climate Control Business is a leading provider of hydronic fan coils targeted to the commercial and institutional markets in the U.S. Hydronic fan coils use heated or chilled water, provided by a centralized chiller or boiler through a water pipe system, to condition the air and allow individual room control. Hydronic fan coil systems are quieter and have longer lives and lower maintenance costs than comparable systems used where individual room control is required. The breadth of the product line coupled with customization capability provided by a flexible manufacturing process are important components of the Company's strategy for competing in the commercial and institutional renovation and replacement markets. See "Special Note Regarding Forward-Looking Statements".

Water Source Heat Pumps

The Company is a leading U.S. provider of water source heat pumps to the commercial construction and renovation markets. These are highly efficient heating and cooling units which enable individual room climate control through the transfer of heat through a water pipe system which is connected to a centralized

cooling tower or heat injector. Water source heat pumps enjoy a broad range of commercial applications, particularly in medium to large sized buildings with many small, individually controlled spaces. The Company believes the market for commercial water source heat pumps will continue to grow due to the relative efficiency and long life of such systems as compared to other air conditioning and heating systems, as well as to the emergence of the replacement market for those systems. See "Special Note Regarding Forward-Looking Statements".

Geothermal Products

The Climate Control Business is a pioneer in the use of geothermal water source heat pumps in residential and commercial applications. Geothermal systems, which circulate water or antifreeze through an underground heat exchanger, are among the most energy efficient systems available. The Company believes the longer life, lower cost to operate, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, will continue to increase demand for its geothermal products. The Company is specifically targeting new residential construction of homes exceeding $200,000 in value. See "Special Note Regarding Forward-Looking Statements".

Hydronic Fan Coil and Water Source Heat Pump Market

The Company has pursued a strategy of specializing in hydronic fan coils and water source heat pump products. The annual U.S. market for hydronic fan coils and water source heat pumps is approximately $325 million. Demand in these markets is generally driven by levels of repair, replacement, and new construction activity. The U.S. market for fan coils and water source heat pump products has grown on average 14% per year over the last 4 years. This growth is primarily a result of new construction, the aging of the installed base of units, the introduction of new energy efficient systems, upgrades to central air conditioning and increased governmental regulations restricting the use of ozone depleting refrigerants in HVAC systems.

Production and Backlog

Most of the Climate Control Business production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes and configurations, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. As of December 31, 1999, the backlog of confirmed orders for the Climate Control Business was approximately $22.1 million as compared to approximately $21.1 million at December 31, 1998. 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 February 29, 2000, the Climate Control Business had released substantially all of the December 31, 1999 backlog to production. All of the December 31, 1999 backlog is expected to be filled by December 31, 2000. See "Special Note Regarding Forward-Looking Statements".

Marketing and Distribution

Distribution

The Climate Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturers representatives, who also represent complementary product lines not manufactured by the Company. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Climate Control Business in competition with the Company. Sales to original equipment manufacturers accounted for approximately 27% of the sales of the Climate Control Business in 1999 and approximately 12% of the Company's 1999 consolidated sales.

Market

The Climate Control Business depends primarily on the

commercial construction industry, including new construction and the remodeling and renovation of older buildings. In recent years this Business has introduced geothermal products designed for residential markets for both new and replacement markets.

Raw Materials

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

Competition

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

Joint Ventures and Options to Purchase

The Company has obtained an option (the "Option") to acquire 80% of the issued and outstanding stock of an Entity (the "Optioned Company") that performs energy savings contracts, primarily on US government facilities. For the Option, the Company has paid $1.3 million as of the date of this report. The term of the Option expired May 4, 1999. The Company decided not to exercise the Option. The grantors of the Option are obligated to repay to the Company $1.0 million of the Option, which obligation is secured by the stock of the Entity and other affiliates of the Optioned Company. There is no assurance that the grantors of the Option will have funds necessary to repay to the Company the amount paid for the Option. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussion of sale of this investment in 2000. Through the date of this report, the Company has advanced the Entity approximately $1.7 million, including accrued interest. The Company has recorded reserves of approximately $1.5 million against the loans, accrued interest and option payments. For its year ended June 30, 1999, the Entity reported an audited net income of approximately $.4 million.

During 1994, a subsidiary of the Company obtained an option to acquire all of the stock of a French manufacturer of air conditioning and heating equipment. The Company's subsidiary was granted the option as a result of the subsidiary loaning to the parent company of the French manufacturer approximately $2.1 million. Subsequent to the loan of $2.1 million, the Company's subsidiary has loaned to the parent of the French manufacturer an additional $1.6 million. The amount loaned is secured by the stock and assets of the French manufacturer. The Company's subsidiary may exercise its option to acquire the French manufacturer by converting approximately $150,000 of the amount loaned into equity. The option is currently exercisable and will expire June 15, 2005. As of the date of this report, management of the Company's subsidiary which holds the option has not decided whether it will exercise the option.

For 1999, 1998 and 1997, the French manufacturer had revenues of $18.9, $17.2 and $14.3 million, respectively, and reported net income of approximately $600,000, $100,000 and $300,000, respectively. As a result of cumulative losses by the French manufacturer prior to 1997, the Company established reserves against the loans aggregating approximately $1.5 million through December 31, 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

In 1995, a subsidiary of the Company invested approximately $2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project had been awarded a contract to retrofit residential housing units at a US Army base, which it completed during 1996. The completed contract was for installation of energy-efficient equipment (including air conditioning and heating equipment) which would reduce utility consumption. For the installation and

management, the Project will receive a percent of all energy and maintenance savings during the twenty (20) year contract term. The Project spent approximately $17.9 million to retrofit the residential housing units at the US Army base. The project received a loan from a lender to finance approximately $14.0 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project. The Company's equity interest in the results of the operations of the Project were not material for the years ended December, 1999, 1998 and 1997.

Industrial Products Business

General

The Industrial Products Business 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 and fabricating machines. The Industrial Products Business purchases most of the machine tools from foreign companies, which manufacture the machine tools to the Company's specifications. This Business manufactures CNC bed mills and electrical control panels for machine tools. The Company has eliminated in the past, and continues to eliminate, certain categories of machinery from its product line by not replacing them when sold. The Industrial Products Business accounted for approximately 4%, 6% and 6% of the Company's consolidated sales in each of the years 1999, 1998 and 1997 respectively.

As discussed in "Item 1 - Business General", the Company has concluded that its Industrial Products Business is non-core to the Company and is pursuing various alternatives of realizing its investments in these assets.

Distribution and Market

The Industrial Products Business distributes its machine tools in the United States. The Industrial Products Business also sells its machine tools through independent machine tool dealers throughout the United States, who purchase the machine tools for resale to end users. The principal markets for machine tools, other than machine tool dealers, consist of manufacturing and metal working companies, maintenance facilities, and utilities.

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. 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, importers, 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, 1999, the Company employed 1,735 persons. As of that date, (a) the Chemical Business employed 537 persons, with 106 represented by unions under agreements expiring in August, 2001 and February, 2002, (b) the Climate Control Business employed 784 persons, none of whom are represented by a union, (c) the Industrial Products Business employed 41 persons, none of whom are represented by a union, and (d) the Automotive Products Business, which the Board of Directors approved a plan to sell or otherwise dispose of the operations, employed 311 persons, with 19 represented by unions under an agreement expiring in July, 2000 .

Research and Development

The Company incurred approximately $713,000 in 1999, $377,000 in 1998, and $367,000 in 1997 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are expensed by the Company.

Environmental Matters

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

Due to a consent administrative order ("CAO") entered into with the Arkansas Department of Environmental Quality ("ADEQ"), the Chemical Business has installed additional monitoring wells at the El Dorado Facility in accordance with a workplan approved by the ADEQ, and submitted the test results to ADEQ. The results indicated that a risk assessment should be conducted on nitrates present in the shallow groundwater. The Chemical Business' consultant has completed this risk assessment, and has forwarded it to the ADEQ for approval. The risk assessment concludes that, although there are contaminants at the El Dorado Facility and in the groundwater, the levels of such contaminants at the El Dorado Facility and in the groundwater do not present an unacceptable risk to human health and the environment. Based on this conclusion, the Chemical Business' consultant has recommended continued monitoring at the site for five years.

A second consent order was entered into with ADEQ in August, 1998 (the "Wastewater Consent Order"). The Wastewater Consent Order recognizes the presence of nitrate contamination in the groundwater and requires the Chemical Business to undertake on-site bioremediation, which is currently underway. Upon completion of the waste minimization activities referenced below, a final remedy for groundwater contamination will be selected, based on an evaluation of risk. There are no known users of groundwater in the area, and preliminary risk assessments have not identified any risk that would require additional remediation. The Wastewater Consent Order included a $183,700 penalty assessment, of which $125,000 will be satisfied over five years at expenditures of $25,000 per year for waste minimization activities. The Chemical Business has documented in excess of $25,000 on expenditures for 1998 and 1999.

The Wastewater Consent Order also required installation of an interim groundwater treatment system (which is now operating) and certain improvements in the wastewater collection and treatment system (discussed below). Twelve months after all improvements are in place, the risk will be reevaluated, and a final decision will be made on what additional groundwater remediation, if any, is required. There can be no assurance that the risk assessment will be approved by the ADEQ, or that further work will not be required.

The Wastewater Consent Order also requires the Chemical

Business to undertake a facility wide wastewater evaluation and pollutant source control program and facility wide wastewater minimization program. The program requires that the subsidiary complete rainwater drain off studies including engineering design plans for additional water treatment components to be submitted to the State of Arkansas by August 2000. The construction of the additional water treatment components is required to be completed by August, 2001 and the El Dorado plant has been mandated to be in compliance with the final effluent limits on or before February 2002. The aforementioned compliance deadlines, however, are not scheduled to commence until after the State of Arkansas has issued a renewal permit establishing new, more restrictive effluent limits. Alternative methods for meeting these requirements are continuing to be examined by the Chemical Business. The Company believes, although there can be no assurance, that any such new effluent limits would not have a material adverse effect on the Company. See "Special Note Regarding Forward-Looking Statements." The Wastewater Consent Order provided that the State of Arkansas will make every effort to issue the renewal permit by December 1, 1999; however, the State of Arkansas has delayed issuance of the permit. Because the Wastewater Consent Order provides that the compliance deadlines may be extended for circumstances beyond the reasonable control of the Company, and because the State of Arkansas has not yet issued the renewal permit, the Company does not believe that failure to meet the aforementioned compliance deadlines will present a material adverse impact. The State of Arkansas has been advised that the Company is seeking financing from Arkansas authorities for the projects required to comply with the Wastewater Consent Order and the Company has requested that the permit be further delayed until financing arrangements can be made, which requests have been met to date. The wastewater program is currently expected to require future capital expenditures of approximately $10.0 million. Negotiations for securing financing are currently underway.

Due to certain start-up problems with the DSN Plant, including excess emissions from various emission sources, the Chemical Business and the ADEQ entered into certain agreements, including an administrative consent order (the "Air Consent Order") in 1995 to resolve certain of the Chemical Business' past violations. The Air Consent Order was amended in 1996 and 1997. The second amendment to the Air Consent Order (the "1997 Amendment") provided for certain stipulated penalties of $1,000 per hour to $10,000 per day for continued off-site emission events and deferred enforcement for other alleged air permit violations. In 1998, a third amendment to the Air Consent Order provided for the stipulated penalties to be reset at $1,000 per hour after ninety (90) days without any confirmed events. In addition, prior to 1998, the El Dorado Facility was identified as one of 33 significant violators of the federal Clean Air Act in a review of Arkansas air programs by the EPA Office of Inspector General. The Company is unable to predict the impact, if any, of such designation. See "Special Note Regarding Forward-Looking Statements." Effective May 1, 2000, the Chemical Business will be operating under a new air permit. This air permit supercedes all air-related consent administrative orders other than the Air Consent Order discussed above.

During 1998 and 1999, the Chemical Business expended approximately $.7 million and $.9 million, respectively, in connection with compliance with federal, state and local Environmental Laws at its El Dorado Facility, including, but not limited to, compliance with the Wastewater Consent Order, as amended. The Company anticipates that the Chemical Business may spend up to $10.0 million for future capital expenditures relating to environmental control facilities at its El Dorado Facility to comply with Environmental Laws, including, but not limited to, the Wastewater Consent Order, as amended, with $2.0 million being spent in 2000 and the balance being spent in 2001. No assurance can be made that the actual expenditures of the Chemical Business for such matters will not exceed the estimated amounts by a substantial margin, which could have a material adverse effect on the Company and its financial condition. The amount to be spent during 2000 and 2001 for capital expenditures related to compliance with Environmental Laws is dependent upon a variety of factors, including, but not limited to, obtaining financing through Arkansas authorities, the occurrence of additional releases or threatened releases into the environment, or changes in the Environmental Laws (or in the enforcement or interpretation by any federal or state agency or court of

competent jurisdiction). See "Special Note Regarding Forward-Looking Statements." Additional orders from the ADEQ imposing penalties, or requiring the Chemical Business to spend more for environmental improvements or curtail production activities at the El Dorado Facility, could 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 1,400 acre tract of land located in El Dorado, Arkansas (the "El Dorado Facility"), (ii) in a facility of approximately 60,000 square feet located on ten acres of land in Hallowell, Kansas ("Kansas Facility"), (iii) in a mixed acid plant in Wilmington, North Carolina ("Wilmington Plant"), and (iv) in a nitric acid plant in Baytown, Texas ("Baytown Plant"). The Chemical Business owns all of its manufacturing facilities except the Baytown Plant. The Wilmington Plant and the DSN Plant are subject to mortgages. The Baytown Plant is being leased pursuant to a leveraged lease from an unrelated third party.

As of December 31, 1999, the El Dorado Facility was utilized at approximately 71% of capacity, based on continuous operation.

The Chemical Business operates its Kansas Facility from buildings located on an approximate ten acre site in southeastern Kansas, and a research and testing facility comprising approximately ten acres, including buildings and equipment thereon, located in southeastern Kansas, which it owns.

In addition, the Chemical Business distributes its products through 28 agricultural and explosive distribution centers. The Chemical Business currently operates 20 agricultural distribution centers, with 16 of the centers located in Texas (13 of which the Company owns and 3 of which it leases); 1 center located in Missouri (leased); and 3 centers located in Tennessee (owned). The Chemical Business currently operates 8 domestic explosives distribution centers located in Hallowell, Kansas (owned); Bonne Terre, Missouri (owned); Poca, West Virginia (leased); Owensboro, Martin and Combs, Kentucky (leased); Pryor, Oklahoma (leased) and Dunlap, Tennessee (owned).

Climate Control Business

The Climate Control Business conducts its fan coil manufacturing operations in a facility located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet. The Company owns this facility subject to a mortgage. As of December 31, 1999, the Climate Control Business was using the productive capacity of the above referenced facility to the extent of approximately 84%, based on three, eight-hour shifts per day and a five-day week in one department and one and one half eight-hour shifts per day and a five-day week in all other departments.

The Climate Control Business manufactures most of its heat pump products in a 270,000 square foot facility in Oklahoma City, Oklahoma, which it leases from an unrelated party. The lease term began March 1, 1988 and expires February 28, 2003, with options to renew for additional five-year periods. The lease 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, 1999, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 82%, based on two nine-hour shifts per day and a five-day week in one department and one eight-hour shift per day and a five-day week in all other departments.

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

Industrial Products Business

The Company owns several buildings, some of which are subject to mortgages, totaling approximately 360,000 square feet located in Oklahoma City and Tulsa, Oklahoma, which the

Industrial Products Business uses for showrooms, offices, warehouse and manufacturing facilities. The Company also leases facilities in Middletown, New York containing approximately 25,000 square feet for manufacturing operations.

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 30,000 square feet of warehouse and shop space in Oklahoma City, Oklahoma. The Industrial Products Business also leases an office in Europe to coordinate its European activities.

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

Item 3. LEGAL PROCEEDINGS

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

No legal action has yet been filed. The amount of the Company's cost associated with the cleanup of the site is unknown due to continuing changes in the estimated total cost of cleanup of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. As of December 31, 1999, the Company has accrued an amount based on a preliminary settlement proposal by the alleged potential responsible parties; however, there is no assurance such proposal will be accepted. Such amount is not material to the Company's financial position or results of operations. This estimate is subject to material change in the near term as additional information is obtained. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

Arch Minerals Corporation, et al. v. ICI Explosives USA, Inc., et al. On May 24, 1996, the plaintiffs filed this civil cause of action against EDC and five other unrelated commercial explosives manufacturers alleging that the defendants allegedly violated certain federal and state antitrust laws in connection with alleged price fixing of certain explosive products. This cause of action is pending in the United States District Court, Southern District of Indiana. The plaintiffs are suing for an unspecified amount of damages, which, pursuant to statute, plaintiffs are seeking be trebled, together with costs. Plaintiffs are also seeking a permanent injunction enjoining defendants from further alleged anti-competitive activities. Based on the information presently available to EDC, EDC does not believe that EDC conspired with any party, including, but not limited to, the five other defendants, to fix prices in connection with the sale of commercial explosives. This action has been consolidated, for discovery purposes only, with several other actions in a multi-district litigation proceeding in Utah. Discovery in this litigation is in process. EDC intends to vigorously defend itself in this matter. See "Special Note Regarding Forward-Looking Statements."

ASARCO v. ICI, et al. The U. S. District Court for the Eastern District of Missouri has granted ASARCO and other plaintiffs in a lawsuit originally brought against various

commercial explosives manufacturers in Missouri, and consolidated with other lawsuits in Utah, leave to add EDC as a defendant in that lawsuit. This lawsuit alleges a national conspiracy, as well as a regional conspiracy, directed against explosive customers in Missouri and seeks unspecified damages. EDC has been included in this lawsuit because it sold products to customers in Missouri during a time in which other defendants have admitted to participating in an antitrust conspiracy, and because it has been sued in the Arch case discussed above. Based on the information presently available to EDC, EDC does not believe that EDC conspired with any party, to fix prices in connection with the sale of commercial explosives. EDC intends to vigorously defend itself in this matter. See "Special Note Regarding Forward-Looking Statements."

On August 26, 1999, LSB and EDC were served with a complaint filed in the District Court of the Western District of Oklahoma by National Union Fire Insurance Company, seeking recovery of certain insurance premiums totaling $2,085,800 plus prejudgment interest, costs and attorneys fees alleged to be due and owing by LSB and EDC, related to National Union insurance policies for LSB and subsidiaries dating from 1979 through 1988.

The parties entered into an agreement to settle this matter in 1999, whereby LSB paid $200,000 in December 1999 and agreed to pay an additional $300,000 to National Union. The $300,000 is payable annually in installments of $100,000 plus interest. As a part of the agreement to settle this matter, the parties have agreed to adjudicate whether any additional amounts may be due to National Union, but the parties have agreed that the Company's liability for any additional amounts due National Union shall not exceed $650,000. Amounts expected to be paid under this settlement by EDC were fully accrued at December 31, 1999.

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	71	Board Chairman and President	December, 1968
Barry H. Golsen	49	Board Vice Chairman and President of the Climate Control Business	August, 1981
David R. Goss	59	Senior Vice President of Operations and Director	March, 1969
Tony M. Shelby	58	Senior Vice President - Chief Financial Officer, and Director	March, 1969
Jim D. Jones	58	Vice President - Treasurer and Corporate Controller	April, 1977
David M. Shear	40	Vice President and General Counsel	March, 1990

The Company's officers serve one-year terms, renewable on an annual basis by the Board of Directors. All of the individuals listed above have served in substantially the same capacity with the Company and/or its subsidiaries for the last five years. In March 1996, the Company executed an employment agreement (the "Agreement") with Jack E. Golsen for an initial term of three

years followed by two additional three year terms. The Agreement automatically renews for each successive three year term unless terminated by either the Company or Jack E. Golsen giving written notice at least one year prior to the expiration of the then three year term.

Family Relationships

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

PART II

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

Market Information

Currently the Company's Common Stock trades on the Over-the-Counter Bulletin Board ("OTC"). Prior to July 6, 1999, the Company's Common Stock traded on the New York Stock Exchange, Inc. ("NYSE"). The following table shows, for the periods indicated, the high and low closing sales prices for the Company's Common Stock through June 30, 1999 and from July 1, 1999 through December 31, 1999 the high and low bid information for the Company's Common Stock.

	Fiscal Year Ended December 31,			
	1999		1998	
Quarter	High	Low	High	Low
First	3 3/8	2 9/16	4 1/2	3 13/16
Second	2 3/4	1 1/4	4 9/16	3 13/16
Third	1 7/8	1 1/8	4 3/8	3 1/8
Fourth	1 3/4	9/16	3 9/16	2 15/16

Stockholders

As of May 31, 2000, the Company had 939 record holders of its Common Stock.

Other Information

The Company's Common Stock and its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 (the "Series 2 Preferred") are currently listed for trading on the Over-the-Counter Bulletin Board ("OTC"). Prior to July, 1999, the Company's Common Stock traded on the New York Stock Exchange, Inc. ("NYSE"). However, the Company fell below the NYSE continued listing criteria for net tangible assets available to the holders of the Company's Common Stock and the three year average net income. Therefore, the Company's Common Stock and Series 2 Preferred were unable to continue to be listed on the NYSE.

Dividends

Under the terms of loan agreements between the Company and its lenders, 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.

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

Under the terms of the Indenture of Senior Unsecured Notes,

ClimaChem cannot transfer funds to the Company in the form of cash dividends or other distributions or advances, except for (i) the amount of taxes that ClimaChem would be required to pay if they were not consolidated with the Company and (ii) an amount not to exceed fifty percent (50%) of ClimaChem's cumulative net income from January 1, 1998 through the end of the period for which the calculation is made for the purpose of proposing a payment, and(iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem pursuant to a certain services agreement and a certain management agreement to which ClimaChem and the Company are parties. For 1999, ClimaChem had a net loss of $19.2 million. See Note 8 of Notes to Consolidated Financial Statements and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Under the loan agreements discussed in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report, the Company and its subsidiaries, exclusive of the Automotive Products Business and ClimaChem and its subsidiaries, have the right to borrow on a revolving basis up to $6 million, based on eligible collateral. At December 31, 1999, the Company and its subsidiaries, except ClimaChem and its subsidiaries, had availability for additional borrowings of $.1 million. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the financial covenants and amendments to loan agreements during the first quarter of 2000.

Holders of the Company's Common Stock are entitled to receive dividends only when, as, and if declared by the Board of Directors. No cash dividends may be paid on the Company's Common Stock until all required dividends are paid on the outstanding shares of the Company's Preferred Stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. The Company has issued and outstanding as of December 31, 1999, 915,000 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,462 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of Preferred Stock is entitled to receive an annual dividend, if, as and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferred at the rate of $3.25 a share payable quarterly in arrears on March 15, June 15, September 15 and December 15, which dividend is cumulative, (ii) Non Cumulative Preferred Stock at the rate of $10.00 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. Due to losses sustained by the Company and the Company's subsidiaries (other than ClimaChem and its subsidiaries) limited borrowing ability under the Company's revolving loan agreements, the Company's Board of Directors discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. Also due to the Company's losses and the Company's liquidity position, the Company has not declared or paid the September 15, 1999, December 15, 1999 and the March 15, 2000, regular quarterly dividend of $.8125 (or $743,438 per quarter) on its outstanding Series 2 Preferred. In addition, the Company did not declare or pay the January 1, 2000 regular annual dividend of $12.00 (or $240,000) on the Series B Preferred. The unpaid dividends in arrears on the Company's outstanding Series 2 Preferred and Series B Preferred are cumulative. No dividends or other distributions, other than dividends payable in Common Stock, shall be declared or paid, and no purchase, redemption or other acquisition shall be made, by the Company of or in connection with any shares of Common Stock until all cumulative and unpaid dividends on the Series 2 Preferred and Series B Preferred shall have been paid. As of March 31, 2000, the aggregate amount of unpaid dividends in arrears on the Company's Series 2 Preferred totaled approximately $2.2 million. The Company does not anticipate having funds available to pay dividends on its stock (Common or Preferred) for the foreseeable future. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for further discussion of the Company's payment of cash dividends. Also see Notes 3, 10, 11 and 12 of Notes to Consolidated Financial Statements.

Whenever dividends on the Series 2 Preferred shall be in

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

On January 5, 1999, the Company's Board of Directors approved the renewal of the Company's then existing Preferred Share Purchase Rights Plan (with certain exceptions), which existing plan terminated effective as of February 27, 1999, through the execution and delivery of a Renewed Rights Agreement, dated January 6, 1999, which expires January 6, 2009 ("Renewed Rights Plan"). 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 under the Renewed Rights Plan (the "Renewed Rights") will become exercisable only if a person or group acquires beneficial ownership of 20% 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 20% or more of the Common Stock, except pursuant to a tender or exchange offer which is for all outstanding shares of Common Stock at a price and on terms which a majority of outside directors of the Board of Directors determines to be adequate and in the best interest of the Company in which the Company, its stockholders and other relevant constituencies, other than the party triggering the rights (a "Permitted Offer"), except acquisitions by the following excluded persons (collectively, the "Excluded Persons"): (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan of the Company or its subsidiaries, (iv) any entity holding Common Stock for or pursuant to the employee benefit plan of the Company or its subsidiary, (v) Jack E. Golsen, Chairman of the Board and President of the Company, his spouse and children and certain related trusts and entities, (vi) any party who becomes the beneficial owner of 20% or more of the Common Stock solely as a result of the acquisition of Common Stock by the Company, unless such party shall, after such share purchase by the Company, become the beneficial owner of additional shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock, and (vii) any party whom the Board of Directors of the Company determines in good faith acquired 20% or more of the Common Stock inadvertently and such person divests within 10 business days after such determination, a sufficient number of shares of Common Stock and no longer beneficially own 20% of the Common Stock.

Each Renewal Rights, when triggered, (other than the Renewal Rights, owned by the acquiring person or members of a group that causes the Renewal 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 $20.00 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 Renewal Right will entitle its holder (other than Renewal Rights owned by the person or group that causes the Renewal Rights to become exercisable, which become void) to purchase at the Renewal 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 Renewal Right. In addition,

if a person or group (with certain exceptions) acquires 20% or more of the Company's outstanding Common Stock, each Renewal Right will entitle its holder (other than the Renewal Rights owned by the acquiring person or members of the group that results in the Renewal Rights becoming exercisable, which become void) to purchase at the Renewal Right's then current exercise price, a number of shares of the Company's Common Stock having a market value of twice the Renewal Right's exercise price in lieu of the new Preferred Stock.

Following the acquisition by a person or group of beneficial ownership of 20% 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 Renewal Rights (other than Renewal Rights owned by the acquiring person or members of the group that results in the Renewal 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 Renewal Right.

Prior to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's Common Stock (with certain exceptions) the Company may redeem the Renewal Rights for one cent per Renewal Right at the option of the Company's Board of Directors. The Company's Board of Directors also has the authority to reduce the 20% thresholds to not less than 10%.

Item 6. SELECTED FINANCIAL DATA (1)

	Years ended December 31,				
	1999	1998	1997	1996	1995
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales	$261,697	$270,042	$278,430	$269,213	$234,121
Total revenues	$262,733	$271,332	$283,597	$275,998	$240,861
Interest expense	$ 15,441	$ 14,938	$ 12,155	$ 8,280	$ 8,929
Income (loss) from continuing operations before extraordinary charge	$(31,646)	$ 2,439	$ (8,755)	$ 1,944	$ 1,144
Net loss	$(49,767)	$ (1,920)	$(23,065)	$(3,845)	$ (3,732)
Net loss applicable to common stock	$(52,995)	$ (5,149)	$(26,294)	$(7,074)	$ (6,961)
Basic and diluted loss per common share:					
Loss from continuing operations before extraordinary charge	$ (2.95)	$ (.07)	$ (.93)	$ (.10)	$ (.16)
Losses on discontinued operations	$ (1.53)	$ (.35)	$ (.75)	$ (.45)	$ (.38)
Net loss	$ (4.48)	$ (.42)	$ (2.04)	$ (.55)	$ (.54)

Item 6. SELECTED FINANCIAL DATA (Continued) (1)

	Years ended December 31,				
	1999	1998	1997	1996	1995
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data:					
Total assets	$188,635	$223,250	$244,600	$233,703	$217,860

Long-term debt, including current portion	$158,072	$150,506	$160,903	$109,023	$102,472
Redeemable preferred stock	$ 139	$ 139	$ 146	$ 146	$ 149
Stockholders' equity (deficit)	$(14,173)	$ 35,059	$ 44,496	$ 74,018	$ 81,576
Selected other data:					
Cash dividends declared per common share	$ -	$ .02	$ .06	$ .06	$ .06

(1) On April 5, 2000, the Company's Board of Directors approved a plan of disposal of the Company's Automotive Products Business. Accordingly, all amounts have been restated to reflect the Automotive Products Business as a discontinued operation for all periods presented. See Note 4 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, 1999 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA" and Item 1 "BUSINESS" included elsewhere in this report.

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

All discussions below are that of the Businesses continuing and accordingly exclude the Discontinued operations of the Automotive Products Business and the Australian subsidiary's operations sold in 1999. See Notes 4 and 5 of the Notes to the Consolidated Financial Statements.

Overview

General

For the year ended December 31, 1999, the Company had a net loss applicable to common stock of approximately $53.0 million, as compared to a net loss applicable to common stock of approximately $5.1 million for the year ended December 31, 1998. The loss for the year ended December 31, 1999 from continuing operations was approximately $31.6 million (income of $2.4 million in 1998). The Company is pursuing a strategy of focusing on its core businesses and concentrating on product lines in niche markets where the Company has established or believes it can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of selected assets that are on its balance sheet and on which it is not realizing an acceptable return and does not reasonably expect to do so. In this regard, the Company has come to the conclusion that its Industrial and Automotive Products Businesses are non-core to the Company.

On April 5, 2000, the Board of Directors approved a definitive plan to dispose of the Company's Automotive Products Business. The plan allows the Company to focus its efforts and financial resources on its core businesses. In an effort to make the Automotive Products Business viable so that it can be sold, on March 9, 2000, the Automotive Products Business acquired certain assets of the Zeller Corporation ("Zeller") representing Zeller's universal joint business. In connection with the acquisition of these assets, the Automotive Products Business assumed an aggregate of approximately $7.5 million (unaudited) in Zeller's liabilities, $4.7 million of which was funded by the Automotive Products Business primary lender. (The balance of the assumed liabilities is expected to be funded out of working capital of the Automotive Products Business). For year ended December 31, 1999, the universal joint business of Zeller had unaudited sales of approximately $11.7 million and a net loss of $1.5 million.

In connection with the Automotive Products Business plan of disposal, the Company's Board of Directors approved a sale of the Business to an identified third party, subject to completion of certain conditions (including approval from the Automotive Products Business' primary lender). This sale was completed by May 4, 2000. Upon completion of the sale of the Automotive Products Business, the Company received notes receivable in

the approximate amount of $8.7 million, such notes being secured by a second lien on substantially all of the assets of the Automotive Products Business. These notes, and any payments of principal and interest, thereon, are subordinated to the buyer's primary lender (which is the same lender that was the primary lender to the Automotive Products Business). The Company will receive no principal payments under the notes for the first two years following the sale of the Automotive Products Business. In addition, the buyer will assume substantially all of the Automotive Products Business' debts and obligations, which at December 31, 1999, prior to the Zeller acquisition totaled $22.2 million.

The notes received by the Company will be secured by a lien on all of the assets of the buyer and its subsidiaries, with the notes to be received by the Company, and liens securing payment of all of the notes subordinated to the buyer's primary lender and will be subject to any liens outstanding on the assets. As of May 4, 2000, the Automotive Products Business owed its primary lender approximately $14.1 million. After the sale, the Company remained a guarantor on certain equipment notes of the Automotive Products Business (which equipment notes have an outstanding principal balance of $4.5 million as of March 31, 2000) and continued to guaranty up to $1 million of the revolving credit facility of the buyer, as it did for its Automotive Products Business. There are no assurances that the Company will be able to collect on the notes issued to the Company as consideration for the purchase.

The Company has classified its investment in the Automotive Products Business as a discontinued operation, reserving approximately $7.9 million in 1999. This reserve does not include the loss, if any, which may result if the Company is required to perform on its guaranties described above.

For the twelve month period ended December 31, 1999, 1998 and 1997, the Automotive Products Business had revenues of $33.4, $40.0 and $35.5 million, respective and a net loss of $18.1, $4.4 and $9.7 million respectively. See Note 4 to Notes to Consolidated Financial Statements.

During August 1999, the Company's Chemical Business sold substantially all of the assets of its Australian subsidiary. Revenues for 1999 to the date of the sale of the assets of the Australian subsidiary were $7.5 million and the loss sustained by the Australian subsidiary was $2.0 million, excluding the loss of $2.0 million as a result of the sale.

Included in the Company's loss for 1999 is a loss provision of $8.4 million as discussed in Note 16 of Notes to Consolidated Financial Statements and elsewhere in the report. This loss provision was caused, in part by the Chemical Business' requirements to buy a large percentage of its anhydrous ammonia requirements (its primary raw material) at prices in excess of the then market price and the oversupply of nitrate based products in 1999 caused, in part, by the importation of Russian anhydrous ammonia at prices substantially below the then market price, resulting in the Chemical Business costs to produce its nitrate based products exceeding the then anticipated future sales prices.

During 1999, the Chemical Business had commitments to purchase anhydrous ammonia under three contracts. The Company's purchase price of anhydrous ammonia under one of these contracts could be higher or lower than the current market spot price of anhydrous ammonia. Pricing is subject to variations due to numerous factors contained in this contract. Based on the pricing index contained in this contract, prices paid during 1998 and 1999 were substantially higher than the current market spot price. As of December 31, 1999, the Chemical Business is to purchase 96,000 tons at a minimum of 2,000 tons of anhydrous ammonia per month during 2000 and 3,000 tons per month in 2001 and 2002 under this contract. In addition, under the contract the Company is committed to purchase 50% of its remaining requirements of anhydrous ammonia through 2002 from this third party at prices which approximate market prices. The purchase price(s) the Chemical Business will be required to pay for the remaining 96,000 tons of anhydrous ammonia under this contract currently exceeds and is expected to continue to exceed the spot market prices throughout the purchase period. Additionally, the excess supply of nitrate based products, caused, in part, by the import of Russian nitrate, caused a significant decline in the sales prices; although sales prices have improved in 2000 (improvement in sales margins is expected in the near term due to increased cost of anhydrous ammonia). During 1999, this decline in sales price resulted in the cost of anhydrous ammonia purchased under this contract when combined with manufacturing and distribution costs, to exceed anticipated future sales prices. As a result, the accompanying Consolidated Financial Statements included a loss provision of approximately $8.4 million for anhydrous ammonia required to be purchased during the remainder of the contract ($7.4 million remaining accrued liability as of December 31, 1999). The provision for loss at December 31,

1999 was based on the forward contract pricing existing at June 30, 1999 and September 30, 1999 (the date the provisions were recognized), and estimated market prices for products to be manufactured and sold during the remainder of the contract. There are no assurances that such estimates will prove to be accurate. Differences, if any, in the estimated future cost of anhydrous ammonia and the actual cost in effect at the time of purchase and differences in the estimated sales prices and actual sales prices of products manufactured could cause the Company's operating results to differ from that estimate in arriving at the loss provision recorded during 1999. See Note 18 of Notes to Consolidated Financial Statements.

The Chemical Business is a member of an organization of domestic fertilizer grade ammonium nitrate producers which sought relief from unfairly low priced Russian ammonium nitrate. This industry group filed a petition in July 1999 with the U.S. International Trade Commission and the U.S. Department of Commerce seeking an antidumping investigation and, if warranted, relief from Russian dumping. The International Trade Commission has rendered a favorable preliminary determination that U.S. producers of ammonium nitrate have been injured as a result of Russian ammonium nitrate imports. In addition, the U.S. Department of Commerce has issued a preliminary affirmative determination that the Russian imports were sold at prices that are 264.59% below their fair market value. On May 19, 2000, the U.S. and Russian governments entered into an agreement to limit volumes and set minimum prices for Russian ammonium nitrate exported to the United States. As a result of this agreement, the antidumping investigation has been suspended. The U.S. industry or Russian exporters may, however, request completion of the investigation. If the investigation is completed with final affirmative findings by the Department of Commerce and the International Trade Commission, an antidumping order will automatically be put in place in the event of termination or violation of the agreement.

The Company's financial statements have been restated to reflect the Automotive Products Business as a discontinued operation for all periods presented. As a result, the Automotive Products Business is no longer presented as a reportable segment. Restated Automotive Products Business results are presented as losses from discontinued operations, net of applicable income taxes, and exclude general corporate overhead and certain interest charges, previously allocated to that business. The discussions and figures below are based on this restated presentation. Certain statements contained in this Overview are forward-looking statements, and future results could differ materially from such statements.

The following table contains certain of the information from Note 17 of Notes to the Company's Consolidated Financial Statements about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1999.

	1999	1998	1997
		(In thousands)	
Net sales:			
Businesses continuing:			
Chemical	$128,154	$125,757	$130,467
Climate Control	117,055	115,786	105,909
Industrial Products	9,027	14,315	15,572
	$254,236	$255,858	$251,948
Business disposed of - Chemical (1)	7,461	14,184	26,482
	$261,697	$270,042	$278,430
Gross Profit: (2)			
Businesses continuing:			
Chemical	$ 13,532	$ 18,570	$16,171
Climate Control	35,467	32,278	29,552
Industrial Products	1,757	3,731	3,776
	$ 50,756	$ 54,579	$49,499

Operating Profit (loss): (3)			
Businesses continuing:			
Chemical	$ 1,325	$ 6,592	$ 5,531
Climate Control	9,751	10,653	8,895
Industrial Products	(2,507)	(403)	(993)
	8,569	16,842	13,433
Business disposed of - Chemical (1)	(1,632)	(2,467)	(52)
	6,937	14,375	13,381
General corporate and other expenses, net	(8,449)	(9,891)	(9,931)
Interest expense:			
Business disposed of (1)	(326)	(434)	(720)
Businesses continuing	(15,115)	(14,504)	(11,435)
Gain (loss) on businesses disposed of	(1,971)	12,993	-
Provision for loss on firm purchase commitments - Chemical	(8,439)	-	-
Provision for impairment on long-lived Assets - Chemical	(4,126)	-	-
Income (loss) from continuing operations before provision for income taxes and extraordinary charge	$(31,489)	$ 2,539	$ (8,705)
Total assets:			
Businesses continuing:			
Chemical	$ 93,482	$107,780	$ 117,671
Climate Control	65,521	49,516	49,274
Industrial Products	8,203	11,662	9,929
Corporate assets and other	21,429	22,137	32,894
Business disposed of - Chemical	-	16,797	19,899
Net assets of discontinued operations	-	15,358	14,933
Total assets	$188,635	$223,250	$244,600

(1) In August, 1999, the Company sold substantially all the assets of its wholly owned Australian subsidiary. See Note 5 of Notes to Consolidated Financial Statements for further information. The operating results have been presented separately in the above table.

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

(3) Operating profit (loss) by industry segment represents revenues less operating expenses before deducting general corporate and other expenses, interest expense, income taxes, loss on business disposed of and provision for loss on firm purchase commitments and impairment on long-lived assets in 1999 and gain on sale of an office building (the "Tower") in 1998.

Chemical Business

Net Sales in the Chemical Business (excluding the Australian subsidiary in which substantially all of its assets were disposed of in August, 1999) were $128.2 million for the year ended December 31, 1999 and $125.8 million for the year ended December 31, 1998. The sales volume from the Chemical Business' El Dorado Plant was down substantially in 1999 (535,000 tons) from the 1998 level 615,000 tons. This decline in sales volume was offset by sales from the EDNC Baytown Plant completed in May, 1999 (See Item 1 "Business" included elsewhere in this report). The gross

profit (excluding the Australian subsidiary and the provision for loss on firm purchase commitments) decreased to $13.5 million (or 10.6% of net sales) in 1999 from $18.6 million (or 14.8% of net sales) in 1998. The decrease in the gross profit was primarily a result of lower volumes and declining sales prices and unabsorbed overhead resulting from the lower volumes and manufacturing costs.

During the third and fourth quarters of 1999, two of the plants were temporarily shut down due to the excessive supply of ammonium nitrate at the Chemical Business and in the market place. The plants that were shut down increased the Chemical Business' losses due to overhead costs that continue even though product was not being produced at the plants temporarily shut down. These plants have resumed production in the first quarter of 2000. There are no assurances that the Chemical Business will not be required to record additional loss provisions in the future. Based on the forward pricing and other factors existing as of May 2000, the Chemical Business may be required to recognize an additional loss on the anhydrous ammonia purchase contracts of approximately $1.0 million. See "Special Note regarding Forward Looking Statements".

In May, 1999, a subsidiary of the Company completed its obligations, as an agent, pursuant to an agreement to construct a nitric acid plant located within Bayer's Baytown, Texas chemical plant complex. This plant is being operated by a subsidiary and is supplying nitric acid to Bayer under a long-term supply contract. Sales by this subsidiary to Bayer were approximately $17.2 million during 1999. Management estimates that, at full production capacity based on terms of the Agreement and, based on the price of anhydrous ammonia as of the date of this report, the plant should generate approximately $35 million in annual gross revenues. Unlike the Chemical Business' regular sales volume, the market risk on this additional volume is much less since the contract provides for recovery of costs, as defined, plus a profit. The Company's subsidiary is leasing the nitric acid plant pursuant to a leverage lease from an unrelated third party for an initial term of ten (10) years which, began on June 23, 1999. See "Special Note Regarding Forward Looking Statements".

The results of operation of the Chemical Business' Australian subsidiary had been adversely affected due to adverse economic developments in certain countries in Asia. As these adverse economic conditions in Asia continued, they had an adverse effect on the Company's consolidated results of operations. As a result of the economic conditions in Australia and the adverse effect of such conditions on the Company's consolidated results of operations, the Company entered into an agreement to dispose of this business. On August 2, 1999 substantially all the assets were sold and a loss of approximately $2.0 million was recognized. See Note 5 of Notes to Consolidated Financial Statements.

The Australian subsidiary had revenues for the calendar year 1999 up to the date of sale of $7.5 million and a loss of $2.0 million, excluding the loss on the sale. For the year ended December 31, 1998, revenues were $14.2 million and the loss was $2.9 million.

Climate Control

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

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

Sales of $117.1 million for the year ended December 31, 1999, in the Climate Control Business were approximately 1.1% greater than sales of $115.8 million for the year ended December 31, 1998. The gross profit was approximately $35.5 million and $32.3 million in 1999 and 1998, respectively. The gross profit percentage increased to 30.3% for 1999 from 27.9% for 1998. This increase is primarily due to an improved market and manufacturing efficiency relating to the heat pump portion of the Climate

Control Business.

Industrial Products Business

As indicated in the above table, during the years ended December 31, 1999 and 1998, respectively, the Industrial Products Business recorded sales of $9.0 million and $14.3 million respectively, and reported operating losses of $2.5 million and $.4 million respectively. The net investment in assets of this Business has continued to decrease and the Company expects to realize further reductions in future periods.

The Company continues to eliminate certain categories of machines from the product line by not replacing those machines when sold. The Company previously announced that it is evaluating opportunities to sell or realize its net investment in its Industrial Products Business. The terms of sale, if any, have not been finalized. The sale of the Industrial Products Business is a forward looking statement and is subject to, among other things, the Company and potential buyer agreeing to terms, the buyer's and the Company's lending institutions agreeing to the terms of the transaction, including the purchase price, approval of the Company's Board of Directors and negotiation and finalization of definitive agreements. There is no assurance that the Company will sell or realize its net investment in the Industrial Products Business in 2000.

Results of Operations

Year Ended December 31, 1999 compared to Year Ended December 31, 1998

Revenues

Total revenues of Businesses continuing for 1999 and 1998 were $255.3 million and $257.1 million, respectively (a decrease of $1.8 million). Sales decreased $1.6 million and other income decreased $.2 million.

Net Sales

Consolidated net sales of Businesses continuing included in total revenues for 1999 were $254.2 million, compared to $255.9 million for 1998, a decrease of $1.7 million. This decrease in sales resulted principally from decreased sales in the Industrial Products Business of $5.3 million due to decreased sales of machine tools. This decrease was offset by: (i) increased sales in the Climate Control Business of $1.3 million primarily due to increased heat pump sales offset by production delays related to mechanical problems with certain new equipment and (ii) lower sales of $16.0 million from the Chemical Business other than the EDNC Baytown Plant offset by sales by EDNC of $18.4 million from the Baytown Plant which began operations in May 1999. Lower volumes of the Company's nitrogen based products were sold at a lower price in 1999 due primarily to the import of Russian nitrate resulting in an over supply of nitrate based products in the primary market areas for the Chemical Business' agricultural products (see Note 16 of Notes to Consolidated Financial Statement).

Gross Profit

Gross profit of Businesses continuing as a percent of net sales was 20.0% for 1999, compared to 21.3% for 1998. The decrease in the gross profit percentage was the result of decreases in the Chemical and Industrial Products Businesses, partially offset by the Climate Control Business. The decrease in the Chemical Business was primarily the result of lower sales volumes and reduced selling prices for the Company's nitrogen based products. See "Overview General" elsewhere in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the Chemical Business' decreased sales. The decrease in the Industrial Products Business was primarily due to a lower gross profit product mix of machine tools sold and a $490,000 charge taken to write-down the net carrying cost of certain inventory in 1999. The decrease in the gross profit percentage was offset by an increase in the Climate Control Business due primarily to an improved focus on sales of more profitable product lines.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from Businesses continuing for 1999 were 20.3% compared to 19.1% for 1998. This increase is primarily the result of decreased sales volume in the Chemical Business and the Industrial Products Business without equivalent corresponding decreases in SG&A and increased cost of the Company sponsored medical care programs for its employees due to increased health care costs. Additionally, costs associated with new start-up operations in 1999, by the Climate Control Business, having minimal or no sales, contributed to the increase in dollars as well as expense as a percent of sales.

Interest Expense

Interest expense for continuing businesses of the Company was $15.1 million for 1999, compared to $14.5 million for 1998. The increase of $.6 million primarily resulted from increased borrowings and lenders' prime rates during the last half of 1999. The increased borrowings were necessary to support capital expenditures, higher accounts receivable balances and to meet the operational requirements of the Company. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

Businesses Disposed of

The Company sold substantially all the assets of its wholly-owned Australian subsidiary in 1999. The Company also sold certain real estate in 1998. See discussion in Note 5 of the Notes to Consolidated Financial Statements.

Provision for Loss on Firm Purchase Commitments

The Company had a provision for loss on firm purchase commitments of $8.4 million for the year ended December 31, 1999 to provide for losses resulting from cost of remaining anhydrous ammonia to be purchased pursuant to the firm purchase commitment in the Chemical Business, which when combined with the manufacturing and distribution costs exceeded the anticipated future sales price. See discussion in Note 16 of the Notes to Consolidated Financial Statements.

Provision for Impairment on Long-lived Assets

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

Income (loss) from Continuing Operations before Income Taxes

The Company had a loss from continuing operations before income taxes of $31.5 million for 1999 compared to income from continuing operations before income taxes of $2.5 million for 1998. The decreased profitability of $34.0 million was primarily due to the gain on the sale of the Tower in 1998 of $13.0 million, the lower gross profit margins from the Chemical Business, the loss on disposition of the Australian subsidiary, lower ammonium nitrate sales prices and volume, excluding EDNC, from the Chemical Business, the provision for impairment on long-lived assets and the provision for losses on purchase commitments, as previously discussed.

Provision for Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 9 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1999 are for current state income taxes and 1998 are for current state income taxes and federal alternative minimum taxes.

Discontinued Operations

On April 5, 2000 the Board of Directors approved a plan of disposal of the Company's Automotive Products Business ("Automotive"). As a result, Automotive is reflected as a discontinued operations for the periods presented. The net loss from discontinued operations of Automotive is $18.1 million in 1999 and $4.4 million in 1998. The increase in 1999 is due to lower sales volume and profits, and the loss on disposal of $10.0 million comprised of an accrual of approximately $2.1 million of anticipated operating losses through the

date of disposal and a reserve of $7.9 million to fully reserve the Company's net investment in the net assets of Automotive due to the recurring historical operating losses and uncertainty of realization of the Company's net investment in the remaining net assets of Automotive. The remaining loss in 1999 in excess of the loss in 1998 is primarily due to reduced export sales and reduced sales to Automotive's major customers while it reduced inventory levels following a merger in late 1998. See discussion in Note 4 of the Notes to Consolidated Financial Statements.

Year Ended December 31, 1998 compared to Year Ended December 31, 1997

Revenues

Total revenues of Businesses continuing for 1998 were $256.5 million compared to $254.1 million in 1997. Sales increased $3.9 million and other income decreased $.8 million. The decrease in other income was primarily due to certain valuation reserve adjustments recorded against specifically identified investments in 1998.

Net Sales

Consolidated net sales of Businesses continuing included in total revenues for 1998 were $255.9 million, compared to $251.9 million for 1997, an increase of $4.0 million. This increase in sales resulted principally from increased sales in the Climate Control Business of $9.9 million, primarily due to increased volume and price increases in both the heat pump and fan coil product lines. This increase was offset by (i) decreased sales in the Industrial Products Business of $1.3 million due to decreased sales of machine tools, and (ii) decreased sales in the Chemical Business of $4.7 million primarily due to lower sales volume in the U.S. of agricultural and blasting products. Sales were lower in the Chemical Business during 1998, compared to 1997, as a result of adverse weather conditions in its agricultural markets during the spring and fall planting seasons. Blasting sales in the Chemical Business declined as a result of elimination of certain low profit margin sales.

Gross Profit

Gross profit of Businesses continuing increased $5.1 million and was 21.3% of net sales for 1998, compared to 19.6% of net sales for 1997. The gross profit percentage improved in the Chemical and Industrial Products Businesses. It was consistent from 1997 to 1998 in the Climate Control Business.

