FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended June 30, 1998

OR

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

For The transition period from _____ to _____

Commission file number 1-7677

LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter

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

16 South Pennsylvania, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES X NO

The number of shares outstanding of the Registrant's voting Common Stock, as of July 31, 1998 was 12,191,786 shares excluding 2,914,190 shares held as treasury stock.

PART I

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc. at June 30, 1998, the condensed consolidated statements of operations for the six month and three month periods ended June 30, 1998 and 1997 and the consolidated statements of cash flows for the six month periods ended June 30, 1998 and 1997 have been subjected to a review, in accordance with standards established by the American Institute of Certified Public Accountants, by Ernst & Young LLP, independent auditors, whose report with respect thereto appears elsewhere in this Form 10-Q. The financial statements mentioned above are unaudited and reflect all adjustments, consisting only of adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of operations for the six months and three months ended June 30, 1998 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1997, was derived from audited financial statements as of that date.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at June 30, 1998 is unaudited)
(Dollars in thousands)

ASSETS	June 30, 1998	December 31, 1997
Current assets:		
Cash and cash equivalents	$ 5,502	$ 4,934
Trade accounts receivable, net of allowance	56,154	52,191
Inventories:		
Finished goods	31,784	36,429
Work in process	8,311	8,582
Raw materials	23,767	23,189
Total inventory	63,862	68,200
Supplies and prepaid items	8,775	7,595
Total current assets	134,293	132,920
Property, plant and equipment, net (Note 4)	99,866	118,331
Investments and other assets, net of allowance	18,930	19,402
	$ 253,089	$ 270,653

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at June 30, 1998 is unaudited)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1998	December 31, 1997
Current liabilities:		
Drafts payable	$ 963	$ 737
Accounts payable	25,451	28,137
Accrued liabilities	16,445	16,196
Current portion of long-term debt	12,609	15,874
Total current liabilities	55,468	60,944
Long-term debt (Notes 4 and 6)	146,204	165,067
Contingencies (Note 5)		
Redeemable, noncumulative convertible preferred stock, $100 par value; 1,539 shares issued and outstanding (1,539 in 1997)	146	146
Stockholders' equity (Note 3):		
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, 15,105,616 shares issued (15,042,356 in 1997)	1,511	1,504
Capital in excess of par value	38,321	38,257
Accumulated other comprehensive loss	(1,609)	(1,003)
Accumulated deficit	(20,821)	(29,773)
	65,402	56,985
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 2,679,590 shares (2,293,390 in 1997)	13,931	12,289
Total stockholders' equity	51,271	44,496
	$ 253,089	$ 270,653

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Six Months Ended June 30, 1998 and 1997
(Dollars in thousands, except per share amounts)

	1998	1997
Revenues:		
Net sales	$ 165,469	$ 162,502
Other income	1,325	3,801
Gain on sale of the Tower (Note 4)	12,993	-
	179,787	166,303
Costs and expenses:		
Cost of sales	129,173	132,199
Selling, general and administrative	30,816	31,554
Interest	8,839	6,396
	168,828	170,149
Income (loss) before provision for income taxes	10,959	(3,846)
Provision for income taxes	260	125
Net income (loss)	$ 10,699	$ (3,971)
Net income (loss) applicable to common stock (Note 2)	$ 9,077	$ (5,593)
Weighted average common shares outstanding (Note 2):		
Basic	12,661,182	12,940,755
Diluted	15,125,465	12,940,755
Income (loss) per common share (Note 2):		
Basic	$ .72	$ (.43)
Diluted	$ .65	$ (.43)

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended June 30, 1998 and 1997
(dollars in thousands, except per share amounts)

	1998	1997
Revenues:		
Net sales	$ 87,433	$ 89,268
Other income	213	2,171
	87,646	91,439
Costs and expenses:		
Cost of sales	67,054	69,887
Selling, general and administrative	15,210	16,682
Interest	3,981	3,340
	86,245	89,909
Income before provision (credit) for income taxes	1,401	1,530
Provision (credit) for income taxes	(20)	63
Net income	$ 1,421	$ 1,467
Net income applicable to common stock (Note 2)	$ 618	$ 648
Weighted average common shares outstanding (Note 2):		
Basic	12,576,185	12,906,687
Diluted	12,711,735	13,161,676
Income per common share (Note 2):		
Basic	$ .05	$ .05
Diluted	$ .05	$ .05

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Six Months Ended June 30, 1998 and 1997
(Dollars in thousands, except per share amounts)

	1998	1997
Cash flows from operations:		
Net income (loss)	$ 10,699	$ (3,971)
Adjustments to reconcile net income (loss) to cash flows provided (used) by operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	6,021	5,141
Other	677	567
Provision for possible losses on receivables and other assets	1,071	1,066
Loss (gain) on sale of assets	(12,993)	9
Recapture of prior period provisions for loss on loans receivable secured by real estate	-	(1,383)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(4,359)	(5,834)
Inventories	3,786	4,540
Supplies and prepaid items	(1,580)	(716)
Accounts payable	(2,598)	(6,081)
Accrued liabilities	544	853
Net cash provided (used) by operations	1,268	(7,515)
Cash flows from investing activities:		
Capital expenditures	(3,837)	(5,701)
Principal payments on notes receivable	40	203
Proceeds from sales of equipment and real estate properties	63	360
Proceeds from sale of the Tower (Note 4)	29,266	-
Increase in other assets	(1,269)	(2,994)
Net cash provided (used) in investing activities	24,263	(8,132)
Cash flows from financing activities:		
Payments on long-term debt	(18,581)	(23,042)
Long-term and other borrowings	-	53,864
Net change in revolving debt	(3,290)	(13,655)
Net change in drafts payable	226	(17)
Dividends paid (Note 3):		
Preferred Stocks	(1,622)	(1,622)
Common Stock	(125)	(389)
Purchases of treasury stock (Note 3)	(1,642)	(535)
Net proceeds from issuance of common stock	71	190
Net cash provided (used) by financing activities	(24,963)	14,796
Net increase (decrease) in cash	568	(851)
Cash and cash equivalents at beginning of period	4,934	1,620
Cash and cash equivalents at end of period	$ 5,502	$ 769

(See accompanying notes)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1998 and 1997

Note 1: Income Taxes At December 31, 1997, the Company had regular-tax net operating loss ("NOL") carryforwards for tax purposes of approximately $65 million (approximately $18 million alternative minimum tax NOLs). Certain amounts of regular-tax NOL expire beginning in 1999.

The Company's provision for income taxes for the six months ended June 30, 1998 of $260,000 is for current state income taxes and federal alternative minimum tax.

Note 2: Earnings Per Share In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effect of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

Net income or loss applicable to common stock is computed by adjusting net income or loss by the amount of preferred stock dividends. Basic income or loss per common share is based upon the weighted average number of common shares outstanding during each period after giving appropriate effect to preferred stock dividends. Diluted income or loss per share is based on the weighted average number of common shares and dilutive common equivalent shares outstanding and the assumed conversion of dilutive convertible securities outstanding, if any, after appropriate adjustment for interest, net of related income tax effects on convertible notes payable, as applicable.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1998 and 1997

Note 2: Earnings Per Share (continued) The following table sets forth the computation of basic and diluted earnings per share: (dollars in thousands, except per share amounts)

	Six Months ended June 30, 1998	Six Months ended June 30, 1997
Numerator:		
Net income (loss)	$ 10,699	$ (3,971)
Preferred stock dividends	(1,622)	(1,622)
Numerator for 1998 and 1997 basic and 1997 diluted earnings per share - income (loss) available to common stockholders	$ 9,077	$ (5,593)
Preferred stock dividends on preferred stock assumed to be converted in the first quarter of 1998	818	-
Numerator for 1998 diluted earnings per share	$ 9,895	$ (5,593)
Denominator:		
Denominator for basic earnings per share - weighted-average shares	12,661,182	12,940,755
Effect of dilutive securities:		
Employee stock options	128,920	-
Convertible preferred stock	2,331,363	-
Convertible note payable	4,000	-
Dilutive potential common shares	2,464,283	-
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	15,125,465	12,940,755
Basic earnings per share	$ .72	$ (.43)
Diluted earnings per share	$ .65	$ (.43)

	Three Months ended June 30, 1998	Three Months ended June 30, 1997
	$ 1,421	$ 1,467
	(803)	(819)
	$ 618	$ 648
	-	-
	$ 618	$ 648
	12,576,185	12,906,687

131,550	250,989
-	-
4,000	4,000
135,550	254,989
12,711,735	13,161,676
$ .05	$ .05
$ .05	$ .05

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Six Months Ended June 30, 1998 and 1997

Note 3: Stockholders' Equity The table below provides detail of activity in the stockholders' equity accounts for the six months ended June 30, 1998:

	Common Stock		Non-redeemable Preferred Stock	Capital in excess of par Value
	Shares	Par Value		
	(In thousands)			
Balance at December 31, 1997	15,042	$ 1,504	$ 48,000	$ 38,257
Net income				
Foreign currency translation adjustment				
Comprehensive income (Note 8)				
Exercise of stock options	64	7		64
Dividends declared:				
Common Stock ($.01 per share)				
Series B 12% preferred stock ($6.00 per share)				
Series 2 preferred stock ($1.62 per share)				
Redeemable preferred stock ($10.00 per share)				
Purchase of treasury stock				
Balance at June 30, 1998	15,106(1)	$ 1,511	$ 48,000	$ 38,321

(1) Includes 2,680 shares of the Company's Common Stock held in treasury. Excluding the 2,680 shares held in treasury, the outstanding shares of the Company's Common Stock at June 30, 1998 were 12,426.

Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated deficit)	Treasury Stock-Common	Treasury Stock Preferred	Total
$ (1,003)	$(29,773)	$(12,289)	$ (200)	$44,496
	10,699			10,699
(606)				(606)
				10,093
				71
	(125)			(125)
	(120)			(120)
	(1,487)			(1,487)
	(15)			(15)
		(1,642)		
(1,642)				
$(1,609)	$(20,821)	$(13,931)	$ (200)	$51,271

Note 4: Sale of the Tower In March 1998, a subsidiary of the Company closed the sale of the Tower office building. The Company realized net proceeds of approximately $29.3 million from the sale ($1.0 million of which is held in escrow until September 1998, pending expiration of representations and warranties associated with the sale). Proceeds from the sale were used to retire the outstanding indebtedness of approximately $12.6 million in March 1998, for which this property served as collateral. Approximately $15.5 million of the remaining proceeds were used to reduce indebtedness outstanding under the Company's Revolving Credit Facility. The Company recognized a gain on the sale of the property of approximately $13 million in the first quarter of 1998.

Note 5: Commitments and Contingencies

Nitric Acid Project

In June 1997, two wholly owned subsidiaries of the Company, El Dorado Chemical Company ("EDC"), and El Dorado Nitrogen Company ("EDNC"), entered into a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, EDNC will act as an agent to construct, and upon completion of construction, will operate a nitric acid plant (the "EDNC Baytown Plant") at Bayer's Baytown, Texas chemical facility. EDC has guaranteed the performance of EDNC's obligations under the Bayer Agreement. Under the terms of the Bayer Agreement, EDNC is to lease 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 becomes fully operational. Upon expiration of the initial ten-year term from the date the EDNC Baytown Plant becomes 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. It is anticipated that construction of the EDNC Baytown Plant will cost approximately $65 million and will be completed in the first quarter of 1999. Construction financing of the EDNC Baytown Plant is being provided by an unaffiliated lender. Neither the Company nor EDC has guaranteed any of the lending obligations for the EDNC Baytown Plant. In connection with the leveraged lease, the Company entered into an interest rate forward agreement to fix the effective rate of interest implicit in such lease. As of June 30, 1998, the fair value of such agreement represented a liability of $5.0 million for which the Company has posted margin and letters of credit totaling $5.0 million. Bayer has agreed to reimburse the Company for 50% of the ultimate cost of the hedging contract associated with the interest rate forward agreement.

