

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM S-8

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

LSB INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

73-1015226

(I.R.S. Employer Identification No.)

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107

(Address of principal executive offices) (Zip Code)

1998 Stock Option and Incentive Plan

Outside Directors Stock Purchase Plan

(Full Title of Plan)

Heidi L. Brown, Esquire
Vice President and Managing Counsel
LSB INDUSTRIES, INC.
16 South Pennsylvania
Post Office Box 754
Oklahoma City, Oklahoma 73101
(405) 235-4546
*(Telephone number, including area code of
agent for service)*

Copy to:
Irwin H. Steinhorn, Esquire
CONNER & WINTERS, P.C.
One Leadership Square, Suite 1700
211 North Robinson
Oklahoma City, Oklahoma 73102

Title of securities to be registered	Amount to be registered	Proposed maximum offering price per share⁽¹⁾⁽²⁾	Proposed maximum aggregate offering price ⁽²⁾	Amount of registration fee
Common Stock to be issued under the 1998 Stock Option and Incentive Plan	987,800	\$1.25 - \$3.00	\$1,425,823	\$131.18
Common Stock to be issued under the Outside Directors Stock Purchase Plan	400,000	\$1.25 - \$3.23	\$1,054,400	\$97.00

(1) Estimated in accordance with Rule 457(c) and 457(h) solely for the purpose of calculating the registration fee on the basis of the price at which options granted under the Outside Director Stock Purchase Plan may be exercised and, with respect to shares of Common Stock not subject to outstanding options, on the basis of \$3.23 per share, such amount being the average of the high and low price of the Common Stock as reported on the NASDAQ Bulletin Board on August 16, 2002.

(2) The maximum offering price per share and the maximum aggregate offering price are based upon the following prices at which outstanding options granted under the Outside

Directors Stock Purchase Plan and the 1998 Stock Option and Incentive Plan may be exercised:

	Number of Shares of Common Stock Subject to Outstanding Options	Exercise Price Per Share of Common Stock	Aggregate Offering Price
	749,800	\$1.25	\$ 937,250
	253,500	\$1.375	\$ 348,563
	87,000	\$2.73	\$ 237,510
	<u>17,500</u>	\$3.00	\$ 52,500
TOTALS	1,107,800		\$1,575,823

	Number of Shares of Common Stock Available for Future Options	Exercise Price Per Share of Common Stock	Aggregate Offering Price
	280,000	\$3.23*	\$ 904,400

* \$3.23 is the average of the high and low price of the Common Stock as reported on the NASDAQ Bulletin Board on August 16, 2002.

LSB INDUSTRIES, INC.
REGISTRATION STATEMENT ON FORM S-8

PART II
INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

There are hereby incorporated by reference in this Registration Statement the following documents and information heretofore filed with the Securities and Exchange Commission:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed on April 1, 2002 pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act");
2. The Company's Annual Report on Form 10-K/A for the year ended December 31, 2001, filed on April 23, 2002 pursuant to Section 13 of the Exchange Act;
3. The Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2002, filed on May 20, 2002 pursuant to Section 13 of the Exchange Act;
4. The Company's Quarterly Report on Form 10-Q for the three months and six months ended June 30, 2002, filed on August 19, 2002 pursuant to Section 13 of the Exchange Act;
5. The Company's current reports on Form 8-K (Date of Event: May 24, 2002) filed on June 10, 2002; (Date of Event: March 11, 2002) filed on March 22, 2002; and
6. The description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A dated August 16, 1994, pursuant to Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act on or after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this Registration Statement and to be part hereof from the date of filing of such documents.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Counsel for the Company, Conner & Winters, P.C., One Leadership Square, Suite 1700, 211 North Robinson, Oklahoma City, Oklahoma 73102, has rendered an opinion as to the validity of the Common Stock being registered.

Item 6. Indemnification of Directors and Officers.

The Company's Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability (i) for any breach of their duty of loyalty to the company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) for unlawful payments or dividends or unlawful stock repurchases or redemptions as provided Section 174 of Delaware General Corporation Law or (iv) for transactions from which the director derived an improper personal benefit.

The Company carries officer and director liability insurance with respect to certain matters, including matters arising under the Securities Act of 1933, as amended (the "Securities Act").

Insofar as indemnification for liabilities arising under the Securities Act is permitted to directors and officers of the Corporation pursuant to the foregoing provisions, or otherwise, the Company has been informed that in the opinion of the Commission such indemnification is against public policy, as expressed in the Securities Act, and is therefore unenforceable.

Item 7. Exemption from Registration Claimed.

Not Applicable.

Item 8. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
4.1	Outside Director Stock Purchase Plan, effective June 24, 1999
4.2	Form of Outside Director Stock Purchase Agreement
4.3	1998 Stock Option and Incentive Plan, effective August 13, 1998
4.4	Form of Incentive Stock Option Agreement
4.5	Form of Incentive Stock Option Agreement (10% Shareholder)
5.1	Opinion of Conner & Winters, P.C.
15.1	Letter of Acknowledgment regarding unaudited interim financial information
23.1	Consent of Ernst & Young LLP
23.2	Consent of Conner & Winters, P.C. (contained in Exhibit 5.1)
24.1	Power of Attorney (see page II-6)

Item 9. Undertakings.