The increase in the gross profit percentage was due primarily to (i) lower production costs in the Chemical Business due to the effect of lower prices of anhydrous ammonia in 1998, (ii) high unabsorbed overhead costs in 1997 caused by excessive downtime related to problems associated with mechanical failures at the Chemical Business' primary manufacturing plant in the first half of 1997, and (iii) higher gross profit product mix of machine tools sold in the Industrial Products Business.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales from Businesses continuing for 1998 were 19.1% compared to 19.4% for 1997. This decrease is primarily the result of increased sales in the Climate Control Business offset by increased SG&A expenses relating to additional information technology personnel to support management information system changes and higher variable costs due to a change in sales mix toward greater domestic sales which carry a higher SG&A percent. This decrease is offset by the decrease in sales of the Chemical Business with an increase in SG&A expenses relating to higher provisions for uncollectible accounts receivable in 1998. Of the net change in SG&A in 1998 compared to 1997, approximately $1.0 million is due to legal fees in 1997 over 1998 to assert the Company's position in various legal proceedings.

Interest Expense

Interest expense for continuing businesses of the Company, before deducting capitalized interest, was $14.5 million during 1998, compared to $12.5 million during 1997. During 1997, $1.1 million of interest expense was capitalized in connection with construction of the DSN Plant. The increase of $2.0 million before the effect of capitalization primarily resulted from increased borrowings. The increased borrowings were necessary to support capital expenditures, higher accounts receivable balances and to meet the

operational requirements of the Company. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

Businesses Disposed of

The Company sold certain real estate in 1998 for a gain on disposal of $13.0 million. See discussion in Note 5 of the Notes to the Consolidated Financial Statements.

Income (loss) from Continuing Operations Before Income Taxes and Extraordinary Charge

The Company had income from continuing operations before income taxes and extraordinary charge of $2.5 million for 1998 compared to a loss of $8.7 million for 1997. The increased profitability of $11.2 million was primarily due to the gain on the sale of the Tower in 1998, the increased gross profit, and the decreased SG&A offset by increased interest expense, as previously discussed.

Provision for Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 9 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1998 and 1997 are for current state income taxes and federal alternative minimum taxes.

Discontinued Operations

The Company had losses from discontinued operations, net of income taxes, of $4.4 million for 1998, compared to $9.7 million for 1997. The decrease in losses is primarily due to higher production volumes, improved experience with returns and allowances and a decrease in SG&A expenses resulting from a comprehensive cost reduction implemented by the Company offset by an increase in interest expense resulting from increased borrowings. See discussion in Note 4 of the Notes to Consolidated Financial Statements.

Extraordinary Charge

In 1997, in connection with the issuance of the 10 3/4% unsecured senior notes due 2007 by a subsidiary of the Company, a subsidiary of the Company retired the outstanding principal associated with a certain financing arrangement and incurred a prepayment fee. The prepayment fee and loan origination costs expensed in 1997 related to the financing arrangement aggregated approximately $4.6 million. See discussion in Note 8 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Cash Flow From Operations

Historically, the Company's primary cash needs have been for operating expenses, working capital and capital expenditures. The Company has financed its cash requirements primarily through internally generated cash flow, borrowings under its revolving credit facilities, the issuance of $105 million of Senior Unsecured Notes by its wholly owned subsidiary, ClimaChem, Inc., in November 1997, and secured equipment financing.

Net cash used by continuing operations for the year ended December 31, 1999 was $.4 million, after $18.1 million for net loss from discontinued operations of the Automotive Products Business, loss on the disposition of the Australian subsidiary of $2.0 million, inventory write-down for $1.6 million and provision for losses on purchase commitments of $8.4 million (net of amounts realized in cost of sales of $1.8 million), provision for impairment on long-lived assets primarily associated with two chemical plants of $4.1 million, noncash depreciation and amortization of $11.4 million, net provision for losses of $1.5 million relating to accounts receivable, inventory, notes receivable and other and including the following changes in assets and liabilities: (i) accounts receivable increases of $1.4 million; (ii) inventory decreases of $3.9 million; (iii) increases in supplies and prepaid items of $.2 million; (iv) decrease in accounts payable of $1.1 million; and (v) increase in accrued liabilities of $2.8 million. The increase in accounts receivable was primarily due to improved sales in the fourth quarter

in the Climate Control Business offset by declining fourth quarter sales in the Industrial Products Business. The decrease in inventory was primarily due to the reduction in the Chemical Business' inventory partially offset by increases in the Climate Control Business due to a build up of inventory in the plant due to an increase in confirmed orders during the fourth quarter. The decrease in accounts payable is primarily due to decreases in liabilities associated with purchases of raw materials in the Chemical business partially offset by increases in liabilities associated with purchases of raw materials and purchased goods in the Climate Control Business and timing of payments in the Industrial Products Business. The increase in accrued liabilities is primarily due to increases in accrued warranty and sales incentives in the Climate Control Business and deferred lease liability relating to the Baytown Plant in the Chemical Business.

Cash Flow From Investing and Financing Activities

Net cash provided by investing activities for the year ended December 31, 1999 included $11.2 million from the proceeds of the sale of the Australian subsidiary, certain railcars and other equipment net of $7.6 million in capital expenditures. The capital expenditures were primarily for the benefit of the Chemical and Climate Control Businesses to enhance production and product delivery capabilities. Principal payments of $1.1 million were received on loans receivable and net expenditures of $.8 million were paid relating to other assets.

Net cash provided by financing activities included (i) payments on long-term debt and other debt of $6.1 million, (ii) proceeds from long-term and other borrowings, net of origination fees, of $2.9 million, (iii) net increases in revolving debt of 6.6 million (iv) decreases in drafts payable of $.3 million, (v) dividends of $1.7 million, and (vi) treasury stock purchases of $.2 million.

During the first six months of 1999, the Company declared and paid the following aggregate dividends: (i) $12.00 per share on each of the out-standing shares of its Series B 12% Cumulative Convertible Preferred Stock; (ii) $1.625 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; and (iii) $10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock. In order to conserve cash, no dividends were declared or paid subsequent to June 30, 1999.

Source of Funds

Continuing Businesses

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

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

As of December 31, 1999, the Company and certain of its subsidiaries, including ClimaChem, are parties to a working capital line of credit evidenced by two separate loan agreements ("Agreements") with a lender ("Lender") collateralized by receivables, inventories and proprietary rights of the parties to the Agreements. The Agreements have been amended from time to time since inception to accommodate changes in business conditions and financial results. This working capital line of credit is a primary source of liquidity for the Company and ClimaChem.

As of December 31, 1999, the Agreements provided for revolving credit facilities ("Revolver") for total direct borrowing up to $65 million with advances at varying percentages of eligible inventory and trade receivables. At December 31, 1999, the effective interest rate was 9.0% and the availability for additional borrowings, based on eligible collateral, approximated $12.5 million. Borrowings under the Revolver outstanding at December 31, 1999, were $27.5 million. The annual interest on the outstanding debt under the Revolver at December 31, 1999, at the rates then in effect would approximate $2.5 million. The Agreements also require the payment of an annual facility fee of 0.5% of the unused Revolver and restrict the flow of funds, except under certain conditions, to subsidiaries of the Company that are not parties to the Agreements.

The Agreements, as amended, required the Company and ClimaChem to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. In 1999, the Company's financial covenants were not required

to be met so long as the Company and its subsidiaries, including ClimaChem, that are parties to the Agreements, maintained a minimum aggregate availability under the Revolving Credit Facility of $15.0 million. When the availability dropped below $15.0 million for three consecutive business days, the Company and ClimaChem were required to maintain the financial ratios discussed above. Due to an interest payment of $5.6 million made by ClimaChem on December 30, 1999, relating to the outstanding $105 million Senior Unsecured Notes, the availability dropped below the minimum aggregate availability level required on January 1, 2000. Because the Company and ClimaChem could not meet the financial ratios required by the Agreements, the Company and ClimaChem entered into a forbearance agreement with the Lender effective January 1, 2000. The forbearance agreement waived the financial covenant requirements for a period of sixty (60) days.

Prior to the expiration of the forbearance agreement, the Agreements were amended, to provide for total direct borrowings of $50.0 million including the issuance of letters of credit. The maximum borrowing ability under the newly amended Agreements is the lesser of $50.0 million or the borrowing availability calculated using advance rates and eligible collateral less $5.0 million. The amendment provides for an increase in the interest rate from the Lender's prime rate plus .5% per annum to the Lender's prime rate plus 1.5% per annum, or the Company's and ClimaChem's LIBOR interest rate option, increased to the Lender's LIBOR rate plus 3.875% per annum, from 2.875%. The term of the Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen-month terms if, by October 1, 2000, the Company and Lender shall have determined new financial covenants for the calendar year beginning in January 2001. The Agreements, as amended, require the Company and ClimaChem to maintain certain financial ratios and certain other financial covenants, including net worth and interest coverage ratio requirements and capital expenditure limitations.

As of March 31, 2000 the Company, exclusive of ClimaChem, and ClimaChem have a borrowing availability under the revolver of $.2 million, and $11.0 million respectively, or $11.2 million in the aggregate.

In addition to the credit facilities discussed above, as of December 31, 1999, ClimaChem's wholly-owned subsidiary, DSN Corporation ("DSN"), is a party to three loan agreements with a financial company (the "Financing Company") for three projects. At December 31, 1999, DSN had outstanding borrowings of $8.2 million under these loans. The loans have monthly repayment schedules of principal and interest through maturity in 2002. The interest rate on each of the loans is fixed and range from 8.2% to 8.9%. Annual interest, for the three notes as a whole, at December 31, 1999, at the agreed to interest rates would approximate $.7 million. The loans are secured by the various DSN property and equipment. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. In April 2000, DSN obtained a waiver from the Financing Company of the financial covenants through April 2001.

During January 2000, a subsidiary of ClimaChem obtained financing up to $3.5 million with the City of Oklahoma City ("Lender") to finance the working capital requirements of Climate Control's new product line of large air handlers. Currently, the financing agreement requires the Company to make interest payments on a quarterly basis at the Lender's LIBOR rate plus two-tenths of one percent (.2%) per annum. After the Lender obtains financing through the U.S. Department of Housing and Urban Development ("HUD"), the Company will be required to make principal payments on an annual basis over a term of sixteen (16) years but based on a twenty (20) year amortization period. Interest payments will be required on a semi-annual basis at the rate charged to the Lender by HUD at the time of the funding. The loan is secured by a mortgage on the manufacturing facility and a separate unrelated parcel of land.

ClimaChem is restricted as to the funds that it may transfer to the Company under the terms contained in an Indenture covering the $105 million Senior Unsecured Notes issued by ClimaChem. Under the terms of the Indenture, ClimaChem cannot transfer funds to the Company, except for (i) the amount of income taxes that they would be required to pay if they were not consolidated with the Company (the "Tax Sharing Agreement"), (ii) an amount not to exceed fifty percent (50%) of ClimaChem's cumulative net income from January 1, 1998 through the end of the period for which the calculation is made for the purpose of proposing a dividend payment, and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem and ClimaChem's subsidiaries pursuant to a certain services agreement and a certain management agreement to which the companies are parties. ClimaChem sustained a net loss of $2.6 million in the calendar year 1998, and a net loss of $19.2 million for the calendar year 1999. Accordingly, no amounts were paid to the Company by ClimaChem under the Tax Sharing Agreement, nor under the Management Agreement during 1999 and based on ClimaChem's cumulative losses at December 31, 1999, and current estimates for

the results of operations for the year ended December 31, 2000, none are expected during 2000. Due to these limitations, the Company and its non-ClimaChem subsidiaries have limited resources to satisfy their obligations.

In April 2000, the Company repurchased $5.0 million of the Senior Notes for $1.2 million. The Company funded the repurchase of these Senior Notes out of its working capital.

Due to the Company's and ClimaChem's net losses for the years of 1998 and 1999 and the limited borrowing ability under the Revolver, the Company discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise, and the Company has not paid the September 15, 1999, December 15, 1999 and March 15, 2000 regular quarterly dividend of $.8125 (or $743,438 per quarter) on its outstanding $3.25 Convertible Exchangeable Class C Preferred Stock Series 2, totaling approximately $2.2 million. In addition, the Company did not pay the January 1, 2000 regular annual dividend of $12.00 (or $240,000) on the Series B Preferred. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

As of December 31, 1999, the Company and its subsidiaries which are not subsidiaries of ClimaChem and exclusive of the Automotive Products Business had a working capital deficit of approximately $2.3 million, total assets of $17.6 million, and long-term debt due after one year of approximately $13.5 million.

In 2000, the Company has planned capital expenditures of approximately $10.0 million, primarily in the Chemical and Climate Control Businesses. These capital expenditures include approximately $2.0 million, which the Chemical Business is obligated to spend under consent orders with the State of Arkansas related to environmental control facilities at its El Dorado facility, as previously discussed in this report. The Company is currently exploring alternatives to finance these capital expenditures. There are no assurances that the Company will be able to arrange financing for its capital expenditures or to make the necessary changes to its Indenture in order to borrow the funds required to finance certain of these expenditures. Failure to be able to make a substantial portion of these capital expenditures, including those related to environmental matters, could have a material adverse effect on the Company.

The Company's plan for 2000 calls for the Company to improve its liquidity and operating results through the liquidation of non- core assets, realization of benefits from its late 1999 and early 2000 realignment of its overhead (which serves to minimize the cash flow requirements of the Company and its subsidiaries which are not subsidiaries of ClimaChem) and through various debt and equity alternatives.

Commencing in 1997, the Company created a long-term plan which focused around the Company's core operations, the Chemical and Climate Control Businesses. This plan commenced with the sale of the 10 3/4% Senior Unsecured Notes by the Company's wholly-owned subsidiary, ClimaChem, in November 1997. This financing allowed the core businesses to continue their growth through expansion into new lines of business directly related to the Company's core operations (i.e., completion of the DSN plant which produces concentrated nitric acid, execution of the EDNC Baytown plant agreement with Bayer to supply industrial acids, development and expansion into market-innovative climate control products such as geothermal and high air quality systems and large air handling units).

During 1999, the Chemical Business sustained significant losses, primarily as a result of the reduction of selling prices for its nitrate-based products (in large part due to the flood of the market with low-priced Russian ammonium nitrate) while the Company's cost of raw materials escalated under a contract with a pricing mechanism tied to the price of natural gas which increased dramatically. During late 1999, the Company renegotiated this supply contract, extending the cash requirements under its take-or-pay provision to delay required takes to 2000, 2001 and 2002 and to obtain future raw material requirements at spot market prices. The Company was also active in bringing about a favorable preliminary determination from the International Trade Commission and Commerce Department, which has had the current impact of minimizing the dumping of Russian ammonium nitrate in the U.S. market. This investigation has been suspended due to the agreement between Russia and the United States to limit volumes and set minimum prices for imported Russian ammonium nitrate. (The U.S. industry or Russian exporters may, however, request completion of the investigation). This, and other factors has allowed the Chemical Business to see marginally improved market pricing for its nitrate-based products in the first three months of 2000 compared to the comparable period in 1999; however, there are no assurances that this improvement will continue. The Company also successfully commenced operations of its EDNC Baytown plant which is selling product to Bayer under a long-term

supply contract.

The Company's long-range plans also included the addition of expertise related to the Company's core businesses to enhance its leadership team. Beginning in 1998, the Company brought on several new members of its Board of Directors with expertise in certain of the Company's Businesses, and individuals with extensive knowledge in the banking industry and financial matters. These individuals have brought business insight to the Company and helped management to formulate the Company's immediate and long-range plans.

The plan for 2000 calls for the Company to dispose of a significant portion of its non-core assets. As previously discussed, on April 5, 2000, the Board of Directors approved the disposal of the Automotive Products Business. The Automotive Products Business has experienced a rapidly consolidating market and is not in an industry which the Company sees as able to produce an adequate return on its investment. Additionally, the Company is presently evaluating alternatives for realizing its net investment in the Industrial Products Business. The Company has had discussions involving the possible sale of the Industrial Products Business; however, no definitive plans are currently in place and any which may arise will require Board of Director approval prior to consummation. The Company is currently continuing the operations of the Industrial Products Business; however, the Company may sell or dispose of the operations in 2000. The Company's plan for 2000 also calls for the realization of the Company's investment in an option to acquire an energy conservation company and advances made to such entity (the "Optioned Company"). In April 2000, the Company received written acknowledgment from the President of the Optioned Company that it had executed a letter of intent to sell to a third party, the proceeds from which would allow repayment of the advances and options payments to the Company in the amount of approximately $2.7 million. As of the date of this report, the Company has received written confirmation from the buyer of the Optioned Company that the transaction is on schedule to close in the month of June, 2000 with the amount due to the Company related to the advance and option payments to be repaid in their entirety. Upon receipt of these proceeds, the Company is required to repay up to $1 million of outstanding indebtedness to a related party, SBL Corporation, related to an advance made to the Company in 1997. The remaining proceeds would be available for corporate purposes. The Company's plan for 2000 also identifies specific other non- core assets which the Company will attempt to realize to provide additional working capital to the Company in 2000. See "Special Note Regarding Forward Looking Statements."

During 1999 and into 2000, the Company has been restructuring its operations, eliminating businesses which are non-core, reducing its workforce as opportunities arise and disposing of non-core assets. As discussed above, the Company has also successfully renegotiated its primary raw material purchase contracts in the Chemical Business in an effort to make that Business profitable again and focused its attention to the development of new, market-innovative products in the Climate Control Business. Although the Company has not planned to receive any dividends, tax payments or management fees from ClimaChem in 2000, it is possible that ClimaChem could pay up to $1.8 million of management fees to its ultimate parent should operating results be favorable (ClimaChem having EBITDA in excess of $26 million annually, $6.5 million quarterly, is payable to LSB up to $1.8 million).

As previously mentioned, the Company and ClimaChem's primary credit facility terminates on December 31, 2000, unless the parties to the agreements agree to new financial covenants for 2001 prior to October 1, 2000. While there is no assurance that the Company will be successful in extending the term of such credit facility, the Company believes it has a good working relationship with the Lender and that it will be successful in extending such facility or replacing such facility from another lender with substantially the same terms during 2000.

In March 2000, the Company retained Chanin Capital Partners as its financial advisor to assist in evaluating alternatives relating to the Company's liquidity and determining its alternatives for a financial restructuring. As part of the Company's restructuring, the Company and its financial advisor have begun discussions with a group of holders of the Senior Notes to restructure the Senior Notes in order to reduce the Company's leverage and increase its equity capitalization. The Company did not make the June 1, 2000 interest payment of $5.4 million on the Senior Notes (excluding interest on the $5.0 million of Senior Notes repurchased by the Company). Under the terms of the Indenture governing the Senior Notes, the Company has a grace period of thirty (30) days, or until July 1, 2000, to make the interest payment or enter into satisfactory agreements

with the holders of the Senior Notes before the Senior Notes are in default. The Company currently anticipates achieving satisfactory resoulution of this matter.

The Company has planned for up to $10 million of capital expenditures for 2000, most of which is not presently committed. Further, a significant portion of this is dependent upon obtaining acceptable financing. The Company expects to delay these expenditures as necessary based on the availability of adequate working capital and the availability of financing. Recently, the Chemical Business has obtained relief from certain of the compliance dates under its wastewater management project and expects that this will ultimately result in the delay in the implementation date of such project. Construction of the wastewater treatment project is subject to the Company obtaining financing to fund this project. There are no assurances that the Company will be able to obtain the required financing. Failure to construct the wastewater treatment facility could have a material adverse effect on the Company.

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

During the period from January 1, 1999, through June 30, 1999, the Company purchased a total of 87,267 shares of Common Stock for an aggregate amount of $230,234. The Company has not purchased any of its stock since prior to June 30, 1999.

Discontinued Business

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

The Automotive Revolver provides for a total direct borrowings up to $16.0 million, including the issuance of letters of credit. The Automotive Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Automotive Revolver provides for interest at the rate from time to time publicly announced by First Union National Bank as its prime rate plus one percent (1%) per annum or, at the Company's option, on the Automotive Lender's LIBOR rate plus two and three quarters percent (2.75%) per annum. The Automotive Revolver also requires the payment of a monthly servicing fee of $3,000 and a monthly unused line fee equal to 0.5% of the unused credit facility. At December 31, 1999, the effective interest rate was 9.5% excluding the effect of the service fee and unused line fee (10.19% considering such fees). The term of the Automotive Revolver is through May 7, 2001, and is renewable thereafter for successive twelve month terms. At December 31, 1999, outstanding borrowing under the Automotive Revolver were $8.8 million; in addition, the Automotive Products Business had $.4 million, based on eligible collateral, available for additional borrowing under the Automotive Revolver. As a result of the Company's decision to sell or otherwise dispose of the operations of the Automotive Products Business, outstanding borrowings at December 31, 1999, are included in net assets of discontinued operations (see Note 4 of Notes to Consolidated Financial Statements).

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

The Automotive Term Loan is evidenced by a term promissory note (the "Term Promissory Note") and is secured by all the same collateral as the Automotive Revolver. The interest rate of the Automotive Term Loan is the same as the Automotive Revolver discussed above. The terms of the Term Promissory Note require sixty (60) consecutive monthly principal installments (or earlier as provided in the Term Promissory Note) of which the first thirty-six (36) installments shall each be in the amount of $48,611, the next twenty-two (22) installments shall each be in the amount of $33,333, and the last installment shall be in the amount of the entire unpaid principal balance. Interest payments

are also required monthly as calculated on the outstanding principal balance. At December 31, 1999, the outstanding borrowings under the Automotive Term Loan were approximately $2.2 million and are included in net assets of discontinued operations (see Note 4 of Notes to Consolidated Financial Statements).

The annual interest on the outstanding debt under the Automotive Revolver and Automotive Term Loan at December 31, 1999, at the rates then in effect would approximate $1.1 million.

On April 5, 2000, the Board of Directors approved a plan of disposal of the Company's Automotive Products Business ("Automotive"). On May 4, 2000, the Company completed the disposal through sale of the assets at book value for two notes receivable aggregating $8.7 million . In addition the buyer assumed substantially all of the Automotive Products Business' liabilities which, prior to the Zeller acquisition, were approximately $22.2 million as of December 31, 1999. As of March 31, 2000, the debts of the Automotive Products Business was approximately $24.1 million. These notes are secured by a second lien on substantially all of the assets of the buyer, but payment of principal and interest and the Company's ability to foreclose on the collateral securing the notes are subordinated to the buyer's primary lender. The losses associated with the discontinuation of this business segment are reflected in the net loss from discontinued operations on the Consolidated Statements of Operations.

The notes provide that no payments of principal will be made for at least the first two years. Interest will accrue at Wall Street Journal Prime + 1.0% but will not be paid until and if Automotive's availability reaches a level of $1.0 million. As stated above, payment of the notes by the buyer to the Company is subject to a subordination agreement with the buyer's primary lender.

The Company will remain a guarantor on certain equipment notes of Automotive, which had outstanding indebtedness of approximately $4.5 million as of March 31, 2000, and on the Automotive Revolver in the amount of $1.0 million for which the Company has posted a letter of credit at December 31, 1999.

In an effort to assist the Automotive Products Business to be in a position to complete the sell described above, on March 9, 2000, the Company closed the acquisition of certain assets of the Zeller Corporation representing its universal joint business. In connection with the acquisition of these assets, the Automotive Products Business assumed an aggregate of approximately $7.5 million (unaudited) in Zeller's liabilities, $4.7 million of which was funded by the Automotive Products Business primary lender. (The balance of the assumed liabilities is expected to be funded out of working capital of the Automotive Products Business). For year ended December 31, 1999, the universal joint business of Zeller had unaudited sales of approximately $11.7 and a net loss of $1.5 million.

Foreign Subsidiary

As previously discussed in this report, in August, 1999, the Company sold substantially all of the assets of its wholly owned Australian subsidiary, effectively disposing of this portion of the Chemical Business. All of the proceeds received by the Company have been applied to reduce the indebtedness of ClimaChem, or have been reinvested in related businesses of ClimaChem in accordance with the Indenture of Senior Unsecured Notes.

Joint Ventures and Options to Purchase

Prior to 1997, the Company, through a subsidiary, loaned $2.8 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Climate Control Business in the USA. Under the loan agreement, the Company has the option, which expires June 15, 2005, to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. Subsequent to 1996, the Company advanced an additional $.9 million to the French manufacturer bringing the total of the loan to $3.7 million. The $3.7 million loan, less a $1.5 million valuation reserve for losses incurred by the French manufacturer prior to 1997, is carried on the books as a note receivable in other assets. As of the date of this report, the decision has not been

made to exercise its option to acquire the stock of the French manufacturer.

In 1995, a subsidiary of the Company invested approximately $2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project had been awarded a contract to retrofit residential housing units at a US Army base, which it completed during 1996. The completed contract was for installation of energy-efficient equipment (including air conditioning and heating equipment) which would reduce utility consumption. For the installation and management, the Project will receive a percent of all energy and maintenance savings during the twenty (20) year contract term. The Project spent approximately $17.9 million to retrofit the residential housing units at the US Army base. The project received a loan from a lender to finance approximately $14.0 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project. The Company's equity interest in the results of the operations of the Project were not material for the years ended December, 1999, 1998 and 1997.

During 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company"), which owns the remaining fifty percent (50%) equity interest in the Project discussed above, to enhance the marketing of the Company's air conditioning products. The Company has decided not to exercise the Option and has allowed the term of the Option to lapse. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Source of Funds" for discussion of sale of this investment in 2000. Through the date of this report, the Company has made option payments aggregating $1.3 million ($1.0 million of which is refundable) and has advanced the Optioned Company approximately $1.7 million including accrued interest. The Company has recorded reserves of $1.5 million against the loans, accrued interest and option payments. The loans, accrued interest and option payments are secured by the stock and other collateral of the Optioned Company.

Debt and Performance Guarantee

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

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

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

As of December 31, 1999, LSB has agreed to guarantee a performance bond of $2.1 million of a start-up operation providing services to the Company's Climate Control Business.

Availability of Company's Loss Carry-Overs

The Company's cash flow in future years may benefit from its ability to use net operating loss ("NOL") carry-overs from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years. Such benefit, if any, is dependent on the Company's ability to generate taxable income in future periods, for which there is no assurance. Such benefit, if any, will be limited by the Company's reduced NOL for alternative minimum tax purposes, which was approximately $40 million at December 31, 1999. As of December 31, 1999, the Company had available regular tax NOL carry-overs of approximately $75 million based on its federal income tax returns as filed with the Internal Revenue

Service for taxable years through 1998. These NOL carry-overs will expire beginning in the year 2000. Due to its recent history of reporting net losses, the Company has established a valuation allowance on a portion of its NOLs and thus has not recognized the full benefit of its NOLs in the accompanying Condensed Consolidated Financial Statements.

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

Impact of Year 2000

In 1999, the Company completed its project to enhance certain of its Information Technology ("IT") systems and certain other technologically advanced communication systems. Over the life of the project, the Company capitalized approximately $1.3 million in costs to accomplish its enhancement program. The capitalized costs included $.4 million in external programming costs, with the remainder representing hardware and software purchases. The time and expense of the project did not have a material impact on the Company's financial condition. As a result of these modifications, the Company did not incur any significant problems relating to Year 2000 issues. There was no interruption of business with key suppliers or downturn in economic activity caused by problems with Year 2000 issues. As of the date of this report, the Company has not been notified of any warranty issues relating to Year 2000 for the products it has sold and therefore, the Company believes it should have no material exposure to contingencies related to the Year 2000 issue for the products it has sold. The Company will continue to monitor its computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

Contingencies

The Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending gainst the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome. The preceding sentence is a forward looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, among other factors, the following: a court finds the Chemical Business liable for a material amount of damages in the antitrust lawsuits pending against the Chemical Business in a manner not presently anticipated by the Company. See "Business", "Legal Proceedings" and Note 13 of Notes to Consolidated Financial Statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Interest Rate Risk

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

The Company is also a party to a series of agreements under which it is leasing a nitric acid plant. The minimum lease payments associated therewith, prior to execution in June 1999, were directly impacted by the change in interest rates. To

mitigate a portion of the Company's exposure to adverse market changes related to this leveraged lease, in 1997 the Company entered into a interest rate forward agreement whereby the Company was the fixed rate payor on notional amounts aggregating $25 million, net to its 50% interest, with a weighted average of 7.12%. The Company accounted for this forward under the deferral method, so long as high correlation was maintained, whereby the net gain or loss upon settlement adjusts the item being hedged, the minimum lease rentals, in periods commencing with the lease execution. As of December 31, 1999, the Company has deferred costs of approximately $2.7 million associated with such agreement, which is being amortized over the initial term of the lease. The following table provides information about the Company's interest rate sensitive financial instruments as of December 31, 1999.

	Years Ending December 31,						
	2000	2001	2002	2003	2004	Thereafter	Total
Expected maturities of long-term debt:							
Variable rate debt	$27,639	$2,561	$ 121	$ 133	$ 145	$ 922	$31,521
Weighted average interest rate (1)	9.00%	10.40%	9.00%	9.00%	9.00%	9.00%	9.00%
Fixed rate debt	$ 5,720	$7,967	$1,637	$2,774	$1,460	$106,993	$126,551
Weighted average interest rate (2)	10.52%	10.64%	10.65%	10.68%	10.70%	10.73%	10.66%

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(1) Interest rate is based on the aggregate rate of debt outstanding as of December 31, 1999. Interest is at floating rate based on the lender's prime rate plus .5% per annum, or at the Company's option, on its Revolving Credit Agreements on the lender's LIBOR rate plus 2.875% per annum. During the first quarter of 2000, the Revolving Credit Agreements were amended which included an increase in the floating rate based on the Lender's prime rate plus 1.5% per annum, or at the Company's option, on the Lender's LIBOR rate plus 3.875% per annum. The effect of this change in interest rate based on the Lender's prime rate at December 31, 1999, increased the weighted average interest rate to 9.95% for 2000 and the total weighted average interest rate to 9.81%.

(2) Interest rate is based on the aggregate rate of debt outstanding as of December 31, 1999.

	December 31, 1999		December 31, 1998	
	Estimated Fair Value	Carrying Fair Value	Estimate Fair Value	Carrying Fair Value
	(in thousands)			

Variable Rate:				
Bank debt and equipment financing	$ 31,521	$ 31,521	$ 26,196	$ 26,196
Fixed Rate:				
Bank debt and equipment financing	21,269	21,551	19,590	19,310
Subordinated notes	26,250	105,000	105,000	105,000
	$ 79,040	$158,072	$150,786	$150,506

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

Raw Material Price Risk

The Company has a commitment to purchase 96,000 tons of anhydrous ammonia under a contract. The Company's purchase price can be higher or lower than the current market spot price. Based on the forward contract pricing existing during 1999, and estimated market prices for products to be manufactured and sold during the remainder of the contract, the accompanying Consolidated Financial Statements included a loss provision of approximately $8.4 million for anhydrous ammonia required to be purchased during the remainder of the contract.

Foreign Currency Risk

During 1999, the Company sold its wholly owned subsidiary located in Australia, for which the functional currency was the local currency, the Australian dollar. Since the Australian subsidiary accounts were converted into U.S. dollars upon consolidation with the Company, declines in value of the Australian dollar to the U.S. dollar resulted in translation loss to the Company. As a result of the sale of the Australian subsidiary, which was closed on August 2, 1999, the cumulative foreign currency translation loss of approximately $1.1 million has been included in the loss on disposal of the Australian subsidiary at December 31, 1999.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

SPECIAL NOTE REGARDING
FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", "will", and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein relate to, among other things, (i) ability to improve operations and become profitable, (ii) establishing a position as a market leader, (iii) the amount of the loss provision for anhydrous ammonia required to be purchased in that the cost to produce Chemical Business products will improve, (iv) declines in the price of anhydrous ammonia, (v) obtaining a final ruling as to Russian dumping of anhydrous ammonia (vi) availability of net operating loss carryovers, (vii) amount to be spent relating to

compliance with federal, state and local environmental laws at the El Dorado Facility, (viii) liquidity and availability of funds, (ix) profits through liquidation of assets or realignment of assets or some other method, (x) anticipated financial performance, (xi) ability to comply with general working capital and debt service requirements, (xii) ability to be able to continue to borrow under the Company's revolving line of credit, (xiii) ability to collect on the promissory notes issued to the Company in connection with the sale of the Automotive Products Business, (xiv) adequate cash flows to meet its presently anticipated capital requirements, (xv) ability of the EDNC Baytown Plant to generate approximately $35 million in annual gross revenues, or (xvi) ability to make required capital improvements, and (xvii) ability to carry out its plans for 2000. While the Company believes the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, (i) decline in general economic conditions, both domestic and foreign, (ii) material reduction in revenues, (iii) material increase in interest rates; (iv) inability to collect in a timely manner a material amount of receivables, (v) increased competitive pressures, (vi) changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending (vii) additional releases (particularly air emissions into the environment), (viii) material increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company, (ix) the requirement to use internally generated funds for purposes not presently anticipated, (x) ability to become profitable, or if unable to become profitable, the inability to secure additional liquidity in the form of additional equity or debt, (xi) the cost for the purchase of anhydrous ammonia decreasing, (xii) changes in competition, (xii) the loss of any significant customer, (xiv) changes in operating strategy or development plans, (xv) inability to fund the working capital and expansion of the Company's businesses, (xvi) adverse results in any of the Company's pending litigation, (xvii) inability to obtain necessary raw materials, (xviii) ability to recover the Company's investment in the aviation company, (x) Bayer's inability or refusal to purchase all of the Company's production at the new Baytown nitric acid plant; (xx) continuing decreases in the selling price for the Chemical Business' nitrogen based end products, (xxi) inability to negotiate amendments to the Indenture (xxii) inability to collect the notes due from the buyer of the Automotive Products Business under the terms the subordination agreement or inability of the buyer to be able to pay these notes due to various business conditions, and (xxiii) sale of the Optioned Company not completed or, if completed, not consummated on terms that the Company has been advised of, and (xxiv) other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report. Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

PART III

Item 10. Directors and Executive Officers of the Company

Directors. Certificate of Incorporation and By-laws of the Company provide for the division of the Board of Directors into three (3) classes, each class consisting as nearly as possible of one-third of the whole. The term of office of one class of directors expires each year, with each class of directors elected for a term of three (3) years and until the shareholders elect their qualified successors.

The Company's By-laws provide that the Board of Directors, by resolution from time to time, may fix the number of directors that shall constitute the whole Board of Directors. The By-laws presently provide that the number of directors may consist of not less than three (3) nor more than twelve (12). The Board of Directors currently has set the number of directors at twelve (12).

The By-laws of the Company further provide that only persons

nominated by or at the direction of: (i) the Board of Directors of the Company, or (ii) any stockholder of the Company entitled to vote for the election of the directors that complies with certain notice procedures, shall be eligible for election as a director of the Company. Any stockholder desiring to nominate any person as a director of the Company must give written notice to the Secretary of the Company at the Company's principal executive office not less than fifty (50) days prior to the date of the meeting of stockholders to elect directors; except, if less than sixty (60) days' notice or prior disclosure of the date of such meeting is given to the stockholders, then written notice by the stockholder must be received by the Secretary of the Company not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. In addition, if the stockholder proposes to nominate any person, the stockholder's written notice to the Company must provide all information relating to such person that the stockholder desires to nominate that is required to be disclosed in solicitation of proxies pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

The following table sets forth the name, principal occupation, age, year in which the individual first became a director, and year in which the director's term will expire for each nominee for election as a director at the Annual Meeting and all other directors whose term will continue after the Annual Meeting. Certain information with respect to the executive officers of the Company is set forth under Item 4A of Part I hereof.

Name and Principal Occupation	First Became A Director	Term Expires	Age
Raymond B. Ackerman (1) Chairman Emeritus of Ackerman McQueen, Inc.	1993	2002	77
Gerald G. Gagner (2) President of Dragerton Investments	1997	2000	64
Bernard G. Ille (3) Investments	1971	2002	73
Donald W. Munson (4) Consultant	1997	2002	67
Tony M. Shelby (5) Senior Vice President of Finance and Chief Financial Officer of the Company	1971	2002	58
Barry H. Golsen (6) Vice Chairman of the Board of Directors of the Company and President of the Climate Control Business of the Company	1981	2000	49
David R. Goss (7) Senior Vice President of Operations of the Company	1971	2000	59
Jerome D. Shaffer, M.D. (8) Investments	1969	2000	83
Robert C. Brown, M.D. (9) President of Northwest Internal Medicine Associates, Inc.	1969	2001	69
Jack E. Golsen (10) President, Chief Executive Officer and Chairman of the Board of Directors of the Company	1969	2001	71
Horace G. Rhodes (11) President/Managing Partner,	1996	2001	72

Kerr, Irvine, Rhodes
and Ables

Charles A. Burtch (12) Investments	1999	2001	65

(1) From 1972 until his retirement in 1992, Mr. Ackerman served as Chairman of the Board and President of Ackerman, McQueen, Inc., the largest public relations firm in Oklahoma. Mr. Ackerman currently serves as Chairman Emeritus of Ackerman, McQueen, Inc. Mr. Ackerman retired as a Rear Admiral from the United States Naval Reserves. Mr. Ackerman is a graduate of Oklahoma City University, and in 1996, he was awarded an honorary doctorate from Oklahoma City, University.

(2) Mr. Gagner, a resident of New Hope, Pennsylvania, served as President, Chief Executive Officer and director of USPCI, Inc., a New York Stock Exchange company involved in the waste management industry, from 1984 until 1988, when USPCI was acquired by Union Pacific Corporation. From 1988 to the present, Mr. Gagner has been engaged as a private investor. Mr. Gagner has served, and is presently serving, as President and a director of Dragerton Investments, Inc., which developed and sold one of the world's largest industrial waste landfills, and is presently general partner of New West Investors, L.P., which has investments principally in the financial service industry. Mr. Gagner is also a director of Automation Robotics, A.G., a German corporation. Mr. Gagner is also a director of the Ziegler Companies, Inc. Mr. Gagner has an engineering degree from the University of Utah.

(3) Mr. Ille served as President and Chief Executive Officer of First Life Assurance Company from May, 1988, until it was acquired by another company in March, 1994. For more than five (5) years prior to joining First Life, Mr. Ille served as President of United Founders Life Insurance Company. Mr. Ille is a director of Landmark Land Company, Inc., which was parent company of First Life. Mr. Ille is also a director for Quail Creek Bank, N.A. Mr. Ille is currently a private investor. He is a graduate of University of Oklahoma.

(4) Mr. Munson is a resident of England. From January, 1988, until his retirement in August, 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to his election as President and Chief Operating Officer of Lennox Industries, Mr. Munson served as Executive Vice President of Lennox Industries' Division Operations, President of Lennox Canada and Managing Director of Lennox Industries' European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company located in England, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. Mr. Munson is currently a consultant and international distributor for the Ducane Company, a manufacturer of certain types of residential air conditioning, air furnaces and other equipment, and is serving as a member of the Board of Directors of Multi Clima SA, a French manufacturer of air conditioning - heating equipment, which the Company has an option to acquire. Mr. Munson has degrees in mechanical engineering and business administration from the University of Minnesota.

(5) Mr. Shelby, a certified public accountant, is Senior Vice President and Chief Financial Officer of the Company, a position he has held for a period in excess of five (5) years. Prior to becoming Senior Vice President and Chief Financial Officer of the Company, Mr. Shelby served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young, L.L.P. Mr. Shelby is a graduate of Oklahoma City University.

(6) Mr. Golsen, L.L.B., has served as Vice Chairman of the Board of the Company since August, 1994, and for more than five (5) years has been the President of the Company's

Environmental Control Business. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

(7) Mr. Goss, a certified public accountant, is a Senior Vice President - Operations of the Company and has served in substantially the same capacity for a period in excess of five (5) years. Mr. Goss is a graduate of Rutgers University.

(8) Dr. Shaffer, a director of the Company since its inception, is currently a private investor. He practiced medicine for many years until his retirement in 1987. Dr. Shaffer is a graduate of Penn State University and received his medical degree from Jefferson Medical College.

(9) Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. Dr. Brown is a graduate of Tufts University and received his medical degree from Tufts University.

(10) Mr. Golsen, founder of the Company, is Chairman of the Board and President of the Company and has served in that capacity since the inception of the Company in 1969. During 1996, Mr. Golsen was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a degree from the University of New Mexico in Biochemistry.

(11) Mr. Rhodes is the managing partner of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such capacity and has practiced law for a period in excess of five (5) years. Since 1972, Mr. Rhodes has served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 has served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association. Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma.

(12) Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica's asset-based lending division for the western third of the United States. Mr. Burtch worked in the finance field for more than thirty-five (35) years. He is a graduate of Arizona State University.

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

Section 16(a) Beneficial Ownership Reporting Compliance. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 1999, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 1999 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 Securities Exchange Act of 1934, as amended, on a timely basis, except Mr. Ackerman filed one Form 4 inadvertently late to report one grant of Company stock in lieu of director's fees.

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 Vice Chairman of the Board who also serves as President of the Company's Climate Control Business). The table includes cash distributed for services rendered during 1999, plus any cash distributed during 1999 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

Long-term

Name and Position	Year	Annual Compensation Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)(2)	Compensation Awards Securities Underlying Stock Options	All Other Compensation ($)
Jack E. Golsen,	1999	477,400	-	-	265,000	- -
Chairman of	1998	477,400	-	-	-	- -
the Board,	1997	470,450	-	-	-	- -
President and Chief Executive Officer						
Barry H. Golsen,	1999	226,600	-	-	155,000	- -
Vice Chairman	1998	226,600	-	-	-	- -
of the Board of	1997	223,300	-	-	-	- -
Directors and President of the Climate Control Business						
David R. Goss,	1999	190,500	-	-	100,000	- -
Senior Vice	1998	190,500	-	-	-	- -
President -	1997	187,750	-	-	-	- -
Operations						
Tony M. Shelby,	1999	190,500	-	-	100,000	- -
Senior Vice	1998	190,500	-	-	-	- -
President/Chief	1997	187,750	-	-	-	- -
Financial Officer						
David M. Shear,	1999	165,000	-	-	100,000	- -
Vice President/	1998	165,000	-	-	-	- -
General Counsel	1997	162,500	-	-	-	- -

(1) Bonuses are for services rendered for the prior fiscal year. No bonuses were paid to the above-named executive officers for 1997, 1998, or are to be paid to the above-named executive officers for 1999 performance.

(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 $50,000 or 10% of the total of annual salary and bonus reported for the named executive officer for such year.

Option Grants in 1999. 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				
Name	Number of Shares of	% of Total	Exercise Price	Expiration Date	Potential Realizable Value

	Common Stock underlying Options Granted (#) (1)	Options Granted Employees in 1999	($/sh)		at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) 5% ($)	10%
Jack E. Golsen	265,000	15.3	1.375	7-7-04	58,393	169,106
Barry H. Golsen	155,000	9.0	1.375	7-7-04	34,155	98,911
David R. Goss	100,000	5.8	1.25	7-7-09	78,612	199,218
Tony M. Shelby	100,000	5.8	1.25	7-7-09	78,612	199,218
David M. Shear	100,000	5.8	1.25	7-7-09	78,612	199,218

(1) The Company has adopted a 1981 Incentive Stock Option Plan (the 1981 plan), a 1986 Incentive Stock Option Plan (the 1986 plan), a 1993 Incentive Stock Option Plan (the 1993 plan), and a 1998 Incentive Stock Option Plan (the 1998 plan). The 1981 plan, the 1986 plan, the 1993 plan, and the 1998 plan are collectively designated as the Plans. The Plans provide that the Company may grant options under the Plans to key salaried employees of the Company. The option price for all options granted under the Plans cannot equal less than 100% (or 110% for persons possessing more than 10% of the voting stock of the Company) of the market value of the Company's Common Stock on the date of the grant. The Company could grant options under the 1981 Plan until November 30, 1991, until April 10, 1996 under the 1986 Plan, and can grant options until August 5, 2003 under the 1993 Plan, and until August 13, 2008 under the 1998 Plan. The holder of an option granted under the Plans may not exercise the option after ten (10) years from the date of grant of the option (or five (5) years for persons possessing more than 10% of the voting stock of the Company). The options become exercisable approximately 20% after one year from the date of the grant, an additional 20% after two years, an additional 30% after three years, and the remaining 30% after four years.

(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 an executive 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. As of May 31, 2000, the closing price of a share of the Company's Common Stock as quoted on the Over-the-Counter Bulletin Board was $.875. There is no assurance that any executive will receive the amounts estimated in this table.

Aggregated Option Exercises in 1999
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:

	Shares Acquired	Value	Number of Securities Underlying Unexercised Options at FY End (#)(2)	Value of Unexercised In-the-Money Options at Fiscal Year End ($) (2)(3)

Name	Shares Acquired on Exercise (#)(1)	Value Realized ($)	Exercisable/ Unexercisable	Exercisable/ Unexercisable
Jack E. Golsen	-	-	70,000/ 295,000 (4)	-/ 8,215
Barry H. Golsen	-	-	73,500/ 185,000 (5)	-/ 4,805
David R. Goss	-	-	70,500/ 124,000 (6)	93/ 15,600
Tony M. Shelby	-	-	70,500/ 124,000 (6)	93/ 15,600
David M. Shear	-	-	67,800/ 118,000 (6)	93/ 15,600

(1) The named executive officer did not exercise any Company stock options in 1999.

(2) The incentive stock options granted under the Company's stock option 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.

(3) The values are based on the difference between the price of the Company's Common Stock on the Over-the-Counter Bulletin Board at the close of trading on December 31, 1999 of $1.406 per share and the exercise price of such option. The actual value realized by a named executive officer on the exercise of these options depends on the market value of the Company's Common Stock on the date of exercise.

(4) The amounts shown include a non-qualified stock option covering 176,500 shares of Common Stock which is currently unexercisable.

(5) The amounts shown include a non-qualified stock option covering 55,000 shares of Common Stock which is currently unexercisable.

(6) The amounts shown include a non-qualified stock option covering 35,000 shares of Common Stock which is currently unexercisable.

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 1997, 1998, and 1999 fiscal years 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 such insurance 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	$ N/A

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 1999, the Company compensated seven non-management directors in the amount of $4,500 each and one non-management director in the amount of approximately $2,900 for their services. The non-management directors of the Company also received $500 for every meeting of the Board of Directors attended during 1999. The following members of the Audit Committee, consisting of Messrs. Rhodes, Ille, Brown, and Shaffer, received an additional $20,000 each for their services in 1999. Each member of the Public Relations and Marketing Committee, consisting of Messrs. Ille and Ackerman, received an additional $20,000 and $15,000 and 4,000 shares of the Company's common stock, respectively, for his services in 1999. During 1997, the Board of Directors established a special committee of the Board of Directors for European business development (the "European Operations Committee") and elected Mr. Munson as a member of that committee. During 1999, Mr. Munson was paid approximately $42,100 for his services on the European Operations Committee.

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. The Company did not grant options under the Outside Director Plan in April, 1997, 1998, and 1999.

During July, 1999, each of the outside directors of the Company (Messrs. Ackerman, Brown, Burtch, Gagner, Ille, Munson, Rhodes and Shaffer) was granted a non-qualified stock option for the purchase of up to 15,000 shares of Common Stock at an exercise price of $1.25 per share, which was the closing price for the Company's Common Stock as quoted on the Over-the-Counter Bulletin Board as of the date of grant. These non-qualified options terminate at the earlier of (i) five years from the date of grant or (ii) upon an optionee ceasing to be a director of the Company and are exercisable, in whole or in part, at anytime after six months from the date of grant prior to termination of the options.

Employment Contracts and Termination of Employment and Change in Control Arrangements.

a) Termination of Employment and Change in Control Agreements.
The Company has 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.

Except for the severance agreement with Jack E. Golsen, 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 in control. The definition of "Cause" contained in the severance agreement with Jack E. Golsen means termination because of: (a) the conviction of Mr. Golsen of a felony involving moral turpitude after all appeals have been completed; or (b) if due to Mr. Golsen's serious, willful, gross misconduct or willful, gross neglect of his duties has resulted in material damages to the Company and its subsidiaries, taken as a whole, provided that (i) no action or failure to act by Mr. Golsen will constitute a reason for termination if he believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and (ii) failure of Mr. Golsen to perform his duties hereunder due to disability shall not be considered willful, gross misconduct or willful, gross negligence of his duties for any purpose.

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.

Except for the severance agreement with Jack E. Golsen, 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 annual 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. The severance agreement with Jack E. Golsen is effective for a period of three (3) years from the date of the severance agreement; except that, commencing on the date one (1) year after the date of such severance agreement and on each annual anniversary thereafter, the term of such

severance agreement shall be automatically extended so as to terminate three (3) years from such renewal date, unless the Company gives notices otherwise at least one (1) year prior to the renewal date.

(b) Employment Agreement. In March 1996, the Company entered into an employment agreement with Jack E. Golsen. The employment agreement requires the Company to employ Jack E. Golsen as an executive officer of the Company for an initial term of three (3) years and provides for two (2) automatic renewals of three (3) years each unless terminated by either party by the giving of written notice at least one (1) year prior to the end of the initial or first renewal period, whichever is applicable. Under the terms of such employment agreement, Mr. Golsen shall be paid (i) an annual base salary at his 1995 base rate, as adjusted from time to time by the Compensation Committee, but such shall never be adjusted to an amount less than Mr. Golsen's 1995 base salary, (ii) an annual bonus in an amount as determined by the Compensation Committee, and (iii) receive from the Company certain other fringe benefits. The employment agreement provides that Mr. Golsen's employment may not be terminated, except (i) upon conviction of a felony involving moral turpitude after all appeals have been exhausted, (ii) Mr. Golsen's serious, willful, gross misconduct or willful, gross negligence of duties resulting in material damage to the Company and its subsidiaries, taken as a whole, unless Mr. Golsen believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and (iii) Mr. Golsen's death; provided, however, no such termination under (i) or (ii) above may occur unless and until the Company has delivered to Mr. Golsen a resolution duly adopted by an affirmative vote of three-fourths of the entire membership of the Board of Directors at a meeting called for such purpose after reasonable notice given to Mr. Golsen finding, in good faith, that Mr. Golsen violated (i) or (ii) above. If Mr. Golsen's employment is terminated in breach of this Agreement, then he shall, in addition to his other rights and remedies, receive and the Company shall pay to Mr. Golsen (i) in a lump sum cash payment, on the date of termination, a sum equal to the amount of Mr.