Debt Guarantee

The Company has guaranteed approximately $2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company, in exchange for an ownership interest, to which no value has been assigned as of June 30, 1998. The Company has made investments in and advances to the aviation company totaling $999,000 as of June 30, 1998 and is accruing losses of the aviation company based on its ownership percentage (40.7% as of June 30, 1998). The Company has recorded losses of $3,078,000 ($769,000 during the first six months of 1998) related to the debt guarantee and advances. The debt guarantee relates to a $2 million term note and up to $600,000 of a $2 million revolving credit facility. The $2 million term note requires interest only payments through September 1998; thereafter, it requires monthly principal payments of $11,111 plus interest beginning in October 1998 until it matures on August 8, 1999, at which time all outstanding principal and unpaid interest are due. In the event of default of this note, the Company is required to assume payments on the note with the term extended until August 2004. The $2 million revolving credit facility, on which a subsidiary of the Company has guaranteed up to $600,000 of indebtedness, has an outstanding balance of $2.0 million at June 30, 1998. At June 30, 1998 principal and interest payments on such notes were current.

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 such subsidiaries of the Company of $47,000. The site owner rejected this offer and proposed a counteroffer of $245,000 plus a reopener for costs over $12.5 million. The EPA rejected the Company's offer, allocating 60% of the cleanup costs to the potentially responsible parties and 40% to the site operator. The EPA estimated the total cleanup costs at $10.1 million as of February 1993. The site owner

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

No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in the estimated total cost of clean-up of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. As of June 30, 1998, 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. The amount accrued 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.

B. A subsidiary of the Company submitted to the State of Arkansas a "Groundwater Monitoring Work Plan" which was approved by the State of Arkansas. Pursuant to the Groundwater Monitoring Work Plan, the subsidiary has performed phase I and II groundwater investigations, and submitted a risk assessment report to the State of Arkansas. The risk assessment report is currently being reviewed by the State of Arkansas. The State of Arkansas has indicated that additional groundwater monitoring may be required to better define the extent of groundwater contamination before a decision is made on a risk based remedy.

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

in controlling certain off-site emissions; however, such off-site emissions have occurred and continue to occur from time to time, which could result in the assessment of additional penalties against the Chemical Business by the ADPC&E for violation of the 1997 Amendment.

During May 1997, approximately 2,300 gallons of caustic material spilled when a valve in a storage vessel failed, which was released to a storm water drain, and according to ADPC&E records, resulted in a minor fish kill in a drainage ditch near EDC's El Dorado, Arkansas, facility ("El Dorado Facility"). ADPC&E has proposed a Consent Administrative Agreement ("CAA") to resolve the event. The proposed CAA is currently being drafted by ADPC&E, and EDC has been advised that it will include a civil penalty in the amount of $183,700 which includes $42,000 that has already been paid by funding an environmental project in the community, and $125,000 which will be paid in the form of environmental improvements at the El Dorado Plant. EDC has also been advised that the draft of the proposed CAA will, in addition, require the Chemical Business to undertake certain additional compliance measures and equipment improvements related to the El Dorado Plant's wastewater treatment system.

C. In 1996, a lawsuit was filed against the Company's Chemical Business by a group of residents of El Dorado, Arkansas, asserting a citizens' suit against the Chemical Business as a result of certain alleged violations of the Clean Air Act, the Clean Water Act, the Chemical Business' air and water permits and certain other environmental laws, rules and regulations. The citizens' suit requested the court to order the Chemical Business to cure such alleged violations, if any, plus penalties as provided under the applicable statutes. During the first quarter of 1998 the Company's Chemical Business entered into a Consent Decree in settlement of the citizen suit. The Consent Decree was approved by the court during the second quarter of 1998. Under the terms of the Consent Decree, the Company's Chemical Business has agreed to, among other things, (i) the granting of an injunctive relief requiring its El Dorado Facility to (a) comply with certain discharge, monitoring and reporting requirements of its waste water discharge permit, the emission limitations of its air permit and the notification requirements under certain sections of certain environmental laws and the statutory penalties for failure to comply with such notification requirements, and (b) perform air and water tests to determine if the El Dorado Facility is meeting certain compliance levels and, if the tests do not meet the required compliance levels, to make the necessary corrections thereto so that such

compliance levels are met, (ii) limitations relating to the El Dorado Facility's use of its older concentrated nitric acid plant, (iii) to provide the plaintiffs with copies of certain documents forwarded to, or received by, appropriate environmental regulatory agencies by the El Dorado Facility and summaries of certain test results at the El Dorado Facility, (iv) pay to the U.S. Treasury $50,000 as a penalty, and (v) pay certain stipulated penalties under certain conditions in the event the El Dorado Facility fails to comply with the terms of the Consent Decree. The $50,000 penalty has been paid by the Company's Chemical Business to the U.S. Treasury.

In July 1996, several of the same individuals who are plaintiffs in the citizens' suit referenced above filed a toxic tort lawsuit against the Company's Chemical Business alleging that they suffered certain injuries and damages as a result of alleged releases of toxic substances from the Chemical Business' El Dorado, Arkansas manufacturing facility. In October 1996, another toxic tort lawsuit was filed against the Company's Chemical Business. This subsequent action asserted similar damage theories as the previously discussed toxic tort lawsuit, except this action attempted to have a class certified to represent substantially all allegedly affected persons. The plaintiffs sued for an unspecified amount of actual and punitive damages.

The Company and the Chemical Business maintain an Environmental Impairment Insurance Policy ("EIL Insurance") that provides coverage to the Company and the Chemical Business for certain discharges, dispersals, releases, or escapes of certain contaminants and pollutants into or upon land, the atmosphere or any water course or body of water from the Site, which has caused bodily injury, property damage or contamination to others or to other property not on the Site. The EIL Insurance provides limits of liability for each loss up to $10.0 million and a similar $10.0 million limit for all losses due to bodily injury or property damage, except $5.0 million for all remediaton expenses, with the maximum limit of liability for all claims under the EIL Insurance not to exceed $10.0 million for each loss or remediaton expense and $10.0 million for all losses and remediaton expenses. The EIL Insurance also provides a retention of the first $500,000 per loss or remediaton expense that is to be paid by the Company. The Company's Chemical Business has spent approximately $1.2 million in legal, expert and other costs in connection with the toxic tort and citizen lawsuits described above. The Company has been reimbursed under its EIL Insurance approximately $405,000 of the $1.2 million. The EIL Insurance

carrier has assumed responsibility for all subsequent legal, expert and other costs of defense and is paying such legal, expert and other costs on an on-going basis.

During the second quarter of 1998, the Company's Chemical Business settled the property damage claims, and proceeded with an agreement to settle the personal injury claims, asserted in the class action toxic tort lawsuit. The Company also completed a settlement of the other toxic tort lawsuit. The court approved the settlement of the class action claims relating to alleged property damage. Settlement of the personal injury claims by the individual claimants that were asserted in the class action lawsuit does not require court approval and is in the process of being completed. Settlement of the class action toxic tort lawsuit and settlement of the other toxic tort lawsuit require cash payments to the plaintiffs. Substantially all of such cash settlement payments are to be or were funded directly by the Company's EIL Insurance carrier.

The amount of the settlements of the toxic tort cases as discussed above paid by the EIL Insurance and the amount paid under the EIL Insurance for legal and other expenses relating to the defense of the toxic tort cases and the citizen suit case reduce the coverage amount available under the EIL Insurance.

D. 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.

During the third quarter of 1997, a subsidiary of the Company was served with a lawsuit in which approximately 27 plaintiffs have sued approximately 13 defendants, including a subsidiary of the Company alleging personal injury and property damage for undifferentiated compensatory and punitive damages of approximately $7,000,000. Specifically, the plaintiffs assert blast damage claims, nuisance (road dust from coal trucks) and personal injury claims (exposure to toxic materials in blasting materials) on behalf of residents living near the Heartland Coal Company ("Heartland") strip mine in Lincoln County, West Virginia. Heartland employed the subsidiary to provide blasting materials and personnel to load and shoot holes drilled by employees of Heartland. Down hole blasting services were provided by the subsidiary at Heartland's premises from approximately August 1991, until approximately August 1994. Subsequent to August 1994, the subsidiary supplied blasting materials to the reclamation contractor at Heartland's mine. In connection with the subsidiary's activities at Heartland, the subsidiary has entered into a contractual indemnity to Heartland to indemnify Heartland under certain conditions for acts or actions taken by the subsidiary for which the subsidiary failed to take, and Heartland is alleging that the subsidiary is liable thereunder for Heartland's defense costs and any losses to or damages sustained by, the plaintiffs in this lawsuit. Discovery has only recently begun in this matter, and the Company intends to vigorously defend itself in this matter. Based on limited information available, the subsidiary's counsel believes that the exposure, if any, to the subsidiary related to this litigation is in the $100,000 range.

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 on the results of operations for a particular quarter or year, if resolved unfavorably.

Note 6: Long-Term Debt In November 1997, the Company's wholly owned subsidiary, ClimaChem, Inc. ("CCI") completed the sale of $105 million principal amount of 10 3/4% Senior Notes due 2007 (the "Old Notes"). In April 1998, CCI exchanged all of the outstanding Old Notes for registered 10 3/4% Series B Senior Notes due 2007 ("New Notes"). The form and terms of the New Notes are the same as the Old Notes (which they replaced), except for certain limited exceptions. The New Notes evidence the same debt as the Old Notes (which they replaced). Interest on the Old Notes until replaced by the New Notes and interest on the New Notes are payable semiannually in arrears on June 1 and December 1 of each year, and the principal is payable in the year 2007. The New 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 New Notes are effectively subordinated to all existing and future senior secured indebtedness of CCI.

Except as described below, the New Notes are not redeemable at CCI's option prior to December 1, 2002. After December 1, 2002, the New 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 the New Notes is redeemable, at the option of CCI, at a price of 110.75% of the principal amount of the New Notes, together with accrued and unpaid interest, if any, thereon, plus liquidated damages; provided, however, that at least $65 million in aggregate principal amount of the New Notes remain outstanding following such redemption.

In the event of a change of control of the Company or CCI, holders of the New Notes will have the right to require CCI to repurchase the New 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 owns substantially all of the companies comprising the Company's Chemical and Climate Control Businesses. CCI is a holding company with no assets or operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly, by CCI. CCI's payment obligations under the New Notes are fully, unconditionally and joint and severally

guaranteed by all of the existing subsidiaries of CCI, except for El Dorado Nitrogen Company ("EDNC"). The assets, equity, and earnings of EDNC are currently inconsequential to CCI. Separate financial statements and other disclosures concerning the guarantors are not presented herein because management has determined they are not material to investors. Summarized consolidated balance sheet information of CCI and its subsidiaries as of December 31, 1997 and June 30, 1998 and the results of operations for the six month and three month periods ended June 30, 1998 and June 30, 1997, are detailed below.

Note 6: (continued)

	June 30, 1998	December 31, 1997
	(In thousands) (unaudited)	
Balance sheet data:		
Current assets	$ 90,904	$ 88,442
Property, plant and equipment	81,974	84,329
Notes receivable from LSB and affiliates	13,443	13,443
Other assets	9,058	14,661
Total assets	$ 195,379	$ 200,875
Current liabilities	$ 35,801	$ 38,004
Long-term debt	122,092	126,346
Other	9,236	9,236
Stockholder's equity	28,250	27,289
Total liabilities and stockholder's equity	$ 195,379	$ 200,875

	Six Months Ended June 30,		Three Months Ended June 30,	
	1998	1997	1998	1997
	(In thousands)		(In thousands)	
Operations Data:				
Total revenues	$ 137,327	$ 138,336	$ 73,900	$ 76,041
Costs and expenses:				
Costs of sales	107,439	111,663	57,028	58,811
Selling, general and administrative	20,348	18,718	10,569	9,688
Interest	6,273	4,255	2,960	2,218
	134,060	134,636	70,557	70,697
Income before provision for income taxes	3,267	3,700	3,343	5,344
Income tax provision	1,700	1,501	1,730	2,212
Net income	$ 1,567	$ 2,199	$ 1,613	$ 3,132

Note 7: Changes in Accounting Effective January 1, 1998, the Company changed its method of accounting for the costs of computer software developed for internal use to capitalize costs incurred after the preliminary project stage as outlined in Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). These costs capitalized will be amortized over their estimated useful life. Prior to 1998, these costs were expensed as incurred. The effect of this change on net income for the first and second quarters of 1998 was not material.