A. The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

C. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto, duly authorized, in the City of Oklahoma City, Oklahoma on August 19, 2002.

LSB INDUSTRIES, INC.

By /s/ Jack E. Golsen
Jack E. Golsen, President and
Chief Executive Officer

LSB INDUSTRIES, INC.
OUTSIDE DIRECTORS STOCK PURCHASE PLAN

1. Purpose. The purpose of this Outside Directors Stock Purchase Plan (the "Plan") is (a) to advance the interests of the Company and its stockholders while providing a means to attract, retain and compensate non-employee directors and (b) to enable non-employee directors to increase their proprietary interest in the Company, thereby providing such persons additional incentives to achieve the growth objectives of the Company.

2. Definitions. In addition to the terms defined in paragraph 1, the following terms have the meanings set forth below:

- 2.1 "Board" means the Board of Directors of the Company.
- 2.2 "Company" means LSB Industries, Inc., a Delaware corporation.
- 2.3 "Fair Market Value" means, with respect to the Shares, the fair market value of such Shares determined by such methods or procedures as may be established from time to time by the Board. Unless otherwise determined by the Board, "Fair Market Value" will mean the closing price of a Share on the principal national securities exchange on which the Shares are listed on the day on which such value is to be determined, as reported in the composite quotations for securities traded on such exchange provided by the National Association of Securities Dealers or successor national quotation service. If no such quotations are available for the day in question, "Fair Market Value" shall be determined by reference to the appropriate prices on the next preceding day for which such prices are reported.
- 2.4 "Director Fee" means fees payable to a director in cash for the director's service on the Board and on committees of the Board during any calendar year.
- 2.5 "Eligible Director" means any member of the Board who is not an employee of the Company or its subsidiaries.
- 2.6 "Option" means any option to purchase Shares which is awarded pursuant to the Plan and is not intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986 as amended.
- 2.7 "Option Agreement" means the written agreement between the Company and the Eligible Director, consisting of one or more documents, setting forth the terms and conditions of an option granted under this Plan.
- 2.8 "Permanent Disability" or "Permanently Disabled" means the inability of the Eligible Director to perform the Eligible Director's usual duties as a Board Member by reason

of medically determined terminal, physical or mental impairment expected to result in death or to be of continuous duration of 12 months or more.

- 2.9 "Plan Year" means each calendar year during which this Plan is in effect and, with respect to an Eligible Director's initial election or appointment to the Board, the period commencing at the time of such election or appointment and ending on the succeeding December 31.
- 2.10 "Shares" means the common stock, par value \$.001 per share, of the Company or, if the outstanding Shares are hereafter changed into or exchanged for different stock or securities of the Company or some other corporation, such other stock or securities.

3. Participants. Each Eligible Director may participate in the Plan.

4. Shares Subject to Plan.

- 4.1 Limitations. Subject to any adjustment pursuant to the provisions of the Plan, the maximum number of Shares which may be issued and sold hereunder will not exceed 400,000.
- 4.2 Regrant. If any shares that are subject to an Option cease to be subject to such Option, such Shares will again be available for distribution in connection with future grants or issuances under this Plan. The number of shares available for distribution under this Plan will be reduced by the number of shares issued under this Plan upon exercise of an Option or upon issuance pursuant to the election by an Eligible Director in accordance with paragraph 9 of this Agreement.
- 4.3 Character of Shares. The Company may satisfy its obligations to an Eligible Director exercising an Option or electing to receive Shares in payment of the Director Fee by issuing authorized and unissued Shares, by transferring treasury shares, or in part by the issuance of authorized and unissued Shares and the balance by the transfer of treasury shares.
- 4.4 Board Determination. The adjustments described in this paragraph 4 and the manner of application thereof will be determined solely by the Board, and any such adjustment may provide for the elimination of fractional share interests. The adjustments required under this paragraph 4 will apply to any successor or successors of the Company and will be made regardless of the number or type of successive events requiring adjustments hereunder.
5. Grant of Options. The Board is authorized to grant Options which are governed by the terms and conditions specified in this paragraph 5 to any Eligible Director.

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- 5.1 Exercise and Term of Options. Each Option will become exercisable at such time or times, during such period, and for the number of Shares as determined by the Board and set forth in the Option Agreement; provided however, unless the Option Agreement otherwise provides, no Option will be exercisable within the period ending six months and one day after the date the Option is granted. Notwithstanding the foregoing, each Option will have a maximum term of ten years measured from the date the Option is granted.
- 5.2 Notice of Exercise and Payment. Subject to any installment, exercise and waiting period provisions that are applicable in a particular case, Options granted under this Plan may be exercised, in whole or in part, at any time during the term of the Option, by giving written notice of such exercise to the Company identifying the Option being exercised and specifying the number of shares then being purchased. Such notice will be accompanied by payment in full of the exercise price, which shall be in cash or, unless otherwise provided in the Option Agreement, in whole Shares which are already owned by the Eligible Director or, unless otherwise provided in the Option Agreement, partly in cash and partly in such Shares. Cash payments will be made by wire transfer, certified check or bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company will not be required to deliver certificates for Shares with respect to which an Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Shares (which will be valued at the Fair Market Value of a Share on the date of exercise) will be made by delivery of stock certificates in negotiable form which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances, with signature guaranteed by a bank or investment banking firm.
- 5.3 Issuance of Shares. As soon as practicable after its receipt of notice and payment pursuant to paragraph 5.2, the Company will cause one or more certificates for the Shares so purchased to be delivered to the Eligible Director or the party exercising the Option, as the case may be.