Golsen's annual base salary at the time of such termination and the amount of the last bonus paid to Mr. Golsen prior to such termination times (a) the number of years remaining under the employment agreement or (b) four (4) if such termination occurs during the last twelve (12) months of the initial period or the first renewal period, and (ii) provide to Mr. Golsen all of the fringe benefits that the Company was obligated to provide during his employment under the employment agreement for the remainder of the term of the employment agreement, or, if terminated at any time during the last twelve (12) months of the initial period or first renewal period, then during the remainder of the term and the next renewal period.

If there is a change in control (as defined in the severance agreement between Mr. Golsen and the Company) and within twenty-four (24) months after such change in control Mr. Golsen is terminated, other than for Cause (as defined in the severance agreement), then in such event, the severance agreement between Mr. Golsen and the Company shall be controlling.

In the event Mr. Golsen becomes disabled and is not able to perform his duties under the employment agreement as a result thereof for a period of twelve (12) consecutive months within any two (2) year period, the Company shall pay Mr. Golsen his full salary for the remainder of the term of the employment agreement and thereafter sixty percent (60%) of such salary until Mr. Golsen's death.

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. 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.

See "Compensation of Directors" for information concerning compensation paid and options granted to non-employee directors of the Company during 1999 for services as a director to the Company.

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 the close of business on April 7, 2000, 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 29, 2000.

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	Common	4,243,668 (3)(5)(6)	33.2%
members of his family (2)	Voting Preferred	20,000 (4)(6)	92.7%
Riverside Capital Advisors, Inc. (7)	Common	1,467,397 (7)	11.0%
Ryback Management Corporation	Common	1,835,063 (8)	13.4%
Dimensional Fund Advisors, Inc.	Common	686,000 (9)	5.8%
Jayhawk Capital Management, LLC	Common	1,016,300(10)	8.6%

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(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 Climate 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, Barry H. Golsen, and Linda F.
Rappaport is 16 South Pennsylvania Avenue, Oklahoma City,
Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th
Street, Oklahoma City, Oklahoma 73179.

(3) Includes (a) the following shares over which Jack E.
Golsen ("J. Golsen") has the sole voting and dispositive power:
(i) 109,028 shares that he owns of record, (ii) 4,000 shares that
he has the right to acquire upon conversion of a promissory note,
(iii) 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, (iv) 10,000 shares owned of record by the
MG Trust, of which he is the sole trustee, and (v) 70,000 shares
that he has the right to acquire within the next sixty (60) days
under the Company's stock option plans; (b) 1,052,250 shares
owned of record by Sylvia H. Golsen, over which she and her
husband, J. Golsen share voting and dispositive power; (c)
246,616 shares over which Barry H. Golsen ("B. Golsen") has the
sole voting and dispositive power, 533 shares owned of record by
B. Golsen's wife, over which he shares the voting and dispositive
power, and 75,000 shares that he has the right to acquire within
the next sixty (60) days under the Company's stock option plans;
(d) 206,987 shares over which Steven J. Golsen ("S. Golsen") has
the sole voting and dispositive power and 61,000 shares that he
has the right to acquire within the next sixty (60) days under
the Company's stock option plans; (e) 222,460 shares held in
trust for the grandchildren of J. Golsen and Sylvia H. Golsen of
which B. Golsen, S. Golsen and Linda F. Rappaport ("L.
Rappaport") jointly or individually are trustees; (f) 82,552
shares owned of record by L. Rappaport, over which L. Rappaport
has the sole voting and dispositive power; (g) 1,336,799 shares
owned of record by SBL Corporation ("SBL"), 39,177 shares that
SBL has the right to acquire upon conversion of 9,050 shares of
the Company's non-voting $3.25 Convertible Exchangeable Class C
Preferred Stock, Series 2 (the "Series 2 Preferred"), and 400,000
shares that SBL has the right to acquire upon conversion of
12,000 shares of Series B Preferred owned of record by SBL, and
(h) 60,600 shares owned of record by Golsen Petroleum Corporation
("GPC"), which is a wholly-owned subsidiary of SBL, and

133,333
shares that GPC has the right to acquire upon conversion
of 4,000
shares of Series B Preferred owned of record by GPC.
SBL is
wholly-owned by Sylvia H. Golsen (40% owner), B.
Golsen (20%
owner), S. Golsen (20% owner), and L. Rappaport (20%
owner) and,
as a result, SBL, J. Golsen, Sylvia H. Golsen, B.
Golsen, S.
Golsen, and L. Rappaport share the voting and
dispositive power
of the shares beneficially owned by SBL. SBL'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, over which he has the sole
voting and
dispositive power; (b) 12,000 shares of Series B
Preferred owned
of record by SBL; and (c) 4,000 shares owned of record
by SBL's
wholly-owned subsidiary, GPC, over which SBL, J.
Golsen, Sylvia
H. Golsen, B. Golsen, S. Golsen, and L. Rappaport
share the
voting and dispositive power.

(5) Does not include 124,350 shares of Common Stock
that L.
Rappaport's husband owns of record and 61,000 shares
which he has
the right to acquire within the next sixty (60) days
under the
Company's stock option plans, all of which L. Rappaport
disclaims
beneficial ownership. Does not include 234,520 shares
of Common
Stock owned of record by certain trusts for the benefit
of B.
Golsen, S. Golsen, and L. Rappaport over which B.
Golsen, S.
Golsen and L. Rappaport have no voting or
dispositive power.
Heidi Brown Shear, an officer of the Company and the
niece of J.
Golsen, is the Trustee of each of these trusts.

(6) J. Golsen disclaims beneficial ownership of
the shares
that B. Golsen, S. Golsen, and L. Rappaport each have
the sole
voting and investment power over as noted in footnote
(3) above.
B. Golsen, S. Golsen, and L. 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 dispositive power over as noted in
footnotes
(3) and (4) above.

(7) Riverside Capital Advisors, Inc. ("Riverside")
advised
the Company that it owns 341,255 shares of Series 2
Preferred
that is convertible into 1,467,397 shares of
Common Stock.
Riverside further advised the Company that it has
voting and
dispositive power over such shares as a result of
Riverside

having full discretionary investment authority over customers' accounts to which it provides investment services. The address of Riverside is 1650 Southeast 17th Street Causeway, Fort Lauderdale, Florida 33316.

(8) Ryback Management Corporation ("Ryback") is the Investment Company Advisor for Lindner Dividend Fund, a registered investment company, which owns 423,900 shares of Series 2 Preferred that is convertible into 1,835,063 shares of Common Stock. Ryback has sole voting and dispositive power over these shares. The address of Ryback is 7711 Corondelet Avenue, Suite 700, St. Louis, Missouri 63105.

(9) Dimensional Fund Advisors, Inc. ("Dimensional"), a registered investment advisor, is deemed to have beneficial ownership of 686,100 shares of the Company's Common Stock, all of which shares are held in portfolios of DFA Investment Dimensions Group Inc., a registered open-end investment company, or in series of the DFA Investment Trust Company, a Delaware business trust, or the DFA Group Trust and DFA Participation Group Trust, investment vehicles for qualified employee benefit plans, all of which Dimensional Fund Advisors Inc. serves as investment manager. Dimensional disclaims beneficial ownership of all such shares. The address of Dimensional is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401.

(10) Jayhawk Capital Management, L.L.C. ("Jayhawk"), an investment advisor, has sole voting and dispositive power over 1,016,300 shares. The address of Jayhawk is 8201 Mission Road, Suite 110, Prairie Village, Kansas 66208.

Security Ownership of Management. The following table sets forth information obtained from the directors and nominees to be elected as a director of the Company and the directors, nominees 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 April 7, 2000.

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 29, 2000, 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	46,000 (2)	*
Robert C. Brown, M.D.	Common	248,329 (3)	2.1%
Charles A. Burtch	Common	15,000 (4)	*
Gerald J. Gagner	Common	33,000 (5)	*
Barry H. Golsen	Common	2,514,518 (6)	20.1%
	Voting Preferred	16,000 (6)	74.2%
Jack E. Golsen	Common	3,348,520 (7)	26.5%
	Voting Preferred	20,000 (7)	92.7%
David R. Goss	Common	253,625 (8)	2.1%
Bernard G. Ille	Common	130,000 (9)	1.1%
Donald W. Munson	Common	31,432 (10)	*
Horace G. Rhodes	Common	35,000 (11)	*
Jerome D. Shaffer, M.D.	Common	144,363 (12)	1.2%
Tony M. Shelby	Common	264,879 (13)	2.2%
Directors and	Common	5,321,934 (14)	40.1%
Executive Officers as a group number (14 persons)	Voting Preferred	20,000	92.7%

* 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's records.

(2) Mr. Ackerman has sole voting and dispositive
power over
these shares. 6,000 of these shares are held in a
trust for
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 40,000 shares of Common Stock included
herein 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 40,000 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
dispositive power, consists of 122,516 shares owned
by Dr.
Brown's wife, 15,000 shares held jointly by Dr. Brown
and his

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) Mr. Burtch has sole voting and dispositive power over these shares, which may be acquired by Mr. Burtch pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(5) Mr. Gagner has sole voting and dispositive power over these shares, which include 30,000 shares that may be acquired by Mr. Gagner pursuant to currently exercisable non-qualified stock options granted to him by the Company.

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

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

(8) The amount shown includes 72,000 shares that Mr. Goss has the right to acquire within sixty (60) days pursuant to options granted under the Company's stock option plans. Mr. Goss has the sole voting and dispositive power over these shares.

(9) The amount includes (i) 40,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille has the sole voting and dispositive power, and (ii) 90,000 shares owned of record by Mr. Ille's wife.

(10) This amount includes (i) 432 shares of Common Stock that Mr. Munson has the right to acquire upon conversion of 100 shares of non-voting Series 2 Preferred that he beneficially owns, and (ii) 30,000 shares that Mr. Munson may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Munson has the sole voting and dispositive power.

(11) Mr. Rhodes has sole voting and dispositive power over these shares, which include 30,000 shares that may be acquired by Mr. Rhodes pursuant to currently exercisable non-

qualified stock
options granted to him by the Company.

(12) Dr. Shaffer has the sole voting and
dispositive power
over these shares, which include 40,000 shares that Dr.
Shaffer
may purchase pursuant to currently exercisable non-
qualified
stock options and 4,329 shares that Dr. Shaffer has the
right to
acquire upon conversion of 1,000 shares of Series 2
Preferred
owned by Dr. Shaffer. This amount also includes
10,000 shares
owned by Dr. Shaffer's wife.

(13) Mr. Shelby has the sole voting and
dispositive power
over these shares, which include 72,000 shares that
Mr. Shelby
has the right to acquire within sixty (60) days
pursuant to
options granted under the Company's ISOs and 15,151
shares that
Mr. Shelby has the right to acquire upon conversion of
3,500
shares of Series 2 Preferred owned by Mr. Shelby.

(14) The amount shown includes 677,000 shares
of Common
Stock that executive officers, directors, or entities
controlled
by executive officers and directors of the Company have
the right
to acquire within sixty (60) days.

Possible Change in Control

A subsidiary of the Company and the family of Jack E. Golsen and entities controlled by them have pledged certain shares of the Company's Common Stock to a lender as described under Item 13 "Certain Relationships and Related Transactions" contained in this report. If the shares of Common Stock pledged to the lender are foreclosed on and assuming the Company does not issue any additional shares of Common Stock and none of the Company's outstanding Preferred Stock are converted, the percentage of outstanding shares of Common Stock held by the lender would be approximately 25% of the then outstanding shares of Common Stock and may, at a subsequent date, result in a change in control of the Company.

Item 13. Certain Relationships and Related Transactions.

A subsidiary of the Company, Hercules Energy
Mfg.
Corporation ("Hercules"), leased land and a building in
Oklahoma
City, Oklahoma from Mac Venture, Ltd. ("Mac Venture"), a
limited
partnership. GPC (a wholly owned subsidiary of SBL)
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
"Security
Ownership of Management" above for a discussion of the
stock
ownership of SBL. The warehouse and shop space
leased by
Hercules from Mac Venture consists of a total of
30,000 square
feet. Hercules leased the property from Mac Venture
for $3,750
per month under a triple net lease extension which
began as of
January 1, 1999, and expired on December 31, 1999.

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 Vice President and Treasurer 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. The unpaid balance of these notes at March 31, 2000, was $400,000.

On October 17, 1997, Prime Financial Corporation ("Prime"), a subsidiary of the Company, borrowed from SBL Corporation, a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company, the principal amount of $3,000,000 (the "Prime Loan") on an unsecured basis and payable on demand, with interest payable monthly in arrears at a variable interest rate equal to the Wall Street Journal Prime Rate plus 2% per annum. The purpose of the loan was to assist the Company by providing additional liquidity. The Company has guaranteed the Prime Loan. During 1999, $150,000 in principal and $280,000 in interest was paid on this Prime Loan, and as of March 31, 2000,the unpaid principal balance on the Prime Loan was $1,950,000. In February 2000, the Company borrowed approximately $500,000 under its key man life insurance policies, and used such proceeds to reduce the principal amount due SBL. In April, 2000, at the request of Prime and the Company, SBL agreed to modify the demand note to make such a term

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

In order to make the Prime Loan to Prime, SBL and certain of its
affiliates borrowed the $3,000,000 from a bank(collectively "SBL
Borrowings"), and as part of the collateral pledged by SBL to the
bank
in connection with such loan, SBL pledged, among other things,
its
note from Prime. In order to obtain SBL's agreement as provided
above,
and for other reasons, effective April 21, 2000, a subsidiary of
the
Company guaranteed on a limited basis the obligations of SBL and
its
affiliates relating to the unpaid principal amount due to the
bank
in connection with the SBL Borrowings, and, in order to secure
its
obligations under the guarantees pledged to the bank 1,973,461
shares
of the Company's Common Stock that it holds as treasury stock.
Under the
limited guaranty, the Company's subsidiary's liability is limited
to the
value, from time to time, of the Common Stock of the Company
pledged to
secure its obligations under its guarantees to the bank relating
to the SBL Borrowings. As of April 15, 2000, the outstanding
principal balance due to
the bank from SBL as a result of such loan was $1,950,000.

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:

	Pages
Report of Independent Auditors	F-1
Consolidated Balance Sheets at December 31, 1999 and 1998	F-2 to F-3
Consolidated Statements of Operations for each of the three years in the period ended December 31, 1999	F-4
Consolidated Statements of Stockholders' Equity	

for each of the three years in the period ended December 31, 1999 F-5 to F-6

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1999 F-7 to F-8

Notes to Consolidated Financial Statements F-9 to F-52

Quarterly Financial Data (Unaudited) F-53 to F54

(a)(2) Financial Statement Schedule

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts F-55

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

(a)(3) Exhibits

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

2.2. Asset Purchase and Sale Agreement, dated May 4, 2000 by L&S Automotive Products Co., L&S Bearing Co., LSB Extrusion Co. and Rotex Corporation and DriveLine Technologies, Inc. This agreement includes certain exhibits and schedules that are not included with this exhibit, and will be provided upon request by the Commission.

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

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

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

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

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

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

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

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

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

4.8. Amended and Restated Loan and Security Agreement, dated November 21, 1997, by and between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

4.9. First Amendment to Amended and Restated Loan and Security Agreement, dated March 12, 1998, between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation which the Company hereby incorporates by reference from Exhibit 10.53 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

4.11. Third Amendment to Amended and Restated Loan and Security Agreement, dated August 14, 1998, between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 1998.

4.12. Fourth Amendment to Amended and Restated Loan
and
Security Agreement, dated November 19, 1998, between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended September 30, 1998.

4.13. Fifth Amendment to Amended and Restated Loan and Security Agreement, dated April 8, 1999, between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 4.16 to the Company's Form 10-K for the year ended December 31, 1998.

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

4.15. Loan and Security Agreement, dated May 7, 1999, by and between Congress Financial Corporation and L&S Automotive Products Co., International Bearings, Inc., L&S Bearing Co., LSB Extrusion Co., Rotex Corporation, and Tribonetics Corporation, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1999.

4.16. Termination and Mutual General Release
Agreement,
dated as of May 10, 1999, by and among L&S Bearing Co., L&S Automotive Products Co., LSB Extrusion Co., Rotex Corporation, Tribonetics Corporation, International Bearings, Inc., and Bank of America National Trust and Savings Association (successor-in-interest to BankAmerica Business Credit, Inc.), which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's

Form 10-Q for the fiscal quarter ended March 31, 1999.

4.17. Letter Agreement, dated April 30, 1999, by and among Bank of America National Trust and Savings Association (successor-in-trust to BankAmerica Business Credit, Inc.), L&S Bearing Co., LSB Extrusion Co., Tribonetics Corporation, Rotex Corporation, L&S Automotive Products Co., International Bearings, Inc., and Congress Financial Corporation, which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1999.

4.18. Sixth Amendment, dated May 10, 1999, to Amended and Restated Loan and Security Agreement between BankAmerica Business Credit, Inc., and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

4.19. Second Amended and Restated Loan and Security Agreement dated May 10, 1999, by and between Bank of America National Trust and Savings Association and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

4.20. First Amendment to Loan and Security Agreement, dated November 15, 1999 by and between Congress Financial Corporation and L&S Automotive Products Co., Industrial Bearings, Inc., L&S Bearing Co., LSB Extrusion Co., Rotex Corporation, and Tribonetics Corporation.

4.21. Second Amendment to Loan and Security Agreement, dated March 7, 2000 by and between Congress Financial Corporation and L&S Automotive Products Co., International Bearings, Inc., L&S Bearing Co., LSB Extrusion Co., Rotex Corporation, and Tribonetics Corporation.

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

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

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

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

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

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

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

the fiscal year ended December 31, 1993.

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

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

10.10. 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.

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

10.12. 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.

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

10.14. 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.

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

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

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

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

10.19. Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby

incorporates by reference from Exhibit 10.16 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

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

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

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

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

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

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

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

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

10.29. Participation Agreement, dated as of June 27, 1997, among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landesbank, New York Branch, as a Construction Lender and the Note Purchaser, and

Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

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

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

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

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

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

10.35. Union Contract, dated August 1, 1998, between EDC and the International Association of Machinists and Aerospace Workers, which the Company hereby incorporates by reference from Exhibit 10.42 to the Company's Form 10-K for the year ended December 31, 1998.

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

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

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

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

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

10.41. Seventh Amendment to Amended and Restated Loan and Security Agreement, dated January 1, 2000, by and

between Bank of America, N.A. and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company, and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 8-K dated December 30, 1999.

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

10.43. Amendment to Anhydrous Ammonia Sales Agreement, dated January 4, 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.

10.44. Anhydrous Ammonia Sales Agreement, dated January 12, 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.

10.45. Eighth Amendment to Amended and Restated Loan and Security Agreement, dated March 1, 2000, by and between Bank of America, N.A. and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company, and Slurry Explosive Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 8-K dated March 1, 2000.

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

10.47. Third Amendment to Second Amended and Restated Loan and Security Agreement, dated March 31, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery manufacturing Corporation.

10.48. Asset Purchase and Sale Agreement, dated as of March 6, 2000, between L&S Automotive Products Co. and The Zeller Corporation, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8K dated March 9, 2000.

10.49. Loan Agreement dated December 23, 1999 between ClimateCraft, Inc. and the City of Oklahoma City.

10.50. Covenant Waiver Letter, dated April 10, 2000 between The CIT Group and DSN Corporation.

10.51. Promissory Note, dated March 5, 1998, in the original principal amount of $3 million executed by Prime Financial Corporation, in favor of SBL Corporation ("SBL").

10.52. Letter, dated April 1, 2000, executed by SBL to Prime amending the Promissory Note referenced to in Exhibit 10.51.

10.53. Guaranty Agreement, dated as of April 21, 2000, by Prime to Stillwater National Bank and Trust Company of that

portion
relating to SBL Borrowings borrowed by SBL substantial
similar
guarantees have been executed by Prime in favor of
Stillwater
covering the amounts borrowed by the following affiliates of
SBL
relating to the SBL Borrowings (as defined in "
Relationships
and Related Transactions") listed in Exhibit A attached to
the
Guaranty Agreement, requests with the only material
differences
being the name of the debtor and the amount owing by such
debtor.
Copies of which will be provided to the Commission upon
request.

10.54. Security Agreement, dated effective April 21,
2000,
executed by Prime in favor of Stillwater National Bank and
Trust.

10.55. Limited Guaranty, effective April 21, 2000,
executed by Prime to Stillwater National Bank and Trust.

10.56. Subordination Agreement, dated May 4, 2000, by
and among Congress Financial Corporation (Southwest), a
Texas corporation (Lender), LSB Industries, Inc.
(Subordinated Creditor), DriveLine Technologies, Inc.,
(formerly known as Tribonetics Corporation), an Oklahoma
corporation and L&S Manufacturing Corp.

99.1. Non-Competition Agreement, dated as of March 6,
2000 between L&S Automotive Products Co. and Mark Zeller,
which
the Company hereby incorporates by reference from Exhibit
99.1 to the Company's Form 8-K dated March 9, 2000.

21.1. Subsidiaries of the Company.

23.1. Consent of Independent Auditors.

27.1. Financial Data Schedule.

27.2. Restated Financial Data Schedule

27.3. Restated Financial Data Schedule

(b) Reports on Form 8-K. The Company filed the following
report on Form 8-K during the fourth quarter of 1999.

(i) Form 8-K, dated December 30, 1999 (date of event:
December 30, 1999). The item reported was Item 5, "Other
Events", discussing the payment of interest on the Company's
subsidiary, ClimaChem's $105 million of outstanding 10 3/4%
Senior Notes due 2007 and related failure to meet certain
adjusted tangible net worth and debt ratio requirements under the
Company's revolving credit facility and obtaining a forbearance
agreement with the Company's Lender.

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 1 day of June, 2000.

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: June 1, 2000 By:
/s/ Jack E. Golsen
Jack E. Golsen, Director

Dated: June 1, 2000 By:
/s/ Tony M. Shelby
Tony M. Shelby, Director

Dated: June 1, 2000 By:
/s/ David R. Goss
David R. Goss, Director

Dated: June 1, 2000 By:
/s/ Barry H. Golsen
Barry H. Golsen, Director

Dated: June 1, 2000 By:
/s/
Robert C. Brown, Director

Dated: June 1, 2000 By:
/s/ Bernard G. Ille
Bernard G. Ille, Director

Dated: June 1, 2000 By:
/s/ Jerome D. Shaffer
Jerome D. Shaffer, Director

Dated: June 1, 2000 By:
/s/
Raymond B. Ackerman, Director

Dated: June 1, 2000 By:
/s/ Horace Rhodes
Horace Rhodes, Director.

Dated: June 1, 2000 By:
/s/
Gerald J. Gagner, Director

Dated: June 1, 2000 By:
/s/ Donald W. Munson
Donald W. Munson, Director

Dated: June 1, 2000 By:
/s/ Charles A. Burtch
Charles A. Burtch, Director

LSB Industries, Inc.

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, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial

statement schedule listed in the Index at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 17, 2000,
except for Note 4, as to which the date is
April 6, 2000

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 1999	December 31, 1998
	(In Thousands)	
Assets		
Current assets (Note 8):		
Cash and cash equivalents (Note 2)	$ 3,130	$ 1,459
Trade accounts receivable, net	44,549	43,646
Inventories (Note 6)	30,480	43,488
Supplies and prepaid items	4,617	7,333
Total current assets	82,776	95,926
Property, plant and equipment, net (Notes 7 and 8)	83,814	90,855
Other assets, net	22,045	21,111

Net assets of discontinued operations (Note 4)	-	15,358
	$188,635	$223,250

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 1999	1998
	(In Thousands)	
Liabilities and stockholders' equity		
Current liabilities:		
Drafts payable	$ 360	$ 633
Accounts payable	18,791	19,626
Accrued liabilities (Note 16)	18,563	17,287
Current portion of long-term debt (Note 8)	33,359	11,526
Total current liabilities	71,073	49,072
Long-term debt (Note 8)	124,713	138,980
Accrued losses on firm purchase commitments and other noncurrent liabilities (Note 16)	6,883	-
Commitments and contingencies (Note 13)		
Redeemable, noncumulative, convertible preferred stock, $100 par value; 1,462 shares issued and outstanding in 1999 (1,463 in 1998) (Note 10)	139	139
Stockholders' equity (deficit) (Notes 8, 11 and 12):		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 920,000 shares issued	46,000	46,000
Common stock, $.10 par value; 75,000,000 shares authorized, 15,108,716 shares issued (15,108,676 in 1998)	1,511	1,511
Capital in excess of par value	39,277	38,329
Accumulated other comprehensive loss	-	(1,559)
Accumulated deficit	(86,675)	(35,166)
	2,113	51,115
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares	200	200
Common stock, 3,285,957 shares (3,202,690 in 1998)	16,086	15,856
Total stockholders' equity (deficit)	(14,173)	35,059
	$188,635	$223,250

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations

	Year ended December31, 1999	1998	1997
	(In Thousands, Except Per Share Amounts)		
Businesses continuing at December 31:			
Revenues:			

Net sales	$254,236	$255,858	$251,948
Other income	1,036	1,290	2,117
	255,272	257,148	254,065
Costs and expenses:			
Cost of sales (Note 16)	203,480	201,279	202,449
Selling, general and administrative	51,672	48,918	48,972
Interest	15,115	14,504	11,435
Provision for loss on firm purchase commitments (Note 16)	8,439	-	-
Provision for impairment on long-lived assets (Note 2)	4,126	-	-
	282,832	264,701	262,856
Loss from continuing operations before businesses disposed of, provision for income taxes and extraordinary charge	(27,560)	(7,553)	(8,791)
Businesses disposed of (Note 5):			
Revenues	7,461	14,184	29,532
Operating costs, expenses and interest	9,419	17,085	29,446
	(1,958)	(2,901)	86
Gain (loss) on disposal of businesses	(1,971)	12,993	-
	(3,929)	10,092	86
Income (loss) from continuing operations before provision for income taxes and extraordinary charge	(31,489)	2,539	(8,705)
Provision for income taxes (Note 9)	(157)	(100)	(50)
Income (loss) from continuing operations before extraordinary charge	(31,646)	2,439	(8,755)
Net loss from discontinued operations (Note 4)	(18,121)	(4,359)	(9,691)
Extraordinary charge (Note 8)	-	-	(4,619)
Net loss	(49,767)	(1,920)	(23,065)
Preferred stock dividends	3,228	3,229	3,229
Net loss applicable to common stock	$(52,995)	$(5,149)	$(26,294)
Loss per common share - basic and diluted:			
Loss from continuing operations before extraordinary charge	$ (2.95)	$ (.07)	$ (.93)
Losses on discontinued operations	(1.53)	(.35)	(.75)
Extraordinary charge	-	-	(.36)

Net loss	$ (4.48)	$ (.42)	$ (2.04)

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Par Value	Non-redeemable Preferred Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Income (loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock--- Common	Treasury Stock--- Prefer	Total
									(In Thousands)
Balance at December 31, 1996	14,888	$ 1,489	$ 48,000	$ 37,843	$ 276	$ (2,706)	$(10,684)	$ (200)	$ 74,018
Net loss	-	-	-	-	- -	(23,065)	-	-	(23,065)
Foreign currency translation adjustment	-	-	-	-	(1,279)	-	-	-	(1,279)
Total comprehensive loss					(24,344)				
Exercise of stock options:									
Cash received	67	6	-	190	- -	-	-	-	196
Stock tendered and added to treasury at market value	87	9	-	224	- -	-	(233)	-	-
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)	-	-	-	-	- -	(773)	-	-	(773)
Series 2 preferred stock (3.25 per share)	-	-	-	-	- -	(2,973)	-	-	(2,973)
Purchase of treasury stock	-	-	-	-	- -	-	(1,372)	-	(1,372)
Balance at December 31, 1997	15,042	1,504	48,000	38,257	(1,003)	(29,773)	(12,289)	(200)	44,496

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity (continued)

(In Thousands)

	Common Stock Shares	Common Stock Par Value	Non-redeemable Preferred Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Treasury Stock--- Common	Treasury Stock--- Preferr	Total
Net loss	-	$ -	$ -	$ -	$ -	$ (1,920)	$ -	$ -	$ (1,920)
Foreign currency translation adjustment	-	-	-	-	(556)	-	-	-	(556)
Total comprehensive loss					(2,476)				
Conversion of 76.5 shares of redeemable preferred preferred stock to common stock	3	-	-	7	- -	-	-	-	7
Exercise of stock options:									
Cash received	64	7	-	65	- -	-	-	-	72
Dividends declared:									
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	- -	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	- -	(16)	-	-	(16)
Common stock ($.02 per share)	-	-	-	-	- -	(244)	-	-	(244)
Series 2 preferred stock ($3.25 per share)	-	-	-	-	- -	(2,973)	-	-	(2,973)
Purchase of treasury stock	-	-	-	-	- -	-	(3,567)	-	(3,567)
Balance at December 31, 1998	15,109	1,511	48,000	38,329	(1,559)	(35,166)	(15,856)	(200)	35,059
Net loss	-	-	-	-	- -	(49,767)	-	-	(49,767)
Foreign currency translation adjustment	-	-	-	-	1,559	-	-	-	1,559
Total comprehensive loss					(48,208)				
Expiration of variable employee stock option without exercise	-	-	-	948	- -	-	-	-	948
Dividends declared:									
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	- -	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	- -	(16)	-	-	(16)
Series 2 preferred stock ($1.63 per share)	-	-	-	-	- -	(1,486)	-	-	(1,486)

Purchase of treasury stock	-	-	-	-	- -	-	(230)	-	(230)
Balance at December 31, 1999	15,109	$ 1,511	$48,000	$39,277	$ -	$(86,675)	$(16,086)	$(200)	$(14,173)

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	1999	1998	1997
	(In Thousands)		
Cash flows from operating activities			
Net loss	$(49,767)	$ (1,920)	$(23,065)
Adjustments to reconcile net loss to net cash used by continuing operating activities:			
Net loss from discontinued operations	18,121	4,359	9,691
Loss (gain) on businesses disposed of	1,971	(12,993)	- -
Extraordinary charge related to financing activities	-	-	4,619
Inventory write-down and provision for loss on firm purchase commitments, net of amount realized	8,175	-	- -
Provision for impairment on long-lived assets	4,126	-	- -
Depreciation of property, plant and equipment	9,749	10,419	9,653
Amortization	1,642	1,549	1,308
(Gain) loss on sales of assets	33	(879)	165
Provision for losses:			
Trade accounts receivable	812	971	625
Inventory	695	212	- -
Notes receivable	265	1,345	1,093
Loan guarantee	-	1,662	1,093
Recapture of prior period provisions for loss on loans receivable secured by real estate	(572)	(1,081)	(1,383)
Other	288	-	150
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Trade accounts receivable	(1,431)	(899)	(2,685)
Inventories	3,934	1,331	(2,817)
Supplies and prepaid items	(179)	(829)	(473)
Accounts payable	(1,056)	(3,409)	(15,124)

Accrued liabilities	2,812	(294)	2,829
Net cash used by continuing operating activities	(382)	(456)	(14,321)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	1999	1998	1997
	(In Thousands)		
Cash flows from investing activities			
Capital expenditures	$ (7,645)	$ (9,032)	$(11,570)
Principal payments received on loans receivable	1,052	427	283
Proceeds from the sales of equipment and real estate properties	1,174	1,791	1,828
Proceeds from the sale of businesses disposed of	9,981	29,266	- -
Other assets	(760)	(2,088)	(5,556)
Net cash provided (used) by investing activities	3,802	20,364	(15,015)
Cash flows from financing activities			
Payments on long-term and other debt	(6,144)	(18,274)	(73,500)
Long-term and other borrowings, net of origination fees	2,850	617	158,000
Debt prepayment charge	-	-	(4,619)
Net change in revolving debt facilities	6,554	6,586	(32,197)
Net change in drafts payable	(273)	21	165
Dividends paid:			
Preferred stocks	(1,742)	(3,229)	(3,229)
Common stock	-	(244)	(773)
Purchase of treasury stock	(230)	(3,567)	(1,372)
Net proceeds from issuance of common stock	-	72	196
Net cash provided (used) by financing activities	1,015	(18,018)	42,671
Net cash used in discontinued operations	(2,764)	(4,784)	(10,444)
Net increase (decrease) in cash and equivalents	1,671	(2,894)	

2,891

Cash and cash equivalents at beginning of year	1,459	4,353	1,462
Cash and cash equivalents at end of year	$3,130	$ 1,459	$ 4,353

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 Company is a diversified holding company which is engaged, through its subsidiaries, in the manufacture and sale of chemical products (the "Chemical Business"), the manufacture and sale of a broad range of air handling and heat pump products (the "Climate Control Business"), and the purchase and sale of machine tools (the "Industrial Products Business"). See Note 17 - Segment Information. In April 2000, the Company adopted a plan of disposal for its Automotive Products Division (See Note 4 - Discontinued Operations). Accordingly, the Company's financial statements and notes have been restated to reflect the Automotive Products Division as a discontinued operation for all periods presented.

All material intercompany accounts and transactions have been eliminated. Certain reclassifications have been made in the consolidated financial statements for the years ended December 31, 1998 and 1997 to conform to the consolidated financial statement presentation for the year ended December 31, 1999.

2. Accounting Policies

Use of Estimates

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

Inventories

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 $8,351,000 at December 31, 1999 ($7,095,000 at December 31, 1998), 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 was $822,000 and $1,062,000 at December 31, 1999 and 1998, respectively.

2. Accounting Policies (continued)

Property, Plant and Equipment

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

Capitalization of Interest

Interest costs of $1,113,000 related to the construction of a nitric acid plant were capitalized in 1997 (none in 1999 or 1998), and are amortized over the plant's estimated useful life.

Excess of Purchase Price Over Net Assets Acquired

The excess of purchase price over net assets acquired, which is included in other assets in the accompanying balance sheets, were $2,502,000 and $2,895,000, net of accumulated amortization, of $4,424,000 and $4,033,000 at December 31, 1999 and 1998, respectively, and is amortized by the straight-line method over periods of 15 to 19 years.

Impairment of Long-Lived Assets

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

For the year ended December 31, 1999, the Company recognized impairment totaling $4.1 million associated with two chemical plants which are to be sold or dismantled. The 1999 provision for impairment represents the difference between the net carrying cost and the estimated salvage value for the nonoperating plant to be dismantled and the difference between

2. Accounting Policies (continued)

the net carrying cost and the estimated selling price less cost to dispose for the plant to be sold. The Company has made estimates of the future cash flows related to its Chemical Business in order to determine recoverability of the Company's remaining cost. Based on these estimates, no additional impairment was indicated at December 31, 1999; however, it is reasonably possible that the Company may recognize additional impairments in this business in the near term if the Company experiences continued or further deterioration of the chemical business.

Debt Issuance Cost

Debt issuance costs are amortized over the term of the associated debt instrument using the straight-line method. Such costs, which are included in other assets in the accompanying balance sheets, were $4,116,000 and $4,076,000, net of accumulated amortization, of $1,770,000 and $1,135,000 as of December 31, 1999 and 1998, respectively.

Revenue Recognition

The Company recognizes revenue at the time title of the goods transfers to the buyer.

Research and Development Costs

Costs incurred in connection with product research and development are expensed as incurred. Such costs amounted to $713,000 in 1999, $377,000 in 1998 and $367,000 in 1997.

Advertising Costs

Costs incurred in connection with advertising and promotion of the Company's products are expensed as incurred. Such costs amounted to $2,097,000 in 1999, $1,575,000 in 1998 and $1,569,000 in 1997.

Translation of Foreign Currency

Assets and liabilities of foreign operations, where the functional currency is the local currency, are translated into U.S. dollars at the fiscal year end exchange rate. The related translation adjustments are recorded as cumulative translation adjustments, a separate component of shareholders' equity. Revenues and expenses are translated using average exchange rates prevailing during the year.

2. Accounting Policies (continued)

Hedging

In 1997, the Company entered into an interest rate forward agreement to effectively fix the interest rate on a long-term lease commitment (not for trading purposes). In 1999, the Company executed the long-term lease agreement and terminated the forward at a net cost of $2.8 million. The Company has accounted for this hedge under the deferral method (as an adjustment of the initial term lease rentals). At December 31, 1999, the remaining deferred loss included in other assets approximated $2.7 million. The deferred cost recognized in operations amounted to $169,000 in 1999 (none in 1998 or 1997). See Recently Issued Pronouncements below and Note 13 - Commitments and Contingencies.

Loss Per Share

Net loss applicable to common stock is computed by adjusting net loss by the amount of preferred stock dividends. Basic loss per common share is based upon net loss applicable to common stock and the weighted average number of common shares outstanding during each period. Diluted income per share, if applicable, is based on the weighted average number of common shares and dilutive common equivalent shares outstanding, if any, and the assumed conversion of dilutive convertible securities outstanding, if any, after appropriate adjustment for interest, net of related income tax effects on convertible notes payable, as applicable. All potentially dilutive securities were antidilutive for all periods presented. See Note 10 - Redeemable Preferred Stock, Note 11 - Stockholders' Equity, and Note 12 - Non-redeemable Preferred Stock for a full description of securities which may have a dilutive effect in future periods.

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

	1999	1998	1997
Basic and diluted	11,838,271	12,372,770	12,876,064

Recently Issued Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." The Company expects to adopt this new Statement January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that do not qualify or are

2. Accounting Policies (continued)

not designated as hedges must be adjusted to fair value through operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what all of the effects of SFAS 133 will be on the earnings and financial position of the Company; however, the Company expects that the deferred hedge loss discussed under Accounting Policies - Hedging, will be accounted for as a cash flow hedge upon adoption of SFAS 133, with the effective portion of the hedge being classified in equity in accumulated other comprehensive income or loss at the date of adoption. The amount included in accumulated other comprehensive income or loss will be amortized to operations over the initial term of the leveraged lease.

Statements of Cash Flows

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

Under the Company's Revolving Credit Facility (Note 8 - Long-Term Debt) cash received by the Company on collection of trade accounts receivable is deposited in cash collection accounts. Cash in the collection accounts is applied against the outstanding balance under the Company's revolving credit agreement within 1-2 business days following receipt. The cash balance held in the collection accounts at December 31, 1999 and 1998 aggregated $2.5 million and $2.0 million, respectively.

Supplemental cash flow information includes:

	1999	1998	1997
		(In Thousands)	
Cash payments for:			
Interest on long-term debt and other	$16,114	$15,511	$12,170
Income taxes, net of refunds	(36)	65	86
Noncash financing and investing activities-			
Long-term debt issued for property, plant and equipment	3,327	523	547
Exchange of loans receivable for real estate upon foreclosure	-	-	15,037

3. Liquidity and Management's Plan

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

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

As of December 31, 1999, the Company and certain of its subsidiaries,
including ClimaChem, are parties to a working capital line of credit
evidenced by two separate loan agreements ("Agreements") with a lender
("Lender") collateralized by receivables, inventories and proprietary
rights of the parties to the Agreements. The Agreements have been
amended from time to time since inception to accommodate changes in
business conditions and financial results. This working capital line
of credit is a primary source of liquidity for the Company and
ClimaChem.

As of December 31, 1999, the Agreements provided for revolving credit
facilities ("Revolver") for total direct borrowing up to $65 million
with advances at varying percentages of eligible inventory and trade
receivables. At December 31, 1999, the effective interest rate was
9.0% and the availability for additional borrowings, based on eligible
collateral, approximated $12.5 million. Borrowings under the Revolver
outstanding at December 31, 1999, were $27.5 million. The annual
interest on the outstanding debt under the Revolver at December 31, 1999,
at the rates then in effect would approximate $2.5 million. The
Agreements also restrict the flow of funds, except under certain conditions,
to subsidiaries of the Company that are not parties to the
Agreements.

The Agreements, as amended, required the Company and ClimaChem to maintain
certain financial ratios and contain other financial covenants, including
tangible net worth requirements and capital expenditure limitations. In
1999, the Company's financial covenants were not required to be met so
long as the Company and its subsidiaries, including ClimaChem, that are
parties to the Agreements, maintained a minimum aggregate availability
under the Revolving Credit Facility of $15.0 million. When the availability
dropped below $15.0 million for three consecutive business days, the Company
and ClimaChem were required to maintain the financial ratios discussed
above. Due to an interest payment of $5.6 million made by ClimaChem on
December 30, 1999, relating to the outstanding $105 million Senior Unsecured

Notes, the availability dropped below the minimum aggregate availability
level required on January 1, 2000. Because the Company and ClimaChem
could not meet the financial ratios required by the Agreements, the Company
and ClimaChem entered into a forbearance agreement with the Lender
effective, January 1, 2000. The forbearance agreement waived the financial
covenant requirements for a period of sixty (60) days.

Prior to the expiration of the forbearance agreement, the Agreements were
amended, to provide for total direct borrowings of $50.0 million including
the issuance of letters of credit. The maximum borrowing ability under the
newly amended Agreements is the lesser of $50.0 million or the borrowing
availability calculated using advance rates and eligible collateral less
$5.0 million. The amendment provides for an increase in the interest rate
from the Lender's prime rate plus .5% per annum to the Lender's prime rate
plus 1.5% per annum, or the Company's and ClimaChem's LIBOR interest rate
option, increased to the Lender's LIBOR rate plus 3.875% per annum, from
2.875%. The term of the Agreements is through December 31, 2000, and is
renewable thereafter for successive thirteen-month terms if, by October 1,
2000, the Company and Lender shall have determined new financial covenants
for the calendar year beginning in January 2001. The Agreements, as amended,
require the Company and ClimaChem to maintain certain financial ratios and
certain other financial covenants, including net worth and interest coverage
ratio requirements and capital expenditure limitations.

As of March 31, 2000 the Company, exclusive of ClimaChem, and ClimaChem
have a borrowing availability under the revolver of $.2 million, and $11.0
million, respectively, or $11.2 million in the aggregate.

In addition to the credit facilities discussed above, as of December 31,
1999, ClimaChem's wholly-owned subsidiary, DSN Corporation ("DSN"), is
a party to three loan agreements with a financial company (the "Financing
Company") for three projects. At December 31, 1999, DSN had outstanding
borrowings of $8.2 million under these loans. The loans have repayment
schedules of principal and interest through maturity in 2002. The interest
rate on each of the loans is fixed and range from 8.2% to 8.9%. Annual
interest, for the three notes as a whole, at December 31, 1999, at the
agreed to interest rates would approximate $.7 million. The loans are
secured by the various DSN property and equipment. The loan agreements
require the Company to maintain certain financial ratios, including
tangible net worth requirements. In April 2000, DSN obtained a waiver
from the Financing Company of the financial covenants through March 31,
2001.

ClimaChem is restricted as to the funds that it may transfer to the
Company under the terms contained in an Indenture covering the

$105
million Senior Unsecured Notes issued by ClimaChem. Under the
terms
of the indenture, ClimaChem cannot transfer funds to the Company,
except
for (i) the amount of income taxes that they would be required to
pay if
they were not consolidated with the Company (the "Tax Sharing
Agreement"),
(ii) an amount not to exceed fifty percent (50%) of ClimaChem's
cumulative
net income from January 1, 1998 through the end of the period for
which
the calculation is made for the purpose of proposing a dividend
payment,
and (iii) the amount of direct and indirect costs and expenses
incurred
by the Company on behalf of ClimaChem and ClimaChem's
subsidiaries
pursuant to a certain services agreement and a certain management
agreement
to which the companies are parties. ClimaChem sustained a net
loss of
$2.6 million in the calendar year 1998, and a net loss of $19.2
million
for the calendar year 1999. Accordingly, no amounts were paid to
the
Company by ClimaChem under the Tax Sharing Agreement, nor under
the
Management Agreement during 1999 and based on ClimaChem's
cumulative
losses at December 31, 1999, and current estimates for results of
operations for the year ended December 31, 2000, none are
expected during
2000. Due to these limitations, the Company and its non-
ClimaChem
subsidiaries have limited resources to satisfy their obligations.

Due to the Company's and ClimaChem's net losses for the years of
1998 and
1999 and the limited borrowing ability under the Revolver, the
Company
discontinued payment of cash dividends on its common stock for
periods
subsequent to January 1, 1999, until the Board of Directors
determines
otherwise, and the Company has not paid the September 15, 1999,
December
15, 1999 and March 15, 2000 regular quarterly dividend of $.8125
(or $743,438 per quarter) on its outstanding $3.25 Convertible
Exchangeable
Class C Preferred Stock Series 2, totaling approximately $2.2
million.
In addition, the Company did not pay the January 1, 2000 regular
annual
dividend of $12.00 (or $240,000) on the Series B Preferred. The
Company
does not anticipate having funds available to pay dividends on
its stock
for the foreseeable future.

As of December 31, 1999, the Company and its subsidiaries which
are not
subsidiaries of ClimaChem and exclusive of the Automotive
Products Business
had a working capital deficit of approximately $2.3 million,
total assets
of $17.6 million, and long-term debt due after one year of
approximately
$13.5 million.

In 2000, the Company has planned capital expenditures of
approximately $10.0
million, primarily in the Chemical and Climate Control
Businesses. These
capital expenditures include approximately $2.0 million, which
the Chemical
Business is obligated to spend under consent orders with the
State of
Arkansas related to environmental control facilities at its El
Dorado

facility. The Company is currently exploring alternatives to finance these
capital expenditures.

The Company's plan for 2000 calls for the Company to improve its liquidity and
operating results through the liquidation of non-core assets, realization of
benefits from its late 1999 and early 2000 realignment of its overhead
(which serves to minimize the cash flow requirements of the Company and its
subsidiaries which are not subsidiaries of ClimaChem) and through various
debt and equity alternatives.

Commencing in 1997, the Company created a long-term plan which focused around
the Company's core operations, the Chemical and Climate Control Businesses.
This plan commenced with the sale of the 10 3/4% Senior Unsecured Notes by
the Company's wholly-owned subsidiary, ClimaChem, in November 1997. This
financing allowed the core businesses to continue their growth through
expansion into new lines of business directly related to the Company's core
operations (i.e., completion of the DSN plant which produces concentrated
nitric acid, execution of the EDNC Baytown plant agreement with Bayer to
supply industrial acids, development and expansion into market-innovative
climate control products such as geothermal and high air quality systems and
large air handling units).

During 1999, the Chemical Business sustained significant losses, primarily as
a result of the reduction of selling prices for its nitrate-based products
(in large part due to the flood of the market with low-priced Russian
ammonium nitrate) while the Company's cost of raw materials escalated
under a contract with a pricing mechanism tied to the price of natural gas
which increased dramatically. During late 1999, the Company renegotiated
this supply contract, extending the cash requirements under its take-or-pay
provision to delay required takes to 2000, 2001 and 2002 and to obtain
future raw material requirements at spot market prices. The Company was also
active in bringing about a favorable preliminary determination from the
International Trade Commission and Commerce Department, which has had the
current impact of minimizing the dumping of Russian ammonium nitrate in the
U.S. market (although there are no assurances that the final determination
will affirm the preliminary determination). This, and other factors, has
allowed the Chemical Business to see marginally improved market pricing
for its nitrate-based products in the first three months of 2000 compared
to the comparable period in 1999; however, there are no assurances that
this improvement will continue. The Company also successfully commenced
operations of its EDNC Baytown plant which is selling product to Bayer under
a long-term supply contract.

The Company's long-range plans also included the addition of expertise related
to the Company's core businesses to enhance its leadership team.

Beginning
in 1998, the Company brought on several new members of its Board
of
Directors with expertise in certain of the Company's businesses,
and individuals with extensive knowledge in the banking industry
and financial
matters. These individuals have brought business insight to the
Company and
helped management to formulate the Company's immediate and long-
range plans.

The plan for 2000 calls for the Company to dispose of a
significant portion
of its non-core assets. As previously discussed, on April 5,
2000, the
Board of Directors approved the disposal of the Automotive
Products
Business. The Automotive Products Business has experienced a
rapidly
consolidating market and is not in an industry which the Company
sees as
able to produce an adequate return on its investment.
Additionally, the
Company is presently evaluating alternatives for realizing its
net
investment in the Industrial Products Business. The Company has
had
discussions involving the possible sale of the Industrial
Products Business;
however, no definitive plans are currently in place and any which
may
arise will require Board of Director approval prior to
consummation. The
Company is currently continuing the operations of the Industrial
Products
Business; however, the Company may sell or dispose of the
operations in
2000. The Company's plan for 2000 also calls for the realization
of the
Company's investment in an option to acquire an energy
conservation company
and advances made to such entity (the "Option Company"). In
April 2000,
the Company received written acknowledgment from the President of
the
Option Company that it had executed a letter of intent to sell to
a third
party, the proceeds from which would allow repayment of the
advances and
options payments to the Company in the amount of approximately
$2.6 million.
Further, the Company has received written confirmation from the
buyer of the
Option Company that the transaction is on schedule to close on
April 28,
2000 with the amount due to the Company related to the advances
and option
payments to be repaid in their entirety. Upon receipt of these
proceeds, the Company is required to repay up to $1 million of
outstanding
indebtedness to a related party, SBL Corporation, related to an
advance
made to the Company in 1997. The remaining proceeds would be
available for
corporate purposes. The Company's plan for 2000 also identifies
specific
other non-core assets which the Company will attempt to realize
to provide
additional working capital to the Company in 2000. See "Special
Note
Regarding Forward-Looking Statements".

During 1999 and into 2000, the Company has been restructuring its
operations,
eliminating businesses which are non-core, reducing its workforce
as
opportunities arise and disposing of non-core assets. As
discussed above
the Company has also successfully renegotiated its primary raw
material
purchase contracts in the Chemical Business in an effort to make

that
Business profitable again and focused its attention to the development of
new, market-innovated products in the Climate Control Business. Although
the Company has not planned to receive any dividends, tax payments or
management fees from ClimaChem in 2000, it is possible that ClimaChem
could pay up to $1.8 million of management fees to its ultimate parent
should operating results be favorable (ClimaChem having EBITDA in excess of
$26 million annually, $6.5 million quarterly, is payable to LSB up to
$1.8 million).

As previously mentioned, the Company and ClimaChem's primary credit
facility terminates on December 31, 2000, unless the parties to the
agreements agreed to new financial covenants for 2001 prior to October 1,
2000. While there is no assurance that the Company will be successful in
extending the term of such credit facility, the Company believes it has
a good working relationship with the Lender and that it will be successful in
extending such facility or replacing such facility from another lender
with substantially the same terms during 2000.