In the second quarter of 1998, the Accounting Standards Executive Committee of the Securities and Exchange Commission released Statement of Position 98-5 "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that the costs of start-up activities, including organization costs, be expensed as incurred. As of June 30, 1998, the Company has approximately $328,000 of capitalized costs on its balance sheet classified as other assets that will have to be written-off as a cumulative effect of change in accounting pursuant to SOP 98-5 upon adoption. SOP 98-5 is effective for fiscal years ending after December 15, 1998. The Company expects to adopt SOP 98-5 no later than the first quarter of 1999.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999. The Statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company has not yet determined when this new Statement will be adopted. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair 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 the effect of statement 131 will be on the earnings and financial position of the Company.

Note 8: Comprehensive Income Effective January 1, 1998, the Company adopted Financial Accounting Standard No. 130 "Reporting Comprehensive Income" ("SFAS 130"). The provisions of SFAS 130 require the Company to classify items of other comprehensive income in the financial statements and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The Company has also made similar reclassifications for all prior periods for comparative purposes. Other comprehensive losses for the six month and three month periods ended June 30, 1997, were approximately $550,000 and $593,000 respectively. After consideration of the other comprehensive loss items, the comprehensive loss for the six month period ended June 30, 1997 was approximately $4,521,000 and the comprehensive income for the three month period ended June 30, 1997 was approximately $874,000. Other comprehensive losses for the six month and three month periods ended June 30, 1998, were approximately $606,000 and $616,000 respectively. After consideration of the other comprehensive loss items, the comprehensive income for the six month and three month periods ended June 30, 1998 were $10,093,000 and $805,000 respectively.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with a review of the Company's June 30, 1998 Condensed Consolidated Financial Statements.

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

OVERVIEW

General

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

On August 5, 1998, the Company announced its intent, subject to satisfactory completion of certain conditions, to spin-off the Automotive Products Business ("Automotive") to its shareholders as a dividend. The shares in Automotive would be distributed to LSB shareholders on a pro-rata basis, with the exact number of shares of Automotive to be issued in connection with the spin-off to be determined. The spin-off of Automotive is subject to, among other things, receipt from the Internal Revenue Service of confirmation of tax-free treatment, certain Securities and Exchange Commission filings, arrangement for lines of credit for Automotive, and LSB Board of Directors' approval. There are no assurances that the Company will spin-off Automotive.

Information about the Company's operations in different industry segments for the six months and three months ended June 30, 1998 and 1997 is detailed below.

	Six Months		Three Months	
	1998	1997	1998	1997
	(In thousands) (Unaudited)			
Sales:				
Chemical	$ 77,523	$ 90,196	$ 44,098	$ 49,597
Climate Control	59,257	47,822	29,321	26,199
Automotive Products	21,198	17,037	10,708	9,045
Industrial Products	7,491	7,447	3,306	4,427
	$165,469	$162,502	$ 87,433	$ 89,268
Gross profit (1):				
Chemical	$ 12,309	$ 12,783	$ 7,717	$ 9,399
Climate Control	17,321	13,683	8,985	7,675
Automotive Products	4,966	2,226	2,826	1,117
Industrial Products	1,700	1,611	851	1,190
	$ 36,296	$ 30,303	$ 20,379	$ 19,381
Operating profit (loss) (2):				
Chemical	$ 5,611	$ 4,734	$ 4,460	$ 5,379
Climate Control	6,312	4,391	3,500	2,840
Automotive Products	71	(2,889)	478	(1,663)
Industrial Products	(518)	(710)	(214)	(45)
	11,476	5,526	8,224	6,511
General corporate expenses and other	(4,671)	(2,976)	(2,842)	(1,641)
Interest expense	(8,839)	(6,396)	(3,981)	(3,340)
Gain on sale of the Tower	12,993	-	-	-
Income (loss) before provision (credit) for income taxes	$ 10,959	$ (3,846)	$ 1,401	$ 1,530

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

(2) Operating profit (loss) by industry segment represents revenues less operating expenses before deducting general corporate expenses, interest expense and income taxes and, in 1998, before gain on sale of the Tower.

Chemical Business

Beginning in 1994, the results of operations of the Chemical Business have been adversely impacted by the high cost of anhydrous ammonia. From its most recent cyclical low in 1986 through 1993, the average Gulf Coast price (the "Spot Price") of anhydrous ammonia was approximately $100 per ton. During 1994 and in each of the years since, a tightness in supply developed which resulted in an increase in the Spot Price of anhydrous ammonia to an average of approximately $195 per ton. The Company believes that the tightness in supply of anhydrous ammonia that emerged in 1994 was a result of increased industrial usage as the U.S. economy grew, a net consolidation of the domestic capacity and a disruption in supply coming from the former Soviet Union. Although prices for anhydrous ammonia vary considerably from month to month, the annual

average price has remained high for each of the last three years. The Company currently purchases approximately 220,000 tons of anhydrous ammonia per year under two contracts, both effective as of January 1, 1997. The Company's purchase price of anhydrous ammonia under these contracts can be higher or lower than the Spot Price of anhydrous ammonia. The higher prices have been partially passed on to customers; however, the Chemical Business has not been able to offset the entire cost increase with price increases for its products resulting in lower gross profit margins during each of the periods since the increase. The Company believes there is approximately 2 million tons of additional annual capacity being constructed in the western hemisphere scheduled for completion in 1998 and 1999. The Company believes this additional capacity may contribute to a decline in the future market price of anhydrous ammonia.

During July 1997, a subsidiary of the Company entered into an agreement with Bayer Corporation ("Bayer") whereby the Company's subsidiaries would act as agent to construct a nitric acid plant located within Bayer's Baytown, Texas chemical plant complex. This plant, when constructed, will be operated by the Company's subsidiary and will supply nitric acid for Bayer's polyurethane units under a long-term supply contract. Management estimates that, after the initial startup phase of operations at the plant, at full production capacity based on terms of the Bayer Agreement and based on current market conditions, the plant should generate approximately $50 million in annual gross revenues. It is anticipated that the construction of the nitric acid plant at Bayer's facility in Baytown, Texas, will cost approximately $65 million and construction is scheduled to be completed in the first quarter of 1999. The Company's subsidiary is to lease the nitric acid plant pursuant to a leverage lease from an unrelated third party for an initial term of ten (10) years from the date that the plant becomes fully operational, and the construction financing of this plant is being provided by an unaffiliated lender.

In addition, in May 1998, the Company entered into a letter of intent with Bayer to purchase Bayer's concentrated nitric acid production unit (the "Unit") located at Bayer's plant in West Virginia. Under the terms of the letter of intent, the Company would, if the purchase is completed, pay to Bayer $2.0 million at closing and the balance payable over six years. If the purchase is completed, the Company would grant to Bayer a purchase money mortgage on the Unit and would lease from Bayer the land on which the Unit is located for a nominal amount. The purchase is subject to, among other things, completion by the Company of its due diligence, completion of a final purchase agreement and approval by the Board of Directors of both parties. Completion of this transaction, if completed, is to occur on or before December 31, 1999.

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

developments in Asia have had a negative impact on the mining industry in Australia which the Company's Chemical Business services. If these adverse economic conditions in Asia continue for an extended period of time, such could have an adverse effect on the Company's consolidated results of operations for 1998.

Climate Control

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

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

As indicated in the above table, the Climate Control Business reported improved sales (an increase of 23.9%) and improved operating profit for the first six months of 1998 as compared to the first six months of 1997.

Automotive and Industrial Products Businesses

As indicated in the above table, during the six months ended June 30, 1998 and 1997, respectively, the Automotive and Industrial Products Businesses recorded combined sales of $28.7 million and $24.5 million, respectively, and reported operating losses (as defined above) of $.4 million and $3.6 million respectively. The net investment in assets of these Businesses has decreased consistently during the last three years and the Company expects to realize further reductions in future periods. See "Overview - General" for a discussion of the Company's intent to spin-off the Automotive Business, subject to numerous conditions precedent.

RESULTS OF OPERATIONS

Six months ended June 30, 1998 vs. Six months ended June 30, 1997

Revenues

Total revenues for the six months ended June 30, 1998 and 1997 were $179.8 million and $166.3 million, respectively (an increase of $13.5 million). Sales increased $3.0 million and other income decreased $2.5 million. Additionally, in March 1998, a subsidiary of the Company closed the sale of an Oklahoma City office building ("the Tower"). The Company recognized a pre-tax gain on the sale of the Tower of approximately $13.0 million in the first quarter of 1998. The decrease in other income of $2.5 million was primarily due to non-recurring matters related to the Tower.

Net Sales

Consolidated net sales included in total revenues for the six months ended June 30, 1998 were $165.5 million, compared to $162.5 million for the first six months of 1997, an increase of $3.0 million. This increase in sales resulted principally from: (i) increased sales in the Climate Control Business of $11.4 million, primarily due to increased volume in both the heat pump and fan coil product lines, and (ii) increased sales in the Automotive Products Business of $4.2 million primarily due to improved volume of units being shipped to original equipment manufacturers and new customers, offset by (iii) decreased sales in the Chemical Business of $12.7 million primarily due to lower sales volume in the U.S. of agricultural and blasting products and decreased business volume of its Australian subsidiary.

Gross Profit

Gross profit was 21.9% for the first six months of 1998, compared to 18.6% for the first six months of 1997. The increase in the gross profit percentage was due primarily to (i) increased absorption of costs due to higher production volumes and improved experience with returns and allowances in the Automotive Products Business, (ii) lower production costs in the Chemical Business due to the effect of lower prices of anhydrous ammonia in 1998, and (iii) lower unabsorbed overhead costs caused by excessive downtime related to problems associated with mechanical failures at the Chemical Business' primary manufacturing plant in the first half of 1997.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 18.6% and 19.4% in the six month periods ended June 30, 1998 and 1997, respectively. This decrease is primarily the result of (i) decreased SG&A expenses compounded by an increase in sales volume in the Automotive Products Business, (ii) increased sales volume in the Climate Control Business without an equivalent corresponding increase in SG&A, (iii) decreased professional fees related to environmental matters in the Chemical Business, and (iv) decreased SG&A on the operations of the Tower since it was sold in March of 1998 but was included for the full six months in 1997.

Interest Expense

Interest expense for the Company, before deducting capitalized interest, was approximately $8.8 million during the six months ended June 30, 1998 compared to approximately $7.5 million during the six months ended June 30, 1997. During the first six months of 1997, $1.1 million of interest expense was capitalized in connection with construction of the DSN Plant. The 1998 increase

of $1.3 million before the effect of capitalization primarily resulted from increased borrowings.

Income (Loss) Before Tax

The Company had income before income taxes of $11.0 million in the first six months of 1998 compared to a loss before income taxes of $3.8 million in the six months ended June 30, 1997. The increased profitability of $14.8 million was primarily due to the gain on the sale of the Tower and increased sales and gross profits as previously discussed, partially offset by increased interest expense.

Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 1 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the six months ended June 30, 1998 and the six months ended June 30, 1997 are for current state income taxes and federal alternative minimum taxes.

Three months ended June 30, 1998 vs. Three months ended June 30, 1997.

Revenues

Total revenues for the three months ended June 30, 1998 and 1997 were $87.6 million and $91.4 million, respectively (a decrease of $3.8 million). Sales decreased $1.8 million and other income decreased $2.0 million. The decrease in other income is primarily due to non-recurring operations of the Tower after it was sold in March 1998.

Net Sales

Consolidated net sales included in total revenues for the three months ended June 30, 1998 were $87.4 million, compared to $89.3 million for the second quarter of 1997, a decrease of $1.9 million. This decrease in sales resulted principally from: (i) decreased sales in the Chemical Business of $5.5 million primarily due to lower sales in the U.S. of agricultural and blasting products and decreased business volume of its Australian subsidiary, and (ii) decreased sales in the Industrial Products Business of $1.1 million due to decreased sales of machine tools, offset by (iii) increased sales in the Climate Control Business of $3.1 million due to increased sales in this Business' Heat Pump and Fan Coil product lines, and (iv) increased sales in the Automotive

Products Business of $1.7 million due to increased volume of units shipped to original equipment manufacturers and new customers.