- 5.4 Partial Exercise. An Option granted under this Plan may be exercised as to any part of the Shares for which it could be exercised. Such a partial exercise of an Option will not affect the right to exercise the Option from time to time in accordance with this Plan as to the remaining Shares subject to the Option.
- 5.5 Buyout and Settlement Provisions. The Board may at any time offer to buy out for cash or otherwise settle an Option previously granted, based upon such terms and conditions as the Board may establish and communicate to the Eligible Director at the time that such offer is made, including a settlement for exchange of a new award under the Plan for the surrender of the Option.

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- 5.6 Limited Transferability of Options. Each Option granted under this Plan may, in connection with the Eligible Director's estate plan, be assigned in whole or in part during the Eligible Director's lifetime to one or more members of the Eligible Director's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the Option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Board may deem appropriate. The Eligible Director may also designate one or more persons as the beneficiary or beneficiaries of the Eligible Director's outstanding Options under this Plan, and those Options will, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Eligible Director's death while holding such Options. Such beneficiary or beneficiaries will take the transferred Options subject to all the terms and conditions of the Option Agreement including (without limitation) the limited time period during which the Option may be exercised following the Eligible Director's death.
- 5.7 Termination of Board Service. If the Eligible Director ceases Board service for any reason (other than death or Permanent Disability) while holding one or more Options awarded under this Plan, then each such Option will remain exercisable, for any or all of the shares for which the Option is exercisable at the time of such cessation of Board service, until the earlier of (a) the expiration of the term of the Option as set forth in the Option Agreement (b) the expiration of the three year period measured from the date of such cessation of Board service, and (c) the expiration of ten years from the date such Option was granted. However, each option held by the Eligible Director under this Plan at the time of the Eligible Director's cessation of Board service will immediately terminate and cease to remain outstanding with respect to any and all Shares for which the Option is not otherwise at that time exercisable.
- 5.8 Death or Permanent Disability.
- 5.8.1 Eligible Directors. If the Eligible Director's service as a Board member ceases by reason of death or Permanent Disability, then each Option held by such Eligible Director under this Plan will immediately become exercisable for all Shares at that time subject to that Option, and the Option may be exercised for any or all of those shares as fully-vested shares until the earlier of (a) the expiration of the term of the Option as set forth in the Option Agreement (b) the expiration of the three year period measured from the date of such cessation of Board service, and (c) the expiration of ten years from the date the Option was granted.

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5.8.2 Former Eligible Directors. If the Eligible Director dies after cessation of Board service but while holding one or more Options under this Plan, then each such Option may be exercised, for any or all of the shares for which the Option is exercisable at the time of the Eligible Director's cessation of Board service (less any shares subsequently purchased by Eligible Director prior to death), by the personal representative of the Eligible Director's estate or by the person or persons to whom the option is transferred pursuant to the Eligible Director's will or in accordance with the laws of descent and distribution or by the designated beneficiary or beneficiaries of such Option. Such right of exercise will lapse, and the Option shall terminate, upon the earlier of (a) the expiration of the term of the Option as set forth in the Option Agreement, (b) the three year period measured from the date of the Eligible Director's cessation of Board service, or (c) the expiration of ten years from the date such Option was granted.

5.9 Cancellation and Regrant of Options. The Board is authorized to effect, at any time and from time to time, with the consent of the affected Option holders, the cancellation of any or all outstanding options under the Plan and to grant in substitution new Options covering the same or different number of Shares but with an exercise price per share based on the Fair Market Value per Share on the new grant date.

6. Acceleration of Options.

6.1 Acceleration Upon Change of Control. Unless the Option Agreement provides otherwise or unless the Eligible Director waives the application of this paragraph 6.1 prior to a Change of Control (as hereinafter defined), in the event of a Change of Control, each outstanding Option granted under the Plan will become exercisable in full immediately prior to the effective date of the Change of Control notwithstanding the vesting provisions contained in the Option Agreement and may be exercised for any or all of those Shares as fully-vested Shares.