In March 2000, the Company and ClimaChem retained Chanin Capital Partners
as financial advisors to assist in evaluating all of the alternatives
relating to the Company's and ClimaChem's liquidity, and to
assist the companies in determining their alternatives for restructuring their
capitalization and improving their financial condition. The Company has also
initiated discussions with third party lenders to explore the possibility of
obtaining an additional credit facility or expanded credit facility with which
to initiate discussions with ClimaChem's holders of the Senior Notes, which, at
December 31, 1999, were trading at 25% of their face value. There is no
assurance that the Company or ClimaChem will be successful in obtaining the
additional credit facility or expanded credit facility.

The Company had planned for up to $10 million of capital expenditures for
2000, most of which is not presently committed. Further, a significant
portion of this is dependent upon obtaining acceptable financing. The
Company expects to delay these expenditures as necessary based on the
availability of adequate working capital and the availability of financing.
Recently, the Chemical Business has obtained relief from certain of the
compliance dates under its wastewater management project and expects that
this will ultimately result in the delay in the implementation date of such
project. Construction of the wastewater treatment project is subject to
the Company obtaining financing to fund this project. There are no
assurances that the Company will be able to obtain the required financing.
Failure to construct the wastewater treatment facility could have a material
adverse effect on the Company.

The Company's plan for 2000 involves a number of initiatives and

assumptions
which management believes to be reasonable and achievable;
however,
should the Company not be able to execute this plan described
above, it may
not have resources available to meet its obligations as they come
due.

4. Discontinued Operations

On April 5, 2000, the Board of Directors approved a plan of disposal of the Company's Automotive Products Business to allow the Company to focus its efforts and financial resources on its core businesses, Chemical and Climate Control. The plan calls for management to make every effort to dispose of the Automotive Business through sale. Accordingly, the Automotive Business has been presented in the accompanying consolidated financial statements as a discontinued operation.

In an effort to make the Automotive Products Business financially viable and complete a pending sale of the Automotive Products Business, on March 9, 2000, the Company closed the acquisition of certain assets and assumption of certain liabilities of the Zeller Corporation ("Zeller") representing its universal joint business. The acquisition of Zeller will be accounted for using the purchase method of accounting. The purchase price of the assets acquired (primarily accounts receivable, inventory and machinery and equipment) is represented by the liabilities of Zeller assumed which aggregated approximately $7.5 million(unaudited).
In connection therewith, the Automotive Business' primary lender
provided funding of approximately $4.7 million which was used to repay the outstanding working capital and equipment notes related to Zeller's universal joint business acquired. These new borrowings of the Automotive Business provide for a $2 million, 24 month term loan on the equipment acquired (which is to be resold in the near term) and incremental borrowings of $2.7 million under the Automotive Business' revolving credit facility which matures in May 2001. For the year ended December 31, 1999, Zeller reported unaudited net sales of $11.7 million related to the universal joint business acquired by the Automotive Business.
Zeller's historical operating results for 1999 are not meaningful as during 1999, Zeller was in the process of liquidating its various lines of business and the majority of its overhead will not continue with the universal joint business acquired.

The Company expects to close the sale of the Automotive Products Business by June 30, 2000 and has accrued anticipated operating loss through the date of disposal of approximately $2.1 million. Inasmuch as the preliminary terms of a pending sale of the Automotive Products Business calls for no payments of principal on the note to LSB of approximately $8.0 million for the first two years following closing, and future receipts are entirely dependent upon the buyers' ability to make the business profitable, the Company has fully reserved its investment in the net assets (i.e., note receivable from potential buyer) as of December 31, 1999.

The Company will remain a guarantor on certain equipment notes of the Automotive Products Business which had outstanding indebtedness of approximately $5.2 million as of December 31, 1999 and on its revolving credit agreement in the amount of $1 million (for which the Company has posted a letter of credit at December 31, 1999). The loss on disposal does not include the loss, if any, which may result if the Company is required to perform on its guarantees described above.

Net assets of discontinued operations as of December 31, 1999 and 1998 are as follows:

	1999	1998
	(In Thousands)	
Accounts receivable, net	$ 4,852	$ 9,084
Inventories	15,178	20,357
Other current assets	502	572
Total current assets	20,532	30,013
Property and equipment, net	7,439	8,373
Other assets	2,138	2,369
Total noncurrent assets	9,577	10,742
Accounts payable and accrued liabilities	(3,714)	(6,136)
Current portion of long-term debt	(12,096)	(2,428)
Accrued loss through estimated disposal date and other current liabilities	(2,289)	(125)
Total current liabilities	(18,099)	(8,689)
Long-term debt due after one year	(4,115)	(16,708)
	7,895	15,358
Valuation allowance	(7,895)	-
Net assets of discontinued operations	$ -	$15,358

4. Discontinued Operations (continued)

Operating results of the discontinued operations for the year ended December 31:

	December 31, 1999	1998	1997
	(In Thousands)		
Revenues	$33,405	$39,995	$35,499
Cost of sales	28,915	31,379	31,697
Selling, general and administrative	10,168	10,586	10,908
Interest	2,449	2,389	2,585
Loss from discontinued operations before loss on disposal	(8,127)	(4,359)	(9,691)
Loss on disposal	(9,994)	-	- -
Loss from discontinued operations	$(18,121)	$(4,359)	$(9,691)

5. Businesses Disposed Of

On August 2, 1999, the Company sold substantially all the assets of its wholly owned subsidiary, Total Energy Systems Limited and its subsidiaries ("TES"), of the Chemical Business. Pursuant to the sale agreement, TES retained certain of its liabilities to be liquidated from the proceeds of the sale and from the collection of its accounts receivables which were retained. In connection with the closing in August 1999, the Company received approximately $3.6 million in net proceeds from the assets sold, after paying off $6.4 million bank debt and the purchaser assuming approximately $1.1 million of debt related to certain capitalized lease obligations. The Company substantially completed the liquidation of the assets and liabilities retained during the fourth quarter of 1999.

The loss associated with the disposition included in the accompanying consolidated statements of operations for the year ended December 31, 1999 is $2.0 million and is comprised of disposition costs of approximately $.3 million, the recognition in earnings of the cumulative foreign currency loss of approximately $1.1 million and approximately $.6 million related to the resolution of certain environmental matters.

5. Businesses Disposed Of (continued)

In February 1997, the Company foreclosed on a loan receivable with a carrying amount of $14.0 million and exercised its option to acquire the related office building located in Oklahoma City, known as "The Tower."

In March 1998, a subsidiary of the Company closed the sale of The Tower and realized proceeds of approximately $29.3 million from the sale, net of transaction costs. Proceeds from the sale were used to retire the outstanding indebtedness. The Company recognized a gain on the sale of the property of approximately $13 million in 1998.

6. Inventories

Inventories at December 31, 1999 and 1998 consist of:

	Finished (or Purchased) Goods	Work-In-Process	Raw Materials	Total
	(In Thousands)			
1999:				
Chemical products	$ 5,015	$ 2,362	$ 2,413	$ 9,790
Climate Control products	6,260	3,141	6,581	15,982
Machinery and industrial supplies	4,708	-	-	4,708
Total	$15,983	$ 5,503	$ 8,994	$30,480
1998 total	$20,244	$ 6,290	$16,954	$43,488

7. Property, Plant and Equipment

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

	December 31, 1999	December 31, 1998
	(In Thousands)	
Land and improvements	$ 2,981	$ 2,910
Buildings and improvements	18,665	18,333
Machinery, equipment and automotive	130,748	133,646
Furniture, fixtures and store equipment	7,819	7,035
Producing oil and gas properties	2,560	3,132
	162,773	165,056
Less accumulated depreciation, depletion and amortization	78,959	74,201
	$ 83,814	$ 90,855

8. Long-Term Debt

Long-term debt consists of the following:

	December 31, 1999	December 31, 1998
	(In Thousands)	
Secured revolving credit facility with interest at a base rate plus a specified percentage (9.0% aggregate rate at December 31, 1999) (A)	$ 27,462	$ 14,663
10-3/4% Senior Notes due 2007 (B)	105,000	105,000
Secured loan with interest payable monthly (C)	7,128	9,570
Secured revolving credit facility	-	5,009
Other, with interest at rates of 6.28% to 12.5%, most of which is secured by machinery and equipment (D)	18,482	16,254
	158,072	150,496
Less current portion of long-term debt	33,359	11,526
Long-term debt due after one year	$124,713	$138,970

8. Long-Term Debt (continued)

(A) In December 1994, the Company, certain subsidiaries of the Company (the "Borrowing Group") and a bank entered into a series of six asset-based revolving credit facilities which provided for an initial term of three years. The agreement has been amended at various dates since 1994 with the latest being executed on March 1, 2000. The amended agreement provides for a $50 million revolving credit facility (the "Revolving Credit Facility") with separate loan agreements (the "Loan Agreements"), for ClimaChem and its subsidiaries and the Company and its subsidiaries excluding ClimaChem and its subsidiaries. Under the Revolving Credit Facility, certain conditions exist which restrict intercompany transfers of amounts borrowed between subsidiaries. Borrowings under the Revolving Credit Facility bear an annual rate of interest at a floating rate based on the lender's prime rate plus 1.5% (prime rate plus .5% at December 31, 1999) per annum or, at the Company's option, on the lender's LIBOR rate plus 3.875% (LIBOR rate plus 2.875% at December 31, 1999) per annum. The agreement will terminate on December 31, 2000 unless the parties to the Revolving Credit Facility agree on acceptable financial covenants for the fiscal year beginning January 2001 on or before October 1, 2000. The Loan Agreements also require a "permanent reserve" of $5 million which reduces the borrowing availability. The Company may terminate the Revolving Credit Facility prior to maturity; however, should the Company do so, it would be required to pay a termination fee of $500,000.

Each of the Loan Agreements specify a number of events of default and requires the Company to maintain certain financial ratios (including net worth and an interest coverage ratio), limits the amount of capital expenditures, and contains other covenants which restrict, among other things, (i) the incurrence of additional debt; (ii) the payment of dividends and other distributions; (iii) the making of certain investments; (iv) certain mergers, acquisitions and dispositions; (v) the issuance of secured guarantees; and (vi) the granting of certain liens.

Events of default under the Revolving Credit Facility include, among other things, (i) the failure to make payments of principal, interest, and fees, when due; (ii) the failure to perform covenants contained therein; (iii) the occurrence of a change in control if any party is or becomes the beneficial owner of more than 50% of the total voting securities of the Company, except for Jack E. Golsen or members of his immediate family; (iv) default under any agreement or instrument (other than an agreement or instrument

8. Long-Term Debt (continued)

evidencing the lending of money or Intercompany Accounts, as defined) where the outstanding balance exceeds $500,000 and which would have a material adverse effect on the Company and its subsidiaries which are borrowers under the Revolving Credit Facility, taken as a whole, and which is not cured within the grace period; (v) a default under any other agreement relating to borrowed money exceeding certain limits; and (vi) customary bankruptcy or insolvency defaults.

The Revolving Credit Facility is secured by the accounts receivable, inventory, proprietary rights, general intangibles, books and records, and proceeds thereof of the Company.

(B) On November 26, 1997, a subsidiary of the Company (ClimaChem, Inc., "CCI") completed the sale of $105 million principal amount of 10 3/4% Senior Notes due 2007 (the "Notes"). The Notes bear interest at an annual rate of 10 3/4% payable semiannually in arrears on June 1 and December 1 of each year. The Notes are senior unsecured obligations of CCI and rank pari passu in right of payment to all existing senior unsecured indebtedness of CCI and its subsidiaries. The Notes are effectively subordinated to all existing and future senior secured indebtedness of CCI.

The Notes were issued pursuant to an Indenture, which contains certain covenants that, among other things, limit the ability of CCI and its subsidiaries to: (i) incur additional indebtedness; (ii) incur certain liens; (iii) engage in certain transactions with affiliates; (iv) make certain restricted payments; (v) agree to payment restrictions affecting subsidiaries; (vi) engage in unrelated lines of business; or (vii) engage in mergers, consolidations or the transfer of all or substantially all of the assets of CCI to another person. In addition, in the event of certain asset sales, CCI will be required to use the proceeds to reinvest in the Company's business, to repay certain debt or to offer to purchase Notes at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon, plus liquidated damages, if any, to the date of purchase.

Under the terms of the Indenture, CCI cannot transfer funds to the Company in the form of cash dividends or other distributions or advances, except for (i) the amount of taxes

that CCI would be required to pay if they were not consolidated with the Company and (ii) an amount not to exceed fifty percent (50%) of CCI's cumulative net income from January 1, 1998 through the end of the period for which the calculation is made for the purpose of proposing a payment and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of CCI pursuant to a certain services agreement and a certain management agreement to which CCI and the Company are parties.

Except as described below, the Notes are not redeemable at CCI's option prior to December 1, 2002. After December 1, 2002, the Notes will be subject to redemption at the option of CCI, in whole or in part, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, plus liquidated damages, if any, to the applicable redemption date. In addition, until December 1, 2000, up to $35 million in aggregate principal amount of Notes are redeemable, at the option of CCI, at a price of 110.75% of the principal amount of the Notes, together with accrued and unpaid interest, if any, thereon, plus liquidated damages, if any, to the date of the redemption, with the net cash proceeds of a public equity offering; provided, however, that at least $65 million in aggregate principal amount of the Notes remain outstanding following such redemption.

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

CCI is a holding company with no significant assets (other than that related to the notes receivable from LSB and affiliates, specified below, and the Notes origination fees which have a net book value of $3.3 million and $3.7 million at December 31, 1999 and 1998, respectively) or operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly. CCI's payment obligations under the Notes are fully, unconditionally and joint and severally guaranteed by all of the existing subsidiaries of CCI, except for El Dorado Nitrogen Company ("EDNC"). Separate financial statements and other disclosures concerning the guarantors are not presented herein because management has determined they are not material to investors.

8. Long-Term Debt (continued)

Summarized consolidated financial information of CCI and its subsidiaries as of December 31, 1999 and 1998 and the results of operations for each of the three years ended December 31, 1999 is as follows:

	December 31, 1999	December 31, 1998
	(In Thousands)	
Balance sheet data:		
Trade accounts receivable, net	$ 41,934	$ 38,817
Inventories	25,772	37,367
Other current assets (1)	9,250	14,107
Total current assets	76,956	90,291
Property, plant and equipment, net	75,667	82,389
Notes receivable from LSB and affiliates (2)	13,443	13,443
Other assets, net	18,012	10,480
Total assets	$184,078	$196,603
Accounts payable and accrued liabilities	$ 30,103	$ 25,334
Current-portion of long-term debt	29,644	10,460
Total current liabilities	59,747	35,794
Long-term debt	112,544	127,471
Accrued losses on firm purchase commitments	5,652	-
Deferred income taxes	-	9,580
Stockholders' equity	6,135	23,758
Total liabilities and stockholders' equity	$184,078	$196,603

(1) Other current assets includes receivables from LSB of $2.3 million and $5.0 million at December 31, 1999 and 1998, respectively.

(2) Notes receivable from LSB and affiliates is eliminated when consolidated with the Company.

>PAGE>
8. Long-Term Debt (continued)

	December 31, 1999	1998	1997
	(In Thousands)		
Operations data:			
Total revenues	$246,955	$243,014	$237,258
Costs and expenses:			
Costs of sales	196,095	190,722	189,936
Selling, general and administrative	45,618	38,105	35,183
Loss on sale and operations of business disposed of	3,929	2,901	772
Provision for loss on firm purchase commitments	8,439	-	- -
Provision for impairment on long-lived assets	3,913	-	- -
Interest	14,260	13,463	9,041

	272,254	245,191	234,932
Income (loss) before provision (benefit) for income taxes and extraordinary charge	(25,299)	(2,177)	2,326
Provision (benefit) for income taxes	(6,117)	392	1,429
Income (loss) before extraordinary charge	(19,182)	(2,569)	897
Extraordinary charge, net of income tax benefit of $1,750,000	-	-	2,869
Net loss	$(19,182)	$ (2,569)	$ (1,972)

In February 1997, certain subsidiaries of the Company entered into a $50 million financing arrangement with John Hancock. The financing arrangement consisted of $25 million of fixed rate notes and $25 million of floating rate notes. In November 1997, in connection with the issuance of the Notes described above, a subsidiary of the Company retired the outstanding principal associated with the John Hancock financing arrangement and incurred a prepayment fee. The prepayment fee paid and loan origination costs expensed in 1997 related to the John Hancock financing arrangement aggregated approximately $4.6 million.

8. Long-Term Debt (continued)

(C) This agreement, as amended, between a subsidiary of the Company and an institutional lender provided for a loan, the proceeds of which were used in the construction of a nitric acid plant, in the aggregate amount of $16.5 million requiring 84 equal monthly payments of principal plus interest, with interest at a fixed rate of 8.86% through maturity in 2002. This agreement is secured by the plant, equipment and machinery, and proprietary rights associated with the plant which has an approximate carrying value of $27.1 million at December 31, 1999.

In November 1997, the Company amended this agreement to restate the financial and restrictive covenants to be applicable to the subsidiary of the Company. This agreement, as amended, contains covenants (i) requiring maintenance of an escalating tangible net worth, (ii) restricting distributions and dividends, (iii) restricting a change of control of the subsidiary and the Company and (iv) requiring maintenance of a reducing debt to tangible net worth ratio. At December 31, 1999, the lender had waived compliance of certain financial covenants through September 30, 2000. In March 2000, the subsidiary of the Company obtained a waiver of these covenants through April 2001.

(D) Includes a $2.5 million note payable in 1999 ($2.6 million at December 31, 1998), to an unconsolidated related party. The note is unsecured, bears interest at 10.75% per annum payable monthly, and requires repayment of up to $1.5 million in 2000 from the sale of non-core assets; remainder is due in 2001.

Maturities of long-term debt for each of the five years after December 31, 1999 are: 2000-$33,359; 2001-$10,528; 2002-$1,758; 2003-$2,907; 2004-$1,605 and thereafter-$107,915.

9. Income Taxes

The provision for income taxes attributable to continuing operations before extraordinary charge consists of the following for the year ended December 31:

	1999	1998	1997
	(In Thousands)		
Current:			
Federal	$ -	$ 77	$ -
State	157	23	50
	$157	$100	$ 50

9. Income Taxes (continued)

The 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, 1999 and 1998 are as follows:

	1999	1998
	(In Thousands)	
Deferred tax assets		
Amounts not deductible for tax purposes:		
Allowance for doubtful accounts	$ 3,996	$ 4,045
Asset impairment	1,609	-
Accrued liabilities	4,229	1,772
Other	2,787	2,197
Capitalization of certain costs as inventory for tax purposes	2,136	2,546
Net operating loss carryforward	29,467	25,235
Investment tax and alternative minimum tax credit carryforwards	1,424	1,424
Total deferred tax assets	45,648	37,219
Less valuation allowance on deferred tax assets	36,129	25,534
Net deferred tax assets	$ 9,519	$11,685
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	$ 7,380	$ 9,546
Inventory basis difference resulting from a business combination	2,139	2,139
Total deferred tax liabilities	$ 9,519	$11,685

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

9. Income Taxes (continued)

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income (loss) from continuing operations before provision for income taxes and extraordinary charge" for each of the three years in the period ended December 31, 1999 are detailed below:

	1999	1998	1997
	(In Thousands)		
Provision (benefit) for income taxes at federal statutory rate	$(11,021)	$ 889	$ (4,663)
Changes in the valuation allowance related to deferred tax assets, net of rate differential	9,336	(1,459)	3,971
State income taxes, net of federal benefit	157	15	33
Permanent differences	310	(39)	484
Foreign subsidiary loss	1,375	617	191
Alternative minimum tax	-	77	- -
Other	-	-	34
Provision for income taxes	$ 157	$ 100	$ 50

At December 31, 1999, the Company has regular-tax net operating loss ("NOL") carryforwards of approximately $75 million (approximately $40 million alternative minimum tax NOLs). Certain amounts of regular-tax NOL expire beginning in 2000.

10. Redeemable Preferred Stock

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

11. Stockholders' Equity

Stock Options

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

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 6.04%, 5.75% and 6.2%; a dividend yield of .0%, .5% and 1.43%; volatility factors of the expected market price of the Company's common stock of .48, .57 and .42; and a weighted average expected life of the option of 6.9, 8.0 and 8.0 years.

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

11. Stockholders' Equity (continued)

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

	Year ended December 31, 1999	1998	1997
	(In Thousands, Except Per Share Data)		
Net loss applicable to common stock	$(53,608)	$(5,943)	$(26,715)
Loss per common share	$(4.53)	$(.48)	$(2.07)

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect was not fully reflected until 1998.

Qualified Stock Option Plans

In November 1981, the Company adopted the 1981 Incentive Stock Option Plan (1,350,000 shares), in March 1986, the Company adopted the 1986 Incentive Stock Option Plan (1,500,000 shares), in September 1993, the Company adopted the 1993 Stock Option and Incentive Plan (850,000 shares) and in 1998 the Company's adopted the 1998 Stock Option Plan (1,000,000 shares). Under these plans, the Company is authorized to grant options to purchase up to 4,700,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. The 1981 and 1986 Incentive Stock Option Plans have expired and, accordingly, no additional options may be granted from these plans. Options granted prior to the expiration of these plans continue to remain valid thereafter in accordance with their terms. At December 31, 1999, there are 148,000 options outstanding related to these two plans. At December 31, 1999, there are 838,500 options outstanding related to the 1993 Stock Option and Incentive Plan which continues to be effective. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options to be granted under this plan is equal to the 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.

11. Stockholders' Equity (continued)

On April 22, 1998, the Company terminated 116,000 qualified stock options (the "terminated options"), previously granted under the 1993 Plan and replaced the terminated options with newly granted options under and pursuant to the terms of the 1993 Plan (the "replacement options"). The replacement options were granted at the fair market value of the Company's stock on April 22, 1998, and have a life and vesting schedule based on the terminated options.

Activity in the Company's qualified stock option plans during each of the three years in the period ended December 31, 1999 is as follows:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	987,500	$4.23	1,048,760	$4.25	1,176,640	$4.08
Granted	1,015,500	1.29	119,500	4.19	-	- -
Exercised	-	-	(63,260)	1.13	(118,880)	2.81
Canceled, forfeited or expired	(17,500)	3.38	(117,500)	6.07	(9,000)	6.05
Outstanding at end of year	1,985,500	2.73	987,500	4.23	1,048,760	4.25
Exercisable at end of year	756,250	4.01	532,400	4.09	414,960	3.81
Weighted average fair value of options granted during year		.71		2.16		- -

Outstanding options to acquire 1,956,500 shares of stock at December 31, 1999 had exercise prices ranging from $1.13 to $4.88 per share (731,750 of which are exercisable at a weighted average price of $4.07 per share) and had a weighted average exercise price of $2.67 and remaining contractual life of 6.2 years. The balance of options outstanding at December 31, 1999 had exercise prices ranging from $5.36 to $9.00 per share (24,500 of which are exercisable at a weighted average price of $7.44 per share) and had a weighted average exercise price of $7.12 and remaining contractual life of 2.3 years.

11. Stockholders' Equity (continued)

Non-qualified Stock Option Plans

The Company's Board of Directors approved the grant of non-qualified stock options to the Company's outside directors, President and certain key employees, as detailed below. The option price is generally based on the market value of the Company's common stock at the date of grant. These options have vesting terms and lives specific to each grant but generally vest over 48 months and expire five or ten years from the grant date (except for the 1994 extension discussed below). In June 1994, the Board of Directors extended the expiration date on the grant of options for 165,000 shares to the Company's Chairman for an additional five years. 100% of these options expired unexercised in 1999.

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 non-qualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of shares of common stock of the Company that may be issued under the Outside Director Plan is 150,000 shares (subject to adjustment as provided in the Outside Director Plan).

The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of $9.2 million or more for such fiscal year. The exercise price for an option granted under this plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under this plan to the extent not exercised shall terminate upon the earlier of the termination as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. During 1999 and 1998, the Company granted 120,000 and 105,000 options (none in 1996), respectively, under the Outside Director Plan.

In 1997, the Board of Directors granted 50,000 options to two key employees that vest over 60 months and expire ten years from the date of grant. In 1998, the Board of Directors granted 175,000 stock options, at the price equivalent to the Company's stock price at the date of grant. Options to two key employees for 100,000 shares have a nine-year vesting schedule while the remaining 75,000 vest over 48 months. These options expire ten years from the date of grant. In 1999, the Board of Directors granted 596,500 stock options that vest over 48 months and have contractual lives of either five or ten years.

11. Stockholders' Equity (continued)

Activity in the Company's non-qualified stock option plans during each of the three years in the period ended December 31, 1999 is as follows:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at at beginning of year	560,000	$3.82	280,000	$3.44	265,000	$3.31
Granted	716,500	1.30	280,000	4.19	50,000	4.19
Exercised	-	-	-	-	(35,000)	3.13
Surrendered, forfeited, or expired	(173,000)	2.70	-	-	-	- -
Outstanding at end of year	1,103,500	2.36	560,000	3.82	280,000	3.44
Exercisable at end of year	210,900	3.57	335,000	3.37	164,000	3.55
Weighted average fair value of options granted during year		.69		2.62		2.00

Outstanding options to acquire 1,063,500 shares of stock at December 31, 1999 had exercise prices ranging from $1.25 to $4.25 per share (170,900 of which are exercisable at a weighted average price of $3.78 per share) and had a weighted average exercise price of $2.18 and remaining contractual life of 7.6 years. The balance of options outstanding at December 31, 1999 had exercise prices ranging from $5.38 to $9.00 per share (40,000 of which are exercisable at a weighted average price of $7.19 per share) and had a weighted average exercise price of $7.19 and remaining contractual life of 4.8 years.

Preferred Share Purchase Rights

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

11. Stockholders' Equity (continued)

The Renewed Preferred Rights are generally exercisable when a person or group, other than the Company's Chairman and his affiliates, acquire beneficial ownership of 20% or more of the Company's common stock (such a person or group will be referred to as the "Acquirer"). Each Renewed Preferred Right (excluding Renewed Preferred Rights owned by the Acquirer) entitles stockholders to buy one one-hundredth (1/100) of a share of a new series of participating preferred stock at an exercise price of $20. Following the acquisition by the Acquirer of beneficial ownership of 20% or more of the Company's common stock, and prior to the acquisition of 50% or more of the Company's common stock by the Acquirer, the Company's Board of Directors may exchange all or a portion of the Renewed Preferred Rights (other than Renewed Preferred Rights owned by the Acquirer) for the Company's common stock at the rate of one share of common stock per Renewed Preferred Right. Following acquisition by the Acquirer of 20% or more of the Company's common stock, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Company's common shares having a market value of two times the Renewed Preferred Right's exercise price in lieu of the new preferred stock.

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

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

12. Non-redeemable Preferred Stock

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

12. Non-redeemable Preferred Stock (continued)

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

The Series 2 Preferred is redeemable at the option of the Company, in whole or in part, at prices decreasing annually to $50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. The redemption price at December 31, 1999 was $51.30 per share. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. At December 31, 1999, $1.5 million of dividends ($1.62 per share) on the Series 2 Preferred were in arrears.

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

At December 31, 1999, the Company is authorized to issue an additional 3,200 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 will determine the specific terms and conditions of such preferred stock.

13. Commitments and Contingencies

Operating Leases

The Company leases certain property, plant and equipment under noncancelable operating leases. Future minimum payments on operating leases with initial or remaining terms of one year or more at December 31, 1999 are as follows:

	(In Thousands)
2000	$9,995
2001	9,735
2002	9,405
2003	8,783
2004	13,964
After 2004	39,825
	$91,707

Rent expense under all operating lease agreements, including month-to-month leases, was $8,247,000 in 1999, $3,637,000 in 1998 and $3,910,000 in 1997. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was $45,000 in 1999 ($90,000 in each of 1998 and 1997).

Nitric Acid Project

The Company's wholly owned subsidiary, EDNC, operates a nitric acid plant (the "Baytown Plant") at Bayer's Baytown, Texas chemical facility in accordance with a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, EDNC converts ammonia supplied by Bayer in nitric acid based on a cost plus arrangement. Under the terms of the Bayer Agreement, EDNC is leasing the Baytown Plant pursuant to a leveraged lease from an unrelated third party with an initial lease term of ten years. The schedule of future minimum payments on operating leases above includes $7,664,000 in 2000, $7,665,000 in 2001, $7,665,000 in 2002, $7,666,000 in 2003, $13,001,000 in 2004, and $35,707,000 after 2004 related to lease payments on the EDNC Baytown Plant. Upon expiration of the initial ten-year term, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer Agreement may opt against renewal. A subsidiary of the Company has guaranteed the performance of EDNC's obligations under the Bayer Agreement.

13. Commitments and Contingencies (continued)

Purchase Commitments

As of December 31, 1999, the Chemical Business has a long-term commitment to purchase anhydrous ammonia. The commitment requires the Company to take or pay for a minimum volume of 2,000 tons of anhydrous ammonia during each month of 2000 and 3,000 tons per month in 2001 and 2002. The Company's purchase price of anhydrous ammonia under this contract can be higher or lower than the current market spot price of anhydrous ammonia. The Company has also committed to purchase 50% of its remaining quantities of anhydrous ammonia through 2002 from this third party at prices which approximate market. See Note 16 - Inventory Write-down and Loss on Firm Purchase Commitment. During 1999, the Chemical Business terminated two other anhydrous ammonia purchase contracts at no cost which otherwise were not scheduled to end until June 2000 and December 2000 by their terms. Purchases of anhydrous ammonia under these contract terms aggregated $21.9 million in 1999 ($31.9 million and $40.1 million in 1998 and 1997, respectively). The Company also enters into agreements with suppliers of raw materials which require the Company to provide finished goods in exchange therefore. The Company did not have a significant commitment to provide finished goods with its suppliers under these exchange agreements at December 31, 1999. At December 31, 1999, the Company has a standby letter of credit outstanding related to its Chemical Business of approximately $4 million.

A subsidiary of the Company leases certain precious metals for use in the subsidiary's manufacturing process. The agreement at December 31, 1999 requires rentals generally based on 25.25% of the leased metals' market values, except for platinum, from December 2, 1999 through December 1, 2000, contract expiration. The agreements also requires rentals of $440 per ounce for the usage of platinum.

In July 1995, a subsidiary of the Company entered into a product supply agreement with a third party whereby the subsidiary is required to make monthly facility fee and other payments which aggregate $71,965. In return for this payment, the subsidiary is entitled to certain quantities of compressed oxygen produced by the third party. Except in circumstances as defined by the agreement, the monthly payment is payable regardless of the quantity of compressed oxygen used by the subsidiary. The term of this agreement, which has been included in the above minimum operating lease commitments, is for a term of 15 years; however, after the agreement has been in effect for 60 months, the subsidiary can terminate the agreement without cause at a cost of approximately $4.5 million. Based on the subsidiary's estimate of compressed oxygen demands of the plant, the cost of the oxygen under this agreement is expected to be favorable compared to floating market prices. Purchases under this agreement aggregated $912,000, $938,000, and $938,000 in 1999, 1998, and 1997, respectively.

13. Commitments and Contingencies (continued)

Debt and Performance Guarantees

The Company guaranteed up to approximately $2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company ("Kestrel"), in exchange for a 44.9% ownership interest. At December 31, 1998, the Company had accrued the full amount of its commitment under the debt guarantees and fully reserved its investments and advances to Kestrel. In 1999, upon demand of the Company's guarantee, the Company assumed the obligation for a $2.0 million term note, due in equal monthly principal payments of $11,111, plus interest, through August 2004 and funded approximately $500,000 resulting from a subsidiary's partial guarantee of Kestrel's obligation under a revolving credit facility. In connection with the demand of the Company to perform under its guarantees, the Company and the other guarantors formed a new company ("KAC") which acquired the assets of the aviation company through foreclosure. The Company and the other shareholders of KAC are attempting to sell the assets acquired in foreclosure. Proceeds received by the Company, if any, from the sale of KAC assets will be recognized in the results of operations when and if realized.

In 1999, the Company agreed to guarantee a performance bond of $2.1 million of a start-up operation providing services to the Company's Climate Control Division.

Legal Matters

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

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

to the site owner to conduct the remedial design/remedial action approved for the site. In August 1997, the site owner issued an "invitation to settle" to various parties, alleging the total cleanup costs at the site may exceed $22 million.

No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in the estimated total cost of clean-up of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. As of December 31, 1999, the Company has accrued an amount based on a preliminary settlement proposal by the alleged potential responsible parties; however, there is no assurance such proposal will be accepted. Such amount is not material to the Company's financial position or results of operations. This estimate is subject to material change in the near term as additional information is obtained. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

B. On February 12, 1996, the Chemical Business entered into a Consent Administrative Agreement (``Administrative Agreement'') with the state of Arkansas to resolve certain compliance issues associated with nitric acid concentrators which was amended in January 1997. Pursuant to the Administrative Agreement, as amended, the Chemical Business installed additional pollution control equipment. The Chemical Business believes that the El Dorado Plant has made progress in controlling certain off-site emissions; however, such off-site emissions have occurred and may continue from time to time, which could result in the assessment of additional penalties against the Chemical Business.

During May 1997, approximately 2,300 gallons of caustic material spilled when a valve in a storage vessel failed, which was released to a stormwater drain, and according to ADPC&E records, resulted in a minor fish kill in a drainage ditch near the El Dorado Plant. In 1998, the Chemical Business entered into a Consent Administrative Order ("1998 CAO") to resolve the event. The 1998 CAO includes a civil penalty in the amount of $183,700 which includes $125,000 to be paid over five years in the form of environmental improvements at the El Dorado Plant. The remaining $58,700 was paid in 1998. The 1998 CAO also requires the Chemical Business to undertake a facility-wide wastewater evaluation and pollutant source control program and wastewater minimization program. The program requires that the subsidiary complete rainwater drain-off studies including engineering design plans for additional water treatment components to be

submitted to the State of Arkansas by August 2000. The construction of the additional water treatment components is required to be completed by August 2001 and the El Dorado Plant has been mandated to be in compliance with final effluent limits on or before February 2002. The aforementioned compliance deadlines, however, are not scheduled to commence until after the State of Arkansas has issued a renewal permit establishing new, more restrictive effluent limits. Alternative methods for meeting these requirements are continuing to be examined by the Chemical Business. The Company believes, although there can be no assurance, that any such new effluent limits would not have a material adverse effect on the Company. The Wastewater Consent Order provides that the State of Arkansas will make every effort to issue the renewal permit by December 1, 1999. The State of Arkansas has delayed issuance of the permit. Because the Wastewater Consent Order provides that the compliance deadlines may be extended for circumstances beyond the reasonable control of the Company, and because the State of Arkansas has not yet issued the renewal permit, the Company does not believe that failure to meet the aforementioned compliance deadlines will present a material adverse impact. The State of Arkansas has been advised that the Company is seeking financing from Arkansas authorities for projects required to comply with the Wastewater Consent Order and the Company has requested that the permit be further delayed until financing arrangements can be made, which requests have been met to date. The wastewater program is currently expected to require future capital expenditures of approximately $10 million. Negotiations for securing financing are currently underway (Note 3 Liquidity and Management Plan). The Company believes, although there can be no assurance, that the renewal permit will continue to be delayed, and that financing can be secured under terms that will not have a material adverse effect on the Company.

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

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

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 is not presently expected to have a material effect on the financial position of the Company, but could have a material impact to the net loss of a particular quarter or year, if resolved unfavorably.

13. Commitments and Contingencies (continued)

Other

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

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

14. Employee Benefit Plan

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

15. 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:

Borrowed Funds: Fair values for fixed rate borrowings, other than the Notes, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair value. As of

15. Fair Value of Financial Instruments (continued)

December 31, 1999 and 1998, carrying values of variable rate debt which aggregated $31.5 million and $26.2 million, respectively, approximate their estimated fair value. As of December 31, 1999 and 1998, carrying values of fixed rate debt which aggregated $126.6 million and $124.3 million, respectively, had estimated fair values of approximately $47.5 million and $124.6 million, respectively.

As of December 31, 1999, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair value.

16. Inventory Write-down and Loss on Firm Purchase Commitment

During 1999, the Chemical Business had a firm uncancelable commitment to purchase anhydrous ammonia pursuant to the terms of a supply contract (Note 13 - Commitments and Contingencies, Purchase Commitments). At June 30, 1999, the date the Company recognized the provision for loss under the supply contract and wrote down the inventory, the purchase price the Chemical Business was required to pay for anhydrous ammonia under the contract, which was for a significant percentage of the Chemical Business' anhydrous ammonia requirements, exceeded and was expected to continue to exceed the spot market prices throughout the purchase period. Additionally, the market for nitrate based products at that time was saturated with an excess supply of products caused, in part, by the import of Russian ammonium nitrate and significantly depressed selling prices for the Company's products. Due to the decline in sales prices and the cost to produce the nitrate products, including the cost of the anhydrous ammonium to be purchased under the contract, the costs of the Company's nitrate based products exceeded the anticipated future sales prices. As a result, provisions for losses on the firm purchase commitment aggregating $8.4 million were recorded ($7.5 million in second quarter of 1999 and $.9 million in third quarter of 1999). At June 30, 1999, the Company's Chemical Business also wrote down the carrying value of certain nitrate-based inventories by approximately $1.6 million. At December 31, 1999, the accompanying balance sheet includes remaining accrued losses under the firm purchase commitment of $7.4 million ($1.8 million of which is classified as current in accrued liabilities). Substantially all of the inventory written down was sold during 1999. Due to the pricing mechanism in the contract, it is reasonably possible that this loss provision estimate may change in the near term.

17. Segment Information

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

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

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

Description of Each Reportable Segment

Chemical

This segment manufactures and sells fertilizer grade ammonium nitrate for the agriculture industry, explosive grade ammonium nitrate for the mining industry and concentrated, blended and mixed nitric acid for industrial applications. Production from the Company's primary manufacturing facility in El Dorado, Arkansas, for the year ended December 31, 1999 comprises approximately 72% of the chemical segment's sales. Sales to customers of this segment primarily include farmers in Texas and Arkansas, coal mining companies in Kentucky, Missouri and West Virginia and industrial users of acids in the South and East regions of the United States.

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

In 1999, the Chemical Business sold its Australian subsidiary and incurred a loss upon disposition of $2.0 million. (See Note 5 - Business Disposed Of.)

17. Segment Information (continued)

Further, the Company purchases substantial quantities of anhydrous ammonia for use in manufacturing its products. The pricing volatility of such raw material directly affects the operating profitability of the Chemical segment. (See Note 16 - Inventory Write-down and Loss on Firm Purchase Commitment.)

Climate Control

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

Industrial Products

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

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

Credit, which is generally unsecured, is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due. The Company's periodic assessment of accounts and credit loss provisions are based on the Company's best estimate of amounts which are not recoverable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across many different industries and geographic areas. As of December 31, 1999 and 1998, the Company's accounts and notes receivable are shown net of allowance for doubtful accounts of $10.2 million and $10.4 million, respectively.

17. Segment Information (continued)

Information about the Company's continuing operations in different industry segments for each of the three years in the period ended December 31, 1999 is detailed below.

	1999	1998	1997
		(In Thousands)	
Net sales:			
Businesses continuing:			
Chemical	$128,154	$125,757	$130,467
Climate Control	117,055	115,786	105,909
Industrial Products	9,027	14,315	15,572
	254,236	255,858	251,948
Business disposed of - Chemical	7,461	14,184	26,482
	$261,697	$270,042	$278,430
Gross profit:			
Businesses continuing:			
Chemical	$ 13,532	$ 18,570	$16,171
Climate Control	35,467	32,278	29,552
Industrial Products	1,757	3,731	3,776
	$ 50,756	$ 54,579	$49,499
Operating profit (loss):			
Businesses continuing:			
Chemical	$ 1,325	$ 6,592	$ 5,531
Climate Control	9,751	10,653	8,895
Industrial Products	(2,507)	(403)	(993)
	8,569	16,842	13,433
Business disposed of - Chemical	(1,632)	(2,467)	(52)
	6,937	14,375	13,381
General corporate expenses and other, net	(8,449)	(9,891)	(9,931)
Interest expense:			
Business disposed of	(326)	(434)	(720)
Businesses continuing	(15,115)	(14,504)	(11,435)
Gain (loss) on businesses disposed of	(1,971)	12,993	- -
Provision for loss on firm purchase			

commitments - Chemical	(8,439)	-	- -
Provision for impairment on long-lived assets	(4,126)	-	- -
Income (loss) from continuing operations before provision for income taxes and extraordinary charge	$(31,489)	$ 2,539	$(8,705)

17. Segment Information (continued)

	1999	1998	1997
	(In Thousands)		
Depreciation of property, plant and equipment:			
Businesses continuing:			
Chemical	$ 7,102	$ 7,019	$ 6,238
Climate Control	1,901	1,602	1,544
Industrial Products	64	102	190
Corporate assets and other	682	723	1,337
Business disposed of - Chemical	-	973	344
Total depreciation of property, plant and equipment	$ 9,749	$ 10,419	$ 9,653
Additions to property, plant and equipment:			
Businesses continuing:			
Chemical	$ 3,670	$ 5,264	$ 8,390
Climate Control	7,147	3,868	1,127
Industrial Products	25	130	109
Corporate assets and other	130	293	17,528
Total additions to property, plant and equipment	$ 10,972	$ 9,555	$ 27,154
Total assets:			
Businesses continuing:			
Chemical	$ 93,482	$107,780	$117,671
Climate Control	65,521	49,516	49,274
Industrial Products	8,203	11,662	9,929
Corporate assets and other	21,429	22,137	32,894
Business disposed of - Chemical	-	16,797	19,899
Net assets of discontinued operations	-	15,358	14,933
Total assets	$188,635	$223,250	$244,600

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.

17. Segment Information (continued)

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

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

Information about the Company's domestic and foreign operations from continuing operations for each of the three years in the period ended December 31, 1999 is detailed below:

Geographic Region	1999	1998	1997
	(In Thousands)		
Sales:			
Businesses continuing:			
Domestic	$250,625	$252,745	$250,306
Foreign	3,611	3,113	1,642
	254,236	255,858	251,948
Foreign business disposed of	7,461	14,184	26,482
	$261,697	$270,042	$278,430
Income (loss) from continuing operations before provision for income taxes and extraordinary charge:			
Businesses continuing:			
Domestic	$(27,113)	$(8,223)	$(7,579)
Foreign	(447)	670	(354)
	(27,560)	(7,553)	(7,933)
Foreign business disposed of	(1,958)	(2,901)	(772)
Gain (loss) on disposal of businesses	(1,971)	12,993	-
	(3,929)	10,092	(772)
	$(31,489)	$ 2,539	$(8,705)

17. Segment Information (continued)

Geographic Region	1999	1998	1997
	(In Thousands)		
Long-lived assets:			
Businesses continuing:			
Domestic	$83,811	$86,187	$102,160
Foreign	3	3	1,108
	83,814	86,190	103,268
Foreign business disposed of	-	4,665	6,046
	$83,814	$90,855	$109,314

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

Revenues from unaffiliated customers include foreign export sales as follows:

Geographic Area	1999	1998	1997
	(In Thousands)		
Mexico and Central and South America	$ 1,261	$ 864	$ 1,636
Canada	6,125	7,852	5,144
Middle East	4,431	5,114	6,163
Other	4,816	5,031	6,815
	$16,633	$18,861	$19,758

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
1999				
Total revenues	$59,837	$ 70,639	$62,382	$ 62,414
Gross profit on net sales	$14,018	$ 14,166	$11,242	$ 11,330
Net loss from continuing operations, including businesses disposed of	$(2,748)	$(11,720)	$(5,122)	$(12,056)
Net loss from discontinued operations	$(1,062)	$ (1,369)	$(1,969)	$(13,721)
Net loss	$(3,810)	$(13,089)	$(7,091)	$(25,777)
Net loss applicable to common stock	$(4,626)	$(13,895)	$(7,894)	$(26,580)
Loss per common share:				
Basic and diluted:				
Net loss from continuing operations	$ (.30)	$ (1.05)	$ (.51)	$ (1.09)
Net loss from discontinued operations	$ (.09)	$ (.12)	$ (.16)	$ (1.16)
Net loss applicable to common stock	$ (.39)	$ (1.17)	$ (.67)	$ (2.25)
1998				
Total revenues	$ 63,694	$ 73,495	$ 65,655	$ 54,304
Gross profit on net sales	$ 13,612	$ 17,561	$ 13,560	$ 9,846
Net income (loss) from continuing operations, including businesses disposed of	$ 10,741	$ 2,039	$ (1,671)	$ (8,677)
Net loss from discontinued operations	$ (1,463)	$ (618)	$ (1,525)	$ (746)
Net income (loss)	$ 9,278	$ 1,421	$ (3,196)	$ (9,423)
Net income (loss) applicable to common stock	$ 8,462	$ 618	$ (3,999)	$(10,230)
Earnings (loss) per common share:				
Basic:				
Net income (loss) from continuing operations	$ .77	$ .10	$ (.20)	$ (.79)
Net loss from discontinued operations	$ (.11)	$ (.05)	$ (.13)	$ (.06)
Net income (loss) applicable to common stock	$ .66	$ .05	$ (.33)	$ (.85)
Diluted:				
Net income (loss) from				

continuing operations	$ .61	$ .10	$ (.20)	$ (.79)
Net loss from discontinued operations	$ (.08)	$ (.05)	$ (.13)	$ (.06)
Net income (loss) applicable to common stock	$ .53	$ .05	$ (.33)	$ (.85)

In the second quarter of 1999, the Company incurred a loss of $2.0 million on the disposal of its Australian subsidiary, TES.

The Company recorded provisions for losses on firm purchase commitments of $7.5 million and $.9 million in the second quarter and third quarter of 1999, respectively.

In the fourth quarter of 1999, the Company recorded a provision for impairment on long-lived assets of $4.1 million and accrued a loss provision on its investment in its Automotive Business of $10 million which has been presented as discontinued operations. As a result of the presentation of the Automotive Business as discontinued operations, the Quarterly Financial Data in the above table has been restated for all periods presented to exclude the revenues and gross profit of the Automotive Business.

In the first quarter of 1998, a subsidiary of the Company closed the sale of an office building located in Oklahoma City, known as "The Tower." The subsidiary realized proceeds from the sale of approximately $29 million, net of transaction costs.

In the fourth quarter of 1998, the Company's Climate Control group recorded an adjustment to inventory which reduced gross profit by $1.5 million and the Company's Chemical group recorded a provision for loss of approximately $.8 million for a note receivable which increased the Company's net loss.

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 1999, 1998 and 1997

(Dollars in Thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Write-offs/ Cost Incurred	Balance at End of Year
Accounts receivable-allowance for doubtful accounts (1):				
1999	$2,085	$ 812	$1,184	$1,713
1998	$1,643	$ 971	$ 529	$2,085
1997	$1,670	$ 625	$ 652	$1,643
Inventory-reserve for slow-moving items (1):				
1999	$ 814	$ 695	$ 59	$1,450
1998	$ 602	$ 212	$ -	$ 814
1997	$ 602	$ -	$ -	$ 602
Notes receivable-allowance for doubtful accounts (1):				
1999	$6,502	$ 265	$ 19	$6,748
1998	$5,157	$1,345	$ -	$6,502
1997	$4,064	$1,093	$ -	$5,157
Accrual for plant turnaround:				
1999	$1,104	$1,421	$1,226	$1,299
1998	$1,263	$2,264	$2,423	$1,104
1997	$ 382	$2,647	$1,766	$1,263

(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.

18. Subsequent Events (Unaudited)

In late April 2000, the Company was informed that the Optioned Company discussed in Note 3 - Liquidity Management's Plan, had agreed to a delay in the closing of its sale to a third party (the "Acquirer"). This delay in closing is the result of the Optioned Company's pending receipt of a notice to proceed on an energy conservation installation project from a governmental entity. Based on the information disclosed to the Company by management of the Optioned Company, the notice to proceed is expected to be issued by the governmental entity in June 2000, at which time the Acquirer of the Optioned Company has indicated closing will occur. The Acquirer of the Optioned Company has confirmed to the Company its intent to proceed with the closing of this transaction. The Company has further been informed that the Board of Directors of the Acquirer has approved the acquisition of the Optioned Company, pending receipt of the notice to proceed. Accordingly, the Company's plan for 2000 continues to anticipate the collection of approximately $2.7 million upon the closing of the sale of the Optioned Company.

In April 2000, the Company repurchased Senior Notes with a face amount of $5 million for approximately $1.2 million. In connection with this transaction, the Company will recognize a gain of approximately $4.0 million in the second quarter of 2000. The Company is also in discussions with the holders of its Senior Notes, in an effort to restructure their terms and conditions. The Company does not intend to make the June 1, 2000 interest payment when due. Under the terms of the indenture governing the Senior Notes, the Company has a grace period of thirty (30) days, or until July 1, 2000, to make the interest payment or enter into satisfactory agreements with the holders of the Senior Notes before the Senior Notes are in default. The Company currently anticipates achieving satisfactory resolution of this matter.

On May 4, 2000, a subsidiary of the Company completed the sale of substantially all of the assets representing the Company's Automotive Products Business to DriveLine Technologies, Inc. ("DriveLine") for $8.7 million. The Company received two notes from DriveLine with principal amounts of $5.9 million and $2.8 million. The notes are secured by a second lien on all assets of the purchaser and it's subsidiaries. The notes, and any payments of principal and interest, are subordinated to DriveLine's primary lender under a subordination agreement. Upon meeting certain criteria of the subordination agreement, DriveLine is able to make payment of principal and interest to the Company; however, no principal payments are due under the terms of the notes until April 2002. The collection of any amounts under these notes is not presently determinable.

As discussed in Note 13 - Commitments and Contingencies and Note 16 - Inventory Writedown on Firm Purchase Commitment, the Company has a firm uncanceable commitment to purchase one of its raw materials, anhydrous ammonia, under a long-term supply contract. Due to the increased cost of the anhydrous ammonia under this contract and other factors,existing as of May 2000, the Company may be required to recognize an additional loss of approximately $1 million.