Gross Profit

Gross profit was 23.3% for the second quarter of 1998, compared to 21.7% for the second quarter of 1997. The increase in the gross profit percentage was due primarily to (i) increased absorption of costs due to higher production volumes in the Automotive Products Business, and (ii) lower production costs in the Chemical Business due to the effect of lower prices of anhydrous ammonia in 1998, and (iii) lower unabsorbed overhead costs caused by excessive downtime related to problems associated with mechanical failures at the Chemical Business' primary manufacturing plant in 1997.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 17.4% in the three month period ended June 30, 1998, compared to 18.7% for the second quarter of 1997. This decrease is primarily the result of (i) decreased SG&A expenses compounded by an increase in sales volume in the Automotive Products Business, (ii) increased sales volume in the Climate Control Business without an equivalent corresponding increase in SG&A, (iii) decreased professional fees related to environmental matters in the Chemical Business, and (iv) decreased SG&A on the operations of the Tower since it was sold in March of 1998.

Interest Expense

Interest expense for the Company was $4.0 million during the second quarter of 1998, compared to $3.7 million, before deducting capitalized interest, during the second quarter of 1997. During the second quarter of 1997, $.4 million of interest expense was capitalized in connection with construction of the DSN Plant. The increase of $.3 million before the effect of capitalization primarily resulted from increased borrowings.

Income Before Taxes

The Company had income before income taxes of $1.4 million in the second quarter of 1998 compared to income before income taxes of $1.5 million in the three months ended June 30, 1997. The difference is composed principally of a reduction in other income offset by a reduction in SG&A.

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 and borrowings under its revolving credit facilities, and more recently, by issuance of senior unsecured notes by a wholly owned subsidiary and the sale of the Tower.

Net cash provided by operations for the six months ended June 30, 1998 was $1.3 million, after $6.7 million for noncash depreciation and amortization, $1.1 million in provisions for possible losses on accounts receivable, notes receivable and a loan guarantee and the $13.0 million gain from the sale of the Tower and including the following changes in assets and liabilities: (i) accounts receivable increases of $4.4 million; (ii) inventory decreases of $3.8 million; (iii) increases in supplies and prepaid items of $1.6 million; and (iv) decreases in accounts payable and accrued liabilities of $2.0 million. The increase in accounts receivable is due to increased sales primarily in the Climate Control and Automotive Products Businesses (see "Results of Operations" for discussion of increase in sales) and seasonal sales of agricultural products in the Chemical Business. The decrease in inventory was due primarily to a decrease at the Chemical Business due to seasonal sales of agricultural products and inventory reductions in the Automotive and Industrial Products Businesses resulting from liquidation of inventories. Inventory in the Automotive and Industrial Products Businesses decreased from $29.4 million at December 31, 1997 to $27.3 million at June 30, 1998. The increase in supplies and prepaid items resulted primarily from an increase in manufacturing supplies in the Chemical Business. The decrease in accounts payable and accrued liabilities is primarily due to reduced seasonal inventory purchases in the Chemical Business.

Cash Flow From Investing And Financing Activities

Cash provided by investing activities for the six months ended June 30, 1998 included cash proceeds of $29.3 million received on the sale of the Tower (see Note 4 of Notes to Condensed Consolidated Financial Statements) offset by $3.8 million in capital expenditures and $1.3 million used to increase other assets. The capital expenditures took place primarily in the Chemical and Climate Control Businesses to enhance production and

product delivery capabilities. The increase in other assets includes a $1.0 million escrow account relating to the sale of the Tower.

Net cash used by financing activities included (i) payments on long-term debt of $18.6 million, including the $12.6 million payoff of the mortgage on the Tower, (ii) net decreases in revolving debt of $3.3 million, after application of net proceeds of $15.5 million from the sale of the Tower, (iii) increases in drafts payable of $.2 million, (iv) dividends of $1.7 million, and (v) treasury stock purchases of $1.6 million.

During the first six months of 1998, the Company declared and paid dividends totaling $1,747,000, as follows: (i) $6.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (ii) $1.625 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; (iii) $.01 per share on each outstanding share of its Common Stock; and (iv) $10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock.

Source of Funds

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

In October 1997, the Company organized a new wholly owned subsidiary, ClimaChem, Inc. ("ClimaChem"). ClimaChem owns substantially all of the Company's Chemical and Climate Control Businesses. On November 26, 1997, ClimaChem issued senior unsecured notes ("Old Notes") in the aggregate amount of $105 million pursuant to the terms of an indenture (the "Indenture"), which Old Notes were exchanged for new registered notes in April 1998 ("New Notes"). The terms of the New Notes were the same as the Old Notes, except for certain limited exceptions. The New Notes evidence the same debt as the Old Notes (which they replaced). The Old Notes and the New Notes are collectively called the "Notes". The Notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by all, except for one inconsequential subsidiary, of the existing and all of the future subsidiaries of ClimaChem. One current subsidiary of ClimaChem, which is currently inconsequential to ClimaChem, is not a guarantor of the Notes. The Company is neither an issuer of, nor a guarantor under, the Notes.

Interest on the Notes is payable semiannually on June 1 and December 1 of each year, commencing June 1, 1998. The Notes will

mature on December 1, 2007, unless earlier redeemed. The Notes are redeemable at the option of the Company on December 1, 2002 at 105.375% of the principal amount declining to face amount at December 1, 2005 and thereafter under the terms set forth in the Indenture. The Notes are effectively subordinated to all secured indebtedness of ClimaChem and its subsidiaries.

Under the terms of the Indenture, ClimaChem and its subsidiaries 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 net income for the year in question and (iii) the amount of direct and indirect costs and expenses incurred by the Company on behalf of ClimaChem pursuant to a certain services agreement and a certain management agreement to which ClimaChem and the Company are parties.

The Company and certain of its subsidiaries are parties to a working capital line of credit evidenced by four separate loan agreements ("Revolving Credit Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory, and proprietary rights of the Company and the subsidiaries that are parties to the Revolving Credit Agreements and the stock of certain of the subsidiaries that are borrowers under the Revolving Credit Agreements. The Revolving Credit Agreements, as amended, provide for revolving credit facilities ("Revolver") for total direct borrowings up to $65.0 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Revolving Credit Agreements, as amended, provide for interest at the lender's prime rate plus 1.5% per annum or, at the Company's option, on the Lender's LIBOR rate plus 3.875% per annum (which rates are subject to increase or reduction based upon achieving specified availability and adjusted tangible net worth levels). At June 30, 1998 the effective interest rate was 10.0%. The term of the Revolving Credit Agreements is through December 31, 2000, and is renewable thereafter for successive thirteen month terms. At June 30, 1998, the availability for additional borrowings, based on eligible collateral, approximated $36.5 million. Borrowings under the Revolver outstanding at June 30, 1998, were $16.0 million. The Revolving Credit Agreements, as amended, require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. At June 30, 1998, the Company and ClimaChem were not in compliance with certain of these financial covenants. In August, 1998, the Company and ClimaChem obtained waivers for such noncompliance and amendments to reset the covenants to amounts the Company and ClimaChem expect to achieve in

future periods. The annual interest on the outstanding debt under the Revolver at June 30, 1998 at the rates then in effect would approximate $1.6 million. The Revolving Credit Agreements also require the payment of an annual facility fee of 0.5% of the unused revolver.

In addition to the Revolving Credit Agreements discussed above, as of June 30, 1998, the Company's wholly-owned subsidiary, DSN Corporation ("DSN"), is a party to several loan agreements with a financial company (the "Financing Company") for three projects. At June 30, 1998, DSN had outstanding borrowings of $12.3 million under these loans. The loans have repayment schedules of 84 consecutive monthly installments of principal and interest. The interest rate on each of the loans is fixed and range from 8.2% to 8.9%. Annual interest, for the three notes as a whole, at June 30, 1998, at the agreed to interest rates would approximate $1.1 million. The loans are secured by the various DSN property and equipment. The loan agreements require ClimaChem to maintain certain financial ratios, including tangible net worth requirements. At June 30, 1998, ClimaChem was not in compliance with the tangible net worth covenant of these agreements. In August 1998, ClimaChem obtained a waiver for such noncompliance and a waiver through June 1999 to the extent that noncompliance is caused by the Management Fee Agreement between LSB and ClimaChem. The Company expects to be in compliance with these Agreements, after consideration of the waiver, in future periods

The Company's Australian subsidiary has a revolving credit working capital facility (the "TES Revolving Facility"). The TES Revolving Facility is approximately AUS$10.5 million (approximately US$6.4 million). The TES Revolving Facility allows for borrowings based on specific percentages of qualified eligible assets. At June 30, 1998, based on the effective exchange rate, the availability under the TES Revolving Facility was approximately US$6.4 million (AUS$10.5 million), with approximately US$2.5 million (AUS$4.1 million approximately) being borrowed at June 30, 1998. Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from LSB and certain subsidiaries of TES. The interest rate on this debt is dependent upon the borrowing option elected by TES and had a weighted average rate of 7.2% at June 30, 1998. TES is in technical noncompliance with a certain financial covenant contained in the loan agreement involving the TES Revolving Facility. However, this covenant was not met at the time of closing of this loan and the Bank of New Zealand, Australia has continued to extend credit under this facility. The outstanding borrowing under the TES Revolving Facility at June 30, 1998, has been classified as due within one year in the accompanying condensed consolidated financial statements.

Future cash requirements include working capital requirements for anticipated sales increases in all Businesses and funding for future capital expenditures. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by cash flow generated by the Company and the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Industrial Products Business and in the inventories of the Automotive Products Business. Currently the Company is limited to capital expenditures of $6 million annually under the Revolving Credit Agreements discussed above. The Company has requested an amendment to increase permitted annual capital expenditures to $10.0 million. If this amendment is approved, the Company has planned capital expenditures of approximately $10.0 million in 1998, primarily in the Chemical and Climate Control Businesses.

Management believes that cash flows from operations, the Company's revolving credit facilities, and other sources will be adequate to meet its presently anticipated capital expenditure, working capital, debt service, and dividend requirements. The Company currently has no material commitment for capital expenditures, except as discussed under "Overview - Chemical Business" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the letter of intent with Bayer Corporation to purchase a nitric acid unit. In addition, the Company's subsidiary has agreed to act as agent to construct a nitric acid plant as discussed under "Overview - Chemical Business" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations". Further, the Company's Chemical Business may be required to incur additional capital expenditures as discussed in Note 5 of Notes to Condensed Consolidated Financial Statements regarding a "Groundwater Monitoring Work Plan" and the draft of the proposed Consent Administrative Agreement related to the Chemical Business' wastewater treatment system. At the date of this report, the cost of the expenditures for these environmental matters has not been determined.

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 to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. During 1997 the Company advanced an additional $1

million to the French manufacturer bringing the total of the loan at December 31, 1997 to $3.8 million. As of June 30, 1998 the balance of the loan remained $3.8 million. As of the date of this report, the decision has not been made to exercise such option and the $3.8 million loan, less a $1.5 million valuation reserve, is carried on the books as a note receivable in other assets.

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

During 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company"), which owns the remaining fifty percent (50%) equity interest in the Project discussed above, to enhance the marketing of the Company's air conditioning products. The stock option has a four (4) year term, and a total option granting price of $1.0 million and annual $100,000 payments for yearly extensions of the stock option thereafter for up to three (3) years. Through the date of this report the Company has made option payments aggregating $1.3 million and has loaned the Optioned Company approximately $1.4 million. The Company has recorded reserves of $1.1 million against the loans. Upon exercise of the stock option by the Company, or upon the occurrence of certain performance criteria which would give the grantors of the stock option the right to accelerate the date on which the Company must elect whether to exercise, the Company shall pay certain cash and issue promissory notes for the balance of the exercise price of the subject shares. The total exercise price of the subject shares is $4.0 million, less the amounts paid for the granting and any extensions of the stock option. As of the date of this report, no decision to exercise this option has been reached by the Company.