6.2 Change of Control Defined. A "Change of Control" shall be deemed to have occurred upon any of the following events:

(a) The consummation of any of the following transactions: any merger, reverse stock split, recapitalization or other business combination of the Company, with or into another corporation, or an acquisition of securities or assets by the Company, pursuant to which the Company is not the continuing or surviving corporation or pursuant to which Shares would be converted into cash, securities or other property, other than a transaction in which the majority of the holders of Shares immediately prior to such transaction will own at least 50 percent of the total voting power of

the then-outstanding securities of the surviving corporation immediately after such transaction; or

(b) A transaction in which any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company, or any profit-sharing, employee ownership or other employee benefit plan sponsored by the Company or any Subsidiary, or any trustee of, or fiduciary with respect to, any such plan when acting in such capacity, or any group comprised solely of such entities): (i) purchases any Shares (or securities convertible into Shares) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board, or (ii) becomes the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly (in one transaction or a series of transactions), of securities of the Company

representing 50 percent or more of the total voting power of the then-outstanding securities of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire the Company's securities); or

- (c) If, during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board and any new director whose election by the Board, or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election by the stockholders was previously so approved, cease for any reason to constitute a majority thereof.

6.3 General Waiver by Board. The Committee may, after grant of an Option, accelerate the vesting of all or any part of any Option, and/or waive any limitations or restrictions, if any, for all or any part of an Option.

7. Adjustment Upon Change of Shares. Subject to any required action by the stockholders of the Company, the number of Shares for which Options may thereafter be granted, and the number of Shares then subject to Options previously granted, and the price per share payable upon exercise of such Option, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a subdivision or consolidation of Shares or the payment of a stock dividend (but only on the Shares) or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company. In addition, adjustments will be made pursuant to the following:

- (a) If the Company is reorganized or consolidated or merged with another corporation, in which the Company is the non-surviving corporation, an Eligible Director holding of an

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outstanding Option granted under this Plan shall be entitled (subject to the provisions of this paragraph 7) to receive Options covering shares of such reorganized, consolidated or merged corporation in the same proportion as granted to the Eligible Director prior to such reorganization, consolidation or merger at an equivalent exercise price, and subject to the same terms and conditions as this Plan. For purposes of the preceding sentence, the excess of the aggregate Fair Market Value of Shares subject to the Option immediately after the reorganization, consolidation or merger over the aggregate exercise price of such shares shall not be more than the excess of the aggregate Fair Market Value of all Shares subject to the Option immediately before such reorganization, consolidation or merger over the aggregate exercise price of such Shares, and the new stock option or assumption of the old Option by any surviving corporation shall not give the Eligible Director additional benefits which the Eligible Director did not have under the old Option.

- (b) To the extent that the foregoing adjustments relate to the Shares, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.
- (c) Except as expressly provided in this paragraph 7, the Eligible Director will have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, consolidation, reorganization or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to the Option.
- (d) The grant of an Option pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

8. Compensation Shares. For each quarter during the Plan Year, each Eligible Director may elect to apply all or any portion of the Director Fee payable during that Plan Year to the acquisition of Shares under this Plan.

8.1 Number of Award Shares. If the Eligible Director elects to receive a portion of such Eligible Director's Director Fee in Shares: (a) the Eligible Director will receive the number of Shares obtained by dividing the amount of the Director Fee subject to the Eligible Director's election by the Fair Market Value of a Share and (b) the Eligible Director will receive the balance of the Director Fee in cash or its

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equivalent. If the Eligible Director elects to receive 100% of the Director Fee in Shares the Eligible Director will receive the number of Shares obtained by dividing the applicable Director's Fee by the Fair Market Value of a share. Fair Market Value as used in this paragraph 8, shall be determined on the business day immediately preceding the date that the Director Fee is due.

8.2 Method of Electing. The election of the Eligible Director described in paragraph 8.1 must be in writing and filed with the Company's Secretary prior to the first day of each calendar quarter during the Plan Year. If an Eligible Director fails to make such election in a timely manner, such Eligible Director will be deemed to have elected not to receive any of the Director Fee payable to such Eligible Director in Shares.

9. Amendments and Termination.

9.1 Amendments to Plan; Termination. The Board may at any time, and from time to time, amend or modify any of the provisions of the Plan, and may at any time suspend or terminate the Plan. Notwithstanding the foregoing sentence, any amendment to the Plan will not be effective unless and until it has been duly approved by the stockholders of the outstanding Shares if the failure to obtain such approval would adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation.

9.2 Amendments to Individual Awards. The Board may amend the terms of any Option granted under the Plan; provided, however, that subject to paragraph 7 hereof, no such amendment may be made by the Board which in any material respect impairs the rights of the Eligible Director without the Eligible Director's consent.

10. Investment Intent. The Board may require each Eligible Director receiving Shares or Options to represent to, and agree with, the Company in writing that each Eligible Director is acquiring the Shares for investment without a view to distribution, and may condition the issuance of Shares pursuant to the Share Award on such other representation or agreement as may be necessary or advisable solely to comply with the provisions of the Securities Act of 1933, as amended, or any other federal, state or local securities laws.

11. Share Certificates. The Company will not be required to issue or deliver any certificate for Shares purchased hereunder or any portion thereof unless, in the opinion of the Company's counsel there has been compliance with all applicable legal requirements. In addition, the Company will impose such restrictions on Shares delivered to an Eligible Director under the Plan as it may deem advisable in order to comply with the Securities Act of 1933, as amended, the requirements of the New York Stock Exchange or any other stock exchange or automated quotation system upon which the shares are then listed or quoted, any state securities laws applicable to such, any transfer, any provisions of the Company's Certificate of Incorporation or Bylaws, or any other law, regulation, or binding contract to which the Company is a party.