ASSET PURCHASE AND SALE AGREEMENT

This Agreement is entered into this 4th day of May, 2000, by L&S Automotive Products Co., a Delaware corporation ("LSAP"), L&S Bearing Co., an Oklahoma corporation ("LSBC"), LSB Extrusion Co., an Oklahoma corporation ("LSBE"), and Rotex Corporation, an Oklahoma corporation ("Rotex") (LSAP, LSBC, LSBE, and Rotex are sometimes herein collectively referred to as "Sellers"), and DriveLine Technologies, Inc., an Oklahoma corporation ("Purchaser" or "DriveLine"). In consideration of the mutual promises contained herein, the parties agree as follows:

1. Purchase and Sale. Purchaser shall purchase from Sellers, and Sellers shall sell to Purchaser, at the Closing on the Closing Date, all of the right, title and interest in and to the business, properties, assets and rights of any kind, whether tangible or intangible, real or personal, but excluding operating loss carryforwards (NOLs) of Sellers, the shares of the capital stock in International Bearings, Inc., an Oklahoma corporation, and the shares of the capital stock in LSBC, LSBE and Rotex (collectively, "Purchased Assets"), owned by Sellers as of the Closing Date, subject to the terms and conditions hereafter specified.

2. Assumption of Liabilities. Except liabilities that are covered by insurance policies of Sellers (and not to include any deductibles or retention amounts), and except for liabilities arising out of the intentional wrongdoing of Sellers, Purchaser shall assume and hereby assumes, and becomes liable for, all debts, liabilities or obligations of Sellers of all kinds whatsoever (collectively the "Assumed Liabilities"), including without limitation (a) accounts payable for Inventory and trade payables, (b) warranty obligations relating to past sales of Sellers, (c) environmental and superfund liabilities, (d) all outstanding contracts and agreements, (e) indebtedness to LSB Industries, Inc. ("LSB"), (f) indebtedness, loan payments and lease payments relating to certain machinery and equipment ("Machinery") and certain other obligations assumed which are described on Exhibit 1 attached hereto, and (g) indebtedness relating to the termination of any employees by Seller upon the Closing or any termination of employees by Purchaser. Purchaser shall and hereby does accept assignment of and sole responsibility for the Assumed Liabilities. Purchaser shall pay all assumed debt and other assumed liabilities when due, and shall perform all assumed obligations pursuant to their terms.

3. Purchase Price. The total purchase price to be paid by Purchaser to Sellers for the Purchased Assets shall be Eight Million Six Hundred Sixty-Six Thousand ($8,666,000) ("Purchase Price"). The Purchase Price shall be paid at Closing by the execution and delivery by Purchaser of a) a promissory note in the principal amount of Five Million Nine Hundred Thirty-Four Thousand Dollars ($5,934,000) made payable to LSB which amount reflects the assumption by DriveLine of certain existing secured indebtedness of LSAP to LSB ("Note A"), and b) a promissory note in the principal amount of Two Million Seven Hundred Thirty-Two Thousand Dollars ($2,732,000) ("Note B") which LSAP shall and hereby does assign to LSB. Accordingly, Note B shall be made payable to LSB. The form of Note A and Note B is attached to this Agreement as Exhibits 2 and 3. Both Note A and Note B (collectively the "Notes") shall be secured by a lien on all the assets of Purchaser and guaranteed by (a)L&S Manufacturing Corp., an Oklahoma corporation and subsidiary of Purchaser, pursuant to the terms of a Secured Guaranty Agreement by L&S Manufacturing Corp. in favor of LSB, such guaranty secured by all of the assets of L&S Manufacturing Corp., and (b) MC Automotive Acquisition Corp., an Oklahoma corporation, pursuant to the terms of a Secured Guaranty Agreement by MC Automotive Acquisition Corp. in favor of LSB, such guaranty secured by all of the assets of MC Automotive Acquisition Corp., which associated loan, security agreements and secured guarantees (collectively, the "Note Agreements") shall be in the form as set forth in Exhibit 4 attached hereto.

4. Consigned Inventory. Purchaser shall not purchase any Inventory consigned to Sellers.

5. Representations and Warranties of Sellers.

5.1 Incorporation and Qualification. Sellers, except for LSAP, are corporations duly organized and validly existing under the laws of Oklahoma. LSAP is a corporation duly organized and validly existing under the laws of Delaware. Sellers have all requisite corporate power and authority to own the Purchased Assets and to carry on their business as presently being conducted, to enter into this Agreement, and to carry out and perform the terms and provisions of this Agreement.

5.2 Title to Purchased Assets. Sellers have, or will have at the Closing, good and marketable title to the Purchased Assets held in each case subject to no lease, mortgage, pledge, lien, charge, security interest, encumbrance or restriction whatsoever, except as may be permitted herein, as provided in Exhibit 5 (relating to the Machinery), as relates to Congress Financial Corporation (Southwest), or as provided in Exhibit 5.2 attached hereto.

5.3 Authority to Consummate Transaction. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provisions of the Articles of Incorporation or By-Laws of Sellers, or any provision in any agreement affecting the Purchased Assets, or any judgment, decree, order, statute or regulation to which the Sellers are subject. This Agreement constitutes the valid and binding agreement of the Sellers enforceable against the Sellers in accordance with its terms.

5.4 Employees. Exhibit 5.4 attached hereto sets forth the names and positions of employees of Sellers as of the Closing Date.

5.5 Compliance with Law. All material licenses, certificates and permits necessary for the legal conduct of Sellers' business activities are valid and in full force and effect.

6. Representations and Warranties of Purchaser.

6.1 Incorporation and Qualification. Purchaser is a duly organized and existing limited liability company under the laws of the State of Oklahoma and has all power and the authority to enter into this Agreement and to carry out and perform the terms and provisions hereof.

6.2 Authority to Consummate Transaction. The execution and delivery of this Agreement does not, and the consummation of the transaction contemplated hereby will not, violate any provisions of the Articles of Incorporation or Bylaws of Purchaser. Purchaser has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Purchaser enforceable and binding against Purchaser in accordance with its terms.

6.3 No Claims. There is no suit, action or claim of any nature, legal or administrative, pending or threatened, against Purchaser.

6.4 Insurance. Exhibit 6.4 attached hereto contains a description of all insurance policies maintained by Sellers on their assets or business, including the insurance carrier, the type of coverage and the expiration dates of the current policies.

6.5 Full and Complete Disclosure. Purchaser agrees and acknowledges that it has conducted detailed and extensive due diligence of Sellers and the Purchased Assets. Purchaser further agrees and acknowledges that it has been provided with all information and material relating to the Sellers and the Purchased Assets as requested by Purchaser, and that Purchaser has been given unlimited access to the facilities and the books and records of Sellers.

7. Sellers' Employees. Sellers shall use reasonable efforts to assist Purchaser, if requested, to obtain the services of any employees listed on Exhibit 5.4 whom Purchaser desires to employ. Purchaser shall be liable for, and hereby indemnifies

Sellers for, all loss costs, damages and expenses (including reasonable attorneys fees) incurred in connection with the termination of employment of any employee by Seller or Purchaser in connection with the purchase and sale of the Purchased Assets or the purchase by the Purchaser of the automotive parts business of Sellers. At the Closing Purchaser shall hire at least the requisite number of employees of the Sellers at wages and benefits essentially equivalent to their current compensation package sufficient to avoid the applicability of the Workers Adjustment and Retaining Notification Act, 29 U.S.C. '2101, et seq. ("WARN ACT"). In reliance thereon, the Sellers have determined that the notification requirements of the WARN Act will not be triggered by the termination of their employees. In the event that the Purchaser fails to employ the requisite number of employees terminated by the Sellers at wages and benefits essentially equivalent to their current compensation package under terms sufficient to avoid applicability of the WARN Act as a result of the Sellers' termination of their employees as provided above, then, notwithstanding anything in this Agreement to the contrary, the Purchaser shall indemnify, defend and hold harmless the Sellers and their officers, directors, agents, representatives, shareholders and affiliates from and against any and all liabilities, claims, demands, losses, damages, fines, penalties, costs and expenses (including, without limitation, reasonable attorney's fees) which any of them suffered or incurred or may suffer or incur as a result of, or in connection with, or arising out of the Sellers' failure to comply with, or give notification under, the WARN Act.

8. "Run-off". Purchaser shall promptly reimburse Sellers for the full amount of all "run-off" claims connected but not limited to any insurance program of whatever type and/or claims connected to DriveLine's and Sellers' employees under the Self-insured Workers' Compensation programs, health benefit plans, disability programs, Section 125 Cafeteria plan, or life insurance programs, whether such claims are incurred as active, inactive or terminated employees. For the purpose of this Agreement, "run-off" shall mean any claim paid, in part or in whole, on or after the Closing Date, regardless of when such claim was incurred. This is intended to include, without limitation, claims resulting from COBRA elections.

9. No Brokerage. Sellers shall indemnify Purchaser against all loss, cost, damage, or expense, including attorney's fees, incurred by Purchaser in any action based upon a claim by a broker that Sellers have employed or otherwise engaged such broker in connection with the transaction contemplated by this Agreement; and, Purchaser shall indemnify Sellers against all loss, cost, damage or expense, including attorney's fees, incurred by Sellers in any action based upon the claim of a broker that Purchaser has employed or otherwise engaged such broker in connection with the transaction contemplated by this Agreement.

10. Actions of Sellers After February 1, 2000 and Pending Closing. Sellers represent and warrant that from February 1, 2000 to the date of this Agreement, Sellers have conducted their business only in the ordinary course of business and have not taken any action proscribed in Section 9.1, except for the acquisition of certain assets of The Zeller Corporation. Sellers covenant that from February 1, 2000 through the Closing Date:

10.1 Conduct of Business. Unless Purchaser shall otherwise consent in writing or as otherwise disclosed herein, Sellers shall:

(a) Conduct their business only in the ordinary course;

(b) Use reasonable efforts to keep intact their business, keep available their present employees and preserve the goodwill of all suppliers, customers and others having business relations with them;

(c) Have in effect and maintain all insurance of the kind and in the amounts consistent with their normal business practices; and

(d) Maintain their assets on a basis consistent with that prevailing generally in the industry or trade and as required by good business practice.

10.2 Availability of Books and Records. Sellers shall make available for inspection by Purchaser, its agents, accountants and attorneys, at reasonable times, all of their assets, books and records of accounts, contracts and other information, documentary or otherwise, as is appropriate to provide to Purchaser all pertinent information pertaining to or affecting the Purchased Assets. Until the Closing, Purchaser will hold in confidence all information so obtained and any document or instrument heretofore or hereafter obtained by Purchaser in connection herewith shall be held in express trust for and on behalf of Sellers. If the transactions contemplated by this Agreement are not consummated for any reason, then after the Agreement is terminated, Purchaser will continue to hold in confidence all information obtained from Sellers and will return to Sellers all copies of any documents or instruments obtained by Purchaser from Sellers in connection with the transactions contemplated by this Agreement.

10.3 Notice of Material Events. Sellers shall promptly give Purchaser notice of the occurrence of any material event relating to the Purchased Assets or the occurrence of any event or change in facts, which cause any of the representations made by Sellers in this Agreement to be inaccurate in any material respect.

11. Possession and Risks of Loss. Possession or the right to possession of all the Purchased Assets shall be delivered by Sellers to Purchaser as of the Closing. The risk of loss of and destruction to any of the Purchased Assets occurring by any cause whatsoever until the Closing shall be upon Sellers.

12. Conditions Precedent to Obligations of Sellers. Unless waived, in whole or in part, in writing by Sellers, the obligations of Sellers hereunder are subject to the following conditions:

(a) the representations and warranties of Purchaser herein shall be deemed to have been made again as of the Closing Date and shall then be true and correct in all material respects, subject to any changes contemplated by this Agreement;

(b) Sellers shall not have discovered any material error, misstatement or omission therein;

(c) the ultimate parent company of LSAP, LSB Industries, Inc., shall have received a written fairness opinion acceptable to LSB Industries, Inc., at its sole discretion, regarding the sale of the Purchased Assets to Purchaser hereunder;

(d) Purchaser shall have obtained financing acceptable to Sellers for the transactions contemplated by this Agreement, including a subordination agreement and other agreements with Congress Financial Corporation (Southwest) that are acceptable to Sellers at their sole discretion;

(e) receipt by Sellers of an opinion of counsel from Purchaser's counsel, the form and content of which shall be satisfactory to Sellers;

(f) execution and delivery by DriveLine of the Notes, the Note Agreements, and any related documents;

(g) execution and delivery by MC Automotive Acquisition Corp. of the Note Agreements to which it is a party;

(h) execution and delivery by L&S Manufacturing Corp. of the Note Agreements to which it is a party;

(i) Purchaser shall have complied with all of its covenants and obligations contained herein;

(j) delivery of certified resolutions of the Board and Shareholder(s) of the Purchaser approving the execution, delivery and performance of the Agreement, the Notes and the Note Agreements;

(k) delivery of certified resolutions of the Board of MC

Automotive Acquisition Corp. and L&S Manufacturing Corp. as to execution, delivery and performance of the all documents to which they are to be parties, including, without limitation, the Note Agreements and UCC-1 financing statements;

(l) receipt by LSB of a letter from Ernst & Young regarding the preservation of operating loss carry forwards, in form and substance acceptable to LSB; and

(m) execution and delivery of the lease agreements identified in Exhibit 12(m) attached hereto

13. Conditions Precedent to Obligations of Purchaser. Unless waived, in whole or in part, in writing by the Purchaser, the obligations of Purchaser hereunder are subject to each of the following conditions:

(a) MC Automotive Acquisition Corp. shall have acquired all of the equity shares of Purchaser;

(b) the representations and warranties of Sellers herein shall be deemed to have been made again on the Closing Date and shall then be true and correct in all material respects, subject to any changes contemplated by this Agreement;

(c) Purchaser shall not have discovered any material error, misstatement or omission therein; and

(d) Purchaser shall have obtained financing acceptable to Sellers at their sole discretion for the transactions contemplated by this Agreement.

14. Closing.

14.1 Place and Date. The Closing shall be held in Dallas, Texas, at 10:00 a.m. on May 4, 2000, unless another time or place is mutually agreed upon by Purchaser and Sellers. The date and time of Closing are referred to herein as the "Closing Date".

14.2 Closing Costs. Except as otherwise provided herein, each of the parties shall pay its respective attorney's fees and expenses incidental to this transacting.

14.3 Taxes. Purchaser shall pay any sales or use taxes which become due by reason of the consummation of the transactions contemplated hereby. Personal property taxes imposed on the Purchased Assets for the year in which the Closing occurs shall be prorated as of the Closing Date.

14.4 Sellers' Transfer Instruments. Sellers will execute and deliver such bills of sale, assignments, certificates of title and other good and sufficient instruments of conveyance and transfer in form reasonably satisfactory to Purchaser. From time to time, following Closing, Sellers will execute and deliver to Purchaser such bills of sale, assignments, and other instruments of conveyance and transfer, as Purchaser may reasonably require to more effectively convey, transfer and vest in Purchaser title to any of the Purchased Assets.

14.5 Payment. At Closing, Purchaser shall deliver to LSAP, as directed by LSAP in paragraph 3 herein, the fully executed Notes and Note Agreements.

15. Indemnification by Sellers. For a period of one (1) year following the Closing Date, Sellers shall indemnify and hold Purchaser and its principals harmless, at all times from and after the Closing Date, against and in respect to any Damages. The term "Damages" means any claims, actions, demands, lawsuits, costs, expenses, liabilities, penalties and damages (including reasonable counsel fees incidental thereto) resulting to Purchaser from: (a) any representation set forth herein made to Purchaser shown to be materially inaccurate, or (b) breach or default in the performance by Sellers of any of their obligations under this Agreement. Sellers shall reimburse Purchaser on demand for any payment made by Purchaser at any time after the Closing, based upon the judgment of any court of competent jurisdiction or pursuant to a bona fide compromise or settlement

of claims, demands or actions, in respect of any Damages to which the foregoing indemnity relates, provided, however, that Sellers shall have had the opportunity to negotiate and defend same and provided Purchaser shall have given prompt notice of all facts relating thereto and shall have fully cooperated with Sellers with respect thereto. Seller's liability hereunder shall not exceed, in the aggregate, in any event, $250,000.

16. Indemnification by Purchaser. Purchaser shall indemnify and hold Sellers harmless, at all times from and after the Closing Date, against and in respect to any Damages. The term "Damages" means any claims, actions, demands, lawsuits, costs, expenses, liabilities, penalties and damages (including reasonable counsel fees incidental thereto) resulting to any of the Sellers from: (a) the Assumed Liabilities, (b) any representation set forth herein made to Sellers shown to be materially inaccurate, (c) breach or default in the performance by Purchaser of any of its obligations under this Agreement, (d) the acquisition of assets from The Zeller Corporation , (e) any liabilities of the type described in Section 7 hereof, (f) any retro adjustment liabilities relating to or arising out of general liability insurance, property insurance, automobile insurance and any other type of insurance, and (g) debts, liabilities or obligations in any manner relating to the Purchased Assets or Assumed Liabilities that accrue after the Closing Date. Purchaser shall reimburse Sellers on Demand for any payment made by either Seller at any time after the Closing, based upon the judgment of any court of competent jurisdiction or pursuant to a bona fide compromise or settlement of claims, demands or actions, in respect of any Damages to which the foregoing indemnity relates, provided Sellers shall have given prompt notice of all facts relating thereto and shall have fully cooperated with Purchaser with respect thereto.

17. General.

17.1 Notices. All notices required or permitted herein must be in writing and shall be sufficient if delivered personally, mailed by certified or registered mail, return receipt requested, postage and charges prepaid, or delivered by a nationally recognized carrier service, to the other parties at the address set forth on the signature page of this Agreement, or to such other addresses as any party hereto may designate to the other from time to time for this purpose. All notices shall be deemed received when delivered personally, or if mailed by U.S. Postal Service or courier, within three (3) days after being mailed or deposited with such courier service.

17.2 Integrated Agreement. This instrument contains and constitutes the entire agreement by and among the parties herein and supersedes all prior agreements and understandings by and among the parties hereto relating to the subject matter hereof and there are no agreements, understandings, restrictions, warranties or representations among the parties hereto relating to the subject matter hereof and there are no agreements, understandings, restrictions, warranties or representations among the parties relating to the subject matter hereof other than those set forth herein. All exhibits attached hereto are hereby incorporated herein and made a part of this Agreement. This instrument is not intended to have any legal effect whatsoever, or to be a legally binding agreement, or any evidence thereof, until it has been signed by all parties hereto.

17.3 Construction. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine or neuter gender thereof or to the plurals of each, as the identity of the person or persons or the context may require. The descriptive headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision contained herein.

17.4 Invalidity. If any provision contained in this Agreement shall for any reason be held to be invalid, illegal, void or unenforceable in any respect, such provision shall be deemed modified so as to constitute a provision conforming as nearly as possible to such invalid,

illegal, void or unenforceable provisions while still remaining valid and enforceable, and the remaining terms or provisions contained herein shall not be affected thereby.

17.5 Binding Effect. This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, personal representatives, successors and assigns. The rights of Purchaser under this Agreement may be assigned in whole or in part to any third party provided Purchaser remains liable for the obligations hereunder of any such assignee.

17.6 Counterpart Execution. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

17.7 Amendment and Waiver. This Agreement may be amended at any time, but only by an instrument in writing executed by all parties hereto. A party hereto may waive any requirement to be performed by the other party (or parties), provided that such waiver shall be in writing and executed by the party waiving the requirement.

17.8 Authorization. Each party for itself, its heirs, personal representatives, successors and assigns hereby represents and warrants that it has the full capacity and authority to enter into, execute, deliver and perform this Agreement, and that such execution, delivery and performance does not violate any contractual or other obligation by which it is bound.

17.9 Choice of Law and Venue. This Agreement shall be construed, enforced and governed in accordance with the laws of the State of Oklahoma, and the parties hereto consent to and accept the jurisdiction of the State and Federal courts within the Western District of the State of Oklahoma with respect to the determination of any claim, dispute or disagreement which may arise from the interpretation, performance, or breach of this Agreement or with respect to any matter involved herein or relating to this Agreement.

17.10 No Personal Liability of Shareholder(s) of Purchaser. Nothing in this Agreement is intended to confer any personal liability on or by any shareholder(s) of MC Automotive Acquisition Corp., except for the obligations of any shareholder(s) of MC Automotive Acquisition Corp. with respect to its pledged shares under the Stock Pledge Agreement of even date herewith by and between the Murray Cohen Revocable Trust #2 and LSB Industries, Inc.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year set forth below.

SELLERS:

L&S AUTOMOTIVE PRODUCTS CO.,
a Delaware corporation

By:_________________________________

Name:______________________________

Title:_______________________________

Date:_______________________________

Address:____________________________
____
______

L&S BEARING CO.,
an Oklahoma corporation

By:__________________________________

Name:______________________________

Title:________________________________

Date:________________________________

Address:_____________________________
____
______

LSB EXTRUSION CO.,
an Oklahoma corporation

By:__________________________________

Name:______________________________

Title:________________________________

Date:________________________________

Address:_____________________________
____
______

ROTEX CORPORATION,
an Oklahoma corporation

By:__________________________________

Name:______________________________

Title:________________________________

Date:________________________________

Address:_____________________________
____
______

PURCHASER:

DRIVELINE TECHNOLOGIES, INC.,
an Oklahoma corporation

By:__________________________________

Name:______________________________

Title:________________________________

Date:________________________________

Address:_____________________________
____
______

Exhibit 1 - Loan and Lease Payments relating to Machinery
Exhibit 2 - Note A
Exhibit 3 - Note B
Exhibit 4 - Note Agreements

Exhibit 5 - Permitted Liens on Purchased Assets
Exhibit 5.2 - Other Permitted Liens
Exhibit 5.4 - Sellers' Employees
Exhibit 6.4 - Insurance Schedule
Exhibit 12(m) - Lease Agreements

First
Amendment to Loan and Security Agreement FIRST
AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into on November 15, 1999, by and among CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender") and L&S Automotive Products Co. ("LSAP"), a Delaware corporation, International Bearings, Inc. ("IBI"), an Oklahoma corporation, L&S Bearing Co. ("L&SB"), an Oklahoma corporation, LSB Extrusion Co. ("LSBE"), an Oklahoma corporation, Rotex Corporation ("Rotex"), an Oklahoma corporation, and Tribonetics Corporation ("Tribonetics"), an Oklahoma corporation (LSAP, IBI, L&SB, LSBE, Rotex and Tribonetics are individually, collectively and jointly and severally herein referred to as "Borrower" or the "Borrowers").

PRELIMINARY STATEMENTS

A. Lender and Borrower have entered into that certain Loan and Security Agreement, dated May 7, 1999 (the "Loan Agreement"), pursuant to which Lender has extended a $18,550,000 line of credit to Borrower.

B. Borrower and Lender have agreed to amend the Loan Agreement as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

AGREEMENT

ARTICLE I
Definitions

1.01 Capitalized terms used in this Amendment are defined in the Loan Agreement, as amended hereby, unless otherwise stated.

ARTICLE II
Amendments

2.01 Amendment to Section 1.10(b). Section 1.10(b) of the Loan Agreement, the definition of "Eligible Accounts," is hereby deleted in its entirety and the following substituted in lieu thereof:

> "(b) such Accounts (i) are Accounts of Advance Stores Co., Inc., Western Auto Supply Co., Inc., or other account debtors approved by Lender (such Accounts being hereinafter collectively referred to as the "Advance Auto Accounts") which are not unpaid more than one-hundred twenty-five (125) days after the date of the original invoice for them or sixty (60) days after the due date for them, whichever is earlier, or (ii) such Accounts are not Advance Accounts and are not unpaid more than one-hundred twenty (120) days after the date of the original invoice for them or sixty (60) days after the due date for them, whichever is earlier;"

2.02 Amendment to Section 1.10(m). Section 1.10(m) of the Loan Agreement, the definition of "Eligible Accounts," is hereby deleted in its entirety and the following substituted in lieu thereof:

> "(m) (i) for Advance Auto Accounts, such Accounts are not owed by an account debtor who has Accounts unpaid more than one hundred twenty-five (125) days after the date of the original invoice for them or sixty (60) days after the due date for them, whichever is earlier and which such Accounts constitute more than twenty-five percent (25%) of the total Accounts of such account debtor and (ii) for Accounts which are not Advance Auto Accounts, such Accounts are not owed by an account debtor who has Accounts unpaid more than one hundred twenty (120) days after the date of the original invoice for them or sixty (60) days after the

due date for them, whichever is earlier and which such Accounts constitute more than fifty percent (50%) of the total Accounts of such account debtor;"

ARTICLE III
Conditions Precedent

3.01 Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by Lender:

(a) Lender shall have received the following documents, in form and substance satisfactory to Lender and its legal counsel, duly executed by the parties thereto (as applicable):

(i) this Amendment;

(ii) resolutions of Borrower's Board of Directors which authorize the execution, delivery and performance by Borrower of this Amendment;

(iii) a closing certificate signed by a senior officer of Borrower, dated as of the date of this Amendment, stating that (A) the representations and warranties set forth in the Loan Agreement and in this Amendment are true and correct as of such date, (B) Borrower is on such date in compliance with all the terms and provisions set forth in the Loan Agreement, as amended by this Amendment, and (C) on such date no Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default, has occurred or is continuing;

(iv) other documents as Lender may request to permit, protect and perfect its valid perfected security interests in and liens upon the Collateral;

(v) all consents, waivers, acknowledgments and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect its security interests in and liens upon the Collateral or to effectuate the provisions or purposes of the Financing Agreements;

(vi) such additional documents, instruments and information as Lender or its legal counsel may request.

(b) The representations and warranties contained herein, in the Loan Agreement and in the other Financing Agreements, shall be true and correct as of the date hereof, as if made on the date hereof.

(c) No Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default, shall have occurred and be continuing, unless such event, condition or Event of Default has been specifically waived in writing by Lender.

(d) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel.

ARTICLE IV
No Waiver

Nothing contained in this Amendment shall be construed as a waiver by Lender of any covenant or provision of the Loan Agreement or the other Financing Agreements or of any other contract or instrument among Borrower and/or Guarantor and Lender, and the failure of Lender at any time or times hereafter to require strict performance by Borrower or Guarantor of any provision thereof shall not waive, affect or diminish any right of Lender to thereafter demand strict compliance therewith.

Lender hereby reserves all rights granted under the Loan Agreement, the other Financing Agreements and any other contract or instrument among Borrower and/or Guarantor and Lender.

ARTICLE V
Ratifications, Representations and Warranties

5.01 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and the other Financing Agreements, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement and the other Financing Agreements are ratified and confirmed and shall continue in full force and effect. Borrower and Lender agree that (a) the Loan Agreement, as amended hereby, and the other Financing Agreements shall continue to be legal, valid, binding and enforceable in accordance with their respective terms, and (b) the security interests in the Collateral are in full force and effect.

5.02 Representations and Warranties of Borrower. Borrower hereby represents and warrants to Lender that (a) the execution, delivery and performance of this Amendment and any and all other Financing Agreements executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the Certificate of Incorporation or Bylaws of Borrower; (b) the representations and warranties contained in the Loan Agreement, as amended hereby, and any other Financing Agreement are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default under the Loan Agreement, as amended hereby, has occurred and is continuing; (d) Borrower is in full compliance with all covenants and agreements contained in the Loan Agreement and the other Financing Agreements, as amended hereby; and (e) Borrower has not amended, modified or in any way altered its Certificate of Incorporation or Bylaws since May 7, 1999.

ARTICLE VI
Miscellaneous Provisions

6.01 Survival of Representations and Warranties. All representations and warranties made in the Loan Agreement or any other Financing Agreement, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Financing Agreements, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

6.02 Reference to Loan Agreement. Each of the Loan Agreement and the other Financing Agreements, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement, as amended hereby, are hereby amended so that any reference in the Loan Agreement and such other Financing Agreements to the Loan Agreement shall mean a reference to the Loan Agreement and the other Financing Agreements as amended hereby.

6.03 Expenses of Lender. As provided in Section 9.16 of the Loan Agreement, Borrower, jointly and severally, agree to pay on demand all reasonable costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Financing Agreements executed pursuant hereto, and any and all amendments, modifications, and supplements thereto, including, without limitation, all costs and expenses of filing or recording and the reasonable costs and fees of Lender's outside legal counsel (including legal assistants).

6.04 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

6.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except that Borrower may not

assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

6.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

6.07 Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant or condition by Borrower shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

6.08 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

6.09 Applicable Law. THIS AMENDMENT AND ALL OTHER AGREEMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS (WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW).

6.10 Final Agreement. THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS, AS AMENDED, 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 AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY BORROWER AND LENDER.

6.11 Release. BORROWER HEREBY ACKNOWLEDGES THAT IT PRESENTLY HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE "OBLIGATIONS" OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH BORROWER MAY NOW HAVE OR HAVE HAD AGAINST LENDER, ITS PREDECESSORS, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER FINANCING AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

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IN WITNESS WHEREOF, this Amendment has been executed and is effective as of the date first above-written.

LENDER	BORROWERS
CONGRESS FINANCIAL CORPORATION (SOUTHWEST)	L&S AUTOMOTIVE PRODUCTS CO.
	By:
By:	Name:
Mark M. Galovic, Jr., Vice	Title:
President	Vice President Chief Executive
Office:	
Address:	6 South Pennsylvania
1201 Main Street, Ste. 1625	Oklahoma City, Oklahoma
Dallas, TX 75250	73107
	L&S BEARING CO.

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

LSB EXTRUSION CO.

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

ROTEX CORPORATION

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

TRIBONETICS CORPORATION

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

INTERNATIONAL BEARINGS, INC.

By:
Name:
Title:

Chief Executive Office:

1775 Airways Boulevard
Memphis, Tennessee 38114

Consent and Reaffirmation

Dated as of November 15, 1999

LSA Technologies Inc. ("Guarantor") hereby: (a) acknowledges the execution of, and consents to, the terms and conditions of that certain First Amendment to Loan and Security Agreement, dated as of November 15, 1999 (the "First Amendment"), by and among Congress Financial Corporation (Southwest) ("Lender") and L&S Automotive Products Co., Inc., International Bearings, Inc., Rotex Corporation, L&S Bearing Co., ISB Extrusion Co. and Tribonetics Corporation; (b) reaffirms and confirms its obligations under that certain Guarantee of LSA Technologies, Inc. (the "Guaranty"), dated as of May 7, 1999, made by Guarantor in favor of Lender; (c) acknowledges that it has no defense, counterclaim, set-off or any other claim to diminish its liability under the Guaranty; and (d) acknowledges that its consent is not required to the effectiveness of the First Amendment or any future amendment, modification, forbearance or other action with respect to the Loans, the Collateral, or any of the other Financing Agreements.

.

GUARANTOR:

LSA TECHNOLOGIES INC.

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma 73107

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into on March 7, 2000, by and among CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender") and L&S AUTOMOTIVE PRODUCTS CO. ("LSAP"), a Delaware corporation, INTERNATIONAL BEARINGS, INC. ("IBI"), an Oklahoma corporation, L&S BEARING CO. ("L&SB"), an Oklahoma corporation, LSB EXTRUSION CO. ("LSBE"), an Oklahoma corporation, ROTEX CORPORATION ("Rotex"), an Oklahoma corporation, and TRIBONETICS CORPORATION ("Tribonetics"), an Oklahoma corporation (LSAP, IBI, L&SB, LSBE, Rotex and Tribonetics are individually, collectively and jointly and severally herein referred to as "Borrower" or the "Borrowers").

PRELIMINARY STATEMENTS

A. Lender and Borrower have entered into that certain Loan and Security Agreement, dated May 7, 1999, as amended by a First Amendment to Loan and Security Agreement dated as of November 15, 1999 (as amended, the "Loan Agreement"), pursuant to which Lender has extended a line of credit and term loan to Borrower.

B. Borrower is acquiring the assets of Zeller Corporation pursuant to an Asset Purchase and Sale Agreement dated March 2000 (the "Zeller Asset Purchase Agreement") by and between the Zeller Corporation and LSAP, Borrower and Lender have agreed to amend the Loan Agreement as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

AGREEMENT

ARTICLE I
Definitions

1.01 Capitalized terms used in this Amendment are defined in the Loan Agreement, as amended hereby, unless otherwise stated.

ARTICLE II
Amendments

2.01 Amendment to Section 1.46. Section 1.46 of the Loan Agreement, the definition of "Term Loan," is hereby deleted in its entirety and the following substituted in lieu thereof:

"`Term A Note' shall have the meaning set forth in Section 2.3(a)(i) hereof."

2.02 Amendment to Section 1.47. Section 1.47 of the Loan Agreement, the definition of "Term Promissory Note," is hereby deleted in its entirety and the following substituted in lieu thereof:

"`Term B Note" shall have the meaning set forth in Section 2.3(a)(ii) hereof."

2.03 Amendment to Section 1.48. Section 1.48 of the Loan Agreement, the definition of "Value," is hereby deleted in its entirety and the following substituted in lieu thereof:

"`Term Loan' shall mean Term Loan A and Term Loan B made by Lender to Borrowers as provided in Section 2.3(a) hereof."

2.04 Addition of Section 1.49. Effective as of the date hereof, the Loan Agreement is hereby amended by adding a new Section 1.49 thereto, which shall read as follows:

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

2.05 Amendment to Section 2.3(a). Section 2.3(a) of the Loan Agreement, "Term Loan," is hereby deleted in its entirety and the following substituted in lieu thereof:

"2.3 Term Loans.

(a) (i) Term Loan A. Lender is making a term loan to Borrowers in the original principal amount of $2,112,500.01 (the "Term A Loan"). Term Loan A is: (1) evidenced by a promissory note, substantially in the form of Exhibit C-A attached hereto, in such original principal amount (the "Term A Note") duly executed and delivered by Borrowers to Lender pursuant to the Second Amendment to Loan Agreement dated as of March 7, 2000; (2) to be repaid, together with interest and other amounts, in accordance with this Agreement, the Term A Note, and the other Financing Agreements and secured by all of the Collateral; provided, however, no amount of Term A Loan shall be made available to IBI.

(ii) Term Loan B. Lender is making a term loan to Borrowers in the original principal amount of $2,000,000 (the "Term B Loan"). Term Loan B is: (1) evidenced by a promissory note, substantially in the form of Exhibit C-B attached hereto, in such original principal amount (the "Term B Note") duly executed and delivered by Borrowers to Lender pursuant to the Second Amendment to Loan Agreement dated as of March 7, 2000; (2) to be repaid, together with interest and other amounts, in accordance with this Agreement, the Term B Note, and the other Financing Agreements and secured by all of the Collateral; provided, however, no amount of Term B Loan shall be made available to IBI."

2.06 Amendment to Section 6.6. Section 6.6 of the Loan Agreement, the definition of "Use of Proceeds," is hereby amended by adding the following at the end of such Section:

"Anything to the contrary herein notwithstanding, the proceeds of Term Loan B shall be used by Borrower primarily for the acquisition by Borrower of the assets of the Zeller Corporation."

2.07 Replacement of Exhibit C. Exhibit C of the Loan Agreement, is hereby deleted in its entirety and replaced with Exhibits C-A and C-B as attached hereto.

2.08. Amendment of Schedules. Effective as of the date hereof, the Information Certificate and each of the Schedules to the Loan Agreement are hereby amended and restated in their entirety to read as set forth on the corresponding Schedules attached hereto as Attachment 1.

2.09. Limited Consent. Subject to the terms and conditions set forth herein, and in reliance on the representations and warranties of Borrower made herein, Lender hereby consents to the acquisition by Borrower of the assets of the Zeller Corporation on the terms and conditions set forth in the Zeller Asset Purchase Agreement approved by Lender in its sole discretion (the "Acquisition").

ARTICLE III
Conditions Precedent

3.01 Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by Lender:

(a) Lender shall have received the following documents, in form and substance satisfactory to Lender and its legal counsel, duly executed by the parties thereto (as applicable):

(i) this Amendment;

(ii) the Term A Note;

(iii) the Term B Note;

(iv) resolutions of Borrower's Board of Directors which

authorize the execution, delivery and performance by Borrower of this Amendment;

(v) a closing certificate signed by the senior officer of each Borrower, dated as of the date of this Amendment, stating that (A) the representations and warranties set forth in the Loan Agreement and in this Amendment are true and correct as of such date, (B) Borrower is on such date in compliance with all the terms and provisions set forth in the Loan Agreement, as amended by this Amendment, and (C) on such date no Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default, has occurred or is continuing;

(vi) other documents as Lender may request to permit, protect and perfect its valid perfected security interests in and liens upon the Collateral;

(vi) all consents, waivers, acknowledgments and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect its security interests in and liens upon the Collateral or to effectuate the provisions or purposes of the Financing Agreements;

(viii) such additional documents, instruments and information as Lender or its legal counsel may request.

(b) The representations and warranties contained herein, in the Loan Agreement and in the other Financing Agreements, shall be true and correct as of the date hereof, as if made on the date hereof.

(c) No Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default, shall have occurred and be continuing, unless such event, condition or Event of Default has been specifically waived in writing by Lender.

(d) Lender shall have received from Borrower a closing fee for this Amendment in the amount of $20,000, which fee shall be deemed fully earned and non-refundable upon receipt thereof.

(e) The Acquisition shall have been completed by Borrower.

(f) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel.

ARTICLE IV
No Waiver

Nothing contained in this Amendment shall be construed as a waiver by Lender of any covenant or provision of the Loan Agreement or the other Financing Agreements or of any other contract or instrument among Borrower and/or Guarantor and Lender, and the failure of Lender at any time or times hereafter to require strict performance by Borrower or Guarantor of any provision thereof shall not waive, affect or diminish any right of Lender to thereafter demand strict compliance therewith. Lender hereby reserves all rights granted under the Loan Agreement, the other Financing Agreements and any other contract or instrument among Borrower and/or Guarantor and Lender.

ARTICLE V
Ratifications, Representations and Warranties

5.01 Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and the other Financing Agreements, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement and the other Financing Agreements are ratified

and confirmed and shall continue in full force and effect. Borrower and Lender agree that (a) the Loan Agreement, as amended hereby, and the other Financing Agreements shall continue to be legal, valid, binding and enforceable in accordance with their respective terms, and (b) the security interests in the Collateral are in full force and effect.

5.02 Representations and Warranties of Borrower. Borrower hereby represents and warrants to Lender that (a) the execution, delivery and performance of this Amendment and any and all other Financing Agreements executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the Certificate of Incorporation or Bylaws of Borrower; (b) the representations and warranties contained in the Loan Agreement, as amended hereby, and any other Financing Agreement are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no Event of Default or event or condition which, with notice or passage of time or both, would constitute an Event of Default under the Loan Agreement, as amended hereby, has occurred and is continuing; (d) Borrower is in full compliance with all covenants and agreements contained in the Loan Agreement and the other Financing Agreements, as amended hereby; and (e) Borrower has not amended, modified or in any way altered its Certificate of Incorporation or Bylaws since May 7, 1999.

ARTICLE VI
Miscellaneous Provisions

6.01 Survival of Representations and Warranties. All representations and warranties made in the Loan Agreement or any other Financing Agreement, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Financing Agreements, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

6.02 Reference to Loan Agreement. Each of the Loan Agreement and the other Financing Agreements, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement, as amended hereby, are hereby amended so that any reference in the Loan Agreement and such other Financing Agreements to the Loan Agreement shall mean a reference to the Loan Agreement and the other Financing Agreements as amended hereby.

6.03 Expenses of Lender. As provided in Section 9.16 of the Loan Agreement, Borrower, jointly and severally, agree to pay on demand all reasonable costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Financing Agreements executed pursuant hereto, and any and all amendments, modifications, and supplements thereto, including, without limitation, all costs and expenses of filing or recording and the reasonable costs and fees of Lender's outside legal counsel (including legal assistants).

6.04 Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

6.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

6.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

6.07 Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant or condition by Borrower shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

6.08 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

6.09 Applicable Law. THIS AMENDMENT AND ALL OTHER AGREEMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS (WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW).

6.10 Final Agreement. THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS, AS AMENDED, 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 AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY BORROWER AND LENDER.

6.11 Release. BORROWER HEREBY ACKNOWLEDGES THAT IT PRESENTLY HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE "OBLIGATIONS" OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH BORROWER MAY NOW HAVE OR HAVE HAD AGAINST LENDER, ITS PREDECESSORS, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER FINANCING AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

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IN WITNESS WHEREOF, this Amendment has been executed and is effective as of the date first above-written.

LENDER	BORROWERS
CONGRESS FINANCIAL CORPORATION (SOUTHWEST)	L&S AUTOMOTIVE PRODUCTS CO.
	By:
By:	Name:
Mark M. Galovic, Jr., Vice President	Title:
Vice President Chief Executive Office:	
Address:	
	6 South Pennsylvania
1201 Main Street, Ste. 1625	Oklahoma City, Oklahoma
Dallas, TX 75250	73107
	L&S BEARING CO.
	By:
	Name:
	Title:
	Chief Executive Office:
	6 South Pennsylvania
	Oklahoma City, Oklahoma
	73107
	LSB EXTRUSION CO.

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

ROTEX CORPORATION

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

TRIBONETICS CORPORATION

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma
73107

INTERNATIONAL BEARINGS, INC.

By:
Name:
Title:

Chief Executive Office:

1775 Airways Boulevard
Memphis, Tennessee 38114

Consent and Reaffirmation

Dated as of March 7, 2000

LSA Technologies Inc. ("Guarantor") hereby: (a) acknowledges the execution of, and consents to, the terms and conditions of that certain Second Amendment to Loan and Security Agreement, of even date herewith (the "Second Amendment"), by and among Congress Financial Corporation (Southwest) ("Lender") and L&S Automotive Products Co., Inc., International Bearings, Inc., Rotex Corporation, L&S Bearing Co., ISB Extrusion Co. and Tribonetics Corporation; (b) reaffirms and confirms its obligations under that certain Guarantee of LSA Technologies, Inc. (the "Guaranty"), dated as of May 7, 1999, made by Guarantor in favor of Lender; (c) acknowledges that it has no defense, counterclaim, set-off or any other claim to diminish its liability under the Guaranty; and (d) acknowledges that its consent is not required to the effectiveness of the Second Amendment or any future amendment, modification, forbearance or other action with respect to the Loans, the Collateral, or any of the other Financing Agreements.
.

GUARANTOR:

LSA TECHNOLOGIES INC.

By:
Name:
Title:

Chief Executive Office:

6 South Pennsylvania
Oklahoma City, Oklahoma 73107

KOCH*

KOCH NITROGEN COMPANY

January 4, 2000

Mr. Jim Wewers
President
Eldorado Chemical Company
Box 1373
Oklahoma City, Ok

Re: Anhydrous Ammonia

Dear Jim,

Per our conversation today and pursuant to Article III, Section B of our Anhydrous Ammonia Sales Agreement effective October 1, 1999, Koch Nitrogen and Eldorado Chemical Company agree to sell and purchase, respectively, additional tonnage, approximately 8,000 tons per month January through December 2000, above the new 50% requirement amounts. Price for these tons will be ***. Shipments against the 50% requirements will be made during the first 15 days of the month, the additional tonnage named above will be shipped in the last 15 days of the month. Either party may cancel the terms of this letter agreement with 120 days written notice. All other terms and conditions as per the new 50% requirements contract effective October 1, 1999.

If you are in agreement with the above terms, please sign where noted below.

Regards,

/s/ Mark R. Jones
Mark Jones
Koch Nitrogen

Eldorado Chemical Company

By: /s/ James L. Wewers

Printed Name James L. Wewers

Title President

P.O. Box 2256 Wichita, Kansas 67201-2256 316/828-4889

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ANHYDROUS AMMONIA SALES AGREEMENT*

THIS AGREEMENT is entered into as of the 12th day of January, 2000, to be effective October 1, 1999, between KOCH NITROGEN COMPANY, a Nebraska corporation, with principal offices at 4111 East 37th Street North, Wichita, Kansas 67220 (herein called "Koch") and EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, with principal offices at 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107 (herein called "Buyer");

WITNESSETH:

WHEREAS, the parties entered into a previous agreement dated May 29, 1997, ("Previous Agreement") and it is their intent to terminate that Previous Agreement (except as specifically set forth herein) and replace it with this agreement ("Agreement"); and

WHEREAS, as specified in this Agreement, Buyer and Koch desire to enter into an anhydrous ammonia sales agreement under which Koch agrees to supply to Buyer and Buyer agrees to purchase 50% of its anhydrous ammonia Product Requirements, as defined herein, from Seller; and

WHEREAS, as specified in this Agreement; Buyer will purchase 96,000 Tons of its Product Requirements by taking and paying for them, or paying for them if not taken during the Month required to be taken, during the term of this agreement, in addition to purchasing at a Nola Index price from Seller the difference between such 96,000 Tons and 50% of its Product Requirements; and

WHEREAS, as specified in this Agreement. Buyer will take delivery of, or pay for if not taken, the Required Yearly Quantity in approximately equal monthly quantities throughout the term of this Agreement; and

WHEREAS, as specified in this Agreement. Koch shall charge Buyer a price for each Ton based upon the pricing formulas set out in this Agreement; and

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WHEREAS, as specified in this Agreement, Buyer shall be responsible for all Taxes related to such quantities of anhydrous ammonia and for all transportation charges beyond the Delivery Point hereunder; and

WHEREAS, the parties desire to state their agreements in writing;

NOW THEREFORE, in consideration of the mutual promises herein contained, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

I. DEFINITIONS

Whenever used in this Agreement. the following term shall have the following respective meanings:

A. "Additional Monthly Quantity" shall mean the diff6rence between (i) fifty percent (50%) of the Product Requirements for the Month and (ii) the Required Yearly Quantity divided by 12.
B. Additional Yearly Quantity" shall mean the difference between (i) fifty percent (50%) of the Product Requirements for the Contract Year and (ii) the Required Yearly Quantity.
C. "Agreement" shall mean this Anhydrous Ammonia Sales Agreement between Koch and Buyer.
D. "Alpha" shall mean the adjustment to the Nola Index Price as stated in Article VI, Section G.
E. "Ammonia Pipeline Transportation Charge" shall mean Koch's actual Product pipeline transportation cost from Koch's Sterlington, Louisiana ammonia production

facility to the pipeline Delivery Point.

F. "Contract Price" shall mean the price stated in Article VI, Section B.

G. "Contract Year" shall mean: (i) the three (3) Month period from October 1, 1999 to December 31, 1999 and (ii) each of the three (3) twelve (12) Month periods during the term hereof, the first of which shall begin on January 1, 2000 and shall end on December 31, 2000 and the following two (2) twelve (12) Month periods until December 31, 2002.

H. "Conversion Factor" shall mean *** and reflects the agreed to amount of natural gas necessary to produce or procure and supply one Ton of Product.

I. "Deficiency Volumes" shall mean the definition stated in Article III, Section C.

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J. "Delivery Point" shall mean (i) for pipeline deliveries, the discharge side of the Product meter owned by Koch Pipeline Company, L.P. at Buyer's El Dorado, Arkansas chemical production facility, or (ii) for rail or trucking deliveries, the point at Buyer's facility where the truck or rail cars come to rest, or (iii) another delivery point along Koch Pipeline Company, L.P.'s ammonia pipeline, provided Buyer gives Koch at least forty-five (45) days written notice prior to the date it wishes to begin delivery at such alternate delivery point.

K "Effective Date" shall mean October 1, 1999.

L. "Fixed Charge" shall mean ***, and any subsequent instruments pursuant to Article VI, Section E below.

M. "Gas Price" shall mean (MMBTU Price + Transportation Charge) multiplied by the Conversion Factor.

N. "GM Nola Low Average Price" shall mean the monthly average of the weekly lows of the ranges for Ammonia in the U.S. Gulf (NOLA) as published in "Green Markets" Price Scan during the Month in which delivery occurs. For deliveries made from the 1st through the 15th of the Month and for purposes of preparing the mid-Month invoice, a "Provisional GM Nola Low Average Price" shall mean the average of the weekly lows of the ranges as stated above and published during this fifteen (15) day time period. At the end of the Month, if the GM Nola Low Average Price is higher or lower than the Provisional GM Nola Low Average Price, an adjustment shall be made in the end of Month invoice to correct for any difference between the GM Nola Low Average Price and the Provisional GM Nola Low Average Price. For deliveries made from the 16th through the end of a Month, the GM Nola Low Average Price, as defined above for the entire Month, shall apply. In the event such prices cease to be published, or are no longer an accurate indicator of U.S. Gulf Coast market price, then Buyer and Koch will negotiate in good faith to agree upon an alternate published index which accurately indicates U.S. Gulf Coast market price.

O. "Koch Facility" shall mean Koch's anhydrous ammonia production facility at Sterlington, Louisiana.

P. "MMBTU Price" shall mean the "Henry Hub" Index price in MMBTU's reported under the table entitled "Market Center Spot-Gas Prices" in the first issue of Inside FERC's Gas

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Market Report for the Month of delivery. If inside Inside FERC's Gas Market Report and/or the "Henry Hub" Index price am no longer published, the parties shall meet within 30 days of the date such publication ceases to determine a new publication and/or index.

Q. "Month" shall mean a calendar Month.

R. "Monthly Quantity" for any given Month during the term of this Agreement shall mean 50% of Buyer's Product Requirements.

S. "Nola index Price" shall mean the price stated in Article VI, Section C.

T. "Product" shall mean commercial anhydrous ammonia having the following specifications:

Ammnia (NH3) Content:	99.5% by weight minimum
Oil:	5 ppm maximum by weight
Water:	0.2% by weight minimum; 0.5% by Weight Maximum
Inerts:	0.5 cc per gram maximum

U. "PPI" shall mean the Producer Price Index for Chemicals and Allied Products published by the United States Department of Labor.

V. "Product Requirements" shall mean the Product purchased by Buyer for its El Dorado, Arkansas facility for processing either directly to Buyers account or for processing, tolling, or other similar arrangements for the account of third parties. Such amounts are expected to be 160,000 - 240,000 Tons per year. Product delivered to Buyer by third parties for tolling but which is not purchased by Buyer would not be included as part of Buyer's requirements or Product Requirements.