Debt Guarantee

The Company and one of its subsidiaries have guaranteed approximately $2.6 million of indebtedness of a startup aviation company in exchange for an ownership interest. The debt guarantee relates to two note instruments. One note for which the subsidiary had guaranteed up to $600,000 had a balance of approximately $2.0 million as of June 30, 1998. The other note in the amount of $2.0 million requires monthly principal payments of $11,111 plus interest beginning in October 1998 through August 8, 1999, at which time all outstanding principal and accrued interest are due. In the event of default of the $2.0 million note, the Company is required to assume payments on the note with the term extended until August 2004. Both notes are current as to principal and interest as of June 30, 1998.

In the first six months of 1998, the aviation company made capital calls on its shareholders. In contemplation of a sale of the aviation company to an additional investor and pursuant to such capital calls, the Company invested an additional $635,000 and loaned an additional net amount of $33,000 to the aviation company in exchange for additional stock. These transactions increased the Company's ownership interest to approximately 40.7%. Prior to funding, if any, by third parties, the Company may be requested to make additional purchases of capital stock of the aviation company and/or make additional advances.

Availability of Company's Loss Carry-overs

The Company anticipates that its cash flow in future years will benefit from its ability to use net operating loss ("NOL") carry-overs from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years. Such benefit, if any is dependent on the Company's ability to generate taxable income in future periods, for which there is no assurance. Such benefit if any, will be limited by the Company's reduced NOL for alternative minimum tax purposes which is approximately $18 million at June 30, 1998. As of December 31, 1997, the Company had available NOL carry-overs of approximately $65 million. These NOL carry-overs will expire beginning in the year 1999. Due to its recent history of reporting net losses, the Company has established a valuation allowance on a portion of its NOLs and thus has not recognized the full benefit of its NOLs in the accompanying Condensed Consolidated Financial Statements.

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

Contingencies

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

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) establish a plan to dispose of non-core assets, (ii) ability to complete the spin-off of the Automotive Products Business, (iii) the EDNC Baytown Plant will cost approximately $65 million, will be completed by the first quarter of 1999 and, when the EDNC Baytown Plant is fully operational, the annual sales volume from such plant will be approximately $50.0 million, (iv) ability to meet presently anticipated capital expenditures, working capital, debt service and dividend requirements,(v) amount to be spent in 1998 relating to compliance with federal, state and local Environmental laws at the El Dorado Facility, (vi) improve liquidity and profits through liquidation of assets, (vii) anticipated financial performance, (viii) ability to comply with the Company's general working capital requirements, (ix) ability to be able to continue to borrow under the Company's revolving line of credit, (x) ability to use NOL carry-overs from prior years, (xi) contingencies should not have a material adverse impact on the Company's liquidity, (xii) ability to be in compliance with certain financial covenants contained in certain loan agreements, and (xiii) ability to complete certain settlements. 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) inability to collect in a timely manner a material amount of receivables, (iv) increased competitive pressures, (v) costs cannot be reduced or cost reduction projects are not completed on schedule, (vi) contracts are not obtained or projects are not finalized within a reasonable period of time or on schedule, (vii) inability to dispose of non-core businesses or assets in a reasonable manner or on reasonable terms due to the inability to dispose of such on prices or terms satisfactory to the Company or

inability to spin-off such businesses due to legal impediments, (viii) changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, (ix) additional releases (particularly air emissions into the environment), (x) potential increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company, (xi) inability to retain management or to develop new management, (xii) the requirement to use internally generated funds for purposes not presently anticipated, (xiii) inability to become profitable, or if unable to become profitable, the inability to secure additional liquidity in the form of additional equity or debt, (xiv) the effect of additional production capacity of anhydrous ammonia in the western hemisphere, (xv) the cost for the purchase of anhydrous ammonia not reducing or continuing to increase or the cost for natural gas increases, (xvi) changes in operating strategy or development plans, (xvii) inability to fund the expansion of the Company's businesses, (xviii) adverse results in any of the Company's pending litigation,(xix) inability to finalize the settlements of the pending environmental litigation or the Company's insurance does not cover a substantial portion of such settlements, (xx) NOL carry-overs are limited or reduced as a result of future audits by the IRS or being limited or reduced by limitations applicable to corporate taxpayers, including, without limitation, limitations imposed by code Section 382 and the consolidated return limitations, and (xxi) other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report. Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Independent Accountants' Review Report

Board of Directors
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of June 30, 1998, and the related condensed consolidated statements of operations for the six month and three month periods ended June 30, 1998 and 1997 and the condensed consolidated statements of cash flows for the six month periods ended June 30, 1998 and 1997. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 16, 1998, except for the fourth paragraph of Note 5(A), as to which the date is April 8, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1997, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 14, 1998

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the fiscal period ended December 31, 1997, which Item 3 is incorporated by reference herein. The following settlements or material developments have occurred regarding certain litigation reported in Item 3 of the Company's Form 10-K for the year ended December 31, 1997:

Roy Carr, et. al v. El Dorado Chemical Company ("Carr Case"); Richard Detraz, et. al v. El Dorado Chemical Company ("Detraz Case"); Roy A. Carr, Sr., et. al v. El Dorado Chemical Company ("Citizen Suit"), which are or were pending against El Dorado Chemical Company ("EDC"), a subsidiary of the Company within the Company's Chemical Business, in the United States District Court, Western District of Arkansas. During the second quarter of 1998, EDC (i) settled the Carr Case, (ii) obtained court approval of a Consent Decree in settlement of the Citizen Suit, and (iii) settled the Detraz Case.

Under the terms of the Consent Decree in settlement of the Citizen Suit, which is subject to court approval, EDC has agreed to, among other things, (i) the granting of injunctive relief requiring its El Dorado, Arkansas facility("El Dorado Facility") to (a) comply with certain discharge, monitoring and reporting requirements of its waste water discharge permit, the emission limitations of its air permit and the notification requirements under certain sections of certain environmental laws and the statutory penalties for failure to comply with such notification requirements, (b) perform air and water tests to determine if the El Dorado Facility is meeting certain compliance levels and, if the tests do not meet the required compliance levels, to make the necessary corrections so that such compliance levels can be met, and (c) limitations relating to the El Dorado Facility's use of its older concentrated nitric acid plant, (ii) provide the plaintiffs with copies of certain documents forwarded to, or received by, appropriate environmental regulatory agencies by the El Dorado Facility and summaries of certain test results at the El Dorado Facility, (iii) pay to the U.S. Treasury $50,000 as a penalty, and (iv) pay certain stipulated penalties under certain conditions in the event the El Dorado Facility fails to comply with the terms of the Consent Decree. The $50,000 payment to the U.S. Treasury has been made by the Company's Chemical Business.

Under the Carr Case and Detraz Case settlements, certain cash payments will be or are to be made to the plaintiffs as a result of such settlements. Substantially all such cash settlement payments made in the Carr Case and to be made in the Detraz Case have been funded or are to be funded directly by the Company's EIL Insurance. See Note 5 to Notes to Condensed Consolidated Financial Statements and "Special Note Regarding Forward - Looking Statements."

Item 2. Changes in Securities and Use of Proceeds

(a) In April 1998, ClimaChem, Inc. ("ClimaChem"), a subsidiary of the Company, exchanged its $105 million in 10 3/4% Senior Notes Due 2007 ("Old Notes") for $105 million of 10 3/4% Series B Senior Notes Due 2007 ("New Notes") that were registered under the Securities Act of 1933, as amended (the "Act"). The Old Notes were sold by ClimaChem to Wasserstein Perella Securities, Inc., who subsequently resold the Old Notes to qualified institutional buyers pursuant to Rule 144A under the Act. The form and terms of the New Notes are the same as the form and terms of the Old Notes (which they replaced), except the New Notes bear a Series B designation, have been registered under the Act and, therefore, do not bear legends restricting their transfer and do not contain certain provisions relating to liquidated damages which were included in the Old Notes in certain circumstances relating to the timing of the exchange offer of the New Notes for the Old Notes. The New Notes evidence the same debt as the Old Notes (which they replaced) and were issued and entitled to the benefits of an Indenture, dated November 26, 1997, between ClimaChem, the Guarantors (as defined in the Indenture) and BankOne, N.A., as trustee governing the Old Notes and the New Notes. See Note 6 of Notes to Condensed Consolidated Financial Statements and "Management Discussion and Analysis of Financial Condition and Results of Operations".

Item 3. Defaults Upon Senior Securities

Not applicable.

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

At the Company's 1998 Annual Meeting of Shareholders held on June 25, 1998, the following nominees to the Board of Directors were elected as directors of the Company:

Name	Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
Robert C. Brown, M.D.	11,861,713	123,973	0
Gerald J. Gagner	11,861,713	123,973	0
Jack E. Golsen	11,861,613	124,073	0
Horace G. Rhodes	11,861,613	124,073	0

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

At the Annual Meeting, Ernst & Young, LLP, Certified Public Accountants, was appointed as independent auditors of the Company for 1998, as follows:

Number of Shares "For"	Number of Shares "Against" and to "Withhold Authority"	Number of Abstentions and Broker Non-Votes
11,930,073	52,191	3,422

Item 5. Other Information

As set forth in the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders, stockholder proposals submitted to the Company pursuant to Rule 14a-B under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for inclusion in the Company's proxy materials for its 1999 Annual Meeting of

Stockholders must be received by the Company no later than January 26, 1999. Under the Company's Bylaws, as amended August 13, 1998, any stockholder proposal submitted with respect to the Company's 1999 Annual Meeting of Stockholders which is received by the Company after April 6, 1999 will not be considered to be properly brought before the 1999 Annual Meeting of Stockholders. Under the Company's Bylaws existing prior to August 13, 1998, any stockholder proposal submitted with respect to the Company's 1999 Annual Meeting of Stockholders which was received by the Company after the date 50 days prior to the date of the Company's next annual meeting of stockholders (or in event that less than 60 days notice or public disclosure of the date of the Company's next annual meeting of stockholders was given or made to stockholders, after the close of business on the 10th day following the day on which notice of the date of the meeting was first mailed or public disclosure was made) would not be considered to be properly brought before the next annual meeting of stockholders.

Item 6. Exhibits and Reports on Form 8-K

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

3(ii) Bylaws

4.1 Third Amendment to Amended and Restated Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. ("BABC"). Substantially identical amendments have been entered into by each of L&S Bearing Co. and Summit Machine Tool Manufacturing Corp. with BABC, and such are hereby omitted and will be provided upon the Commission's request.

4.2 Third Amendment to Amended and Restated Loan and Security Agreement between BABC and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosives Corporation.

15.1 Letter Re: Unaudited Interim Financial Information.

27.1 Financial Data Schedule

(B) Reports of Form 8-K. The Company did not file any reports on Form 8-K during the quarter ended June 30, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf on this 14th day of August 1998.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

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

By: /s/ Jim D. Jones

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

EXHIBIT INDEX

Exhibit No.	Description	Sequential Page No.
3(ii)	Bylaws	46
4.1	Third Amendment to Amended and Restated Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. ("BABC"). Substantially identical amendments have been entered into by each of L&S Bearing Co. and Summit Machine Tool Manufacturing Corp. with BABC, and such are hereby omitted and will be provided upon the Commission's request.	86
4.2	Third Amendment to Amended and Restated Loan and Security Agreement between BABC and Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company and Slurry Explosives Corporation.	95
15.1	Letter Re: Unaudited Interim Financial Information	104
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LSB INDUSTRIES, INC.

BY-LAWS

ARTICLE I

Offices

Section 1. The principal office of the Corporation shall be in Oklahoma City, County of Oklahoma, State of Oklahoma, and the Corporation may also have offices at such other places as the Board of Directors may from time to time appoint or at such other places as the business of the Corporation requires.

ARTICLE II

Seal

Section 1. The corporate seal shall be in such form as the Board of Directors may from time to time prescribe. Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

ARTICLE III

Shareholders

Section 1. Place. All meetings of the shareholders shall be held in Oklahoma City, Oklahoma, or at such other place as the directors may designate.

Section 2. Annual Meeting. Annual meetings of shareholders to elect directors and transact such other business as may properly be presented to the meeting shall be held on the last Tuesday in April of each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at 10:00 a.m., or if the annual meeting is not held on the above designated date, then the directors shall cause the annual meeting to be held as soon thereafter as is convenient.