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12. Stockholder Rights. An Eligible Director will have no stockholder rights (a) with respect to the Shares subject to an Option until such person has exercised the Option, paid the exercise price, and become a holder of record of the purchased Shares, or (b) with respect to Shares subject to such person's election pursuant to paragraph 8.1, until the Director Fee is due and payable and such person has become a holder of record of the purchased Shares.
13. Effective Date, Stockholder Approval, and Plan Termination. The Plan will become effective on its approval by the stockholders of the Company. Unless earlier terminated by the Board, the Plan will remain in effect until such time as no Shares remain available for delivery under the Plan, and the Company has not further rights or obligations under the Plan with respect to Options under the Plan.
14. Relationship to Other Compensation Plans. The adoption of the Plan will neither affect any other stock option, incentive or other compensation plans in effect for the Company or any of its subsidiaries, nor will the adoption of the Plan preclude the Company from establishing any other forms of incentive or other compensation plan for directors of the Company.
15. Plan Binding on Successors. The Plan will be binding upon the successors and assigns of the Company.
16. Headings. Headings of paragraphs hereof are inserted for convenience and reference, and do not constitute a part of the Plan.
17. Governing Law. The Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

NON-QUALIFIED STOCK OPTION AGREEMENT

(LSB Industries, Inc. Outside Directors Stock Purchase Plan)

This Non-qualified Stock Option Agreement (the "Agreement") is made the 8th day of July, 1999, between LSB Industries, Inc., a Delaware corporation (the "Company"), and _____ (the "Participant"). In consideration of the mutual covenants and conditions set forth in this Agreement and for good and valuable consideration, the Company and the Participant agree as follows.

1. **Recitations.** The Participant is a member of the Board of Directors of the Company who is not an employee of the Company or any Subsidiary. The Company believes that the Participant should be provided an inducement to continue the Participant's association with the Company and to advance the interests of the Company. Accordingly, the Company desires to provide the Participant the opportunity to purchase certain shares of the Company's common stock, par value \$.10 per share ("Common Stock"), pursuant to the Company's Outside Directors Stock Purchase Plan, as approved by the shareholders of the Company on June 24, 1999, and as may be amended (the "Plan"). A copy of the Plan has been delivered to the Participant. The option granted hereunder is granted pursuant and subject to the terms and provisions of the Plan, which is made a part of this Agreement. Unless otherwise indicated, capitalized terms in this Agreement have the same meaning as set forth in the Plan.

2. **Grant of Option.** Subject to the terms and conditions of this Agreement, the Company hereby grants to the Participant the right, privilege and option to purchase fifteen (15) shares of the Company's Common Stock (the "Option"). The purchase price for each share to be purchased under the Option is \$1.25 (the "Exercise Price"). The Exercise Price represents 100% of the Fair Market Value (as defined in the Plan) of the Common Stock at the close of the business on the date of this Agreement and is subject to adjustment as provided in the Plan. The Option is not an "incentive stock option" as such term is defined under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

3. **Exercise of Option.** The Option may be exercised only pursuant to the following terms and conditions.

3.1 **As a Director.** While serving as a member of the Board of Directors of the Company or any Subsidiary, the Participant may exercise the Option, in whole or in part, at any time after the expiration of six months and one day from the date of this Agreement. If the Participant's service as a member of the Board of Directors ceases by reason of the death or Permanent Disability of the Participant, the Option will immediately become exercisable for all shares subject to the Option, and the Option may be exercised for all of shares subject to the Option as fully-vested shares. Upon the Permanent Disability of the Participant, the Option may be exercised by the Participant, the Participant's attorney-in-fact, or the Participant's duly appointed

guardian. Upon the death of the Participant, the Option may be exercised by the personal representative of the Participant's estate, the person or persons to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution, or the Participant's designated beneficiaries of such Option. The Option may not be exercised after the termination of the Option pursuant to paragraph 5 of this Agreement.

3.2 **As a Former Director.** The Participant may exercise the Option if the Participant has ceased to be a member of the Board of Directors of the Company or any Subsidiary for any reason, other than death or Permanent Disability, only as to the number of shares for which the Participant could have exercised at the time the Participant ceased being a member of the Board of Directors. If the Eligible Director dies after ceasing to be a member of the Board of Directors but prior to the expiration of the Option, the personal representative of the Participant's estate, the person or persons to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution, or the Participant's designated beneficiaries of such Option may exercise the Option as to all or any part of the number of shares for which the Participant could have exercised as of the date of the Participant's death. The Option may not be exercised after the termination of the Option pursuant to paragraph 5 of this Agreement.

3.3 **Acceleration.** The Board of Directors of the Company will have the sole and absolute discretion to (a) accelerate the time when the Participant will become entitled to

exercise all or any part of the Option and (b) waive any limitations or restrictions with respect to all or any part of the Option. Unless the Participant waives the application of this paragraph 3.3 prior to a Change of Control (as defined in the Plan), in the event of a Change of Control, the Option will become exercisable in full immediately prior to the effective date of the Change of Control notwithstanding the vesting provisions contained in this Agreement and may be exercised for any or all of the shares subject to the Option as fully-vested shares.