W "Required Monthly Quantity" shall mean two thousand (2,000) Tons per Month during Contract Year 2000 and three thousand (3,000) Tons per Month during Contract Years 2001 and 2002.

X. "Required Yearly Quantity" shall mean twenty-four thousand (24,000) Tons in Contract Year 2000 and thirty-six thousand (36,000) Tons in Contract Years 2001 and 2002.

Y. "Taxes" shall mean the definition set forth in Article IX, Section A.

Z. "Ton" shall mean a short ton of two thousand (2,000) pounds avoirdupois. As used herein, the term Ton shall refer to a quantity of Product.

AA. "Transportation Charge" shall mean Koch's actual natural gas transportation charge, including fuel, from Henry Hub to Koch's Sterlington, Louisiana ammonia facility, which as of the Effective Date of this Agreement is ***, subject to adjustments under Article VI, Section D, below.

BB. "Yearly Contract Price" for 1999 shall mean (i) the twelve (12) Month average of the Gas Price for January through December for 1999, plus (ii) the Fixed Charge for 1999, plus (iii) Ammonia Pipeline Transportation Charge, plus (iv) Taxes; and the "Yearly Contract Price" for 2000 shall mean (a) the four (4) Month average of the Gas Price for January through April 2000, plus (b) the Fixed Charge for 2000, plus (a) Ammonia Pipeline Transportation Charge, plus (d) Taxes.

II. TERM

This Agreement shall continue and remain in full force and effect for a term of thirty-nine (39) Months commencing on the Effective Date and ending December 31, 2002.

III. QUANTITY TO BE SOLD AND PURCHASED

A. Purchase Obligation for October 1 through December 31, 1999. During the Contract Year from October 1, 1999 through December 31, 1999 Koch agrees to sell and deliver to Buyer and Buyer agrees to purchase 100% of Buyer's Product Requirements from Koch. The projected minimum product Requirements for this time period shall be as follows: 3,000 Tons in October; 1,000 Tons in November, and 9,000 Tons in December. During this time period, Koch agrees to deliver 7,844.5 Tons (Deficiency Volume from 1999 under the Previous Agreement) to Buyer, for which Buyer has previously paid but not taken delivery; provided, (i) Buyer shall have put in place an additional letter of credit in an amount of *** as stated in Article VI, Section K prior to delivery, (ii) Buyer pays the Contract Price Supplement as defined in Article VI, Section A.1.a), and (iii) Buyer pays the Ammonia Pipeline Transportation Charge for the 7,844.5 Tons when delivered. The parties acknowledge that the obligations of the parties under Article III, Section A have been fulfilled as of the date of execution of this Agreement.

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B. Purchase Obligation for January 1, 2000 through December 31, 2002. For the Contract Years commencing on January 1, 2000, January 1, 2001 and January 1, 2002, Koch agrees to sell and deliver to Buyer and Buyer agrees to purchase 50% of Buyer's Product Requirements from Koch. Buyer agrees to make reasonable commercial efforts to purchase above 50% of Buyer's Product Requirements from Koch during this period. If Koch and Buyer agree to sell and buy (respectively) such Tons, the price for such Tons shall be as mutually agreed upon by the parties and all non-price provisions of this Agreement shall apply to such Tons. Such Tons shall not count toward the 204,000 Tons named in Article III Section B.2, below. Under this Agreement, Koch will have no obligation to deliver more than 120,000 Tons in any Contract Year. Buyer's total purchase obligation during each Contract Year shall be comprised of (i) the Required Yearly Quantity and (ii) the Additional Yearly Quantity. In addition, Buyer's total purchase obligation during each Month shall be comprised of (i) the Required Monthly Quantity and (ii) the Additional Monthly Quantity.

B.1 Required Purchase Obligation. Subject to Article III, Section C, Article VII, Section A and Article X below, during each month of each Contract Year, Koch agrees to sell and deliver to Buyer and Buyer agrees to take and pay for, or pay Koch the Contract Price if not taken during the Month required to be taken, the Required Monthly Quantity of Product The total Required Yearly Quantity during the term of this agreement shall total 96,000 Tons.

B.2 Additional Purchase Obligation. During each Contract Year from January 1, 2000 through December 31, 2002, in addition to the volumes set forth in Section B.1 above, Koch agrees to sell and deliver to Buyer and Buyer agrees to purchase and pay Koch the Nola Index Price for the Additional Yearly Quantity of Product. In the event that the Additional Yearly Quantity purchased by Buyer for all Contract Years is less than *** in total, then Buyer agrees to make an End of Term Payment to Koch, in accordance with Article VI, Section J.

C. Make-up Rights. Subject to Article VII, Section B below, if during any of the last three Contract Years Buyer fails to take the Required Monthly Quantity (the

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difference between the Required Monthly Quantity and the quantity actually taken during the Month, under Article III, Section B.1 above, shall be referred to hereafter as the "Deficiency Volumes"), Buyer shall have the fight to take delivery of the Deficiency Volumes during the twenty-four (24) months following the Contract Month it failed to take such Deficiency Volumes, including the time period after the term of this Agreement expires. Buyer's take of any Deficiency Volumes shall be in addition to its take obligations of the Required Monthly Quantity for the subject Contract Year. If Buyer elects to take delivery of Deficiency Volumes during the twenty-four (24) months following the Contract Month it failed to take the Deficiency Volumes, in addition to the Contract Price paid in the Contract Month it failed to take the Deficiency Volumes, Buyer shall pay Koch the product of the (i) difference between the Contract Price for the Month Buyer actually takes delivery of Deficiency Volumes and the Contract Price paid by Buyer in the Contract Month it failed to take the Deficiency Volumes multiplied by (ii) the Tons of Deficiency Volumes actually taken in the subject Month. If Buyer elects to take Deficiency Volumes after this Agreement's term expires, Buyer shall pay Koch, in addition to the Contract Price paid in the Contract Month it failed to take the Deficiency Volumes, the product of (i) the difference between the Contract Price for the Month it actually takes delivery of any Deficiency Volumes calculated as if the term of this Agreement had been extended to such Month and the Contract Price paid by Buyer in the Contract Month it failed to take the Deficiency Volumes multiplied by (ii) the Tons of Deficiency Volumes actually taken during the subject Month after this Agreement's term expires. If Buyer elects not to take Deficiency volumes as set forth in this Section C, it waives any rights to take the Deficiency Volumes at a later date.

D. No Duty to Mitigate. It is understood and agreed by Buyer that its obligation to pay for any Required Monthly Quantity or any Required Yearly Quantity it elects not to take during any Contract Year is not in the nature of damages. Rather, such a payment constitutes an alternative measure of performance elected by Buyer. This alternative measure is designed to compensate Koch for the risk of producing, procuring and supplying the Required Monthly Quantity and Required Yearly Quantity, while it is expressly understood that Buyer has accepted the market risk associated with such a contract. Therefore, if Buyer fails to take or to pay for the

Required Yearly Quantity or Required Monthly Quantity not taken in any Contract Year or Month respectively, Koch shall have no duty or obligation to resell or otherwise mitigate its potential losses arising from Buyer's failure to perform its contractual obligations.

E. Measurement. The quantity of Product delivered hereunder to Buyer by pipeline shall be governed by the weights and measures taken by meters owned by Koch Pipeline Company, L.P. at the Delivery Point pursuant to Koch Pipeline Company, L.P.'s tariff in effect on the date of delivery, For trucking or rail deliveries, the quantity of Product delivered to Buyer shall be governed by the weights and measures taken as the trucks or rail cars are loaded at the Koch Facility. The foregoing measurements of said quantities shall be final and conclusive, unless proven to be in error.

F. Verification of Product Requirements. If requested by Koch, Buyer shall provide proper documentation to Koch to verify that fifty percent (50%) of Buyer's Product Requirements have been purchased from Koch. If such documentation is not satisfactory to Koch, the parties will mutually agree to an independent auditor which will be allowed to audit Buyer's books and records to verify that fifty percent (50%) of Buyer's Product Requirements have been purchased from Koch.

IV. QUALITY

All Product delivered hereunder shall conform to the specifications set forth in Section T of Article I. All claims by Buyer that any Product delivered hereunder does not conform to the specifications set forth in said Section T, shall be made in writing and sent within thirty (30) days of Koch's delivery of such Product to the Delivery Point. Failure to give written notice of such claim within the specified time shall constitute a waiver and bar of and to such claim, and Buyer shall be precluded from relying on defects which are not stated in such notice as a basis for rejection or assertion of a breach.

V. WARRANTIES

A. Koch makes no warranty of any kind, express or implied, except that Product sold hereunder shall conform to the specifications set forth in Section T of Article I and that Koch will convey good title thereto, free from any lien or security interest. KOCH ASSUMES NO OTHER LIABILITY WITH RESPECT TO PRODUCT AND MAKES NO OTHER WARRANTY WHETHER OF NONMERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR OTHERWISE, EXPRESSED OR IMPLIED, WITH RESPECT THERETO.

B. Neither party shall be liable, under any circumstances, for any special, indirect, incidental, consequential (including but not limited to, loss of profits or any similar damages) or punitive or exemplary damages arising out of this Agreement, except for third party personal injuries and property damage which are deemed by applicable law to be consequential damages. In no event shall the amount of any claim by Buyer, whether for failure to meet the specifications for non-delivery, or for any other reason, be greater than the actual replacement costs of the Product for the particular shipment. In this regard, Buyer's sole and exclusive remedy for any breach of this Agreement by Koch shall be, at Koch's option, replacement of any nonconforming product at the Delivery Point or payment not to exceed the replacement price of the Product Buyer shall use reasonable efforts to obtain reasonably priced replacement Product.

VI. PRICE AND PAYMENT

A. For each Ton of Product sold to Buyer hereunder or provided as Deficiency Volumes, as appropriate, Koch shall charge, and Buyer shall pay Koch based on the following:

1) Contract Year: October 1 through December 31, 1999:

Quantity Per Month	Price Basis
October (3,054.79 tons)	Contract Price Supplement
November (7,000 tons)	Contract Price Supplement for first 4,789.71 Tons and Nola Index Price for the remaining Tons
December (9,000 tons)	Nola Index Price

a) Contract Price Supplement shall equal (i) *** per Ton multiplied by (ii) 7,944.5 Tons (the Deficiency Volume).

2) Contract Year: 2000:

Quantity Per Month	Price Basis
First 2,000 tons	Contract Price
2,001 to 10,000 tons	Nola Index Price

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3) Contract Year: 2001:

Quantity Per Month	Price Basis
First 3,000 tons	Higher of Contract Price for Month or Yearly Contract Price
3,001 to 10,000	
	tons Nola Index Price

a) The yearly Contract Price shall be bond on the Yearly Contract Price for 1999.

4) Contract Year: 2002:

	Quantity Per Month Price Basis
	First 3,000 tons Higher of Contract Price for Month or Yearly Contract Price
	3,001 to 10,000 tons Nola Index Price

a) The Yearly Contract Price for the first 20,000 Tons purchased during Contract Year 2002 shall be based on the Yearly Contract Price for 1999 and the remaining 16,000 Tons purchased during Contract Year 2002 shall be based on the Yearly Contract Price for Contract Year 2000.

B. Contract Price. For each Ton of Required Yearly Quantity to be sold to Buyer hereunder, Koch shall charge and Buyer shall pay to Koch the following Contract Price:

Contract Price = Gas Price + Fixed charge + Ammonia Pipeline Transportation Charge+ Taxes

C. Nola Index Price. For each Ton of Additional Yearly Quantity sold to Buyer hereunder, Koch shall charge, and Buyer shall pay Koch the following Nola Index Price:

Nola Index Price = ***

D. Transportation Charge Adjustment. The Transportation Charge component of the Gas Price shall be increased or decreased whenever Koch incurs a cost change to reflect Koch's actual natural gas transportation costs (including fuel) from Henry Hub to Koch's Facility.

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F. Fixed Charge Adjustment. The Fixed Charge shall be adjusted annually beginning January 1, 2000, based on the annual percentage change between the PPI as it existed on January 1 of the year that just ended (Subject Contract Year), and the PPI as it existed on January 1 of the year prior to the year that just ended (Preceding Contract Year) and shall be adjusted on January 1 of each calendar year. To calculate each annual adjustment, Buyer and Koch agree to take the difference in the PPI for the Subject Contract Year and the Preceding Contract Year and then divide by the Preceding Contract Year's PPI, which will yield the annual PPI percentage change. The annual PPI percentage change shall then be multiplied by the current Fixed Charge to get the Fixed Charge Adjustment rounded to the nearest cent. The Fixed Charge Adjustment will then be added to or subtracted, from the current Fixed Charge to establish the now Fixed Charge. For an example of such calculation, see Addendum A for calculations used in determining the Fixed Charge Adjustment for 1999. A Preliminary PPI Annual number, for the Subject Contract Year, may be used to calculate the Fixed Charge Adjustment until the Actual Annual PPI number, for the Subject Contract Year, is known. Once actualized, then credits/debits would be made accordingly and the actual new Fixed Charge would apply.

F. Ammonia Pipeline Transportation Charge Adjustment. The Ammonia Pipeline Transportation Charge shall be increased or decreased whenever Koch incurs a cost change to reflect Koch's actual Product transportation costs from Koch's Facility to the Delivery Point.

G. Alpha.

Alpha shall be defined as follows:

1) October 1, 1999 through December 31, 1999:

Additional Monthly Quantity	Alpha, $/Ton
***	

2) January 1, 2000 through December 31, 2000:

Additional Monthly Quantity	Alpha, $/Ton
***	

3) January 1, 2001 through December 31, 2002:

Additional Monthly Quantity	Alpha, $/Ton

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H. Rail or Truck Transportation Costs. Notwithstanding any other provision of this Agreement, if ammonia pipeline transportation service is interrupted or curtailed, preventing Koch from making all or a portion of the required deliveries of Product hereunder, Koch shall use reasonable efforts to arrange rail or trucking transportation service from Koch's Facility to Buyer's Facility. Buyer shall be responsible for and reimburse Koch for all rail and/or trucking transportation costs incurred by Koch for deliveries of Product hereunder, including without limitation, demurrage charges. However, if Buyer is forced to pay a trucking and/or rail transportation rate that is higher than the Pipeline Transportation Charge and the increased transportation rate makes it uneconomical for Buyer to operate Buyer's Facility, forcing Buyer to shut down such facility, then Buyer shall have the right to suspend its performance hereunder by providing Koch with thirty (30) days written notice. However, Buyer shall not be allowed to suspend its performance hereunder if Koch, within its sole discretion, elects to pay the difference between the Ammonia Pipeline Transportation Charge and the trucking and/or rail transportation charges to the Delivery Point. If it remains uneconomical for Buyer to operate Buyer's Facility for sixty (60) consecutive days from the date Buyer gives Company notice solely because of the interruption or curtailment of pipeline Product deliveries hereunder and Koch elects not to pay the transportation differential, then Buyer shall have the right to terminate this Agreement by providing Koch with written notice within five (5) days of the end of the sixty (60) day period.

I. Payment Term. ***

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***. Koch shall also invoice Buyer for any additional amounts or refund any amounts as required by the terms set forth in Article I, Section N. *** Buyer agrees to accept facsimile copies of invoices from Koch.

J. End of Term Payment. In the event Buyer has not purchased all Additional Yearly Quantity amounts, as defined in Article III, Section B.2, by December 31, 2002, Buyer shall make an "End of Term Payment" to Koch in the amount equal to (i) the difference between *** Tons and the sum of the Additional Monthly Quantity amounts taken, multiplied by (ii) $*** per Ton. In such case Koch shall invoice Buyer within thirty (30) days after December 31, 2002, and Buyer shall pay Koch the foregoing amount within two (2) days of the invoice date by Koch debiting Buyer's account, by using EFT.

K. Letter of Credit. As assurance to Koch for Buyer's performance hereunder, Buyer agrees (i) to maintain the existing irrevocable standby letter of credit issued pursuant to the Previous Agreement in the amount of *** (the "LC") or an amended version of that LC in the amount of *** and (ii) at least one business day prior to the delivery by Koch of the 1998 Deficiency Volumes or execution of this Agreement, to deliver to Koch an additional Irrevocable standby letter of credit In the amount of ***

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(the "Additional LC") issued by a bank or other financial institution acceptable to the Credit Department of Koch. Such LC(s) shall be in the form of Addendum B attached hereto and made a part hereof. Buyer shall annually renew or cause the renewal or the letters of credit at least thirty (30) days prior to their respective expiration dates. Buyer shall maintain such letters of credit in the total amount of *** until such time the projected amount of the Unpaid Premium, as defined in Section L below, is less than *** at which time Koch shall allow Buyer to reduce the value of the letters of credit as the projected amount of Unpaid Premium is reduced, on a dollar for dollar basis. Subject to the foregoing, the letters of credit shall remain effective until 30 days after the term of this Agreement expires. If the bank or financial institution issuing one of the letters of credit shall at any time cease to be acceptable to the Credit Department of Koch as determined in its sole discretion, then within fifteen (15) calendar days after written notice from Koch, Buyer agrees it shall deliver to Koch a substitute irrevocable standby LC issued by a bank or other financial institution satisfactory to Koch, without terminating the original or then outstanding LC until such substitute LC has been delivered to Koch. If Buyer fails or refuses to cause the renewal of an existing LC or the delivery of a substitute LC within the required time period, such failure or refusal shall constitute a material breach of this Agreement entitling Koch to collect damages and to draw on the original or then outstanding letter of credit. In such event, Buyer shall have ten (10) days in which to cure such default and if such default is not cured within that time period, Koch may draw down on all or part of the Letter(s) of Credit, in addition to any other remedies Koch may be entitled to under this Agreement or at law or in equity. Koch shall give Buyer five (5) days notice prior to drawing on the LC. The parties specifically agree that in such case, if Koch chooses to draw down on the Letter(s) of Credit in an amount greater than any amount then due and owing under this Agreement, adequate consideration for Koch doing so exists due to Koch foregoing its rights to collect amounts due and owing under the Previous Agreement and instead entering into this Agreement with Buyer.

L. Basis for Letter of Credit Reduction. Koch shall notify Buyer ninety (90) days in advance when the projected amount of the Unpaid Premium shall be expected to be less than ***. The "Unpaid Premium" shall be an amount equal

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to (i) the difference between 96,000 Tons and the sum of all Required Monthly Quantity Amounts paid for by Buyer multiplied by (ii) ***. Current projections indicate this should occur around the end of March 2001. When the Unpaid Premium is less than ***, Buyer shall be allowed to reduce the total value of the letters of credit by the amount the Unpaid Premium is less than ***; provided the letters of credit at the beginning of any Month covers 100 percent of the Unpaid Premium. In reducing letter(s) of credit pursuant to the above, Buyer agrees to first reduce entirely the most recently issued letter of credit before reducing the letter of credit issued earlier.

M. Additional Credit. Koch may from time to time demand different terms of payment or additional assurance of payment, or other credit terms whenever Koch within its good faith discretion deems itself insecure because the prospect for payment or performance reasonably appears impaired. In any such event, and upon written notice specifying the event warranting the change in terms of payment, additional assurance of payment, or credit, Koch may suspend further deliveries pending agreement to the revised terms, including, but not limited to, pending agreement of Buyer to the posting of an appropriate bond, an additional letter of credit or other security acceptable to Koch to further secure Buyer's obligations hereunder. If Buyer fails or refuses to give adequate assurance of performance or payment upon demand therefor, Koch may treat such failure or refusal as a repudiation and breach of this Agreement, thereby entitling Koch to exercise all remedies provided for under this Agreement and any other remedy it may have at law or in equity.

VII. DELIVERY

A. Required Yearly Quantity. Subject to variations as may be necessitated due to a Force Majeure event as set out in Article X Koch shall deliver the Required Yearly Quantity, and Buyer shall take delivery of the Required Yearly Quantity in equal quantities of two thousand (2,000) Tons per Month during Contract Year 2000 and three thousand (3,000) Tons per Month during Contract Years 2001 and 2002. Buyer shall notify Koch no later than the 1st calendar day of the Month immediately prior to the Month of delivery of the number of Product Tons it wishes to receive for such Month of delivery. Buyer shall promptly notify Koch in writing of any known or anticipated changes that will not permit Buyer to receive the Monthly Quantity.

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B. Deficiency Volumes. If Buyer elects to take delivery of Deficiency Volumes in a subsequent Contract Year or after the term of this Agreement expires as set forth in Article III, Section C above, it shall give Koch Fifteen (15) days written notice prior to the first day of the requested Month of delivery. Unless otherwise agreed to by Koch, Buyer shall take delivery of such Deficiency Volumes in approximately equal quantities during each Month of the subsequent Contract Year or the twelve (12) Month period after the term of this Agreement expires, unless otherwise agreed to by Koch in writing. However, in no event shall Koch be required to deliver more than three thousand (3,000) Tons of Deficiency Volumes in any given Month.

C. Title and Risk of Loss. Koch shall deliver the Product hereunder to Buyer at the Delivery Point, and upon the passing of said title to Buyer, Buyer shall be deemed to have exclusive ownership and control of said Product and shall be responsible for any injuries or damages caused thereby.

VIII. CONTRACT BUYOUT OPTION

A. Buyer Sells Business. In the event Buyer sells its El Dorado, Arkansas facility to a third Party, Buyer shall make reasonable commercial efforts to have this Agreement assigned to the new buyer. In the event the new buyer does not accept such an assignment, Buyer shall have the option to either (i) continue to be bound by this Agreement or (ii) make a Buy Out Payment to Koch, as defined in Section C below. Notwithstanding anything seemingly to the contrary herein, if Buyer makes a Buyout Payment, this Agreement shall be deemed automatically terminated except for Articles IV and V and except for the return to Buyer of any undrawn or partially undrawn Letters of Credit

B. Buyer Forms Joint Venture or Alliance with Third Party. In the event Buyer forms a joint venture with another company to produce or market ammonium nitrate or concentrated nitric acid, Buyer shall have the option to (i) continue to be bound by this Agreement or (ii) make a Buyout Payment to Koch, as defined per Section C below. Notwithstanding anything seemingly to the contrary herein, if Buyer makes a Buyout Payment, this Agreement shall be deemed automatically terminated except for Articles IV and V and except for the return to Buyer of any undrawn or partially undrawn Letters of Credit.

C. Buy Out Payment. In the event a Buy Out Payment is called for as set forth above, Koch shall send an invoice to Buyer for the payment in an amount equal to ***. Buyer shall pay Koch the foregoing amount within two (2) days of the invoice date by Koch debiting Buyer's bank account using EFT.

IX. TAXES

A. All present and future taxes, including, but not limited to, the Superfund Tax, (referred to herein as "Taxes") relating to the Product delivered hereunder, including all new taxes or increases in existing taxes including excise taxes (but excluding Koch's net income, excess profits, or corporate franchise taxes) imposed by any governmental authority upon the manufacture, use, sale, or delivery of the Product, shall be for Buyer's account, unless Buyer delivers to Koch current exemption certificates evidencing Buyer's exemption from paying such Taxes.

B. Buyer agrees to indemnify and hold harmless Koch and its successors and assigns from and against any and all excise taxes (but not including net income, excess profits, or corporate franchise taxes), inclusive of any penalty and interest, assessed at a future date against Koch by any governmental authority upon the manufacture, use, sale, or delivery of the Required Yearly Quantity and/or Additional Yearly Quantity, whether taken or not.

X. FORCE MAJEURE

A. Neither Koch, nor Buyer, shall be liable for any failure or delay in performance under this Agreement, except for the obligation to make money payments due hereunder for Product already purchased, due to a Force Majeure event. "Force Majeure," as used herein shall mean any event which may be due in whole or in part to any contingency, delay, failure, cause or other occurrence of any nature beyond a party's reasonable control, whether it is presently occurring or occurs in the future, which (i) prevents Koch from producing, selling, purchasing or

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transporting the Product or (ii) which prevents Product from being used at Buyer's chemical facility in El Dorado, Arkansas (referred to hereafter as Buyer's Facility).

B. The term "Force Majeure" shall not include (i) an event caused by a party's sole or contributory negligence; (ii) Koch's ability to sell or Buyer's ability to purchase Product at a price more advantageous than the Contract Price; (iii) Buyer's loss of markets for products produced at Buyer's Facility; (iv) shutdown of Seller's Facility or Buyer's Facility for reasons other than a Force Majeure event and (v) routine or scheduled maintenance at Seller's Facility or Buyer's Facility.

C. If a Force Majeure event occurs, the declaring party may exercise its right under this Article by giving timely notice thereof to the other party setting forth with reasonable particularity the nature of the Force Majeure event. The declaring party shall use reasonable efforts to remedy the situation as quickly as possible and shall only be excused from performance hereunder during the duration of the Force Majeure event. The declaring party shall give the other party prompt notice of when the Force Majeure event ends. If Koch's deliveries of Product to Buyer are impeded due to a Force Majeure event, Koch shall have the right to apportion deliveries among its present and future customers (including regular customers not then under contract) and Koch's own requirements on such basis as may appear to Koch to be appropriate and equitable. Koch shall not be obligated to take any action which would result in increasing its performance costs under this Agreement beyond the costs which it would have incurred in the absence of such occurrence, delay or cause. In this regard, should Koch be required to operate the Koch Facility in a manner that results in Koch violating an operational flow order or similar gas pipeline order in order to meet its obligations under this Agreement, and the violation triggers a penalty or other charge to be incurred by Koch, Koch shall have the right to invoice Buyer for such charge on a per Ton basis as follows: ([the dollar amount per MMBTU of such a charge x Conversion Factor] x the number of Tons of Product produced using natural gas to which such charge applies). Buyer agrees to pay such charge in addition to the Contract Price per Ton and all other charges to be paid by Buyer to Koch for Product under this Agreement until such penalty or charge is curtailed as against Koch, provided, that in any such event, Buyer will have the option of declining to take

Product that is subject to such penalty or charge. The Required Yearly Quantity for the subject Contract Year shall be reduced by the Tons of Product Buyer declines to take under the preceding sentence.

D. If a Force Majeure event occurs, Koch shall have the option, but not the obligation, to reduce the number of Tons of Product that it is required to deliver and Buyer is required to take or pay for hereunder; provided, that such reduction shall not affect the obligation of Koch to deliver, nor the obligation of Buyer (except as provided for herein) to take or pay for, the remaining Tons to be taken or paid for hereunder. If Koch elects to reduce the number of Tons Buyer is obligated to take or pay for in a particular Contract Year due to a Force Majeure event, or if the Force Majeure event continues into a subsequent Contract Year, Buyer's Required Yearly Quantity shall be reduced by number of Tons canceled by Koch due to the Force Majeure event. Koch's exercise of its option to cancel such affected Tons must be made by notice in writing by Koch to Buyer no later than thirty (30) days after the Force Majeure event no longer exists. If Koch does not exercise such option, the quantity of Product which was not delivered and received during the occurrence shall be delivered by Koch and received by Buyer after the Force Majeure event no longer exists during the term of this Agreement or within a reasonable period immediately following the expiration of this Agreement depending upon when Koch has Product available. If Koch delivers the Product after the Force Majeure event no longer exists during the term hereof, the Contract Price per Ton, or the Nola Index Price per Ton, whichever is applicable, for such Product shall be as set forth in Article VI calculated for the Month Koch actually delivers the Product. If, however, Koch delivers the Product after the end of this Agreement's term, the price for such Product shall be the Contract Price per Ton or the Nola Index price per Ton, whichever is applicable, according to the formula contained in Article VI and the definitions contained in Article I that would have been charged during the Month the Product is actually delivered if the term of this Agreement had continued in effect. If a Force Majeure event exists for a period of sixty (60) days or longer, or the declaring party gives notice that such event will last more than sixty (60) days, the non-declaring party shall have the option to terminate this Agreement by written notice to the other. Upon such termination, all obligations of the

parties hereunder shall terminate without liability to the other party, except for obligations which accrued prior to the effective date of the termination.

E. If, at any time during this Agreement's term, any regulatory or governmental body adopts, issues, or publishes any action, rule, or order which directly or indirectly materially and adversely affects the rights or obligations of Koch under this Agreement or (each of the events described in hereafter referred to as "Adverse Action"), Koch shall notify Buyer in writing of the Adverse Action and the parties shall enter into negotiations to modify this Agreement. If negotiations regarding the Adverse Action do not result in Koch and Buyer agreeing on the terms of a modification to this Agreement within sixty (60) days of Koch's notice to Buyer, Koch shall have the right, but not the obligation, to suspend its performance hereunder until such time, if any, as the parties reach agreement on such a modification to this Agreement. In the event such Adverse Action continues for a period of one hundred twenty (120) days after Koch notifies Buyer of the same and the parties have not resolved the handling of the Adverse Action, either party may, but is not required to, terminate this Agreement upon thirty (30) days written notice to the other party within one hundred eighty (180) days of when Koch first notified buyer of the Adverse Action. Upon termination, all obligations by either party shall cease, except obligations to remit money due and payable. In the event of Adverse Action, upon written request, Koch shall provide Buyer with data or information reasonably necessary for Buyer to determine that such Adverse Action exists, subject to the confidentiality obligations of Article XVI of this Agreement.

XI. REMEDIES FOR PAYMENT BREACH

A. If Buyer is late in making any payment due to Koch under Article VI hereof, or otherwise, Koch may at its sole discretion by notice to Buyer elect one or more of the following courses of action:

1. Cease to make any further deliveries hereunder until Buyer has made the late payment and has taken steps to assure Koch that there shall be no such delinquencies in the future;

2. Refuse to make any further deliveries hereunder except upon cash payments before delivery;

3. Stop delivery of goods in the possession of a carrier or other bailee as provided by law;

4. Resell any Product concerned without further notice to Buyer and without affecting or abating Buyer's other obligations under this Agreement;

5. Set off any obligations Koch may have to Buyer against the payments due Koch hereunder; or

6. Draw upon any letter(s) of credit and/or other security provided by Buyer hereunder, provided any draw by Koch shall not exceed the amounts due and payable.

If Buyer has not remedied late payments to the reasonable satisfaction of Koch within ten (10) days of such notice, Koch may at its option by notice to Buyer terminate this Agreement (without discharging any claim for breach), provided Koch shall not be allowed to terminate this Agreement if the amount of Buyer's liability to Koch does not exceed the outstanding LC amounts and Buyer makes up the amount drawn by Koch under the LC(s) within five (5) days of the date Koch draws on the LC(s); however, Koch shall have the right to suspend performance until Buyer replenishes the LC(s). The election by Koch of any of the courses of action hereto shall in no way limit any other remedies available to Koch under this Agreement or otherwise at law or in equity.

B. If either party:

1. Voluntarily petitions under or otherwise seeks the benefit of any bankruptcy, reorganization, arrangement or insolvency law; or

2. Makes a general assignment for the benefit of creditors; or

3. Is adjudicated bankrupt or becomes insolvent; or

4. Allows a receiver or trustee of the business to be appointed; or

5. Fails to perform any part of this Agreement (other than provided for in Section A. of this Article) and upon written notice of such failure by the other party fails to remedy the same within thirty (30) days of such notice, or in the event such failure cannot reasonably be cured within thirty (30) days, does not initiate and pursue reasonable corrective action within said period of time, then, in any of said events, this Agreement may be terminated forthwith by written notice at the option of the other party with such other party retaining all its other rights and remedies at law or in equity.

XII. RIGHTS NOT WAIVED

The waiver by either party hereto of any breach of this Agreement by the other party hereto shall not be deemed to be a waiver of any successive or other breach of this Agreement. Each and every right, power and remedy may be excused from time to time and so often and in such order as may be deemed expedient by the party, and the exercise of any such right, power or remedy shall not be deemed a waiver of the right to exercise at the same time or thereafter, any other right, power or remedy.

XIII. NOTICES

Any notices, requests or other communications required or permitted by any provision of this Agreement shall be in writing and shall be deemed delivered if delivered by hand, facsimile or mailed by U.S. Postal Service, postage prepaid, by registered or certified mail, and if to Koch, addressed to:

Koch Nitrogen Company
4111 East 37th Street North
P.O. Box 2256
Wichita, KS 67201
Attention: President

Secretary,
Koch Nitrogen Company
c/o Legal Department
4111 East 37th Street North
P.O. Box 2256
Wichita, KS 67201

or, if to Buyer, addressed to:

El Dorado Chemical Company
16 S. Pennsylvania
Oklahoma City, OK 73107
Attn: President

El Dorado Chemical Company
16 S. Pennsylvania
Oklahoma City, OK 73107
Attn: General Counsel

Any party may change the address to which notices are to be given by mailing written notice thereof to the other party as provided above.

XIV. ASSIGNMENT

Notwithstanding any prior provision, neither party shall assign or delegate, or permit by assignment or delegation, by operation of law or otherwise any of its rights and obligations under this Agreement to any third party without first obtaining the prior written consent of the other party, which shall not be unreasonably withheld. Notwithstanding the foregoing, either party shall be allowed to assign this Agreement to an Affiliate upon providing written notice to the other party, provided no such transfer shall operate to relieve the relieve the transfer party of its obligations hereunder. For purposes of this Agreement "Affiliate" shall mean any corporation or other business enterprise which directly or indirectly controls, is controlled by, or is under common control with a party hereunder; and for the purpose of this definition "control" shall mean the ability to directly or indirectly vote fifty percent (50%) or more of the shares or other securities at the time entitled to vote for the election of directors. Any assignment or delegation, or attempted assignment or delegation, in violation of this Article XIV shall be null and void, shall be considered a material breach of this Agreement and shall permit the other party in addition to any other rights which it may hereunder or at law or in equity to terminate this Agreement and exercise any remedies available to the non-breaching party hereunder or at law or in equity.

XV. ENTIRE AGREEMENT; AMENDMENT

This Agreement constitutes the final and complete Agreement between the parties relative to the transactions contemplated hereby and supersedes any and all prior or contemporaneous agreements, understandings, correspondence or other agreements relating to the subject matter hereof. This Agreement may be amended only by a written document signed by duly authorized representatives or employees of each of the parties hereto. Any printed term or conditions contained in any printed form used in placing or acknowledging orders hereunder, or otherwise used in any way in connection with the sale and purchase provided for in this Agreement shall not have the effect of modifying or amending this Agreement in any respect unless specifically identified and accepted in writing by a duly authorized representative of both parties.

XVI. CONFIDENTIALITY

If an Adverse Action, as defined in Section E of Article X results in Koch's suspension of its performance hereunder, Koch may, as provided for in said Section, provide Buyer with certain information ("Adverse Action Information"). Koch and Buyer may also, in connection with their respective performance of this Agreement, communicate information, give notices and exchange documents ("Contract Related Information"). Buyer shall maintain in confidence the Adverse Action Information and the Contract Related Information, and Koch shall maintain in confidence the Contract Related Information, and such information shall be disclosed to no one other than (i) the receiving party's officers, directors, agents and other personnel who need to know the same in connection with this Agreement, and such officers, directors, agents and other personnel shall be advised of and bound by the confidential nature of such information or (ii) when disclosure is required by law or pursuant to a court or administrative order. For disclosures required under sub-item (ii), the disclosing party shall immediately notify the other party of the required disclosure so that the other party may seek an appropriate protective order or other remedy and use reasonable efforts to limit the scope of the disclosure so required. If a protective order or other remedy is not obtained, the disclosing party shall only furnish such portion or portions of the Confidential Information as it is legally required to furnish. Koch and Buyer shall take all proper precautions to prevent such information from being acquired by any unauthorized person, firm, company or other entity. In this regard, Koch and Buyer acknowledge specifically, but without limitation, that both injunctive relief and monetary damages, alone or in combination, am appropriate remedies for any breach of this Article XVI by Koch or. Buyer or any person, firm, company or other entity obtaining such information through the recipient thereof. The confidentiality obligations hereunder shall continue for a period of seven (7) years after the termination of this Agreement. Koch shall have no obligation to provide, and Buyer shall have no right to obtain, information regarding Koch's Product supply costs.

XVII. ARTICLE HEADINGS

Article headings are for the convenience of the parties and am not considered parts of the Agreement, it being stipulated that any headings in conflict with the substantive provisions of the Agreement shall have no force and effect.

XVIII. GOVERNING LAW

This Agreement shall be governed exclusively by the laws of the State of Kansas both with respect to interpretation and performance without giving effect to any provision which would direct application of the laws of another jurisdiction. Koch and Buyer agree that venue and jurisdiction of any action or cause of action wising hereunder shall be exclusively in the United States District Court for the District of Kansas.

IX. SEVERABILITY

The provisions of this Agreement are severable and, if any provisions am determined to be void or unenforceable in whole or in part, the remaining provisions shall remain unaffected and shall be binding and enforceable in accordance with the terms hereof.

XX. AUTHORITY

A. Buyer warrants and represents that it is a corporation duly organized and validly existing and in good standing under the laws of the State of Oklahoma and has all requisite power and authority to lawfully carry on its business as now being conducted and specifically, that it has all requisite power and authority to make, execute, deliver and perform this Agreement.

B. Koch warrants and represents that it is a corporation duly organized and validly existing and in good standing under the laws of the State of Nebraska and has all requisite power and authority to lawfully carry on its business as now being conducted and specifically, that it has all requisite power and authority to make, execute, deliver and perform this Agreement.

XXI. LEGAL COMPLIANCE

Each party shall be subject to all applicable laws, rules, regulations and ordinances issued by any national, state, or local regulatory or governing body and may act in accordance therewith until such time as the same may be hold invalid by final judgment in it court of competent jurisdiction.

XXII. TERMINATION OF PREVIOUS AGREEMENT

Buyer and Koch agree that ft Previous Agreement shall be terminated in its entirety, except for Articles V and VIII, which shall survive.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective on the Effective Date by their respective officers thereunto duly authorized.

("Koch")
KOCH NITROGEN COMPANY

By:
/s/ Randy J. Morris
____

Title: Director Industrial/
Chemical Sales
____

Attest:

/s/ Vicki D. Hill/Stuart R. Collin
____
Secretary/Assistant Secretary

("Buyer")
EL DORADO CHEMICAL COMPANY

By: /s/ James L. Wewers
____

Title: President
____

Attest:

/s/ David M. Shear
____
Secretary

STATE OF KANSAS)
COUNTY OF SEDGWICK)

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this ____day of ____________, 2000, personally came and appeared__________________________, who in the presence of me, said authority, declared and acknowledged that he is the identical person who executed the foregoing instrument in writing; that his signature thereto is his own true and genuine signature; and that he executed said instrument in his capacity as of Koch Nitrogen Company, a Nebraska corporation, of his own free will and accord and as the free act and deed of said Koch Nitrogen Company for the purposes and considerations therein set forth and expressed.

____

Notary Public

My Commission Expires:_____________________

STATE OF __________)
COUNTY OF _________)

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this ____day of ____________, 2000, personally came and appeared__________________________, who in the presence of me, said authority, declared and acknowledged that he is the identical person who executed the foregoing instrument in writing, that his signature thereto is his own true and genuine signature; and that he executed said instrument in his capacity as of El Dorado Chemical Company, an Oklahoma corporation, of his own fire will and accord and as the free act and deed of said El Dorado Chemical Company, for the purposes and considerations therein set forth and expressed.

____

Notary Public

My Commission Expires:_________________________

ADDENDUM A

EXAMPLE OF FIXED CHARGE ADJUSTMENT CALCULATION

The following exemplifies the Procedure as set forth in Article VI, Section E for calculating the Fixed Charge Adjustment and the resulting Fixed Charge for calendar year 1999:

***

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THIRD AMENDMENT
TO SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of March 31, 2000, and entered into by and between BANK OF AMERICA, N.A. ("Lender") and LSB INDUSTRIES, INC. ("LSB"), SUMMIT MACHINE TOOL MANUFACTURING CORP. ("Summit") and MOREY MACHINERY MANUFACTURING CORPORATION ("Morey") LSB, Summit and Morey being collectively referred to herein as "Borrower").

WHEREAS, Lender and Borrower have entered into that certain Second Amended and Restated Loan and Security Agreement dated as of May 10, 1999, which was amended by that certain First Amendment to Second Amended and Restated Loan and Security Agreement dated as of January 1, 2000 and by that certain Second Amendment to Second Amended and Restated Loan and Security Agreement dated as of March 1, 2000 (as so amended, the "Agreement");

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

WHEREAS, the Lender is willing to amend the Agreement and to grant Borrower's requests for an amended financial covenant subject to the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Agreement, as amended hereby.

ARTICLE II

Amendments

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

"9.16 LSB Net Worth. The Net Worth of the LSB Consolidated Borrowing Group will not be less than or, where a deficit amount is anticipated as indicated by brackets, e.g. [ ], such deficit amount will not be greater than, the following amounts (the "Covenant Amounts") at the end of each of the Fiscal Quarters during the following Fiscal Year subject to the "adjustment" described below:

Fiscal Quarters in the Following Fiscal Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Quarter during Fiscal Year Ending December 31, 2000	[$19,000,000]	[$19,500,000]	[$21,000,000]	[$23,500,000]

Adjustment: The Covenant Amounts will be decreased (i.e. the allowed deficit will be reduced) if the actual net losses resulting from the disposition of LSB's Automotive Division are less than the $10,000,000 amount currently reserved for such losses. In such event each Covenant Amount will decrease by an amount equal to the difference between $10,000,000 and the actual net losses.

ARTICLE III

Ratifications, Representations and Warranties

Section 3.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Conditions Precedent

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) that Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral since January 31, 2000, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

(b) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel, Jenkens & Gilchrist, a Professional Corporation.

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits, and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f)

slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

"BORROWER":

LSB INDUSTRIES, INC.

By:
Name:
Title:

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:
Name:
Title:

MOREY MACHINERY MANUFACTURING CORPORATION

By:
Name:
Title:

"LENDER"

BANK OF AMERICA, NATIONAL ASSOCIATION

By:
Michael J. Jasaitis, Vice President

CLIMATECRAFT LOAN

LOAN AGREEMENT

This Agreement made this day of , 1999, between The City of Oklahoma City, an Oklahoma Municipal Corporation (hereinafter "Lender"), and ClimateCraft, Inc., an Oklahoma corporation (hereinafter "Borrower").

Definitions

Unless specifically provided otherwise or the context otherwise requires, when used in the Loan Agreement:

(1) "Act" means the Housing and Community Development Act of 1974, Pub. L. No. 93-383 codified as 42 U.S.C. 5301 et seq., as amended, and regulations promulgated thereunder.

(2) "Audits" means the regular audit of the Borrower, a copy of which may be requested by the Lender if required by HUD.

(3) "Appropriate Draw Request" shall consist of a complete and accurate statement by the Borrower on forms supplied by Lender showing a complete and detailed breakdown of the total costs and expenses incurred by Borrower for the project for which reimbursement is being requested.

(4) "City" means the City of Oklahoma City, an Oklahoma municipal corporation.

(5) "Closing Date" means the date of execution of this Loan Agreement by the City.

(6) "Fiscal Agent" means the Chase Manhattan Bank, a banking corporation organized and existing under the laws of the State of New York, or its successor in interest, or any successor fiscal agent appointed as provided in the Fiscal Agency Agreement.

(7) "Fiscal Agency Agreement" a fiscal agency agreement between the Lender and Chase Manhattan Bank.

(8) "HUD" means the United States Department of Housing and Urban Development and fiscal agents and other entities involved in Section 108 Loan Guarantee funding transactions with the City.

(9) "HUD Note(s)" means the City's Note(s) to HUD secured by a Section 108 Loan Guarantee.

(10) "Interim Loan" means Loan Funds advanced before the Public Offering Date.

(11) "Interim Loan Period" means the period from the initial advance of Loan Funds to the Public Offering Date.

(12) "Loan Funds" or "Funds" means proceeds of the sale of negotiable securities sold at a public offering by Underwriter and secured by a Section 108 Loan Guarantee from HUD to the Underwriter.

(13) "Loan Documents" means this Loan Agreement, the Promissory Note, the Mortgage, Fiscal Agency Agreement and other instruments, if any, securing repayment of the Loan.

(14) "Low and Moderate- Income Persons" means such persons as defined in 24 CFR Part 570, Section 570.3.

(15) "Permanent Loan" means the cumulative Loan Funds secured by the City's Notes before and after the Public Offering Date.

(16) "Project" means the building purchase, building rehabilitation, purchase of capital equipment, the first year of Section 108 debt service and working capital for the establishment of a manufacturing facility in Oklahoma City.

(17) "Project Site" means the location of the Project at 1427 N.W. 3rd Street, within the corporate boundaries of the City of Oklahoma City, Oklahoma, as more particularly described in Attachment "A".

(18) "Promissory Note" or "Note" means the promissory note of even date herewith from Borrower to Lender evidencing the Loan.

(19) "Public Offering Date" means the date on which the Underwriter offers the City's HUD Notes.

(20) "Secretary" means the Secretary of Housing and Urban Development or any other official of HUD to whom the Secretary has delegated authority pursuant to the Act.

(21) "Section 108" means Section 108 of the Act, codified as 42 U.S.C. 5308, as amended, and regulations promulgated thereunder.

(22) "Section 108 Loan Guarantee" means the loan guarantee provided by HUD to Underwriter pursuant to the Act.

(23) "Underwriter" means Federal Short-Term U.S. Government Trust or such other entity designated by HUD.

(24) "Term" means the term of this Agreement, which shall commence upon the Closing Date and shall terminate on the twentieth anniversary thereof.

RECITALS

WHEREAS, Borrower has applied to the Lender for a Loan in

the principal sum of Three Million Five Hundred Thousand Dollars ($3,500,000) from the proceeds of a Section 108 Loan Guarantee to the Lender, and Lender has agreed to make a loan of such funds upon the terms and conditions set forth below; and

WHEREAS, the purpose of this Loan is to assist the Borrower in the purchase and rehabilitation of a manufacturing facility, the purchase of capital equipment, debt reserve for the Section 108 loan and working capital; and

WHEREAS, the Planning Department ("Planning") of the Lender is responsible within The City of Oklahoma City for the receipt and disbursement of the proceeds of Notes guaranteed by HUD under a Section 108 Loan Guarantee Program with the City pursuant to the Act; and

WHEREAS, the development of the Project is expected to add 119 new employees to the Oklahoma City area economy within the next three years and will provide other public benefits and qualify for Section 108 assistance under 24 CFR 570.208(c); and the Lender has agreed to provide Loan Funds to Borrower for the Project; and the Loan from the Lender to Borrower for the Project will assist in the development of the Project; and

WHEREAS, the Loan shall be evidenced by this Loan Agreement, the Borrower's Promissory Note, the Fiscal Agency Agreement and the Mortgage; and

WHEREAS, the Lender is willing to make the Loan to Borrower exclusively for the purposes hereinabove set forth, all upon the terms and conditions herein set forth; and

WHEREAS, the Lender makes no commitment to future support and assumes no obligation for future support of the activities contracted for herein, except as expressly set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing Recitals and the terms, covenants and conditions, representations and warranties contained herein, the parties hereto agree as follows:

TITLE I
THE LOAN

1.1 The Loan. In reliance upon Borrower's representations and warranties contained herein, and subject to the terms and conditions set forth herein, the Lender hereby agrees to make a Loan to Borrower in the sum of Three Million Five Hundred Thousand Dollars ($3,500,000) exclusively for the purposes set forth herein, which Loan shall be funded out of funds received by the Lender through HUD from the sale of the HUD Note(s) under the Section 108 Loan Guarantee Program and from no other source. Borrower shall have the right to receive Loan Funds only pursuant to the terms and conditions of this Agreement and in accordance with the Act, and then only to the extent Section 108 Loan proceeds are made available to the Lender by HUD. Should anticipated sources of Loan Funds become unavailable to the Lender, the Lender shall within a reasonable time not to exceed ten (10) working days notify Borrower in writing and the Lender shall be released from all liability for that portion of the Funds to be provided to Borrower by the Lender under this Loan Agreement which have not been received by the Lender from HUD.

Lender shall advise Borrower of any scheduled sale of the HUD Notes to enable Borrower to arrange, at its sole option, for the conversion to a Permanent Loan of amounts advanced during the Interim Loan Period that are outstanding as of the date of the sale of the HUD Notes by including such amounts in the sale of the HUD Notes.

1.2 Loan Documentation. The Loan will be evidenced by this Loan Agreement, the Note, the Fiscal Agency Agreement and the Mortgage.

1.3 Demand. Lender may demand repayment of the Loan in the event of the occurrence of an Event of Default hereunder after applicable grace periods.

1.4 Lender's Expense. Borrower agrees and acknowledges that all Lender's expense with respect to the sale of the bonds for permanent financing and any additional charges imposed by HUD, the Fiscal Agency Agreement and the Custodial Accounts shall be

deducted from the Loan Funds.

ARTICLE II

BORROWER'S REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to make the Loan, Borrower represents and warrants (which representations and warranties shall be true and correct as of the execution hereof and shall survive the execution and delivery of this Loan Agreement) as follows:

2.1 Organization of Borrower; Authority to Enter into Agreement. Borrower is an Oklahoma corporation duly formed and validly in existence and in good standing pursuant to laws of the State of Oklahoma and duly domesticated in the State of Oklahoma. Borrower has the right and power to purchase and occupy the Project Site, and to develop the Project; and Borrower has full power and authority to enter into this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action and no other authorization by Borrower is required for the execution, delivery and performance of this Agreement.

2.2 No Litigation. As of the date of execution of this Agreement, there are no actions, suits or proceedings pending, or to the knowledge of Borrower threatened against or affecting it, its controlling Board, or the Project in any court at law or in equity, or before or by any governmental or municipal authority which might have a materially adverse effect on the ability of Borrower to perform its obligations hereunder.

2.3 Right. Borrower has certain rights in the Project Site sufficient to enable Borrower to develop the Project thereon.

2.4 Covenants, Zoning and Codes. Borrower has complied to date and will continue to comply with all applicable environmental statutes and regulations applicable to the development of the Project. All permits, consents, approvals or authorizations by, or registrations, declarations, withholding of objections or filings with any governmental body necessary in connection with the valid execution, delivery and performance of the Loan Documents, or presently necessary for the development of the Project, have been obtained, are valid, adequate and in full force and effect or will be obtained prior to the commencement of any Project Activities for which a permit, consent, approval or authorization is necessary. Development of the Project will in all material respects conform to and comply with all covenants, conditions, restrictions and reservations affecting the Project Site and with all applicable zoning, environmental protection, use and building codes, laws, regulations and ordinances.