Section 3. Quorum. The holders of record of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, but in the absence of a quorum the holders of record, present in person or represented by proxy at such meeting shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 4. Voting; Proxies. Except as otherwise provided by the laws of the State of Delaware or the Certificate of Incorporation of the Corporation or these Bylaws:

(a) At every meeting of the shareholders every shareholder having the right to vote shall be entitled to one vote for each share of capital stock having voting rights held by him.

(b) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(c) Each matter properly presented to any meeting shall be decided by a majority of the votes cast on the matter.

(d) Election of directors and the vote on any other matter presented to a meeting need not be by written ballots, but written ballots may be used if ordered by the chairman of the meeting or if so requested by any stockholder present or represented by proxy at the meeting entitled to vote in such election or on such matter, as the case may be.

Section 5. Notice of Meeting. For each meeting of stockholders written notice shall be given stating the place, date and hour, and, in the case of a special meeting, the purpose or purposes for which the meeting is called and, if the list of stockholders required by Section 6 is not to be at the place of said meeting at least 10 days prior to the meeting, the place where said list will be. Except as otherwise provided by Delaware law, the written notice of any meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 6. List of Stockholders Entitled to Vote. At least 10 days before every meeting of stockholders a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared and shall be open to the examination of any

stockholder for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 7. Special Meetings. A special meeting of stockholders may be called at any time by the Board of Directors, its Chairman, the Executive Committee or the President and shall be called by any of them or by the Secretary upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such a meeting, proposed to be presented at the meeting and signed by holders of record of a majority of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting.

Section 8. Chairman and Secretary at Meeting. At each meeting of stockholders, the Chairman of the Board of Directors or in his absence, the President, or in his absence the person designated in writing by the President, or if no person is so designated, then a person designated by the Board of Directors shall preside as Chairman of the meeting; if no person is so

designated, then the meeting shall choose a Chairman by plurality vote. The Secretary or in his absence a person designated by the Chairman of the meeting shall act as Secretary of the meeting.

Section 9. Adjourned Meetings. A meeting of stockholders may be adjourned to another time or place as provided in Sections 3 or 4(d) of this Article III. Unless the Board of Directors fixes a new record date, stockholders of record for an adjourned meeting shall be as originally determined for the meeting from which the adjournment was taken. If the adjournment is for more than 30 days, or if after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote. At the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called.

Section 10. Consent of Stockholders in Lieu of Meeting. Any action that may be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Notice of the taking of such action shall be given promptly to each stockholder that would have been entitled to vote thereon at a meeting of stockholders and that did not consent thereto in writing.

Section 11. Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof,

or to express consent to corporate action in writing without a meeting, or entitled receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

ARTICLE IV

Directors

Section 1. Number, Term, Qualifications and Vacancies. The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time by resolution of the Board of Directors and may consist of not less than three nor more than fifteen members. The directors shall be divided into three (3) classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. The term of office of those directors of the first class shall expire at the annual meeting of the shareholders of the Corporation next ensuing; the term of office of the directors of the second class shall expire one year thereafter; and the term of office of the directors of the third class shall expire two years thereafter. At each annual election the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three (3) years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 2. Offices and Books. The directors may have one or more offices, and keep the books of the Corporation at the offices of the Corporation in Oklahoma City, Oklahoma, or at such other places as they may from time to time determine.

Section 3. Resignation. Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director, and each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 4. Removal. Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors.

Section 5. Regular and Annual Meetings; Notice. Regular meetings of the Board of Directors shall be held at such time and at such place, within or without the State of Delaware, as the Board of Directors may from time to time prescribe. No notice need be given of any regular meeting and a notice, if given, need not specify the purposes thereof. A meeting of the Board of Directors may be held without notice immediately after an annual meeting of

stockholders at the same place as that at which such annual meeting of shareholders was held.

Section 6. Special Meetings; Notice. A special meeting of the Board of Directors may be called at any time by the Board of Directors, its Chairman, the Executive Committee, the President or any person acting in the place of the President and shall be called by any one of them or by the Secretary upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such a meeting, proposed to be presented at the meeting and signed by at least two directors of the Corporation. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting.

Section 5. Presiding Officer and Secretary at Meetings. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his absence by the President or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The Secretary, or in

his absence an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

Section 6. Quorum. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business, but in the absence of a quorum, a majority of those present (or if only one be present, then that one) may adjourn the meeting, without notice other than announcement at the meeting, until such time as a quorum is present. Except as otherwise required by the Certificate of Incorporation or these By-Laws, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 7. Meeting by Telephone. Members of the Board of Directors or of any committee thereof may participate in meetings of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 8. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 9. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, including the power to authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have such power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum

present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present.

Section 10. Compensation. Each director shall be entitled to reimbursement of his reasonable expenses incurred in attending meetings or otherwise in connection with his attention to the affairs of the Corporation. Each director who is not a salaried officer of the Corporation or of a subsidiary of the Corporation shall, as such director and as a member of any committee, be entitled to receive such amounts as may be fixed from time to time by the Board of Directors, in the form either of fees for attendance at meetings of the Board and of committees thereof, or of payment at the rate of a fixed sum per month, or both.

Section 11. Additional Powers. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, as from time to time amended, or by these By-Laws, as from time to time amended, directed or required to be exercised or done by the shareholders.

ARTICLE V

OFFICERS

Section 1. Designation. The Corporation shall have such officers with such titles and duties as set forth in these By-Laws or in any one or more resolutions of the Board of Directors adopted on or after the effective date of these By-Laws which are not

inconsistent with these By-Laws and as may be necessary to enable the Corporation to sign instruments and stock certificates as required by law.

Section 2. Election; Qualification. The officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may elect a Chairman of the Board of Directors, a Controller, one or more Assistant Secretaries, one or more Assistant Treasurers, one or more Assistant Controllers, and such other officers as it may from time to time determine. The Chairman of the Board of Directors, if any, shall be elected from among the directors. Two or more offices may be held by the same person.

Section 3. Term of Office. Each officer shall hold office from the time of his election and qualification to the time at which his successor is elected and qualified, unless sooner he shall die or resign or shall be removed pursuant to Section 5.

Section 4. Resignation. Any officer of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Removal. Any officer may be removed at any time, with or without cause, by the vote of a majority of the whole Board of Directors.

Section 6. Vacancies. Any vacancy however caused in any office of the Corporation may be filled by the Board of Directors.

Section 7. Compensation. The compensation of each officer shall be such as the Board of Directors may from time to time determine.

Section 8. Chairman of the Board of Directors. The Chairman of the Board of Directors, if such office be occupied, shall advise and consult with the President concerning the business and affairs of the Corporation and shall have such powers and duties as the By-Laws or the Board of Directors may from time to time prescribe.

Section 9. President. The President shall be the chief executive officer of the Corporation and shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the chief executive officer, subject however to the right of the Board of Directors to confer specified powers on officers of the Corporation. The President shall be ex-officio a member of all committees of the Board of Directors.

Section 10. Vice President. Each Vice President shall have such powers and duties as generally pertain to the office of Vice President and as the Board of Directors or the President may from time to time prescribe. During the absence of the President or his inability to act, the Vice President, or if there shall be more than one Vice President, then that one designated by the Board of Directors, shall exercise the powers and shall perform the duties of the President, subject to the direction of the Board of Directors.

Section 11. Secretary. The Secretary shall keep the minutes of all meetings of stockholders and of the Board of Directors. He shall be custodian of the corporate seal and shall affix it or cause it to be affixed to such instruments as he deems necessary or appropriate and attest the same and shall exercise the powers and shall perform the duties incident to the office of Secretary, and those that may otherwise from time to time be assigned to him subject to the direction of the Board of Directors.

Section 12. Treasurer. The Treasurer shall be the chief accounting officer of the Corporation and shall have care of all funds and securities of the Corporation and shall exercise the powers and shall perform the duties incident to the office of Treasurer, subject to the direction of the Board of Directors.

Section 13. Other Officers. Each other officer of the Corporation shall exercise the powers and shall perform the duties incident to his office, subject to the direction of the Board of Directors.

ARTICLE VI

CAPITAL STOCK

Section 1. Stock Certificates. The interest of each holder of stock of the Corporation shall be evidenced by a certificate or certificates in such form as the Board of Directors may from time to time prescribe. Each certificate shall be signed by, or in the name of the Corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation. If such certificate is countersigned (a) by a transfer agent other than the Corporation or its employee, or (b) by a registrar other than the Corporation or its employee, any other signature on the certificate may be facsimile. If any

officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Shares of stock shall be transferable on the books of the Corporation pursuant to applicable law and such rules and regulations as the Board of Directors shall from time to time prescribe on or after the effective date of these By-Laws.

Section 3. Holders of Record. Prior to due presentment for registration of transfer, the Corporation may treat the holder of record of a share of its stock as the complete owner thereof exclusively entitled to vote, to receive notifications and otherwise entitled to all the rights and powers of a complete owner thereof, notwithstanding notice to the contrary.

Section 4. Lost, Stolen, Destroyed, or Mutilated Certificates. The Corporation may issue a new certificate of stock to replace a certificate alleged to have been lost, stolen, destroyed or mutilated upon such terms and conditions as the Board of Directors may from time to time prescribe, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate or his legal representative, to give the Corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate.

Section 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more Transfer Agents and Registrars

for the Common Stock and Preferred Stock of the Corporation. The Transfer Agent shall be in charge of the issue, transfer, and cancellation of shares of stock and shall maintain stock transfer books, which shall include a record of the shareholders, giving the names and addresses of all shareholders, and the number and class of shares held by each; prepare voting lists for meetings of shareholders; produce and keep open these lists at the meetings; and perform such other duties as may be delegated by the Board of Directors. Shareholders may give notice of changes of their addresses to the Transfer Agent. The Registrar shall be in charge of preventing the over-issue of shares, shall register all stock certificates, and perform such other duties as may be delegated by the Board of Directors.

ARTICLE VII

CHECKS

Section 1. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE VIII

FISCAL YEAR

Section 1. The fiscal year shall begin the first day of January in each year.

ARTICLE IX

DIVIDENDS

Section 1. Declaration. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid

in cash, in property, or in shares of the capital stock of the Corporation.

Section 2. Reserve Fund. The Board of Directors may set aside out of any funds of the Corporation available for dividends a reserve or reserves for any proper purposes and in such sum or sums as the directors from time to time, in their absolute discretion, believe to be proper, and the Board of Directors may abolish any such reserve.

ARTICLE X

NOTICE

Section 6.1 Waiver of Notice. Whenever notice is required by the Certificate of Incorporation, the By-Laws, or as otherwise provided by law, a written waiver thereof, signed by the person entitled to notice, shall be deemed equivalent to notice, whether before or after the time required for such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

Section 2. Mailing of Notice. Whenever under the provisions of these By-Laws notice is required to be given to any director, officer or shareholder and such notice is not waived as provided in Section 1 of this Article X, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in post-paid sealed wrapper, addressed to such shareholder, officer or

director at such address as appears on the books of the Corporation, or, in default of other address, to such director, officer or shareholder at the General Post Office in Oklahoma City, Oklahoma, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

ARTICLE XI

AMENDMENT OF BY-LAWS

Section 1. Amendment. These By-Laws may be made, altered, or repealed at any meeting of stockholders or at any meeting of the Board of Directors by a majority vote of the whole Board.

APPROVAL OF DIRECTORS

The foregoing By-Laws, after being read section by section, were adopted by the Directors of this Corporation on 28th January, 1977, at Oklahoma City, Oklahoma.

/s/ Jack E. Golsen	/s/ Donald C. Edelson
Jack E. Golsen	Donald C. Edelson
/s/ David R. Goss	/s/ Irwin H. Steinhorn
David R. Goss	Irwin H. Steinhorn
/s/ Tony M. Shelby	/s/ Al Braver
Tony M. Shelby	Al Braver
/s/ Gerald G. Barton	/s/ Robert C. Brown
Gerald G. Barton	Robert C. Brown, M.D.
/s/ Bernard G. Ille	/s/ Jerome D. Shaffer
Bernard G. Ille	Jerome D. Shaffer, M.D.