4. Method of Exercise and Payment of Exercise Price.

4.1 Exercise Notice. Subject to the terms and conditions of this Agreement, the Option may be exercised by written notice (an "Exercise Notice") delivered to the Company at its principal place of business setting forth the exact number of shares under the Option that the Participant is purchasing, which may not exceed the number of shares that the Participant is eligible to purchase under this Agreement at the time of such purchase. The Exercise Notice must be accompanied by the payment to the Company of (a) the full Exercise Price for the number of shares Participant desires to purchase and (b) all

withholding taxes pursuant to paragraph 4.3. The Participant agrees to comply with such other reasonable requirements as the Board of Directors of the Company may establish.

4.2 Payment of Exercise Price. The Participant may pay the Exercise Price in (a) cash or by check, draft, money order, or wire transfer, in each case payable to the order of the Company, (b) in whole shares of Common Stock which are already owned by the Participant, or (c) partly in cash and partly in such shares. The Company will not be required to deliver certificates for shares to be acquired under the Option until the Company has confirmed the receipt of good and valuable funds in payment of the Exercise Price. Payments in the form of shares (x) will be valued at the Fair Market Value (as defined in the Plan) on the date of exercise, and (y) will be made by delivery of stock certificates in negotiable form which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances, with signature guaranteed by a bank or investment banking firm.

4.3 Payment of Withholding Taxes. No exercise of the Option may be effected until the Company receives full payment for any required state and federal withholding taxes. Payment for withholding taxes will be made in cash or by check, draft, money order, or wire transfer, unless the Board of Directors of the Company otherwise provides. The foregoing sentence does not require payment of withholding taxes at the time of exercise if payment of such taxes is deferred pursuant to any provision of the Code, and actions satisfactory to the Company are taken to reasonably insure payment of withholding taxes when due. The obligations of the Company under the Plan are conditioned upon such payment or arrangements and the Participant agrees that the Company may deduct any such taxes from any payment of any kind otherwise due to the Participant from the Company to the extent permitted by law.

4.4 Delivery of Shares. Subject to the terms and conditions of this Agreement, the Company will deliver the shares acquired upon the exercise of the Option within a reasonable period of time after the Company receives the Exercise Notice and the correct Exercise Price. Notwithstanding the foregoing, if any law or regulation requires the Company to take any action with respect to the shares specified in such written notice before the issuance of such shares, then the date of delivery of such shares shall be extended for the period necessary to take such action.

5. Termination of Option. This Agreement and the Option, to the extent not theretofore exercised, will terminate immediately and become null and void upon the earlier of the following to occur:

(a) the expiration of three years from the date the Participant ceased to be a member of the Board of Directors of the Company or any Subsidiary;

- (b) the tenth anniversary of the date of this Agreement; and
- (c) the Participant's surrender to the Company for cancellation of this Agreement and the Option granted herein.

6. Limited Transferability of Options. The Option may, in connection with the Participant's estate plan, be assigned in whole or in part during the Participant's lifetime to one or more members of the Participant's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the Option immediately prior to such assignment and will be set forth in such documents issued to the assignee as the Board of Directors may deem appropriate. The Participant may also designate one or more persons as the beneficiary or beneficiaries of the Option, and the Option will, in accordance with such designation, be automatically transferred to such beneficiary or beneficiaries upon the Participant's death. Such beneficiary or beneficiaries will take the Option subject to all the terms and conditions of this Agreement. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions of this paragraph or the Plan, and the levy of any execution, attachment or similar process upon the Option, will be null and void and without effect.

7. Rights as Stockholder. Participant shall have no right as a stockholder with respect to any shares covered by the Option until the exercise of the Option and the issuance of a stock certificate in accordance with this Agreement. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

8. Stock Dividends, Reorganizations. If and to the extent the number of issued shares of Common Stock of the Company shall be increased or reduced resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of such shares of Common Stock of the Company effected without receipt of consideration by the Company, the number of shares of Common Stock subject to the Option and the Exercise Price will be proportionately adjusted in accordance with the terms and conditions of the Plan. The grant of the Option will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

9. Compliance with Law and Approval of Regulatory Bodies. Notwithstanding anything in this Agreement to the contrary, no shares will be issued, or, in the case of treasury shares transferred, upon exercise of the Option, except in compliance with all applicable Federal and State laws, rules and regulations (including, but not limited to the Federal and State securities laws, rules and regulations) and in compliance with rules of stock exchanges on which the Company's Common Stock may be listed. Notwithstanding anything in this Agreement to the contrary, no shares will be issued, or, in the case of treasury shares transferred, upon exercise of the Option until the Company has obtain such consent or approval from any

and all regulatory bodies, Federal or State, and such stock exchanges having jurisdiction over such matters as the Board of Directors of the Company may deem advisable.