2.5 Creation of Jobs. Lender and the Secretary have relied upon representations made by Borrower that the Project is expected to create a specific number of permanent new job opportunities, including a specific number of new permanent job opportunities for Low and Moderate-Income Persons. By its execution of the Loan Documents to which Borrower is a party, Borrower acknowledges its representation pertaining to the creation of jobs and agrees to use its best efforts to create approximately 119 new permanent jobs. Borrower agrees to use its best efforts to ensure that at least 51 percent of all new permanent jobs resulting from the Project are made available to Low and Moderate- income Persons.

2.6 Compliance With Documents. As of the date hereof and for so long as this Agreement remains in effect, Borrower is and shall remain in full compliance with all of the terms and conditions of the Loan Documents to which Borrower is a party, and no Event of Default has or shall have occurred and be continuing, which, with the lapse of time or the giving of notice, or both, would constitute such an Event of Default under the foregoing.

2.7 Incorporation of Representations and Warranties. The request by Borrower for any payment of Loan Funds under the Loan Documents shall constitute a certification by Borrower that the aforesaid representations and warranties are true and correct as of the date of such request.

ARTICLE III

CONDITIONS PRECEDENT TO LOAN CLOSING

The Lender's obligation to enter into and perform its duties

under the Loan Documents shall be subject to the full and complete satisfaction of the following conditions precedent:

3.1 Documents. The Lender shall have received and approved fully executed originals of this Loan Agreement, the Note, and the Mortgage which shall have been duly authorized, executed and delivered by Borrower and the owner of the Project Site, as applicable .

3.2 Evidence of Authority. The Lender shall, upon written request, receive evidence satisfactory to it that Borrower and the persons signing on behalf of Borrower have the capacity and authority to execute and deliver the applicable Loan Documents on behalf of Borrower.

3.3 Insurance. Borrower shall, for so long as the Loan Documents remain in effect, at its cost and expense, carry and maintain general public liability insurance against claims for bodily injury, personal injury, death and property damage occurring or arising out of the Project, which insurance shall cover such claims as may be occasioned by any act, omission, or negligence of Borrower or its officers, agents, representatives, assigns or servants relating to the Project. The limits of liability insurance, which may be required to be increased from time to time as deemed necessary by the Lender, with the approval of Borrower, which shall not be unreasonably withheld, shall be not less than One Million Dollars ($1,000,000.00) combined single limit personal injury and property damage insurance. The insurance required above shall be issued by an insurance company or companies authorized to do business within the State of Oklahoma or by such other similar insurance coverage approved by the Insurance Commissioner of the State of Oklahoma. The Lender shall be specifically named as an additional insured as its interest may appear on all such policies, and any such policy or policies shall be primary to any other valid and collectible insurance.

ARTICLE IV
CONDITIONS PRECEDENT TO LOAN DISBURSAL

4.1 Conditions Precedent to Disbursal of Loan Funds. The Lender's obligation to disburse Loan Funds pursuant to the terms hereof shall, in addition to compliance with the terms of Article III hereof, be subject to satisfaction of the following condition precedent:

(a) The Lender shall have received and have in its possession sufficient proceeds from HUD to fund the disbursal request of Borrower. Borrower acknowledges that it has no right to the Loan Funds other than to have them disbursed by the Lender in accordance with the terms of this Loan Agreement and in accordance with the Act and then only to the extent the Lender has received funds from HUD.

(b) Receipt by Lender of an Appropriate Draw Request covering the sum to be reimbursed for eligible expenses incurred to develop the Project.

4.2 Conditions Precedent to Subsequent Disbursal. In addition to compliance with the conditions set forth in Section 4.1 hereof, Lender's obligation to make any dispersal of Loan Funds after the initial dispersal shall be subject to satisfaction of the following conditions precedent:

(a) Borrower shall be in full compliance and shall not be in default hereunder that is continuing or under any of the Loan Documents, provided, however, that Lender may, in its sole discretion, elect to make advances notwithstanding the existence of a default, and any advance so made shall be deemed to have been made pursuant to the Loan Documents;

(b) Neither the Project nor the Project Site nor any part thereof shall have been materially damaged, destroyed, condemned or threatened with condemnation unless Borrower shall show to Lender's satisfaction that the Project remains viable; and

(c) No order or notice shall been made by, or received from, any governmental agency having jurisdiction, stating that the development of the Project is or will be in violation of any law, ordinance, code or regulation affecting the Project Site.

4.3 Borrower's Draw Requests. Subject to the conditions precedent in Section 4.1 (a), Lender agrees that it will make every reasonable effort to disburse the Loan installments within ten (10) days after receipt of each

Appropriate Draw Request from Borrower provided said Draw Request is submitted on any Monday work day.

4.4 Collateral. Borrower has executed a Promissory Note of even date with this Loan Agreement to evidence its promise to repay the Loan. The Promissory Note will be secured by a Mortgage on the Project Site.

ARTICLE V

BORROWER'S LOAN COVENANTS

5.1 General. From and after the date hereof and during the Term, Borrower covenants and agrees that it will:

(a) Accomplish the project and provide for the "Creation of Jobs" as set forth in Section 2.5.

(b) Obtain and maintain the insurance required herein.

5.2 Payment of Obligations. Borrower shall pay all indebtedness, taxes and other obligations pertaining to the Project or Project Site for which it is liable before they shall become delinquent; provided, however, Borrower shall have the right to contest any such obligations in good faith, and shall not be obligated to pay any such obligation so long as such contest has not been finally determined.

5.3 Changes to Project. There shall be no material change to the Project without the prior written approval of the Lender, and, to the extent that such approvals may be required, the appropriate governmental authorities.

5.4 Compliance with Laws. All work performed in connection with Borrower's development of the Project and Borrower's use of the proceeds of the Loan shall comply with the Act and all other applicable laws, ordinances, rules and regulations of federal, state, county or municipal governments or agencies.

5.5 Inspections. Upon reasonable notice to Borrower, the Lender and the Secretary or their representatives shall have the right at all reasonable times during regular business hours (and at any time in the event of an emergency) to enter upon the Project Site and inspect the Project to determine that the same is in conformity with this Loan Agreement and all laws, ordinances, rules and regulations applicable to Borrower's use of the Loan Funds. The Lender and the Secretary or their representatives shall have the further right, from time to time, to inspect Borrower's books and records relating to Borrower's use of the Loan Funds. Without limiting the foregoing, Borrower shall permit the Lender and the Secretary or their representatives to examine and copy all books, records and other papers relating to Borrower's use of the Loan Funds to insure Borrower's compliance with the Act and applicable provisions of 24 CFR Part 570. The Lender agrees that subject to provisions of the Oklahoma Open Records Act, 51 Okla. Stat. 1991, 24.A.1 et seq. and any other applicable law, to keep all information regarding Borrower and its operations confidential, and to provide Borrower with prior notice and an opportunity to object to any request for disclosure of such information, other than to the Secretary or as otherwise required by law.

5.6 Notify the Lender of Litigation or Complaints. Borrower shall immediately notify the Lender in writing, of all material proceedings, litigations or claims which may adversely affect Borrower's rights hereunder or any part of the Project or Project Site, and of all material complaints or charges made by any governmental authority affecting Borrower, the Project, or the Project Site which may require material changes in the development of the Project.

5.7 Indemnify the Lender. Borrower shall indemnify and hold the Lender, its elected and appointed officials and any employees, harmless from all claims and causes of actions of any person or entity which results in damages or injury incurred by the Lender of whatsoever nature (excluding any consequential or incidental damages or damages, claims or causes of action due to the Lender's negligence or the Lender's breach of this Loan Agreement), caused by any acts or omissions of Borrower and arising out of or in any way connected with this Loan Agreement, the Project Site and or the development of the Project or arising out of Borrower's breach of the provisions of this Loan Agreement, including the cost and defense thereof using counsel approved by the Lender, which such approval shall not be unreasonably withheld. Notwithstanding anything contained herein to the contrary, the foregoing indemnification given by Borrower

to the Lender shall not be effective or enforceable against Borrower unless the Lender gives Borrower written notice of any such claims or causes of action of said person or entity made against the Lender within ten (10) working days of the Lender's knowledge of such claims or causes of action, and the Lender does not commence or enter into any settlements or negotiations of settlement with any person or entity relating to the matters covered by Borrower's indemnification without Borrower's prior written consent. If Borrower fails to defend or commence performance of its obligations under this indemnification within twenty (20) days after written request by the Lender, the Lender may settle, commence, or defend any action or proceeding purporting to affect the rights, duties or liabilities of the Lender, the parties to the Loan Document, or the Project Site or the Project and Borrower shall pay all of the Lender's costs and expense incurred thereby on demand. This section shall survive execution, delivery and performance of the Loan Documents.

5.8 Further Assistance. Borrower shall at any time and from time to time upon request of the Lender take or cause to be taken any action or execute, acknowledge, deliver or record any further documents, opinions, or other instruments which the Lender is required to do or obtain by HUD or by any other federal, state or county regulatory agency or which the Lender feels are required to carry out the intent of the Lender and Borrower under the Loan Documents.

5.9 Upon failure of Borrower to comply with any of the foregoing Loan Covenants, after applicable grace periods as set forth below, the Lender may declare an Event of Default hereunder and exercise its rights and remedies pursuant to Article VI of this Agreement.

ARTICLE VI
DEFAULT AND REMEDIES

6.1 Event of Default. The occurrence of any of the following events and failure to cure such occurrence within stated periods shall constitute an Event of Default hereunder:

(a) Any breach by Borrower of any of the covenants and conditions of the Loan Documents, which breach is not cured by Borrower to the Lender's reasonable satisfaction within twenty (20) days from the receipt of written notice thereof; provided, however, that in the event of a breach or default by Borrower which is outside of the control of Borrower and which cannot be cured within said twenty (20) days, Borrower shall have commenced to cure its breach or default within said twenty (20) days and thereafter diligently proceed to cure its breach or default; or

(b) Any written representation, warranty or disclosure made to the Lender by Borrower that proves to be materially false or misleading as of the date when made; or

(c) Any material change in the development of the Project without the prior written approval of the Lender which change is not corrected or substantially corrected within twenty (20) days after receipt of written notice thereof from the Lender to Borrower; or

(d) Notwithstanding anything to the contrary contained herein, any violation by Borrower of the Act or any other laws, ordinances, rules or regulations applicable to the Project or Borrower's use of the Loan Funds shall immediately constitute an Event of Default hereunder.

6.2 Remedies. Upon the occurrence of any Event of Default not timely cured as provided herein, all of the outstanding principle balance and interest accrued thereon, if any, shall be immediately due and payable and the Lender shall have recourse against the collateral pledged as described in Section 4.4 hereof to the extent such amount remains unpaid.

6.3 Penalties. In the event of a default, interest at the per annum rate established in the Note shall accrue on the total principal amount of the Loan then outstanding, from the date of the occurrence of such default until payment as required hereunder shall have been made in full.

ARTICLE VII
MISCELLANEOUS

7.1 No Waiver. No waiver of any default or breach by Borrower under the Loan Documents shall be implied from any failure by Lender to take action on account of such default if such default persists or is repeated, and an express waiver shall

be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition. The consent or approval by Lender to, or of, any act by Borrower requiring further consent or approval shall not be deemed to waive or render unnecessary the consent or approval to, or of, any subsequent similar act.

7.2 Successors and Assigns. This Loan Agreement is made and entered into for the sole protection and benefit of the Lender and Borrower, their successors and assigns, and no other person or persons shall have any right of action hereunder. The terms hereof shall inure to the
benefit of the successors and assigns of the parties hereto; provided, however, that Borrower's interest hereunder cannot be assigned or otherwise transferred without the prior written consent of the Lender.

7.3 Notices. Any notice, demand or request required under the Loan Document shall be given in writing at the addresses set forth below by personal service, overnight courier providing a receipt, or registered or certified first class mail, return receipt requested. The addresses may be changed by notice to the other party given in the same manner as provided above. If notice is given by mail, it shall be deemed received on the earlier of: (i) receipt as shown on the return receipt, or (ii) three (3) days after its deposit in the U.S. Mail.

To The Borrower: ClimateCraft, Inc.
P.O. Box 1538
1427 NW 3rd
Oklahoma City, OK 73101
Attention: Walter P. Mecozzi, P.E.
President

Copy to: Office of the General Counsel
LSB Industries, Inc.
16 South Pennsylvania
Oklahoma City, OK 73107
Attention: David M. Shear, Esq.

To The Lender: The City of Oklahoma City
Planning Department
420 West Main
Oklahoma City, OK 73102
Attention: Garner Stoll, Planning
Director

7.4 Time. Time is of the essence of the Loan Document.

7.5 Amendments. No amendment, modification, or termination of any provisions of any of the Loan Document shall in any event be effective unless the same shall be in writing and signed by the applicable parties.

7.6 Headings. The article and section headings in no way define, limit, extend or interpret the scope of the Loan Document or of any particular article or section thereof.

7.7 Number and Gender. When the context in which the words are used in the Loan Documents indicate that such is the intent, words in the singular number shall include the plural and vice-versa. References to any gender shall also include the other gender if applicable under the circumstances.

7.8 Validity. The provisions of this Loan Agreement are severable and if any word, sentence, clause, phrase, or other portion of this Loan Agreement is, for any reason, held invalid by any court of competent jurisdiction, such portion shall be deemed a separate, distinct and independent provision and such holding shall not affect the validity of the remaining portions of this Loan Agreement.

7.9 Governing Law. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma, except to the extent federal law applies.

7.10 Survival of Warranties. All agreements, representations and warranties made herein survive the execution

and delivery of the Loan Document and the making of the Loan hereunder and continue in full force and effect until the obligations of Borrower under the Loan Documents are satisfied in full.

7.11 Venue and Forum. In the event that any legal action should be filed by either party against the other, the venue and forum for such action shall be the District Court of Oklahoma County, Oklahoma.

7.12 Attorney's Fees. In the event Lender shall bring an action to enforce the terms and conditions of the Loan Documents, Lender, if prevailing, shall be entitled to recover all of its costs and expenses, including, but not limited to, reasonable attorney's fees as determined by the court.

7.13 Duplicate Originals. The Loan Agreement shall be executed in more than one counterpart, each of the parties hereto shall receive an original counterpart; provided, however, that all originals together shall constitute one and the same agreement.

7.14 Other Federal Provisions. This Loan is subject to applicable provisions contained in 24 CFR 570.

IN WITNESS WHEREOF, Borrower and the Lender have executed this Loan Agreement as of the date first written above by and through their duly authorized representatives.

THE CITY OF OKLAHOMA CITY

Mayor

ATTEST:

City Clerk

APPROVED as to form and legality this day of , 1999.

Assistant Municipal Counselor

CLIMATECRAFT, INC.

By:

ATTEST:

CORPORATE ACKNOWLEDGMENT

STATE OF OKLAHOMA
COUNTY OF OKLAHOMA

On this ___ day of __________ , 1999 before me personally appeared to me known to be the ________________________ of ClimateCraft, Inc., that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument and that the seal affixed is the corporate seal of said corporation.

In Witness Whereof I have hereunto set my hand the day and year first above written.

____

NOTARY

PUBLIC

MY COMMISSION EXPIRES: ______________________

agrmnt\clcr\hud_99.lon

ATTACHMENT "A"

A tract of land lying in the East Half (E/2) of Section 32, Township 12 North, Range 3 West of the Indian Meridian and being a part of Parker & Colcord Addition, an addition to Oklahoma City, Oklahoma County, Oklahoma, being described as follows:

Beginning at the Southeast corner of Lot 11 in Block 4, Parker & Colcord Addition, thence South 90 00'00" West along the South line of said Block 4 a distance of 357.30 feet to the Southwest corner of said Block 4; thence North 00 23'30" East along the West line of said Block 4 a distance of 147.50 feet to the North line of said Block 4, said North line also being the South line of the Northeast Quarter (NE/4) of said Section 32; thence South 90 00'00" West a distance of 25.00 feet to the West line of said Northeast Quarter (NE/4); thence North 00 23'30" East along the West line of said Northeast Quarter (NE/4) a distance of 422.87 feet to the South right-of-way line of the Chicago, Rock Island and Pacific Railway Company (formerly the Choctaw, Oklahoma & Gulf Railway); thence South 72 08'52" East along said South right-of-way line a distance of 398.70 feet to the intersection thereof with the Northerly extension of the East line of said Lot 11; thence South 00 08'26" West along said Northerly extension and along said East line a distance of 448.14 feet to the POINT OF BEGINNING.

THE
CIT
GROUP

April 10, 2000

Jim Jones
Vice President and Treasure
LSB Industries Inc.
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107

Dear Mr. Jones:

Reference is made to that certain Loan Agreement dated October 31, 1994, as amended (the "Agreement") between DSN Corporation, ("Debtor"), and the CIT Group/Equipment Financing, Inc. ("CIT"). Debtor has advised CIT that LSB Industries Inc., a guarantor of Debtor's obligations to CIT were not in compliance with certain covenants as of December 31, 1999.

Debtor has requested, that notwithstanding anything to the contrary of the Agreement, that CIT waive the instances of non-compliance through April 1, 2001.

CIT hereby waives, as of this date, the above instances of non-compliance under the Agreement by acceptance of a $7,500.00 processing fee.

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

Sincerely,
The CIT Group Equipment Financing Inc.

By:___________________________________

Title:________________________________

Acknowledged and Agreed to
DSN Corporation
By:________________________
Title:_____________________

Debtors Name and Address	Note Number	Date of Note	Maturity Date	Principal Amount
Prime Financial Corporation 16 South Pennsylvania Oklahoma City, OK 73107	2	3/5/98	On Demand	$3,000,000
	Customer Number		_ New loan X Renewal of loan(s) number: 1	
	X Fixed interest rate per annum 10.75%		__Variable interest Rate Index____	
PAYMENT TERMS:	Collateral Categories:		Present Index Rate __ Margin Over Index ___ Initial Per Annum Rate ___	
__ SINGLE PAYMENT INCLUDING UNPAID AND ACCRUED INTEREST PAYABLE	PURPOSE OF LOAN This note amends and restates that certain Promissory Note dated 10/17/97 in the principal amount of $3,000,000.00 made by Debt in favor of Lender which is superceded hereby.			
X INSTALLMENT PAYMENTS AS FOLLOWS: On demand with interest paid monthly in arrears on the 15th day of each month.				

PROMISE TO PAY. For value received, the undersigned Debtor, whether one or more, and jointly and severally if more than one, agrees to the terms of this Note and promises to pay to the order of the Lender named below at its place of business as indicated in his Note or at such other place as may be designated in writing by Lender, the Principal Amount of this Note together with interest on the unpaid Principal Amount until Maturity at the per annum interest rate or rates stated above according to the Payment Terms stated in this Note. Interest on this Note is calculated on the actual number of days elapsed on a basis of a 360 day year unless otherwise indicated above. For purpose of computing interest and determining the date principal and interest payments are received, all payments will deemed made only when received in collected funds. Payments are applied first to accrued and unpaid interest and other charges, and then to unpaid Principal Amount. In this Note, "Debtor" includes any party liable under this Note, including endorsers, co-makers, guarantors and otherwise, and "Lender" includes all subsequent holders.

VARIABLE RATE. If this is a Variable Rate transaction as indicated above, the interest rate shall vary from time to time with charges (whether increases or decreases) in the Index Rate shown above. The interest rate on this Note will be the Index Rate plus a Margin, if any, as indicated above. Each change will become effective on the same date the Index Rate changes unless a different effective date is indicated above. If the Index Rate is Lender's base or prime rate, it is determined by Lender in its sole discretion, primarily on a basis of its cost of funds, is not necessarily the lowest rate Lender is charging its customers, and is not necessarily a published rate.

PAYMENTS NOT MADE WHEN DUE. Any principal and/or interest amount not paid when due shall bear interest at a rate 6 percent per annum greater than the per annum interest rate prevailing on this Note at the time the unpaid amount came due, but in no event at a rate less than 15 percent per annum. In addition or in the alternative to the interest rate provided for in this paragraph Lender may assess a charge of $10.00 times the number of days late to cover cost of past due notices and other added expenses. In no event shall the interest charges either before or after maturity be greater than permitted by law.

ALL PARTIES PRINCIPALS. All Debtors shall each be regarded as a principal and each Debtor agrees that any party to this Note, with Lender's approval and without notice to any other party, may from time to time renew this Note or consent to one or more extensions of deferrals of the Maturity Date for any term(s) or to any other modification(s), and all Debtors shall be liable in same manner as on the original note.

ADVANCES AND PAYMENTS. It is agreed that the sum of all advances under this Note may exceed the Principal Amount as shown above, but the unpaid balance shall never exceed said Principal Amount. Advances and payments on this Note shall be recorded on records of Lender and such records shall be prima facie evidence of such advances, payments and unpaid principal balance. Subsequent advances and the procedures described in this Note shall not be construed or interpreted as granting a continuing line of credit for Principal Amount. Lender reserves the right to apply any payment by Debtor, or for account of Debtor, toward this Note or any other obligation of Debtor to Lender.

PREPAYMENT. Except as otherwise provided in this Note, Debtor shall have the right to prepay all or any of principal due under this Note at any time without penalty, subject to the following conditions: (a) all interest must be paid through the date of any prepayment; and (b) if this Note provides for monthly or other periodic payments, there will be no charges in the due dates or amounts following any partial prepayment unless Lender agrees to such charges in writing.

COLLATERAL. This Note and all other obligations of Debtor to Lender, including renewals and extensions, are secured by all collateral securing this Note and by all other security interests and mortgages previously or later granted to Lender and by all money, deposits and other property owned by any debtor and in Lender's possession or control.

ACCELERATION. At option of Lender, the unpaid balance of this Note and all other obligations of Debtor to Lender, whether direct or indirect, absolute or contingent, now existing or later arising, shall become immediately due and payable without notice or demand, upon or after the occurrence or existence of any of the following events or conditions; (a) any payment required by this Note or by any other note or obligation of Debtor to Lender or to others is not made when due, or any event or condition occurs or exists which results in acceleration of the maturity of any Debtor's obligation to Lender or to others under any promissory note, agreement or undertaking; (b) Debtor defaults in performing any covenant, obligation, warranty or provision contained in any loan agreement or in any instrument or document securing or relating to this Note or nay other note or obligation of Debtor to Lender or to others; (c) any warranty, representation, financial information or statement made or furnished to Lender by or on behalf of Debtor proves to have been false in any material respect when made or furnished; (d) any levy, seizure, garnishment or attachment is made against any asset of any Debtor; (e) Lender determines, at any time and in Lender's sole discretion, that the prospect of payment of this Note is impaired; (f) whenever, in Lender's sole judgment, the collateral for the debt evidenced by this Note becomes unsatisfactory or insufficient either in character or value and, upon request. Debtor fails to provide additional collateral as required by Lender; (g) all or any part of the collateral for the debt evidenced by this Note is lost, stolen, substantially damaged or destroyed; (h) death, incompetency, dissolution, change in ownership or senior management, termination of existence of any Debtor; or (i) receiver is appointed over all or part of any Debtor's property, or any Debtor makes an assignment for the benefit of creditors, files for relief under any bankruptcy or insolvency laws, or becomes subject to an involuntary laws, or becomes subject to an involuntary proceeding under such laws.

RIGHT OF OFFSET. Except as otherwise by law, any indebtedness due from Lender to Debtor, including, without limitation, any deposits or credit balance due from Lender, is pledged to secure payment of this Note and any other obligation to Lender of Debtor, and may at any time while the whole or part of such obligation(s) remain(s) unpaid, either before or after Maturity of this Note, be set off, appropriated, held or applied toward the payment of this Note or any other obligation to Lender by any

Debtor.

ADDITIONAL PROVISIONS. (1) Debtor agrees, if requested to furnish to Lender copies of income tax returns as well as balance sheets and income statements for each fiscal year following Date of Note and at more frequent intervals as Lender may require. (2) No waiver by Lender of any payment or other right under this Note or any related agreement or documentation shall operate as a waiver of any other payment or right. All Debtors waive presentment, notice of acceleration, notice of dishonor and protest and consent to substitutions, releases and failure to perfect as to collateral and to additions or releases of any Debtor. (3) This Note and the obligations evidenced by it are to be construed and governed by the laws of the state indicated in Lender's address shown in this Note. (4) All Debtors agree to pay costs of collection, including, as allowed by law, an attorney's fee equal to a minimum of 15% of all sums due upon default or such other maximum fee as allowed by law. (5) All parties signing below acknowledge receiving a completed copy of this Note and related documents, which contain the complete entire agreement between Lender and any party liable for payment under this Note. No variation, condition, modification, change or amendment to this Note related documents shall be binding unless in writing and signed by all parties. No legal relationship is created by the execution of this Note and related documents except that of debtor and creditor or as stated in writing.

LENDER NAME AND ADDRESS	DEBTOR(S) SIGNATURE(S)
SBL Corporation	Prime Financial Corporation
P.O. Box 705	By:________________________________
Oklahoma City, Oklahoma 73101-0705	

SBL Corporation
P.O. Box 705
Oklahoma City, Oklahoma 73101

April 1, 2000

Mr. Jim Jones
LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101

RE: SBL Corporation Demand Note for $1,950,000 ("SBL Note")

Dear Mr. Jones:

This letter confirms the commitment of SBL Corporation to Prime Financial Corporation. LSB Industries, Inc and affiliates ("LSB") to forbear from demanding payment of principal under the SBL Note until April 1, 2001, unless LSB receives cash proceeds in connection with either a) the sale or other disposition of KAC Acquisition Corp. and/or Kestrel Aircraft, and/or b) the repayment of loans by Co-Energy Group and affiliates to LSB or subsidiaries of LSB, and/or the repayment of amounts due LSB from its subsidiaries in connection with the stock option agreement with the shareholders of Co-Energy Group, and/or c) some other source that is not in LSB's projections for the year 2000. Until no sooner than April 1, 2001, any demand for repayment of principal under the SBL Note shall not exceed $500,000 from life insurance proceeds, $1,000,000 from proceeds realized on b) and $950,000 from proceeds realized on a) and c) under the previous sentence.

Sincerely yours,

Jack E. Golsen
President

GUARANTY AGREEMENT

Date of Agreement
AS OF April 21, 2000

DEBTOR NAME AND ADDRESS	LENDER NAME AND ADDRESS
SBL CORPORATION P.O. Box 705 Oklahoma City, OK 73101	STILLWATER NATIONAL BANK AND TRUST COMPANY 6305 Waterford Blvd., Suite 205 Oklahoma City, OK 73118

A. In consideration of the extension of credit to the Debtor and for other good and valuable consideration, the receipt of which is acknowledged, and for the purpose of enabling the Debtor to obtain or renew loans, credit or other financial accommodation from the Lender named above, the undersigned as a primary obligor, unconditionally, but as limited pursuant to Section G below, notwithstanding anything to the contrary herein: (1) guarantees to the Lender that Debtor will fully and promptly pay or otherwise discharge its (his/her) indebtedness and other obligations in favor of Lender under Promissory Note Number 37516, dated October 16, 1997, in the original principal amount of $1,985,508.00, with a current principal balance of $985,508.00, as modified and/or extended, from time to time, (the "Indebtedness") and regardless of the nature and form of indebtedness and whether due or not due; (2) agrees, without the Lender first having to proceed against Debtor or any other party liable or to liquidate any security, to pay on demand all sums due and to become due to Lender from Debtor relating to the indebtedness, and all losses, costs, attorney fees or expenses which may be suffered or incurred by Lender by reason of Debtor's default or the default of the undersigned; (3) except as setoff is waived, agrees to be bound by and on demand to pay any deficiency or difference between all indebtedness of the Debtor and the proceeds of any private or public sale (including a sheriff's sale) of the security held by Lender, with or without notice to the undersigned; (4) agrees that liability under this Agreement will not be affected or impaired by any failure, neglect or omission, including a failure or delay to perfect or maintain perfection of a security interest, either in relation to the collection of the Indebtedness or the protection of the security given, and regardless of whether the Lender fails or omits to seek or is precluded from seeking a judgment against Debtor; and (5) further agrees that the liability of the undersigned shall not be affected by any lack of validity or enforceability due to defense, claim, discharge or otherwise of any indebtedness guaranteed by this Agreement or of the security of the indebtedness.

B. Lender may at any time and from time to time without the further consent of or notice to the undersigned, without incurring responsibility to the undersigned and without impairing or releasing the obligations of the undersigned, and upon any terms and conditions the Lender may elect: (1) change the manner, place or terms of payment or extend the time of payment of the Indebtedness of Debtor to Lender; (2) renew or alter the Indebtedness of Debtor to Lender; (3) raise or lower the interest rate or rates charged Debtor; (4) sell, exchange, release, surrender, realize upon or otherwise deal or not deal with in any manner and in any order any property at any time pledged to secure or securing the Indebtedness of Debtor to Lender or any liabilities incurred directly or indirectly under this Agreement, or any offsets against any such indebtedness or liabilities; (5) exercise or refrain from exercising any rights against Debtor or others, or otherwise act or refrain from acting; (6) settle or compromise the Indebtedness guaranteed; (7) subordinate the payment of all or part of the Indebtedness of Debtor to Lender to the payment of any liabilities which may be due Lender or others; (8) apply any sums paid by or for account of Debtor to any indebtedness of Debtor to lender regardless of what indebtedness or liability of Debtor to lender remains unpaid and regardless of which indebtedness such sums were intended to be applied; (9) release any other guarantor or any other party liable upon or for any indebtedness or other obligation guaranteed, and such release will not affect the liability under this Agreement of the undersigned or any other party not so released; (10) add or release the primary or secondary

liability of principals, guarantors or other parties; and/or (11) obtain additional collateral security.

C. The undersigned waives: (1) notice of acceptance of this Guaranty Agreement; (2) notice of the creation of any indebtedness; (3) any presentment, demand for payment, notice of default or non-payment, notice of acceleration, notice of disposition of security, notice of dishonor or protest to or upon any party and all other notices whatsoever whether required or permitted by this Guaranty Agreement, any other agreement, course of dealing, usage of trade, course of performance and, to the extent allowed, the law; (4) any exercise of any remedy which the Lender now has or later acquires against the Debtor or any other party; (5) any impairment of collateral, including, but not limited to, the failure to perfect, or maintain perfection of, a security interest in collateral; and (6) any event, or any act or omission of the Lender (except acts or omissions in bad faith) which materially increases the scope of the undersigned's risk as guarantor, including the manner of administration of the loan and changes in the form or manner in which any party does business or in their financial condition and any notice of any such change.

D. Until such time as the Indebtedness is paid in full this Guaranty Agreement shall be absolute, unconditional and continuing guaranty of payment and not of collection and shall be binding upon the undersigned, and its successors: (1) regardless of the death or cessation of existence of any of the undersigned or of any guarantor or any other party liable upon any indebtedness or other obligation hereby guaranteed; (2) irrespective of any defenses, claim or discharge available to the Debtor under law or under any agreement with the Lender; and (3) irrespective of any failure or delay by the Lender to perfect or keep perfected any lien or security interest in any collateral. This Guaranty Agreement is an independent obligation which is separately enforceable from the obligation of the Debtor.

E. All rights of the Lender are cumulative and not alternative to other rights. Suit may be brought against the undersigned or other parties liable, jointly and severally; and against any one or more of them, and against all or less than all, without impairing the rights of the Lender, its successors or assigns, against others of the undersigned. The Lender may settle with any one of the undersigned or any other party for such sum or sums as it may see fit and release such of the undersigned or other parties from all further liability to the Lender for such indebtedness without impairing the right of the Lender to demand and collect the balance of such indebtedness from others of the undersigned not so released.

F. The Lender may assign this Agreement or any of its rights and powers under it, with all or any part of the indebtedness guaranteed, and may assign to any such assignee any of the security for the indebtedness. In the event of such assignment, the assignee shall have the same rights and remedies as if originally named in this Agreement in place of Lender, and the Lender shall thereafter be fully discharged from all responsibility with respect to any such indebtedness so assigned.

G. Unless expressly limited by specific writing set forth in this Guaranty Agreement, it is understood to be unlimited in amount. If limited, it is understood the limit means a fixed amount or percentage of any indebtedness remaining after application of the actual proceeds of the disposition of any security to any unguaranteed portion of the indebtedness.

The Indebtedness guaranteed is Promissory Note of Lender #37516 signed by Debtor, in the original amount of $1,985,508.00 and all extensions and renewals thereof and all interest thereon and attorney fees and other costs of attempting to collect the Indebtedness from Debtor. Notwithstanding anything seemingly to the contrary herein, the obligations of the undersigned in the aggregate under this Guaranty Agreement and any other Guarantee made by the undersigned in favor of Lender in connection with the debts listed on Exhibit A to Lender, is limited to an amount equal

to the value, from time to time, of the Investment Property subject to a security interest granted Lender in a Security Agreement of even date herewith.

H. Until the Indebtedness has been paid in full, the undersigned agrees to provide to the Lender from time to time upon demand such financial statements, copies of tax returns, and other information as to the undersigned as the Lender may reasonably require.

I. Any deposits or other sums credited by or due from the Lender to the undersigned may be set off against any and all liabilities of the undersigned to the Lender arising under the terms of this Guaranty Agreement. The rights granted by this paragraph shall be in addition to the rights of the Lender under any statutory banker's lien or common law right of offset.

J. Until the Indebtedness of the Debtor have been paid in full, the undersigned specifically waives all rights of subrogation to the rights of the Lender, any claim to any security or its value to which the Lender has recourse, and all rights of reimbursement or contribution from other parties, whether principals or sureties, accommodation parties or guarantors.

K. Notwithstanding the provisions of any note or obligation to which this Guaranty Agreement applies, it is the intention of the parties, and it is here provided, that a Guarantor shall not be liable for interest charges in excess of the maximum amount permitted under the law applicable to this Guaranty Agreement.

L. The undersigned specifically waives any right to setoff under 12 O.S., Sec. 686, 15 O.S., Sec. 341, or any like statutes, and agree that the Lender may apply the actual proceeds from the disposition of any security first to any unguaranteed portion of the indebtedness. Any party to this Guaranty Agreement has right to waive trial by jury and waives all objections to venue in any action instituted by the Lender arising out of this Guaranty Agreement.

M. Until such time as the Indebtedness is paid in full, the undersigned waive, as of the date of this Guaranty Agreement, any claim, as that term is defined in the Federal Bankruptcy Code, which the undersigned might have or acquire against the Debtor arising from the existence or performance of the undersigned's obligations under this Guaranty Agreement, and to that extent the undersigned is not a creditor of the Debtor. In addition to the waiver of the status of creditor, it is agreed that the indebtedness guaranteed under this Guaranty Agreement excludes all portions of the indebtedness paid by the Debtor during the period of time within one year prior to the filing of any bankruptcy, reorganization or insolvency proceedings by or against the Debtor. If any payment made by the Debtor to the Lender is determined to be avoidable under applicable state law or the Federal Bankruptcy Code, to that extent, if demanded by the Lender, this Guaranty Agreement is deemed to be reinstated to include the amount within the indebtedness under this Guaranty Agreement.

N. The undersigned, by signing below, acknowledge having read this Guaranty Agreement, having reviewed it to the extent desired with their legal counsel, and receiving a copy of it and also receiving an explanation of any questions. The undersigned also have read any cosigner notice provided by Lender. The undersigned understand that the undersigned may have to pay any indebtedness or obligation covered by this Guaranty Agreement in the event the Debtor fails or refuses to do so. The undersigned also represent that they are aware of the financial condition of Debtor and acknowledge a responsibility to maintain a close watch on that financial condition as long as this Guaranty Agreement is outstanding and that they are not relying on the Lender to provide information on the Debtor's financial condition, now or in the future.

P. This Guaranty and the obligations evidenced in it are to be construed and governed by the laws of the state indicated in the address of Lender shown above.

Q. This Agreement supersedes all prior guaranty agreements and understanding between the undersigned and the Lender and constitutes the entire Guaranty Agreement between them. There are no understandings, agreements, representations or conditions, oral or written, between the undersigned and the Lender except as set forth in this Agreement and related written loan documents. This Guaranty Agreement may not be amended or modified except by a writing signed by the undersigned and the Lender. No condition as to the effectiveness or enforcement of this Guaranty Agreement exists except as stated in this Agreement.

WITNESSES' SIGNATURES GUARANTOR SIGNATURES

PRIME FINANCIAL CORPORATION

By:

EXHIBIT A
TO
GUARANTY AGREEMENT OF
PRIME FINANCIAL CORPORATION
EFFECTIVE APRIL 21, 2000

SBL CORPORATION
Note: #37516
Principal Amount: $1,985,508.00
Note Date: 10-16-1997

AMY G. RAPPAPORT #J-1 TRUST
Note: #37521
Principal Amount: $73,908.00
Note Date: 10-16-1997

LORI R. RAPPAPORT #J-1 TRUST
Note: #37519
Principal Amount: $71,776.00
Note Date: 10-16-1997

STACY L. RAPPAPORT #J-1 TRUST
Note: #37520
Principal Amount: $71,776.00
Note Date: 10-16-1997

ADAM Z. GOLSON #J-1 TRUST
Note: #37522
Principal Amount: $71,776.00
Note Date: 10-16-1997

STEVEN J. GOLSEN 1992 TRUST
Note: #37518
Principal Amount: $139,680.00
Note Date: 10-16-1997

BARRY H. GOLSEN 1992 TRUST
Note: #37524
Principal Amount: $149,680.00
Note Date: 10-16-1997

SYLVIA H. GOLSEN 1992 TRUST
Note: #37517
Principal Amount: $140,532.00
Note Date: 10-16-1997

JOSHUA B. GOLSEN #J-1 TRUST
Note: #37526
Principal Amount: $73,908.00
Note Date: 10-16-1997

MICHELLE L. GOLSEN #J-1 TRUST
Note: #37523
Principal Amount: $71,776.00
Note Date: 10-16-1997

LINDA F. RAPPAPORT 1992 TRUST
Note: #37525
Principal Amount: $149,680.00
Note Date: 10-16-1997

SECURITY AGREEMENT - Investment Property

Date of Agreement
Effective April 21, 2000

Debtor Name and Address	Lender Name and Address
PRIME FINANCIAL CORPORATION 16 South Pennsylvania Ave Oklahoma City, OK 73107	STILLWATER NATIONAL BANK AND TRUST COMPANY 6305 Waterford Blvd., Suite 205 Oklahoma City, OK 73118

As of the date indicated above, the undersigned Debtor and the undersigned Lender agree as follows:

I. GRANT OF A SECURITY INTEREST. For value received, the Undersigned (hereinafter individually referred to as "Debtor") hereby grants to Lender named above a security interest in the property described in Paragraph II, which property is hereinafter referred to collectively as "Collateral". This security interest is given to secure all the obligations of the Debtor to Lender as more fully set forth in Paragraphs IV and V hereof.

II. COLLATERAL.

A. The Collateral shall include all Investment Property and the proceeds thereof as currently defined or may hereafter be defined in the Oklahoma Uniform Commercial Code, including, but not limited to , all issued and outstanding shares of common stock owned or held by Debtor in LSB Industries, Inc., represented by the certificates described in Exhibit "A" attached hereto and made a part hereof and all proceeds.

B. OWNERSHIP OF COLLATERAL. Debtor warrants that the Collateral is currently owned by Debtor..

C. LOCATION OF COLLATERAL. Debtor shall deliver the certificates identified on Exhibit A on the date it signs this Security Agreement.

III. ADDRESS OF DEBTOR. Debtor warrants that the address shown above is now or will become Debtors principal place of business and the location of its book keeping and the location of its accounts. Debtor agrees to notify Lender Promptly of any Change in address.

IV. OBLIGATIONS OF DEBTOR SECURED BY THIS AGREEMENT. The security interest herein granted is given to secure all of the obligations of Debtor to Lender including: A. The performance of all agreements, covenants and warranties of the Debtor as set forth in this or any other agreement between the parties; B. The payment of Debtor's obligations under its Guaranty Agreement of even date herewith, wherein it guarantees the payment of the indebtedness, as therein defined, of SBL CORPORATION; C. All expenditures by Lender involving the performance of or enforcement of any agreement, covenant or warranty provided for by this or any other agreement between the parties; and D. All costs, attorney's fees and other expenditures of Lender in the collection and enforcement of any obligation or liability of Debtor to Lender and in the collection and enforcement of or realization upon any of the Collateral.

V. ADDITIONAL PROVISIONS. Debtor agrees to the Additional Provisions set forth on pages 3-5 hereof, the same being incorporated herein by reference.

Lender Name and Address	Debtor Signature
Stillwater National Bank and Trust Company 6305 Waterford Blvd, Suite 205 Oklahoma City, OK 73118	PRIME FINANCIAL CORPORATION By:

ADDITIONAL PROVISIONS

DEBTOR EXPRESSLY WARRANTS, COVENANTS AND AGREES

WARRANTIES AND COVENANTS

A. RECORDS AND INFORMATION

1. Financial Information. All loan applications, balance sheets, earnings statements, other financial information and other representations which have been, or may hereafter be, furnished to Lender to induce it to enter into or continue a financial transaction with Debtor fairly represent the financial condition of Debtor as of the date and the period shown therein, and all other information, reports, documents, papers and data furnished to Lender are or shall be, at the time furnished, accurate and correct in all material respects and complete insofar as completeness may be necessary to give Lender a true and accurate knowledge of the subject matter. There has been no material change in the financial condition of Debtor since the effective date of the last furnished financial information which has not been reported to Lender in writing.

2. Furnishing of Information on Collateral. Debtor will furnish Lender information adequate to identify with accuracy all collateral in a form and substance and at times as may be requested by Lender. Debtor will execute such documents as Lender may from time to time require to enable Lender to perfect the security interest granted hereby and to receive proceeds of and distributions from or interests in the Collateral.

3. Books and Records - Right of Audit. Debtor will at all times maintain accurate books and records covering the Collateral. Immediately upon the execution of this Agreement and thereafter, Debtor will mark all books and records with an entry showing the security interest of Lender in the Collateral in which Lender has a security interest.

Lender is hereby given the right and privilege of making such inspections of the Collateral as it deems necessary and of auditing or causing an audit or verification of the books and records of the Debtor relating to the Collateral at any time and from time to time, including the contacting of customers or suppliers of Debtor in connection with such audit or verification. Debtor agrees to assist Lender in every way necessary to facilitate such audits, verifications and inspections.

4. Location of Records and Inventory. Debtor shall give Lender written notice of each office or location of Debtor at which records of Debtor pertaining to accounts and other Collateral are kept, and of the location of each place of business and of its chief executive office, of the location at which inventory is or will be kept, and of any changes or discontinuances in said office, offices, location or locations. Debtor shall not be under requirement to give such notice if all inventory and all records of Debtor pertaining to the Collateral are kept and shall be kept at Debtor's address shown herein, and if such address is Debtor's chief executive office.

B. LIEN STATUS, INSURANCE AND ORDINARY COURSE DESCRIPTION

1.Ownership Free of Encumbrances. Except for the security interest granted hereby, Debtor now owns the Collateral free from any prior liens, security interests or encumbrances, and Debtor warrants title to and will defend the Collateral against all claims and demands of persons claiming any interest therein adverse to the Lender. Debtor will not permit any liens or security interests other than the Lender's security interest to attach to any of the Collateral, will not permit the Collateral to be levied upon or attached under any legal process, or permit any other thing to be done that may impair the value of the Collateral or the security interest afforded hereby.

2. Sale, Lease or Disposition of Collateral Prohibited. Debtor shall not sell, transfer, exchange or otherwise dispose of the Collateral or any part thereof or the Debtor's rights therein without first obtaining the prior written consent of Lender. The consent of Lender may be conditioned upon any requirements which the Lender deems to be for its protection; and it is understood and agreed that such consent will not be deemed to be effective

unless and until such requirements and conditions have been fulfilled.

3. Financing Statement. No Financing Statement, or other instrument of encumbrance, covering Collateral is on file in any public office. Debtor agrees to join with Lender in executing one or more Financing Statements, or other instrument of encumbrance, in form satisfactory to Lender, in order to perfect, or to continue perfection of, the security interest of Lender which may arise hereunder.

4. Taxes. Debtor shall promptly pay any and all taxes, assessments and license fees with respect to the Collateral or the use of the Collateral.

C. PROCEEDS

3. Promissory Notes, Chattel Paper, Instruments and Documents. If any of the Collateral is or becomes evidenced by promissory notes, trade acceptances, chattel paper, documents or other instruments or writings for the payment of money, whether by reason of the disposition of inventory, the collection of any account or for any other reason, Debtor shall immediately deliver and pledge same to Lender, appropriately assigned or endorsed to the order of the Lender. Regardless of the form of such assignment or endorsement, Debtor hereby waives presentment, demand, notice of dishonor, protest and notice of protest, and all other notices with respect thereto.

EVENTS OF DEFAULT

Debtor shall be in default under this Agreement upon the happening of any of the following events or conditions, herein called "Events of Default":

1. Any warranty, covenant, agreement, representation, financial information or statement made or furnished to Lender by or in behalf of Debtor to induce Lender to enter into this Agreement, or in conjunction therewith, is violated or proves to have been false in any material respect when made or furnished.

2. Any payment required hereunder is not made when due or in accordance with terms of the applicable contract.

3. Debtor defaults in the performance of any covenant, obligation, warranty or provision contained herein.

4. The occurrence of any event or condition which results in acceleration of the maturity of the obligation of Debtor to Lender provided herein.

5. The making of any levy against or seizure, garnishment or attachment of any Collateral, the consensual encumbrance thereof by Debtor, or the sale, lease or other disposition of Collateral by Debtor without the prior written consent of Lender as required elsewhere in this Agreement, except inventory sold in the ordinary course of business.

6. Any time Lender in its sole discretion believes the prospect of payment or performance of any liability, covenant, warranty or obligation secured hereby is impaired.

7. The death, dissolution, termination of existence or insolvency of Debtor, the appointment of a receiver over any part of Debtor's property or any part of the Collateral, an assignment for the benefit of creditors, or the commencement of any proceeding under any bankruptcy or insolvency law by or against Debtor or any guarantor or surety for Debtor.

REMEDIES

Upon the occurrence of an Event of Default, and at any time thereafter, Lender may at its option and without notice or demand to Debtor except as otherwise provided by law exercise any and all rights and remedies provided by the Uniform Commercial Code of the state of Oklahoma as well as all other rights and remedies possessed by Lender, including, but not limited to:

1. Declare all liabilities secured hereby immediately due and payable, and/or proceed to enforce payment and performance of all liabilities secured hereby.

2. Possess all books and records evidencing or pertaining to the Collateral, and for this purpose Lender is hereby given authority to enter into and upon any premises at which such books and records or any part of them may be situated, and to remove them.
money at the time of any acceleration upon default even though such charges made are entered on the Lender's books subsequent thereto.

3. Transfer any of the Collateral or evidence thereof into its own name or that of a nominee and receive the proceeds therefrom

and hold the same as security for the liabilities of Debtor to Lender or apply it on or against any such liability. Lender may also demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, release or realize upon Collateral in its own name or in the name of the Debtor as Lender may determine.

4. Sell or other wise dispose of the Collateral. Lender will give Debtor reasonable notice of the time and place of any public sale, or of the time after which any private sale or other disposition is to be made. Any requirement of notice shall be met if notice is mailed, postage prepaid, to the address of Debtor provided herein and faxed to (405) 236-1209, at least ten days before sale or other disposition or action. Lender shall be entitled to, and Debtor shall be liable for, all reasonable costs and expenditures incurred in realizing on its security interest, including without limitation, court costs, selling costs and reasonable attorneys' fees as set forth in any guaranty agreement. All such costs shall be secured by the security interest in the Collateral covered herein.

5. Lender shall not be liable for any act or omission on the part of Lender, its officers, agents or employees, except as the same constitutes a lack of good faith or failure to act in a commercially reasonable manner. Lender shall have acted in a commercially reasonable manner if its action or non-action is consistent with the general usage of lenders in the area of Lender's location at the time the action or non-action occurs, but this standard shall not constitute disapproval of any procedures which may be otherwise reasonable under the circumstances nor require Lender to take necessary steps to preserve rights against prior parties in an instrument or chattel paper.

GENERAL

1. Expenditures of Lender. At its option and after any written notice to Debtor required by law, which notice Debtor and Lender hereby agree is sufficient if mailed, postage prepaid, to the address of Debtor provided for herein at least ten days before the commencement of the performance of the duties specified herein, it is agreed Lender may discharge taxes, liens, security interests or other encumbrances on the Collateral. Debtor shall be liable for and agrees to pay Lender for all expenditures of Lender for taxes on the Collateral, for the discharge of liens, security interests or other encumbrances on the Collateral, and for all costs, attorneys' fees and other disbursements of Lender in connection with the foregoing. Debtor agrees promptly to reimburse Lender for all such expenditures and until such reimbursement the amounts of such expenditures shall be considered a liability of Debtor to Lender which is secured by this Agreement. Debtor agrees promptly to reimburse Lender for all such expenditures, and until such reimbursement the amounts of such expenditures shall be considered a liability of Debtor to Lender which is secured by this Agreement.

2. Right to Offset. Any property, tangible or intangible, of Debtor in possession of Lender at any time during the term hereof, or any indebtedness due from Lender to Debtor and any deposit or credit balances due from Lender to Debtor, or any of the foregoing of any party hereto is pledged to secure payment hereof and may at any time while the whole or any part of Debtor's indebtedness to Lender remains unpaid, whether before or after maturity thereof, be appropriated, held or applied toward the payment of any obligation of Debtor to Lender.

3. Applicable Law. The law of the State of Oklahoma shall control this Agreement.

4. Waivers. No act, delay or omission, including Lender's waiver of remedy because of any default hereunder, shall constitute a waiver of any of Lender's rights and remedies under this Agreement or any other agreement between the parties. All rights and remedies of Lender are cumulative and may be exercised singularly or concurrently, and the exercise of any one or more remedy will not be a waiver of any other. No waiver, change, modification or discharge of any of Lender's rights or of Debtor's duties as so specified or allowed will be effective unless in writing and signed by a duly authorized officer of Lender, and any such waiver will not be a bar to the exercise of any right or remedy on any subsequent default.

5. Agreement Binding on Assigns. This Agreement shall inure to the benefit of the successors and assigns of Lender and shall be binding upon the successors and assigns of Debtor.