/s/ C. L. Thurman

C. L. Thurman

FIRST AMENDMENT TO LSB INDUSTRIES, INC.'S BY-LAWS

The following amendments to LSB Industries, Inc.'s ("LSB") By-Laws were approved and adopted by the Board of Directors of LSB at their special meeting held on October 6, 1986:

1. Section 7. Special Meeting. of Article III of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 7. Special Meetings.

A special meeting of stockholders may be called at any time by the Chairman or by a majority of the directors then in office, and shall be called by the Chairman upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such meeting, proposed to be presented at the meeting and signed by holders of record of two-thirds of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting."

2. Section 1. Number, Term, Qualifications and Vacancies. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 1. Number, Term, Qualifications and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time by resolution of the Board of Directors and may consist of not less than three nor more than fifteen members. The directors shall be divided into three (3) classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. The term of office of those directors of the first class shall expire at the annual meeting of the shareholders of the Corporation next ensuing; the term of office of the directors of the second class shall expire one year thereafter; and the term of office of the directors of the third class shall expire two years thereafter. At each

annual election the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three (3) years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal."

3. Section 3. Resignations. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 3. Resignation.

Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors, or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal."

4. Section 4. Removal. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 4. Removal.

Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors. For purposes of this Article IV, Section 4, cause for removal shall be deemed to exist only if the Director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by

a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such Director's duty to the Corporation and, in each case, such adjudication is no longer subject to direct appeal."

5. Section 6. Special Meetings; Notice. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 6. Special Meetings; Notice.

A special meeting of the Board of Directors may be called at any time by the Chairman or a majority of the directors then in office. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting."

6. Section 1. Amendment. of Article XI of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 1. Amendment.

These By-Laws may be made, amended, altered, added to, revised or repealed only by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors."

The By-Laws of LSB Industries, Inc., as amended and modified by this First Amendment to LSB Industries, Inc.'s By-Laws, sets forth the entire By-Laws of LSB. The amendments to LSB's By-Laws as combined in this First Amendment to LSB Industries, Inc.'s By-Laws are effective as of the 6th day of October, 1986, the date that such amendments were approved by the Board of Directors of LSB.

Dated: October 6, 1986

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board
and President

/s/ Irwin H. Steinhorn

Irwin H. Steinhorn
Secretary

(Seal)

SECOND AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 9. Executive and Other Committees. of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws has been duly and validly amended by the Board of Directors of the Company, by a written memorandum of action, dated November 7, 1986, executed by all members of the Board of Directors pursuant to Section 141(f) of the Delaware General Corporation Law, to read as follows:

"Section 9. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions

providing for the issuance of shares of stock adopted by the Board of Directors, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at

any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present."

The By-Laws of LSB Industries, Inc., as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, and by this Second Amendment to the By-Laws of LSB Industries, Inc., sets forth the entire By-Laws of LSB. The amendment to the Company's By-Laws as set forth in this Second Amendment to the LSB Industries, Inc.'s By-Laws is effective as of the 7th day of November, 1986, the date of the Memorandum of Action in which the members of the Board of Directors adopted and approved such amendment.

Dated: November 7, 1986

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen
_____
Jack E. Golsen
Chairman of the Board
and President

/s/ Irwin H. Steinhorn
_____
Irwin H. Steinhorn
Secretary

(Seal)

THIRD AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 1. Number, Term, Qualification and Vacancies. of ARTICLE IV and Section 1. Amendment of ARTICLE IX of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by a written memorandum of action, dated June 1, 1989, executed by all members of the Board of Directors pursuant to Section 141(f) of the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three nor more than eight members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election

AMENDMENT TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

The following Amendments to the By-laws of LSB Industries, Inc. ("LSB"), were approved and adopted by the Board of Directors of LSB at their meeting held April 26, 1990:

1. Section 10, Consent to Stockholders in Lieu of Meeting, of ARTICLE III of the By-laws is hereby deleted in its entirety and in lieu thereof a new Section 10 is substituted in place thereof, which reads as follows:

Section 10. Consent of Stockholders in Lieu of Meeting.

10.1 Action by Written Consent. Any action which is required to be or may be taken at any annual or special meeting of stockholders of the corporation may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, shall have been signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided however, that prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

10.2 Determination of Record Date of Action by Written Consent. In order to inform the corporation's stockholders and the investing public in advance that a record date for action by consent will occur and to comply with the procedures contained in the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) policies and rules, the record

date for determining stockholders entitled to express consent to corporate action in writing without a meeting is fixed by the Board of Directors of the corporation pursuant to Section 213(a) of the Delaware General Corporation Law as follows: The Board of Directors shall set as the record date the 10th day after (i) any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice to the Secretary which may be given by telex or telecopy, advise the corporation of the corporate action proposed for which consents will be sought and request from the Board of Directors a record date unless a later date is specified by such stockholder, or (ii) the Board of Directors determines that the corporation should seek corporate action by written consent, unless a later record date is specified in the resolution of the Board of Directors containing such determination. In the event that the record date set as provided falls on a Saturday, Sunday or legal holiday, the record date shall be the first day next following such

date that is not a Saturday, Sunday or legal holiday. Any record date determined pursuant to this Subsection 10.2 shall be announced by a press release prior to the opening of trading on the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) on the next trading day after a request for a record date pursuant to clause (i) above is received by the Secretary or a Board of Directors' determination pursuant to clause (ii) above.

10.3 Duration and Revocation of Consents. In order that the corporation's stockholders shall have an opportunity to receive and consider the information germane to an informed judgment as to whether to give a written consent and in accordance with the procedures contained in the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) policies and rules, the stockholders of the corporation shall be given at least twenty (20) days from the record date to give or revoke written consents. Consents to corporate action shall be valid for a maximum of sixty (60) days after the record date. Consents may be revoked by written notice (i) to the corporation, (ii) to the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the corporation (the "Soliciting Stockholders"), or (iii) to a proxy solicitor or other agent designated by the corporation of the Soliciting Stockholder(s).

10.4 Retention and Duties of Inspectors of Election. Within two (2) business days after receipt of a request by a stockholder for the setting of a record date or a determination by the Board of Directors that the corporation should seek corporate action by written consent, as the case may be, the Secretary of the corporation shall engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The inspectors shall review all consents and revocations, determine whether the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents, and forthwith certify such determination for entry in the records of the corporation kept for the purpose of recording the proceedings of meetings of stockholders. The cost of retaining inspectors of elections shall be borne by the party proposing the action by consent.

10.5 Procedures for Counting and Challenging Consents. Consents and revocations shall be delivered to the inspectors upon receipt by the corporation, the Soliciting Stockholders or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. The inspectors shall keep such count confidential and shall not reveal the count to the corporation, the Soliciting Stockholders or their representatives. As soon as

practicable after the earlier of (i) sixty (60) days after the record date for the consents or (ii) a request therefore by the corporation or the Soliciting Stockholders (whichever is soliciting consents) made after expiration of the period for giving or revoking consents under Subsection 10.3 above, notice of which request shall be given to the party opposing the solicitation of consents, which request shall state that the corporation or Soliciting Stockholder(s) (as the case may be) in good faith believe that it or they have received the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents, the inspectors shall issue a preliminary report to the corporation and the Soliciting Stockholders stating:

(i) The number of valid consents;

(ii) The number of valid revocations;

(iii) The number of valid and unrevoked consents;

(iv) The number of invalid consents;

(v) The number of invalid revocations;

(vi) Whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the corporation and the Soliciting Stockholder(s) shall agree to a shorter or longer period, the corporation and the Soliciting Stockholder(s) shall have forty-eight (48) hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within forty-eight (48) hours after the inspector's issuance of the preliminary report, the inspectors shall issue to the corporation and the Soliciting Stockholder(s) their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the corporation or the Soliciting Stockholder(s) issue written notice of an intention to challenge the inspectors' preliminary report within forty-eight (48) hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the corporation and the Soliciting Stockholder(s) containing the information included in the preliminary report, plus all changes in the vote totals as a result

of the challenges and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents.

10.6 Notice of Results. The corporation shall give prompt notice to the stockholders of the results of any consent solicitation or the taking of the corporate action without a meeting and by less than unanimous written consent.

2. Article III of the By-laws is hereby amended by adding at the end thereof new Sections 12 and 13, which shall read as follows:

Section 12. Business to be Conducted at the Annual or Special Meeting of the Stockholders. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 12. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the corporation not less than fifty (50) days prior to the date of the annual meeting; provided, however, that in the event that less than sixty (60) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, the following:

(i) A brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;

(ii) The name and address, as they appear on the corporation's books, of the stockholder proposing such business;

(iii) The class and number of shares of the corporation's voting stock that are beneficially owned by such stockholder; and

(iv) Any material interest of such stockholder in such business.

Notwithstanding anything in these By-laws to the contrary, no business shall be brought before or conducted at an annual meeting

except in accordance with the provisions of this Section 12. The Officer of the corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12 and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 13. Election to the Board of Directors.

13.1 Only persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible for election as Directors of the corporation. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders at which Directors are to be elected only:

(i) By or at the direction of the Board of Directors; or

(ii) By any stockholder of the corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Subsection 13.2 below.

13.2 Nominations of election as a Director of the corporation, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the corporation not less than fifty (50) days prior to the date of the meeting; provided, however, that in the event that less than sixty (60) days' notice or prior disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received 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. Such stockholder's notice shall set forth:

(i) As to each person whom such stockholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange

Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and

(ii) As to the stockholder giving the notice (x) the name and address, as they appear on the corporation's books, of such stockholder, and (y) the class and number of shares of the corporation's voting capital stock that are beneficially owned by such stockholder.

At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the corporation unless nominated in accordance with the provisions of this Section 13. The Officer of the corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

The By-laws of LSB Industries, Inc., as previously amended, and further amended and modified by this Amendment to the By-laws of LSB Industries, Inc.'s By-laws, sets forth the entire By-laws of LSB. The amendments to LSB's By-laws as contained in this Fourth Amendment to LSB Industries, Inc.'s By-laws are effective as of the 26th day of April, 1990, the date that such amendments were approved by the Board of Directors of LSB.

Dated: June 15, 1990

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board
And President

(SEAL)

/s/ David M. Shear

David M. Shear,
Secretary

FIFTH AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 1. Number, Term, Qualification and Vacancies of ARTICLE IV and Section 1. Amendment of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by action taken on November 11, 1993, by a majority of members of the Board of Directors pursuant the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three no more than nine members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

The By-Laws of LSB Industries, Inc., as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, by the Second Amendment to the By-Laws dated November 2, 1986, by the Third Amendment to the By-Laws dated June 1, 1989, by the Fourth Amendment to the By-Laws dated June 15, 1990 and this Fifth Amendment to the By-Laws of LSB Industries, Inc. dated November 11, 1993, sets forth the entire By-Laws of LSB. The amendment to the Company's By-Laws as set forth in this Fourth Amendment to the LSB Industries, Inc.'s By-Laws is effective as of the 11th day of November, 1993, the date of the meeting at which the members of the Board of Directors adopted and approved such amendment.

Dated: November 11, 1993.

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen

Jack E. Golsen, Chairman of
the Board and President

SIXTH AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 1. Number, Term, Qualification and Vacancies of ARTICLE IV and Section 1. Amendment of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by action taken on May 8, 1997, by a majority of members of the Board of Directors pursuant the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three no more than eleven members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

The By-Laws of LSB Industries, Inc., dated January 28, 1997, as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, by the Second Amendment to the By-Laws, dated November 7, 1986, by the Third Amendment to the By-Laws, dated June 1, 1989, by the Fourth Amendment to the By-Laws, dated June 15, 1990, by the

Fifth Amendment to the By-Laws, dated November 11, 1993 and this Sixth Amendment to the By-Laws of LSB Industries, Inc., dated May 8, 1997, set forth the entire By-Laws of LSB Industries, Inc. The amendment to the Company's By-Laws as set forth in this Sixth Amendment to the By-Laws of LSB Industries, Inc. is effective as of the 8th day of May, 1997, the date of the meeting at which the members of the Board of Directors adopted and approved such amendment.