10. Additional Provisions.

10.1 Amendments. The Board of Directors of the Company may at any time, and from time to time, amend or modify any of the provisions of the Plan, and may at any time suspend or terminate the Plan. This Agreement may be amended from time to time by the Board of Directors of the Company, but no amendment which in any material respect impairs the rights of the Participant under this Agreement will be effective as to the Participant unless all of the parties hereto agree in writing.

10.2 Interpretation. The Board of Directors of the Company will construe and interpret the terms and provisions of this Agreement, which construction and interpretation, shall be binding and conclusive upon all parties hereto.

10.3 Investment Intent. The Participant represents and warrants that all shares acquired under this Agreement will be acquired for the Participant's own account and for the purpose of investment and not with a view to the sale or distribution thereof, except for sales pursuant to an effective registration statement under the Securities Act of 1933 (the "Act") or pursuant to an exemption from registration under the Act. The Participant understands that the shares of Common Stock covered by this Agreement have not been as of the date hereof, and may be at the time that such are purchased, registered under the Act (the Company being under no obligation to effect such registration) and that such shares must be held indefinitely unless a subsequent disposition thereof is registered under the Act or is exempt from registration. The Participant further understands that the exemption from

registration afforded by Rule 144 under the Act depends upon the satisfaction of various conditions and that, if applicable, Rule 144 affords the basis for sale of such shares only in limited amounts.

10.4 Sales of Shares. The Participant represents, covenants, and agrees that he will not sell or otherwise dispose of the shares acquired under this Agreement in the absence of (a) an effective registration statement under the Act, (b) an opinion acceptable in form and substance to the Company from Participant's counsel satisfactory to the Company, or an opinion of counsel to the Company, to the effect that no registration is required for such disposition, or (c) a "no-action" letter from the staff of the Securities & Exchange Commission ("SEC") to the effect that such a disposition takes place without registration.

10.5 Legend. The certificates representing shares covered by this Agreement will upon issuance thereof have stamped or imprinted thereon or affixed thereto a legend to the following effect:

The registered holder hereof has acquired the shares represented by this certificate for investment and not for resale in connection with a distribution thereof. Accordingly, such shares have not been registered under the Securities Act of 1933 and may not be sold, transferred or otherwise disposed of except pursuant to a currently effective registration statement under said Act or otherwise in a transaction exempt from the provisions of Section 5 of said Act.

10.6 Definition of Subsidiary. For the purposes of this Agreement, the term "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain own stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one or the other corporations in such chain.

10.7 Governing Law. This Agreement will be construed pursuant to the laws of the State of Delaware.

10.8 Binding Effect. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

IN WITNESS WHEREOF, the parties hereunto have caused this Agreement to be executed the day and year first above written.

LSB INDUSTRIES, INC.

By: _____
Jack E. Golsen, President

(the "Company")

_____, Director

(the "Participant")

LSB INDUSTRIES, INC.

1998 STOCK OPTION AND INCENTIVE PLAN

The Board of Directors of LSB Industries, Inc., a Delaware corporation (the "Company"), has adopted this 1998 Stock Option and Incentive Plan (the "Plan"), effective the 13th day of August, 1998, as follows:

1. **Purpose.** This Plan permits selected officers and employees, prospective employees, consultants and independent contractors of the Company or any Subsidiary who bear a large measure of responsibility for the success of the Company to acquire and retain a proprietary interest in the Company and to participate in the future of the Company as shareholders. The purpose of this Plan is to advance the interests of the Company and its shareholders by enabling the Company and the subsidiaries to offer to its employee-directors, officers, employees, consultants and independent contractors, long-term performance-based stock and/or other equity interests in the Company, thereby enhancing its ability to attract, retain and reward such individuals, and by providing an incentive for employee-directors, officers, employees to render outstanding service to the Company and to the Company's shareholders.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth herein:

2.1 "Act" means the Securities Act of 1933, as amended from time to time, or any successor statute or statutes thereto.

2.2 "Agreement" means the agreement between the Company and the Holder setting forth the terms and conditions of an award under the Plan.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Change of Control" means a change of control of the Company pursuant to Section 8.2 hereof.

2.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute or statutes thereto.

2.6 "Committee" means the Stock Option Committee of the Board or any other committee of the Board which the Board may designate. In all events, the Committee shall consist only of non-employee directors of the Company.

2.7 "Common Stock" means the Common Stock of the Company, par value \$.10 per share.

2.8 "Disability" means disability as determined under the procedures established by the Committee for purposes of the Plan.

2.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto.

2.10 "Fair Market Value", unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date:

2.10.1 the closing price of the Common Stock on the last preceding day on which the Common Stock was traded, as reported on a national securities exchange; and,

2.10.2 if the fair market value of the Common Stock cannot be determined pursuant to clause (i) hereof, such price as the Committee shall determine.