6. Rights of Lender Assignable. Lender at any time and at its option may pledge, transfer or assign its rights under this Agreement in whole or in part, and any pledgee, transferee, or

assignee shall have all the rights of Lender as to the rights or parts thereof so pledged, transferred or assigned. The rights of the Debtor hereunder may not be assigned.

7. Separability of Provisions. If any provision of this Agreement shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid or unenforceable provision had never been contained herein.

9. Copies. A carbon, photographic, or other reproduction of this Security Agreement or of any financing statement prepared or filed with respect hereto is sufficient as a financing statement.

10.Notice of Name Change, etc. Debtor will immediately notify Lender of any change in his, her, its, or their name, identity, or organizational or corporate structure.

EXHIBIT A

Exhibit A

Owner	CUSIP Number	Quantity	Date Issued	Certificate Number
Prime Financial	502160104	20,900	10/4/1994	OKS 7570
Prime Financial	502160104	227,000	10/4/1994	OKS 7561
Prime Financial	502160104	17,000	10/11/1994	OKS 7585
Prime Financial	502160104	90,000	10/19/1994	OKS 7528
Prime Financial	502160104	224,416	5/23/1995	OKS 10622
Prime Financial	502160104	1,000	3/28/1996	OKS 10926
Prime Financial	502160104	1,500	3/28/1996	OKS 10927
Prime Financial	502160104	1,000	3/28/1996	OKS 10925
Prime Financial	502160104	10,000	9/16/1996	OKS 11139
Prime Financial	502160104	5,000	9/17/1996	OKS 11142
Prime Financial	502160104	5,000	9/19/1996	OKS 11147
Prime Financial	502160104	6,000	1/10/1997	OKS 11242
Prime Financial	502160104	1,000	1/16/1997	OKS 11246
Prime Financial	502160104	2,200	4/16/1997	OKS 11288
Prime Financial	502160104	6,000	4/29/1997	OKS 11309
Prime Financial	502160104	10,500	4/29/1997	OKS 11312
Prime Financial	502160104	4,000	4/29/1997	OKS 11304
Prime Financial	502160104	11,000	4/29/1997	OKS 11313
Prime Financial	502160104	5,000	4/29/1997	OKS 11305
Prime Financial	502160104	15,000	4/29/1997	OKS 11314
Prime Financial	502160104	6,000	4/29/1997	OKS 11308

Prime 502160104 5,000 4/29/1997 OKS
11306
Financial
Prime 502160104 10,000 4/29/1997 OKS
11311
Financial
Prime 502160104 8,000 4/29/1997 OKS
11310
Financial
Prime 502160104 6,000 4/29/1997 OKS
11307
Financial
Prime 502160104 34,550 4/30/1997 OKS
11318
Financial
Prime 502160104 2,000 5/1/1997 OKS
11320
Financial
Prime 502160104 2,000 5/1/1997 OKS
11321
Financial
Prime 502160104 4,000 5/1/1997 OKS
11322
Financial
Prime 502160104 2,000 5/1/1997 OKS
11319
Financial
Prime 502160104 25,000 7/16/1997 OKS
11366
Financial
Prime 502160104 14,000 8/1/1997 OKS
11381
Financial
Prime 502160104 17,000 8/1/1997 OKS
11384
Financial
Prime 502160104 23,000 8/5/1997 OKS
11387
Financial
Prime 502160104 19,000 8/8/1997 OKS
11389
Financial
Prime 502160104 20,000 9/16/1997 OKS
11140
Financial
Prime 502160104 295 9/18/1997 OKS
11400
Financial
Prime 502160104 16,000 1/9/1998 OKS
11473
Financial
Prime 502160104 500 1/9/1998 OKS
11471
Financial
Prime 502160104 3,000 1/9/1998 OKS
11472
Financial
Prime 502160104 2,000 1/13/1998 OKS
11475
Financial
Prime 502160104 21,000 1/13/1998 OKS
11476
Financial
Prime 502160104 4,000 1/16/1998 OKS
11478
Financial
Prime 502160104 3,000 2/4/1998 OKS
11490
Financial
Prime 502160104 50,000 2/4/1998 OKS
11491
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Prime 502160104 25,000 3/26/1998 OKS
11519
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Prime 502160104 50,000 3/26/1998 OKS
11518
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Prime 502160104 31,100 3/26/1998 OKS
11517
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Prime 502160104 8,200 3/26/1998 OKS
11516
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Prime 502160104 3,000 3/26/1998 OKS
11515
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Prime 502160104 3,000 3/26/1998 OKS
11514
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Prime 502160104 3,000 3/26/1998 OKS
11512
Financial
Prime 502160104 3,000 3/26/1998 OKS
11513
Financial
Prime 502160104 3,000 3/26/1998 OKS
11494
Financial
Prime 502160104 2,500 5/21/1998 OKS
11531
Financial
Prime 502160104 1,100 5/21/1998 OKS
11530
Financial
Prime 502160104 5,000 6/19/1998 OKS
11538
Financial
Prime 502160104 46,500 7/8/1998 OKS
11547
Financial
Prime 502160104 15,000 7/8/1998 OKS
11544
Financial
Prime 502160104 2,000 7/8/1998 OKS
11541
Financial
Prime 502160104 25,000 7/8/1998 OKS
11546
Financial
Prime 502160104 25,000 7/8/1998 OKS
11545
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Prime 502160104 13,000 7/8/1998 OKS
11543
Financial
Prime 502160104 10,000 7/8/1998 OKS
11542
Financial
Prime 502160104 19,500 7/13/1998 OKS
11549
Financial
Prime 502160104 11,000 7/16/1998 OKS
11554
Financial
Prime 502160104 23,000 7/16/1998 OKS
11550
Financial
Prime 502160104 25,000 7/16/1998 OKS
11551
Financial
Prime 502160104 30,000 7/16/1998 OKS
11552
Financial
Prime 502160104 3,000 7/17/1998 OKS
11560
Financial
Prime 502160104 2,000 8/25/1998 OKS
11559
Financial
Prime 502160104 1,000 8/27/1998 OKS
11561
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Prime 502160104 500 9/1/1998 OKS
11564
Financial
Prime 502160104 500 9/1/1998 OKS
11563
Financial
Prime 502160104 95,300 9/3/1998 OKS
11565
Financial

Prime 502160104 17,500 9/15/1998 OKS
11566
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Prime 502160104 1,000 9/16/1998 OKS
11568
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Prime 502160104 2,000 9/16/1998 OKS
11567
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Prime 502160104 2,000 9/18/1998 OKS
11573
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Prime 502160104 2,000 9/22/1998 OKS
11574
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Prime 502160104 1,000 9/23/1998 OKS
11575
Financial
Prime 502160104 206,500 9/24/1998 OKS
11576
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Prime 502160104 5,000 9/25/1998 OKS
11579
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Prime 502160104 1,600 9/25/1998 OKS
11578
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Prime 502160104 16,000 9/28/1998 OKS
11580
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Prime 502160104 29,000 9/29/1998 OKS
11582
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Prime 502160104 40,000 9/30/1998 OKS
11583
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Prime 502160104 6,000 10/2/1998 OKS
11584
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Prime 502160104 1,200 10/8/1998 OKS
11585
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Prime 502160104 5,600 10/12/1998 OKS
11586
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Prime 502160104 9,100 10/13/1998 OKS
11587
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Prime 502160104 500 10/15/1998 OKS
11562
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Prime 502160104 6,000 10/16/1998 OKS
11588
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Prime 502160104 25,000 12/17/1998 OKS
11598
Financial
Prime 502160104 4,700 12/21/1998 OKS
11599
Financial
Prime 502160104 12,000 12/22/1998 OKS
11600
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Prime 502160104 4,000 12/22/1998 OKS
11601
Financial
Prime 502160104 10,000 12/28/1998 OKS
11602
Financial
Prime 502160104 6,000 12/29/1998 OKS
11604
Financial
Prime 502160104 13,500 12/29/1998 OKS
11605
Financial
Prime 502160104 2,000 12/29/1998 OKS
11603
Financial
Prime 502160104 6,000 1/6/1999 OKS
11606
Financial

Certificate	Holder	CUSIP	Shares	Date	Location
11609	Prime Financial	502160104	3,000	1/11/1999	OKS
11611	Prime Financial	502160104	17,600	1/22/1999	OKS
11613	Prime Financial	502160104	1,000	1/26/1999	OKS
11614	Prime Financial	502160104	3,500	1/28/1999	OKS
11615	Prime Financial	502160104	500	2/8/1999	OKS
11616	Prime Financial	502160104	1,000	2/8/1999	OKS
11635	Prime Financial	502160104	2,000	2/15/1999	OKS
11627	Prime Financial	502160104	20,000	2/17/1999	OKS
11628	Prime Financial	502160104	2,000	2/17/1999	OKS
11630	Prime Financial	502160104	2,000	2/26/1999	OKS
11632	Prime Financial	502160104	500	2/26/1999	OKS
11631	Prime Financial	502160104	1,000	2/26/1999	OKS
11633	Prime Financial	502160104	5,000	3/2/1999	OKS
11634	Prime Financial	502160104	3,000	3/4/1999	OKS
11636	Prime Financial	502160104	1,000	3/15/1999	OKS
11637	Prime Financial	502160104	1,000	3/15/1999	OKS
11638	Prime Financial	502160104	9,600	3/22/1999	OKS
11656	Prime Financial	502160104	9,500	5/5/1999	OKS
11655	Prime Financial	502160104	2,000	5/5/1999	OKS
11677	Prime Financial	502160104	7,000	7/19/1999	OKS
		Total Shares Owned by Prime Financial	1,973,461		

EXHIBIT C
TO
AGREEMENT AMONG
STILLWATER NATIONAL BANK AND TRUST COMPANY
PRIME FINANCIAL CORPORATION
AND
SBL CORPORATION
EFFECTIVE APRIL 21, 2000

SBL CORPORATION
Note: #37516
Principal Amount: $1,985,508.00
Note Date: 10-16-1997

AMY G. RAPPAPORT #J-1 TRUST

Note: #37521
Principal Amount: $73,908.00
Note Date: 10-16-1997

LORI R. RAPPAPORT #J-1 TRUST
Note: #37519
Principal Amount: $71,776.00
Note Date: 10-16-1997

STACY L. RAPPAPORT #J-1 TRUST
Note: #37520
Principal Amount: $71,776.00
Note Date: 10-16-1997

ADAM Z. GOLSON #J-1 TRUST
Note: #37522
Principal Amount: $71,776.00
Note Date: 10-16-1997

STEVEN J. GOLSEN 1992 TRUST
Note: #37518
Principal Amount: $139,680.00
Note Date: 10-16-1997

BARRY H. GOLSEN 1992 TRUST
Note: #37524
Principal Amount: $149,680.00
Note Date: 10-16-1997

SYLVIA H. GOLSEN 1992 TRUST
Note: #37517
Principal Amount: $140,532.00
Note Date: 10-16-1997

JOSHUA B. GOLSEN #J-1 TRUST
Note: #37526
Principal Amount: $73,908.00
Note Date: 10-16-1997

MICHELLE L. GOLSEN #J-1 TRUST
Note: #37523
Principal Amount: $71,776.00
Note Date: 10-16-1997

LINDA F. RAPPAPORT 1992 TRUST
Note: #37525
Principal Amount: $149,680.00
Note Date: 10-16-1997

AGREEMENT

THIS AGREEMENT (the "Agreement") made and entered into effective the 21st day of April, 2000, by and between the STILLWATER NATIONAL BANK AND TRUST COMPANY OF STILLWATER, OKLAHOMA, a National Banking Corporation (hereinafter "SNB"), SBL CORPORATION, an Oklahoma Corporation (hereinafter "SBL") and PRIME FINANCIAL CORPORATION, an Oklahoma Corporation (hereinafter "PRIME").

W I T N E S S E T H:

WHEREAS, SNB and SBL CORPORATION (hereinafter "SBL") entered into a Credit Agreement (the Credit Agreement") effective the 16th day of October, 1997, wherein and whereby BANK agreed to extend and did extend credit to SBL in the amount of $1,985,508.00 (the "Indebtedness"); and

WHEREAS, the Credit Agreement contained a covenant wherein SBL covenanted and agreed with SNB that the investment property granted SNB as security for the payment of the Indebtedness would, during the term of the credit, maintain a market value of not less than two (2) times the indebtedness or a value to debt ratio of 2:1; and

WHEREAS, the Credit Agreement provided that a violation of any covenant, including the covenant that the investment property granted as security for the payment of the Indebtedness maintain a value to debt ratio of 2:1, would constitute an event of default entitling SNB to declare the Indebtedness immediately due and payable; and

WHEREAS, SBL, the current guarantors of the Indebtedness and PRIME requested SNB not to declare a default and, in consideration thereof PRIME agreed to execute and deliver to SNB its guaranty agreement wherein, in accordance with its terms, PRIME will guaranty the payment of the Indebtedness and secure its obligations under the guaranty agreement by granting SNB a security interest in all shares of common stock in LSB INDUSTRIES, INC. currently owned by PRIME with the liability of PRIME under the guaranty agreement limited as set forth in paragraph 5 hereof; and

WHEREAS, SNB has agreed to accept the offer of PRIME under the terms and conditions thereof and the parties desire to memorialize their agreement as hereinafter set forth.

NOW, THEREFORE, it is agreed by and between the parties hereto as follows:

1. SNB and SBL agree that the value of the investment property in which SBL granted SNB a security interest to secure the payment of the Indebtedness does not have a current value of two (2) times the unpaid balance of its Indebtedness. SNB and SBL further agree that the failure to maintain the value to debt ratio of 2:1 constitutes an event of default under the Credit Agreement and entitles SNB to declare the Indebtedness immediately due and payable.

2. SBL and PRIME requested SNB to waive and not to declare a default and in consideration of SNB waiving and not declaring a default, PRIME has offered to execute and deliver to SNB its guaranty of payment of the indebtedness as limited by Section 5 below and as provided in the guaranty agreement (its "Guaranty" a copy of which is annexed hereto as "Exhibit A") and to secure its obligations under its Guaranty by granting SNB a security interest in all shares of common stock in LSB Industries, Inc., currently owned by PRIME (its "Security Agreement" a copy of which is annexed hereto as "Exhibit B") and delivering the certificates representing the shares to SNB.

3. SNB has accepted the offer of PRIME and agrees that on receipt of the executed Guaranty wherein PRIME guarantees the payment of the Indebtedness and receipt of the executed Security Agreement and receipt of all of the common stock of PRIME in LSB Industries currently owned by PRIME to SNB, to permanently waive, for the duration of the Indebtedness, the value to debt ratio requirement contained in the Credit Agreement and any default resulting from SBL's failure to comply therewith.

4. PRIME agrees to furnish SNB such other documents as SNB may reasonably request to perfect SNB'S security interest all of the common stock of PRIME in LSB Industries, Inc. currently owned by PRIME.

5. The parties agree that the obligations of PRIME, in the aggregate, under its Guaranty and under other documents referred to herein and under the Guarantees of Indebtedness relating to loans by SNB to those persons or entities listed on Exhibit C shall be limited to the value, from time to time, of the common stock of LSB Industries, Inc., given SNB by PRIME to secure its obligations under its Guaranty and the Guarantees of the Indebtedness relating to loans to those persons or entities listed on Exhibit C.

IN WITNESS WHEREOF, we the undersigned have executed this Amendment and Modification Agreement the date and year first above written.

PRIME FINANCIAL CORPORATION, an Oklahoma Corporation

By

STILLWATER NATIONAL BANK AND TRUST COMPANY OF STILLWATER, OKLAHOMA

By ,
CHARLIE SMITH, Senior Vice-President

SBL CORPORATION, an Oklahoma Corporation

By ,

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this "Agreement") is made as of May 4, 2000 by and among Congress Financial Corporation (Southwest), a Texas corporation ("Lender"), LSB Industries, Inc. ("Subordinated Creditor"), DriveLine Technologies, Inc., (formerly known as Tribonetics Corporation), an Oklahoma corporation ("DriveLine") and L&S Manufacturing Corp. ("LSMC"). LSMC and DriveLine are hereinafter referred to individually and collectively as "Borrower".

RECITALS:

WHEREAS, L&S Automotive Products Co. ("LSAP"), a Delaware corporation, DriveLine and MC Automotive Acquisition Corp., an Oklahoma corporation ("MCAA") are parties to that certain Stock Purchase and Sale Agreement of even date herewith (the "Stock Purchase Agreement"), pursuant to which MCAA will purchase all shares of common stock in DriveLine owned by Subordinated Creditor; and

WHEREAS, LSAP, L&S Bearing Co. ("L&SB"), an Oklahoma corporation, LSB Extrusion Co. ("LSBE"), an Oklahoma corporation and Rotex Corporation ("Rotex"), an Oklahoma corporation as sellers ("Sellers") and DriveLine as purchaser have entered into an Asset Purchase and Sale Agreement of even date herewith (the "Asset Sale Agreement") pursuant to which DriveLine will purchase all or substantially all of the assets of the Sellers (the "Asset Sale"); and

WHEREAS, pursuant to the Stock Purchase Agreement and the Asset Sale Agreement Borrower has entered into certain credit accommodations and contractual obligations with Subordinated Creditor, including but not limited to those notes, credit accommodations and agreements described in Exhibit A attached hereto (the "Subordinated Notes"); and

WHEREAS, the Subordinated Notes are secured by among other documents, instruments and agreements, (a) that certain Secured Guaranty Agreement of even date herewith between MCAA and Subordinated Creditor (the "MCAA Guaranty"); (b) that certain Security Agreement of even date herewith by and among Borrower and Subordinated Creditor (the "Borrower Security Agreement"); (c) that certain Stock Pledge Agreement of even date herewith between Murray Cohen Revocable Trust #2 and Subordinated Creditor (the "Cohen Stock Pledge"); (d) that certain Stock Pledge Agreement of even date herewith by and between MCAA and Subordinated Creditor (the "MCAA Stock Pledge"); and (e) that certain Stock Pledge Agreement of even date herewith between DriveLine and Subordinated Creditor (the "DriveLine Stock Pledge"); and

WHEREAS, the Subordinated Notes, the Stock Purchase Agreement, the Asset Sale Agreement, the MCAA Stock Pledge, the MCAA Guaranty, the Borrower Security Agreement, the Cohen Stock Pledge and the DriveLine Stock Pledge, and all agreements, documents, instruments evidencing, governing or executed or delivered in connection therewith, including without limitation, all amendments, modifications, renewals and extensions of the foregoing are collectively referred to herein as the "Subordinated Documents;" and

WHEREAS, Lender has made, or in the future may make, credit accommodations available to Borrower pursuant to the terms and provisions of that certain Amended and Restated Loan and Security Agreement of even date herewith by and among Lender and Borrower, as amended, modified extended and restated from time to time (the "Loan Agreement"); and

WHEREAS, in order to induce Lender to make the credit accommodations described above available to Borrower, Subordinated Creditor has agreed to subordinate all of its rights and claims now existing or hereafter arising pursuant to the Subordinated Documents to the rights and claims of Lender now existing or hereafter arising against Borrower, all in accordance with the terms and provisions of this Agreement;

NOW, THEREFORE, for and in consideration of the premises and the mutual agreements contained herein, the parties hereto hereby

agree as follows:

ARTICLE I
DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the terms defined above shall have their respective meanings set forth above and the following terms shall have the following meanings:

"Borrower Stock" shall mean any and all shares of capital stock now or hereafter issued by Borrower.

"Collateral" shall mean any and all property which now constitutes or hereafter will constitute collateral or other security for payment of the Senior Indebtedness pursuant to the Senior Documents.

"Distribution" by any Person shall mean (a) with respect to any stock or partnership interest issued by such Person, the retirement, redemption, purchase or other acquisition for value of any such stock or partnership interest, (b) the declaration or payment of any dividend or other distribution on or with respect to any such stock or partnership interest, (c) any loan or advance by such Person to, or other investment by such Person in, the holder of any such stock or partnership interest, and (d) any other payment (other than ordinary salaries to employees or advances made in the ordinary course of business to employees for travel or other expenses incurred in the ordinary course of business) and other than as permitted in the Senior Documents by such Person to or for the benefit of the holder of any such stock or partnership interest.

"Person" shall mean and include an individual, a partnership, a corporation, a business trust, a joint stock company, a trust, an unincorporated association, a joint venture or other entity or a governmental authority.

"Proceeds" shall have the meaning assigned to it under the Uniform Commercial Code, shall also include "products" (as defined in the Uniform Commercial Code), and, in any event, shall include, but not be limited to (a) any and all proceeds of any insurance, indemnity, warranty, letter of credit or guaranty or collateral security payable to any grantor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to the owner of the Collateral from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any Person acting under color of governmental authority) and (c) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Senior Creditor" shall mean Lender and its successors and assigns.

"Senior Documents" shall mean any and all agreements, documents and instruments evidencing, governing or executed or delivered in connection with the Senior Indebtedness, including, without limitation, the Loan Agreement.

"Senior Indebtedness" shall mean any and all indebtedness, obligations and liabilities of every kind and character of Borrower or any obligor now or hereafter owing to Senior Creditor, whether such indebtedness, obligations and liabilities are direct or indirect, primary or secondary, joint, several or joint and several, fixed or contingent and whether incurred by Borrower as maker, endorser, guarantor or otherwise, including, without limitation, any and all indebtedness, obligations and liabilities of Borrower now or hereafter owing to Senior Creditor pursuant to or evidenced by the Senior Documents.

"Subordinated Indebtedness" shall mean any and all indebtedness, obligations and liabilities of every kind and character of Borrower, MCAA, Murray Cohen Revocable Trust #2 or any other obligor under the Subordinated Documents now or hereafter owing to Subordinated Creditor, including, without limitation, the indebtedness evidenced and to be evidenced

by the Subordinated Documents, whether such indebtedness, obligations and liabilities are direct or indirect, primary or secondary, joint, several or joint and several, fixed or contingent and whether incurred by Borrower, MCAA, Murray Cohen Revocable Trust #2 or any other obligor under the Subordinated Documents as maker, endorser, guarantor.

ARTICLE II
RIGHTS IN COLLATERAL

2.1 Priorities Regarding Collateral. Until the Senior Indebtedness has been finally and irrevocably paid in full and the commitments of Senior Creditor under the Loan Agreement shall have terminated as provided herein, any and every lien and security interest in the Collateral in favor of or held for the benefit of the Senior Creditor has and shall have priority over any lien or security interest that Subordinated Creditor might have or acquire in the Collateral notwithstanding any statement or provision contained in the Subordinated Documents or otherwise to the contrary and irrespective of the time or order of filing or recording of financing statements, deeds of trust, mortgages or other notices of security interests, liens or assignments granted pursuant thereto, and irrespective of anything contained in any filing or agreement to which any party hereto or its respective successors and assigns may now or hereafter be a party, and irrespective of the ordinary rules for determining priorities under the Uniform Commercial Code or under any other law governing the relative priorities of secured creditors. Any lien or security interest of Subordinated Creditor in the Collateral and any and all rights of Subordinated Creditor to the Collateral are and shall be inferior and subordinate to the rights of Senior Creditor thereto. Until the Senior Indebtedness has been finally and irrevocably paid in full and the commitments of Senior Creditor under the Loan Agreement shall have terminated as provided herein, Subordinated Creditor shall not make or permit any assignment, transfer, pledge or disposition of all or any part of the Subordinated Indebtedness (or any collateral or other security for the Subordinated Indebtedness).

2.2 Management of Collateral. Senior Creditor shall have the exclusive right to manage, perform and enforce the terms of the Senior Documents with respect to the Collateral, to exercise and enforce all privileges and rights thereunder according to its discretion and the exercise of its business judgment, including, but not limited to, the exclusive right to take or retake possession of the Collateral and to hold, prepare for sale, process, sell, lease, dispose of, or liquidate the Collateral, pursuant to a foreclosure or otherwise. Notwithstanding anything to the contrary contained in any document, instrument or agreement evidencing, securing or otherwise executed in connection with the incurrence of the Subordinated Indebtedness, only the Senior Creditor shall have the right to restrict or permit, or approve or disapprove, the sale, transfer or other disposition of Collateral. Accordingly, should Senior Creditor elect to exercise its rights and remedies with respect to any of the Collateral, Senior Creditor may proceed to do so without regard to any interest of Subordinated Creditor, and Subordinated Creditor waives any claims that it may have against Senior Creditor for any disposition of the Collateral. Subordinated Creditor agrees, whether or not a default has occurred in the payment of any indebtedness or the performance of any other obligations to it, that any liens on and security interests in the Collateral or any portion thereof that it might have or acquire shall automatically be fully released with respect only to the purchaser(s) of such Collateral, as to all indebtedness and other obligations secured thereby owing to Subordinated Creditor if and when Senior Creditor releases its lien in and security interest on such Collateral or any portion thereof, provided, however, that after satisfaction in full of all Obligations, the remaining proceeds, if any, shall be payable to the parties legally entitled thereto, including Subordinated Creditor (giving effect to Subordinated Creditor's Security Interest in the Collateral).

ARTICLE III
PROCEEDS

3.1 Distribution of Proceeds of Collateral. At any time during which (i) all or any part of the Senior Indebtedness remains outstanding, and whether or not the same is then due and payable, or (ii) the commitments of the Senior Creditor under the

Loan Agreement remain in effect, the Proceeds of any sale, disposition or other realization by Senior Creditor or other party hereto (or any agent therefor) upon all or any part of the Collateral shall be applied in the following order of priorities irrespective of the application of any rule of law or the defect or impairment of any Senior Document, Subordinated Document or security interest, lien or assignment thereunder:

first, to the payment of all costs and expenses of Senior Creditor and/or its agent or agents (including, without limitation, the reasonable fees and expenses of counsel to Senior Creditor) incurred in connection with the collection of such Proceeds or the protection of the rights and interests of Senior Creditor therein;

second, to the payment in full of all Senior Indebtedness in such order as Senior Creditor shall determine in its sole discretion; and

finally, to pay any surplus then remaining to the parties legally entitled thereto, including the Subordinated Creditor, the owner of the Collateral or its successors or assigns or as a court of competent jurisdiction may direct.

3.2 Contingent Obligations. For purposes of distributing the Proceeds of Collateral pursuant to this Article III, the portion of Senior Indebtedness consisting of loans or advances not yet made by Senior Creditor to Borrower under the Senior Documents shall be considered Senior Indebtedness then outstanding, and the Senior Creditor shall have the right to retain, in a cash collateral account, cash collateral equal to the amount thereof which Senior Creditor determines, in its sole discretion, may arise or exist from time to time.

3.3 Holding of Proceeds in Trust. In the event the Subordinated Creditor (or an affiliate thereof) or any party to this Agreement other than Senior Creditor receives the Proceeds of the Collateral, such party shall be deemed to hold all of such Proceeds in trust for the benefit of Senior Creditor until the application thereof in accordance with Section 3.1 hereof. No party to this Agreement shall seek to challenge the validity, enforceability, priority or perfection of any of the Senior Documents if the purpose or effect thereof would in any manner defeat or delay the distribution of the Proceeds of any Collateral in the manner set forth in Section 3.1 hereof.

ARTICLE IV
SUBORDINATION

Subordinated Creditor covenants and agrees that the Subordinated Indebtedness, howsoever evidenced and whether now existing or hereafter incurred, shall be subordinate and subordinated in right of payment, to the extent and in the manner hereinafter set forth, of all Senior Indebtedness:

(a) The holder of the Senior Indebtedness shall first be finally and irrevocably paid in cash an aggregate amount equal to the principal thereof and termination fees, if any, interest at the time due thereon, and all other costs, fees, expenses and/or obligations now or hereafter owing thereunder, and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein before any payment or Distribution (other than Permitted Payments (as defined below)) of any character, whether in cash, securities or other property, shall be made on account of the Subordinated Indebtedness or otherwise to or for the benefit of the Subordinated Creditor in respect of the Subordinated Indebtedness; and any payment or Distribution of any character, whether in cash, securities or other property, which would otherwise, but for the provisions of this Article IV, be payable or deliverable in respect of the Subordinated Indebtedness or otherwise shall be paid or delivered directly to the holder of the Senior Indebtedness (or its duly authorized representatives), until all the Senior Indebtedness shall have been irrevocably paid in full and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein.

(b) Notwithstanding the provisions of subparagraph (a)

of this Article IV, Borrower may make its regularly scheduled (i.e. uncollected and not prepaid) interest payment obligations to the Subordinated Creditor under the promissory notes of Borrower to LSB Industries, Inc., one such note in the amount of $5,934,000, and one such note in the amount of $2,732,000, executed pursuant to or contemporaneously with the Asset Purchase and Sale Agreement, substantially in the form attached hereto as Exhibit B, as and when the same are due and payable as presently provided therein and at the rate provided therein (the "Permitted Payments"); provided, however, that as a condition precedent to Borrower's right to make (and the Subordinated Creditor's right to receive) any and all such Permitted Payments:

(i) there shall not have occurred or then exist a default or event of default that is continuing under any of the Senior Indebtedness or any of the Senior Documents, or an event or condition which with notice, lapse of time or the making of such payment would constitute a default or event of default under any of the foregoing;

(ii) Borrower's Excess Availability (as defined in the Loan Agreement) shall be greater than or equal to $1,000,000 on the date of and after giving effect to each Permitted Payment;

(iii) Subordinated Creditor shall have completed the Asset Sale and the Stock Purchase (as defined in the Senior Documents) and there shall be no default under the terms and conditions thereof;

(iv) there shall at all times be at least a $_____ [Balance as of May 4, 2000] outstanding principal balance owing on the Subordinated Notes; and

(v) the Senior Creditor, on or before the fifteenth (15th) day preceding the date of any such payment, shall have received a certificate, executed by the Chief Executive Officer and Chief Financial Officer of the of Borrower, which certifies, in form, substance and detail satisfactory to the Senior Creditor in its sole discretion, that the foregoing conditions precedent to any payment to the Subordinated Creditor as set forth in subparagraph (b)(i), (b)(ii), and (b)(iii) of this Article IV have been satisfied.

(c) The Subordinated Creditor agrees to promptly notify the Senior Creditor in writing of any default or event of default that is continuing on any Subordinated Indebtedness or otherwise or under any of the Subordinated Documents and further agrees not to exercise any right or remedy or take any enforcement action with respect to any default or event of default on any of the Subordinated Indebtedness or otherwise or under any of the Subordinated Documents until such time as the Senior Indebtedness has been irrevocably paid in full and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein. Without limiting any of the foregoing, any failure of Borrower to perform any of its obligations to the Subordinated Creditor as a result of any of the prohibitions, restrictions or limitations set forth in this Agreement shall not constitute the basis for a default or event of default on any Subordinated Indebtedness or under any Subordinated Documents. An Event of Default (as defined in the Loan Agreement) under the Loan Agreement shall not be the cause of an event of default under the Subordinated Notes.

(d) Except as provided in (b) above, no reimbursement, payment, direct or indirect, or disbursement of other property or assets of Borrower shall be made by Borrower on account of the Subordinated Indebtedness or otherwise or received, accepted, retained or applied by the Subordinated Creditor on Borrower's account with respect to the Subordinated Indebtedness (except for the account and benefit of Senior Creditor, which shall be held in trust for Senior Creditor, or except as specifically permitted in Subparagraph (b) of this Article IV) until such time as the Senior Indebtedness has been finally and irrevocably paid in

full and the commitments of Senior Creditor under the Loan Agreement shall have terminated as provided herein.

(e) Without affecting the Subordinated Creditor's obligations set forth in this Agreement not to exercise any remedy as set forth in this Article IV under the circumstances described herein, in the event that the Subordinated Creditor exercises any remedy permitted under applicable law with respect to any of the assets or properties of Borrower or receives any other payment of any character, whether in cash, securities, or other properties, that would, but for the provisions of this Article IV, be payable or deliverable in respect of the Subordinated Indebtedness, such cash, securities or other properties shall be held in trust for the benefit of the holder of the Senior Indebtedness and shall be paid or delivered to the holder of the Senior Indebtedness (or its authorized representatives), in the proportions in which it holds same, until all the Senior Indebtedness shall have been paid in full and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein.

(f) The provisions of this Agreement are and are intended solely for the purpose of defining the relative rights of the holder of the Subordinated Indebtedness, on the one hand, and the holder of the Senior Indebtedness on the other hand. Nothing contained in this Agreement is intended to or shall impair, as between Borrower and the holder of the Subordinated Indebtedness, the obligation of Borrower which is absolute and unconditional, to pay to the holder of the Subordinated Indebtedness the principal thereof and interest thereon as and when the same shall become due and payable in accordance with its terms, or is intended to or shall affect the relative rights against Borrower of the holder of the Senior Indebtedness.

(g) No right of any present or future holder of any of the Senior Indebtedness to enforce the subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of Borrower or by any act in good faith or failure to act in good faith by any such holder, or by any noncompliance by Borrower with the covenants, agreements and conditions of the Subordinated Indebtedness, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

(h) Senior Creditor shall have no obligation to preserve the rights of the Collateral against any prior parties or to marshal any of the Collateral for the benefit of any Person.

ARTICLE V
PROHIBITION OF DISTRIBUTIONS

Except as may be expressly permitted pursuant to the Loan Agreement, Borrower hereby agrees that it will not declare, pay or make any Distribution with respect to the Borrower Stock or, otherwise to any holder of the Borrower Stock. Until such time as the Senior Indebtedness has been paid in full and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein, except as may be expressly permitted pursuant to the Loan Agreement, Borrower hereby agrees that it will not authorize or approve the issuance of, or issue, any shares of any class of such its capital stock or any security, right, option or warrant convertible into or exercisable for any shares of any class of its capital stock. Subordinated Creditor hereby agrees that, until such time as the Senior Indebtedness has been paid in full and the Senior Creditor's commitments under the Loan Agreement shall have terminated as provided herein, it (A) will not cause to be declared, paid or made any Distribution with respect to the Borrower Stock, or, except as expressly permitted pursuant to the Loan Agreement, to it, (B) will not cause to be authorized, approved, or issued any shares of any class of its capital stock or any security, right, option or warrant convertible into or exercisable for any shares of any class of its capital stock, and (C) shall on Senior Creditor's request or automatically on the occurrence of any Event of Default cause the certificates evidencing the Borrower Stock owned and/or held by such Subordinated Creditor to be marked with a legend with a statement

that such Borrower Stock is subject to the terms and provisions of this Agreement.

ARTICLE VI
FURTHER ASSURANCES

Each of the parties hereto hereby agrees to promptly execute and deliver to the other parties hereto any and all such further instruments and documents and take such further action as such other parties may reasonably request in order to fully effect the purposes of this Agreement.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES OF PARTIES

7.1 General Representations and Warranties. Each of the Subordinated Creditor and the Borrower hereby represents and warrants to Senior Creditor that:

(a) such party has full power, authority and legal right to execute, deliver and perform this Agreement, and has taken all necessary corporate or partnership action to authorize the execution, delivery and performance of this Agreement;

(b) this Agreement constitutes a legal, valid and binding obligation of such party enforceable against it in accordance with its terms except as enforceability may be limited by applicable bankruptcy, insolvency, moratorium or other similar laws affecting creditors rights generally and except as enforceability may be limited by general principles of equity (whether considered in a suit at law or in equity); and

(c) Subordinated Creditor is the only holder of the indebtedness evidenced by the Subordinated Notes.

7.2 Additional Representations and Warranty. Subordinated Creditor hereby represents and warrants to Senior Creditor that a true and correct copy of the draft documents, instruments or Agreements evidencing or governing the terms of the Subordinated Notes is attached hereto as Exhibit A and that the final definitive version of such documents, instruments or agreements will be in substantial conformity therewith.

ARTICLE VIII
CONSENT OF SUBORDINATED CREDITOR

Subordinated Creditor hereby consents to the execution and delivery of the Senior Documents and any borrowings thereunder and agrees that the performance (including, without limitation, the making of future borrowings) by Borrower of its obligations under the Senior Documents will not constitute a default or an event of default under the Subordinated Documents. Subordinated Creditor further consents to and covenants that, without the necessity of any reservation of rights against Subordinated Creditor, and without notice to or further assent by Subordinated Creditor, (a) any demand for payment of any Senior Indebtedness may be rescinded in whole or in part and any Senior Indebtedness may be continued, and the Senior Indebtedness, or the liability of Borrower or any other Person upon or for any part thereof, or any collateral security or guaranty therefor or right of offset with respect thereto, or any obligation or liability of Borrower or any other Person under the Senior Documents may, from time to time, in whole or in part, be renewed, extended, modified, accelerated, compromised, waived and surrendered, or released, and (b) the Senior Documents, any document or instrument evidencing or governing the terms of the Senior Indebtedness or any collateral security documents or guaranties or documents in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Senior Creditor or its agent may deem advisable from time to time, and any collateral security at any time held for the benefit of the Senior Creditor for the payment of any of the Senior Indebtedness may be sold, exchanged, waived, surrendered or released, in each case all without notice to or further assent by the Subordinated Creditor which will remain bound under this Agreement, and all without impairing, abridging, releasing or affecting the subordination provided for herein, notwithstanding any such renewal, extension, modification, acceleration, compromise, amendment, supplement, termination, sale, exchange, waiver, surrender or release. The

Subordinated Creditor waives any and all notice of the creation, renewal, extension, subsequent advance or accrual of any of the Senior Indebtedness and notice of or proof of reliance by the Senior Creditor upon this Agreement, and the Senior Indebtedness shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Agreement, and all dealings between Borrower and the Senior Creditor have been deemed to have been consummated in reliance upon this Agreement. The Subordinated Creditor acknowledges and agrees that the Senior Creditor has relied upon the subordination and consent provided for herein in entering into the Senior Loan Documents and in providing for the credit facilities described therein. The Subordinated Creditor waives notice of or proof of reliance on this Agreement and protest, demand for payment and notice of default. Any agreements, documents or instruments which at any time evidence the Subordinated Indebtedness or any part thereof shall be marked with a legend stating that payment thereunder is subject to the terms and provisions of this Agreement. The Subordinated Creditor agrees that it shall not, under any circumstances, take or initiate any action or proceeding under any federal or state bankruptcy or insolvency law, or any other reorganization, liquidation, receivership or similar action or proceeding involving Borrower without the prior written consent of every Senior Creditor, which consent may be granted or withheld by each Senior Creditor in such Senior Creditor's sole and absolute discretion.

ARTICLE IX
BORROWER'S AGREEMENT

The Borrower hereby acknowledges that the Subordinated Indebtedness is payable as stated herein, and agrees to make no payment of principal of or interest on the Subordinated Indebtedness so long as the Borrower shall be indebted to Senior Creditor, except (i) such payments as may be made to Senior Creditor, (ii) such payments as may be made with the prior written consent of Senior Creditor, and (iii) such payments as are permitted by Article IV herein. If (a) the Borrower makes any other payment of the Subordinated Indebtedness, except such payments as are permitted by Article IV herein, (b) any term of this Agreement is breached by the Borrower, or (c) the Borrower fails to make any payment of the Subordinated Indebtedness when due after Senior Creditor has given its written consent to the making of such payment, then, notwithstanding any contrary provisions of the Loan Agreement, Senior Creditor may, at its sole election, declare all or any portion of the Senior Indebtedness to be immediately due and payable without demand or notice of any kind.

ARTICLE X
PROVISIONS TO APPLY AFTER BANKRUPTCY

The provisions of this Agreement shall continue in full force and effect, notwithstanding the commencement of a case under Title 11 of the United States Code, as amended and/or superseded (the "Federal Bankruptcy Code") by or against Borrower or any of its property. In furtherance of the foregoing, if Subordinated Creditor receives any property of, or payments from Borrower after the commencement of such a case on account of a secured claim which is subordinated by the terms of this Agreement (whether as "adequate protection" payments or otherwise), Subordinated Creditor shall immediately turn such property or payments over to the Senior Creditor for distribution by it in accordance with the applicable provisions of Article III. To the extent that Subordinated Creditor has or acquires any rights under Section 363 or Section 364 of the Federal Bankruptcy Code with respect to collateral, Subordinated Creditor hereby agrees not to assert such rights without the prior written consent of the Senior Creditor. The Subordinated Creditor hereby grants to the Senior Creditor the right, but Senior Creditor shall not be obligated, to file, prove and vote claims on account of the Subordinated Indebtedness in any receivership, bankruptcy, or other proceeding under the Federal Bankruptcy Code commenced by or against Borrower. The Subordinated Creditor shall not prove or vote any claim on account of the Subordinated Indebtedness in any receivership, bankruptcy, or other proceeding under the Federal Bankruptcy Code commenced by or against Borrower in a manner which adversely effects the rights, claims and interests of the Senior Creditor now existing or hereafter arising concerning the Collateral or against the Borrower.

ARTICLE XI
NO WAIVER, CUMULATIVE REMEDIES

No failure to exercise, and no delay in exercising on the part of Senior Creditor, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise by Senior Creditor of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege by Senior Creditor. The rights and remedies by Senior Creditor provided in this Agreement are cumulative and shall not be exclusive of any rights or remedies provided by law.

ARTICLE XII
NOTICES

All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telegraph, facsimile, or telex) and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or if by certified mail, return receipt requested, five days after being deposited in the mail or, in the case of facsimile notice, when sent, acknowledgment of receipt is received, or if sent by reputable overnight delivery service for next business day delivery, on the next business day addressed as set forth below or to such address or other address as may be hereafter notified in writing by the respective parties hereto:

To Senior Creditor: Congress Financial Corporation (Southwest)
1201 Main Street, Suite 1625
Dallas, Texas 75250
Attn: Portfolio Manager
Telecopy No.: (214) 748-9131

With copies to: Patton Boggs LLP
2001 Ross Avenue, Suite 3000
Dallas, Texas 75201
Attn: Larry A. Makel, Esq.
Telecopy No.: (214) 758-1550

To Borrower: L & S Automotive Products Co.
6 South Pennsylvania Ave.
Oklahoma City, OK 73101
Attn: President
Fax: (405) 236-1209

With copy to:
David Shear
16 South Pennsylvania Ave.
Oklahoma City, OK 73101

To Subordinated Creditor: LSB Industries, Inc.
16 South Pennsylvania Ave.
Oklahoma City, OK 73101
Attn:
Fax: (405) 236-1209

With copy to:
David Shear
16 South Pennsylvania Ave.
Oklahoma City, OK 73101

ARTICLE XIII
GOVERNING LAW

This Agreement has been executed, delivered and accepted at and shall be deemed to have been made in Dallas County, Texas and shall be interpreted and the rights and obligations of the parties under this Agreement shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of Texas and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, transferees and assigns.

ARTICLE XIV
AMENDMENTS AND WAIVERS

Neither this Agreement nor any of the terms hereof may be

amended, waived, discharged or terminated unless such amendment, waiver, discharge or termination is in writing signed by each of the parties hereto. Each of the Borrower and the Subordinated Creditor agree not to amend the Subordinated Documents without the prior written consent of the Senior Creditor.

ARTICLE XV
EXCULPATION

Neither the Senior Creditor nor its agents have made to the other parties hereto nor do any of them hereby or otherwise make any representations or warranties, express or implied, nor do they assume any liability with respect to (i) obligors under any instruments of guarantee; (ii) the enforceability, validity, value or collectibility of the Senior Indebtedness, any Collateral therefor, or any guarantee or security which may have been granted to any of them in connection with the Senior Documents; or (iii) Borrower's title or right to transfer any collateral or security. Senior Creditor shall not be liable to any other party hereto for any action or failure to act or any error of judgment, negligence, or mistake or oversight whatsoever on its part or its respective agents, officers, employees or attorneys with respect to any transaction relating to the Collateral or this Agreement. To the maximum extent permitted by law, except as otherwise provided herein, Subordinated Creditor waives any claim it might have against Senior Creditor with respect to, or arising out of, the handling of the Collateral (including, without limitation, any such claim based upon the timing or method of realizing upon such Collateral).

ARTICLE XVI
THIRD PARTY RIGHTS

This Agreement is solely for the benefit of the parties hereto and their respective successors and assigns, and no other Person shall have any right, benefit, priority or other interest under, or because of the existence of, this Agreement.

ARTICLE XVII
TERMINATION

This Agreement shall terminate upon the final and indefeasible payment in full of all the Senior Indebtedness, the termination of Senior Creditor's commitments under the Loan Agreement and the termination of all of the Senior Documents.

ARTICLE XVIII
COUNTERPARTS

This Agreement may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

ARTICLE XIX
ASSIGNMENT OF SUBORDINATED DEBT

Subordinated Creditor shall not sell, assign, or transfer any part of the Subordinated Notes unless such purchaser, assignee or transferee agrees to be bound by this Agreement.

ARTICLE XX
JURY WAIVER

SUBORDINATED CREDITOR, BORROWER AND SENIOR CREDITOR HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. SUBORDINATED CREDITOR, BORROWER AND SENIOR CREDITOR HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT SUBORDINATED CREDITOR, BORROWER OR SENIOR CREDITOR MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. SUBORDINATED CREDITOR, BORROWER AND SENIOR CREDITOR HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND,

ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT SUBORDINATED CREDITOR, BORROWER OR SENIOR CREDITOR MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their proper and duly authorized officers or partners as of the day and year first above written.

SUBORDINATED CREDITOR:

LSB INDUSTRIES, INC.

By:
Name:
Title:

BORROWER:

DRIVELINE TECHNOLOGIES, INC.,
(formerly known as Tribonetics Corporation)

By:
Name:
Title:

L&S MANUFACTURING CORP.

By:
Name:
Title:

LENDER:

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)

By:
Name:
Title:

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
as of March 31, 2000

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

Prime Financial Corporation
Prime Holdings Corporation (f/k/a Tower IV Corporation, f/k/a LSB Leasing Corp.)
Northwest Capital Corporation
Northwest Energy Enterprises, Inc.
Tower Land Development Corp.
ClimaChem, Inc. (5% stock ownership)

LSB Holdings, Inc.
LSB-Europa Limited
LSB Industries Int'l Corp. (f/k/a LSB Indonesia Corporation, f/k/a LSB Corporation)
Summit Machine Tool Inc. Corp.
Saffron Corporation
Explosives Equipment Corp.
Clipmate Corporation (20% held by Waldock and Starrett)
L&S Automotive Technologies, Inc. (f/k/a L&S Automotive Products Co.)
Climatex, Inc.
LSB Financial Corp.
Aerobit Industries, Limited (7.98% held by Horovitz and Landsome)
Climate Master International Limited
ROL-BIT Ltd. (5% held by Horovitz)

ClimateCraft Technologies, Inc.

INDUSTRIAL PRODUCTS BUSINESS

Summit Machine Tool Manufacturing Corp.
Hercules Energy Mfg. Corporation
Morey Machinery Manufacturing Corporation (f/k/a Fertilizer Equipment Corp.) (10% held by Jonathon Morey)

ENVIRONMENTAL/CHEMICAL BUSINESS

ClimaChem, Inc. (95% stock ownership)
Northwest Financial Corporation
Climate Mate, Inc.
The Environmental Group International Limited
LSB Chemical Corp.
LSB Australia Pty. Ltd. (f/k/a Total Energy Systems Limited)
Total Energy Systems (NZ) Limited
T.E.S. Mining Services Pty. Ltd.
Total Energy Systems (International) Pty Ltd
El Dorado Chemical Company
Slurry Explosive Corporation
El Dorado Nitrogen Company (f/k/a LSB Nitrogen Corporation, f/k/a LSB Import Corp.)
DSN Corporation
Universal Tech Corporation
The Environmental Group, Inc.
International Environmental Corporation
Climate Master, Inc.
CHP Corporation
Koax Corp.
The Climate Control Group, Inc. (f/ka APR Corporation)
ClimateCraft, Inc. (f/k/a Summit Machine Tool Systems, Inc.)
ACP International Limited (f/k/a ACP Manufacturing Corp.)
ThermalClime, Inc. (f/k/a LSB South America Corporation)
MultiClima Holdings, Inc. (f/k/a LSB International Corp.)

AUTOMOTIVE PRODUCTS BUSINESS

LSA Technologies Inc.
L&S Automotive Products Co. [DE]

L&S Bearing Co. (f/k/a L&S Automotive Products Co., f/k/a LSB Bearing Corp.)
International Bearings, Inc.
LSB Extrusion Co.
Rotex Corporation
Tribonetics Corporation

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans, the Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan, the Registration Statements (Forms S-8 No. 333-62831, No. 333-62835, No. 333-62839, No. 333-62843, and No. 333-62841) pertaining to the registration of an aggregate of 225,000 shares of common stock pursuant to certain Non-qualified Stock Option Agreements for various employees, and the Registration Statement (Form S-3, No. 33-69800) and the related Prospectuses of LSB Industries, Inc. of our report dated March 17, 2000, except for Note 4, as to which the date is April 6, 2000 with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in Amenedment No. 2 to the Annual Report (Form 10-K/A) for the year ended December 31, 1999.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
May 30, 2000

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0000060714
LSB INDUSTRIES, INC.
1,000
YEAR
DEC-31-1997
DEC-30-1997
4,353
0
45,579
1,643
45,520
101,109
175,263
65,949
244,600
52,746
147,212
146
48,000
1,504
(5,008)
244,600
251,948
254,065
202,449
251,421
0
0
11,435
(8,705)
50
(8,755)
(9,691)
(4,619)
0
(23,065)
(2.04)
(2.04)

0000060714
LSB INDUSTIES, INC.
1,000
YEAR
DEC-31-1999
DEC-30-1999
3,130
0
46,262
1,713
30,480
82,776
162,773
78,959
188,635
71,073
124,713
139
48,000
1,511
(63,684)
188,635
254,236
255,272
203,480
255,152
0
12,565
15,115
(31,489)
157
(31,646)
(18,121)
0
0
(49,767)
(4.48)
(4.48)

0000060714
LSB INDUSTIES, INC.
1,000
YEAR
DEC-31-1998
DEC-30-1998
1,459
0
45,731
2,085
43,488
95,926
165,056
77,201
223,250
49,072
138,980
139
48,000
1,511
(14,452)
223,250
255,858
257,148
201,279
250,197
0
0
14,504
2,539
100
2,439
(4,359)
0
0
(1,920)
(.42)
(.42)