Dated: May 8, 1997.

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board
and President

/s/ David M. Shear

[S E A L]

David M. Shear, Secretary

SEVENTH AMENDMENT TO THE BYLAWS
OF
LSB INDUSTRIES, INC.

The following amendment to the Bylaws of LSB Industries, Inc. ("LSB"), was approved and adopted by the Board of Directors of LSB at their meeting held on August 13, 1998:

1. Article III of the Bylaws is hereby amended by deleting Section 12, Business to be Conducted at the Annual or Special Meeting of the Stockholders, and in lieu thereof a new Section 12 is substituted in place thereof, which reads as follows:

Section 12. Business to be Conducted at the Annual or Special Meeting of the Stockholders; Notice of Proposals. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 12. For business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. A stockholder's notice will be timely if delivered or mailed to and received at the principal executive offices at the corporation not less than 50 days before the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of stockholders. The stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, the following: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address, as they appear on the corporation books, of the stockholder proposing such business; (iii) the class and number of shares of the corporation's voting stock that are beneficially owned by such stockholder; and (iv) any material interest of such stockholder and such business.

Notwithstanding anything in these Bylaws to the contrary, no business shall be brought before or conducted at the annual meeting except in accordance with the provisions of this Section 12. The officer of the corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12 and, if he should so

determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

THIRD AMENDMENT
TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of August 14, 1998, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and LSB INDUSTRIES, INC. ("Borrower").

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

WHEREAS, two Events of Default have occurred under the Agreement;

WHEREAS, the Borrower desires that the Lender waive the Events of Default and amend the Agreement in certain respects; and

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

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Agreement, as amended hereby.

ARTICLE II

Amendments

Section 2.01. Amendment to Section 3.1(a). Section 3.1(a) is hereby amended to read as follows:

"3.1 Interest.

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

(i) For all amounts charged as Revolving Loans other than Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one-half percent (.50%) per annum (the "Reference Rate Margin") plus the Reference Rate; and

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

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

Section 2.02. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

"9.16 LSB Adjusted Tangible Net Worth. The LSB Adjusted Tangible Net Worth increased by an amount equal to the purchase price paid by Borrower for its treasury stock for purchases from January 1, 1998 through termination of this Agreement, which amount shall not exceed $6,000,000, will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1998			$ 43,900,000	$42,900,000
First Fiscal Quarter during Fiscal Year Ending December 31, 1999	The LSB Adjusted Tangible Net Worth as of December 31, 1998 less $4,500,000 and less all Dividends actually paid by LSB in cash from January 1, 1999 until the date of calculation.			
Second Fiscal Quarter during Fiscal Year Ending December 31, 1999	The LSB Adjusted Tangible Net Worth as of March 31, 1999 and less all Dividends actually paid by LSB in cash from January 1, 1999 until the date of calculation.			
Third Fiscal Quarter during Fiscal Year Ending December 31, 1999 and each Fiscal Quarter during each Fiscal Year ending thereafter:	The LSB Adjusted Tangible Net Worth as of June 30, 1999 plus fifty percent (50%) of the profits for each fiscal quarter thereafter, if any, and less all Dividends actually paid by LSB in cash from January 1, 1999 until the date of calculation."			

Section 2.03. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

"9.17 LSB Debt Ratio. The ratio of Debt of the LSB Consolidated Borrowing Group to the LSB Adjusted Tangible Net Worth increased by an amount equal to the purchase price paid by Borrower for its treasury stock for purchases from January 1, 1998 through termination of this Agreement, which amount shall not exceed $6,000,000, will not be greater than the following ratios at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1998			3.75 to 1	3.75 to 1
Fiscal Year Ending December 31, 1999	3.75 to 1	3.75 to 1	3.75 to 1	3.75 to 1
Each Fiscal Quarter during each Fiscal Year ending thereafter:	3.75 to 1."			

ARTICLE III

Waivers

Section 3.01. Waiver of Events of Default.

(a) The Lender hereby waives the following Events of Default: (i) the LSB Borrowing Group's Adjusted Tangible Net Worth for the Fiscal Quarter ending June 30, 1998 was less than $45,000,000, in breach of Section 9.16 of the Loan Agreement; and (ii) the LSB Borrowing Group's Debt Ratio for the Fiscal Quarter ending June 30, 1998 was greater than 3.70 to 1.0, in breach of Section 9.17 of the Loan Agreement.

(b) The foregoing waiver is only applicable to and shall only be effective to the extent described above. The waiver is limited to the facts and circumstances referred to herein and shall not operate as (i) a waiver of or consent to non-compliance with any other section or provision of the Loan Agreement, (ii) a waiver of any right, power, or remedy of the Lender under the Loan Agreement (except as provided herein), or (iii) a waiver of any other Event of Default or Event which may exist under the Loan Agreement.

ARTICLE IV

Ratifications, Representations and Warranties

Section 4.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 4.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE V

Conditions Precedent

Section 5.01. 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 May 31, 1998, 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 VI

Miscellaneous

Section 6.01. 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 6.02. 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 6.03. 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 6.04. 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 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; 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 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.

Section 6.07. 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 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.

Section 6.09. 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 6.10. 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 6.11. 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: /s/ Tony M. Shelby
_____
Tony M. Shelby, Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: /s/ Michael J. Jasaitis
_____
Michael J. Jasaitis
Vice President

ACKNOWLEDGED AND AGREED TO:

Each of the following "LSB Guarantor Subsidiaries" hereby acknowledges the execution of and consents to the terms and conditions of that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 1998 between LSB Industries, Inc., and BABC.

L&S AUTOMOTIVE PRODUCTS, CO.
INTERNATIONAL BEARINGS, INC.
LSB EXTRUSION CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
MOREY MACHINE TOOL MANUFACTURING CORPORATION

By: /s/ Tony M. Shelby
_____
Tony M. Shelby
Vice President acting on behalf of each of the above.

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 1998, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of November 21, 1997, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the "Cross-Collateralization Agreement") dated as of November 21, 1997, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of August 14, 1998.

LSB INDUSTRIES, INC.
L&S BEARING CO.
SUMMIT MACHINE TOOL MANUFACTURING CORP.
L&S AUTOMOTIVE PRODUCTS CO.
INTERNATIONAL BEARINGS, INC.
LSB EXTRUSION CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
MOREY MACHINERY MANUFACTURING CORPORATION

By: /s/ Tony M. Shelby
_____
Tony M. Shelby, Vice President
acting on behalf of each of the above

THIRD AMENDMENT
TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of August 14, 1998, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and CLIMATE MASTER, INC. ("Climate Master"), INTERNATIONAL ENVIRONMENTAL CORPORATION ("IEC"), EL DORADO CHEMICAL COMPANY ("EDC") and SLURRY EXPLOSIVE CORPORATION ("Slurry") (Climate, IEC, EDC, and Slurry being collectively referred to herein as "Borrower").

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

WHEREAS, two Events of Default have occurred under the Agreement;

WHEREAS, the Borrower desires that the Lender waive the Events of Default and amend the Agreement in certain respects; and

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

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
Definitions

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Agreement, as amended hereby.

ARTICLE II

Amendments

Section 2.01 Amendment to Section 3.1 (a) Interest Rates. Section 3.1 (a) of the Agreement is hereby amended in its entirety to read as follows:

"3.1 Interest.

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

(i) For all amounts charged as Revolving Loans other than Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one-half percent (.50%) per annum (the "Reference Rate Margin") plus the Reference Rate; and

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

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

Section 2.02. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

"9.16 CCI Adjusted Tangible Net Worth. The CCI Adjusted Tangible Net Worth will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1998			$23,000,000	$24,700,000
First Fiscal Quarter during Fiscal Year Ending December 31, 1999	The CCI Adjusted Tangible Net Worth as of December 31, 1998 less $1,500,000.			

Second Fiscal Quarter during Fiscal Year Ending December 31, 1999	The CCI Adjusted Tangible Net Worth as of March 31, 1999.
Third Fiscal Quarter during Fiscal Year Ending December 31, 1999 and each Fiscal Quarter during each Fiscal Year ending thereafter:	The CCI Adjusted Tangible Net Worth as of March 31, 1999 plus fifty percent (50%) of CCI's profits for the prior fiscal quarter without taking into account any losses."

Section 2.03. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

"9.17 Debt Ratio. The ratio of Debt of the CCI Consolidated Group to the CCI Adjusted Tangible Net Worth will not be greater than the following ratios at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1998			6.35:1	5.95:1
Fiscal Year Ending December 31, 1999 and Each Fiscal Quarter during each Fiscal Year ending thereafter:	5.95:1	5.95:1	5.95:1	5.95:1

ARTICLE III

Waivers

Section 3.01. Waiver of Events of Default.

(a) The Lender hereby waives the following Events of Default: (i) the CCI Adjusted Tangible Net Worth for the Fiscal Quarter ending June 30, 1998 was less than $21,500,000, in breach of Section 9.16 of the Loan Agreement; and (ii) the CCI Consolidated Group's Debt Ratio for the Fiscal Quarter ending June 30, 1998 was greater than 7.10 to 1.0, in breach of Section 9.17 of the Loan Agreement.

(b) The foregoing waiver is only applicable to and shall only be effective to the extent described above. The waiver is limited to the facts and circumstances referred to herein and shall not operate as (i) a waiver of or consent to non-compliance with any other section or provision of the Loan Agreement, (ii) a waiver of any right, power, or remedy of the Lender under the Loan Agreement (except as provided herein), or (iii) a waiver of any other Event of Default or Event which may exist under the Loan Agreement.

ARTICLE IV

Ratifications, Representations and Warranties

Section 4.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 4.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE V

Conditions Precedent

Section 5.01. 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 May 31, 1998, 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 VI

Miscellaneous

Section 6.01. 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 6.02. 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 6.03. 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 6.04. 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 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; 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 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.

Section 6.07. 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 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.

Section 6.09. 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 6.10. 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 6.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

"BORROWER":

CLIMATE MASTER, INC.

By:_____
Tony M. Shelby
Vice President

INTERNATIONAL ENVIRONMENTAL CORPORATION

By:_____
Tony M. Shelby
Vice President

EL DORADO CHEMICAL COMPANY

By: /s/ Tony M. Shelby
_____
Tony M. Shelby
Vice President

SLURRY EXPLOSIVE CORPORATION

By: /s/ Tony M. Shelby
_____
Tony M. Shelby
Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: /s/ Michael J. Jasaitis
_____
Michael J. Jasaitis, Vice President

CONSENTS AND REAFFIRMATIONS

The undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 1998, between Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Corporation, Slurry Explosive Corporation and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty (the "Guaranty") dated as of November 21, 1997, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty remains in full force and effect and the Guaranty is hereby ratified and confirmed.

Dated as of August 14, 1998.

CLIMACHEM, INC.

By: /s/ Tony M. Shelby
_____
Tony M. Shelby, Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of August 14, 1998, between Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Corporation, Slurry Explosive Corporation and BankAmerica Business Credit, Inc. ("Creditor") and each reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of November 21, 1997, and acknowledges and agrees that such Guaranty remains in full force and effect and each Guaranty is hereby ratified and confirmed.

Dated as of August 14, 1998.

LSB INDUSTRIES, INC.
LSB CHEMICAL CORP.
L&S AUTOMOTIVE PRODUCTS CO.
L&S BEARING CO.
INTERNATIONAL BEARINGS, INC.
LSB EXTRUSION CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
SUMMIT MACHINE TOOL MANUFACTURING CORP
MOREY MACHINERY MANUFACTURING CORPORATION
CHP CORPORATION
KOAX CORP.
APR CORPORATION
CLIMATE MATE, INC.
THE ENVIRONMENTAL GROUP, INC.
UNIVERSAL TECH CORPORATION

By: /s/ Tony M. Shelby
_____
Tony M. Shelby, Vice President
acting on behalf of each of the
above

Letter of Acknowledgment Re: Unaudited Financial Statements

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans, the Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our report dated August 14, 1998, relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which are included in its Form 10-Q for the quarter ended June 30, 1998.

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

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 14, 1998

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