2.11 "Formula Price Per Share" means the highest gross price (before brokerage commissions, soliciting dealers' fees and similar charges) paid for any share of Common Stock at any time during the ninety (90) day period immediately prior to the Change of Control (whether by way of exchange, conversion, distribution, liquidation or

otherwise) paid or to be paid for any share of Common Stock in connection with a Change of Control. If the consideration paid or to be paid in any transaction that results in a Change of Control consists, in whole or in part, of consideration, other than cash, the Board shall take such action, as in its judgment it deems appropriate, to establish the cash value of such consideration, but such valuation shall not be less than the value, if any, attributed to such consideration by any other party to such transaction that results in a Change of Control.

- 2.12 "Holder" means an eligible employee-director, officer, employee, consultant or independent contractor of the Company or a Subsidiary who has received an award under the Plan.
- 2.13 "Incentive Stock Option" or "ISO" means any Stock Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.
- 2.14 "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

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- 2.15 "SAR Value" means the excess of the Fair Market Value of one share of Common Stock over the exercise price per share specified in a related Stock Option in the case of a Stock Appreciation Right granted in tandem with a Stock Option and the Stock Appreciation Right price per share in the case of a Stock Appreciation Right awarded on a free-standing basis multiplied by the number of shares in respect of which the Stock Appreciation Right shall be exercised, on the date of exercise.
- 2.16 "Section 16(b) Holder" means such officer or director or ten percent (10%) beneficial owner of Common Stock subject to Section 16(b) of the Exchange Act.
- 2.17 "Stock Appreciation Right" means the right, pursuant to an award granted under Section 7 hereof, to recover an amount equal to the SAR Value.
- 2.18 "Stock Option" means any Incentive Stock Option or Non-Qualified Stock Option to purchase shares of Common Stock which is awarded pursuant to this Plan.
- 2.19 "Subsidiary" means any present or future subsidiary corporation of the Company, as such term is defined in Section 424(f) of the Code.

3. Administration.

- 3.1 Board; Committee. The Board shall create a committee consisting of three members of the Board. The Board may also appoint one member of the Board as an alternate member of the Committee. Upon such appointment, the Committee shall have all the powers, privileges and duties set forth herein. The Board may, from time to time, appoint members of any such Committee in substitution for, or in addition to, members previously appointed, may fill vacancies in the Committee and may discharge the Committee. The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of such quorum. Any determination reduced to writing and signed by a majority of the members of the Committee, shall be fully effective and a valid act of the Committee as if it had been made by a majority vote at a meeting duly called and held. The membership of the Committee shall at all times be constituted so as to not adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, to the extent it is applicable, or with the requirements of any other applicable law, rule or regulation.

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- 3.2 Power and Authority. The Committee shall have full power and authority to do all things necessary or appropriate to administer this Plan according to its terms and provisions

(excluding the power to appoint members of the Committee and to terminate, modify, or amend the Plan, except as otherwise authorized by the Board), including, but not limited to the full power and authority (subject to the express provisions of this Plan):

- 3.2.1 to award Stock Options and Stock Appreciation Rights, pursuant to the terms of this Plan, to eligible individuals described under Section 5 hereof;
- 3.2.2 to select the eligible individuals to whom Stock Options or Stock Appreciation Rights, or any combination thereof, if any, may from time to time be awarded hereunder;
- 3.2.3 to determine the Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, or any combination thereof, if any, to be awarded hereunder to one or more eligible employees or persons;
- 3.2.4 to determine the number of shares to be covered by each award granted hereunder;
- 3.2.5 to determine the terms and conditions not inconsistent with the terms of the Plan, of any award hereunder (including, but not limited to, share price, any restrictions or limitations, and any vesting, exchange, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions, as the Committee shall determine);
- 3.2.6 to determine any specified performance goals or such other factors or criteria which need to be attained for the vesting of an award granted hereunder;
- 3.2.7 to determine the terms and conditions under which awards hereunder are to operate on a tandem basis and/or in conjunction with or apart from other equity awarded under this Plan and cash awards made by the Company or any Subsidiary outside of this Plan;
- 3.2.8 to determine the extent and circumstances under which Common Stock and other amounts payable with respect to an award hereunder shall be deferred, which may be either automatic or at the election of the Holder; and

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- 3.2.9 to substitute (i) new Stock Options for previously granted Stock Options, which previously granted Stock Options have higher option exercise prices and/or contain other less favorable terms, and (ii) new awards of any other type for previously granted awards of the same or other type, which previously granted awards are upon less favorable terms.

3.3 Interpretation of Plan.

- 3.3.1 Subject to Sections 3.2 and 9 hereof, the Committee shall have the authority at its discretion to adopt, alter and repeal such general and special administrative rules, regulations, and practices governing the Plan as it shall, from time to time, deem advisable, to construe and interpret the terms and provisions of this Plan and any award issued under this Plan (and to determine the form and substance of all Agreements relating thereto), and to otherwise supervise the administration of this Plan.
- 3.3.2 Anything in this Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under this Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the Holder(s) affected, to disqualify any Incentive Stock Option under Section 422 of the Code.
- 3.3.3 Subject to Sections 3.2 and 9 hereof, all decisions made by the Committee pursuant to the provisions of this Plan shall be made in the Committee's sole discretion and shall be final and binding upon all persons granted options pursuant to the Plan.

4. Shares Subject to Plan.

4.1 Number of Shares. The aggregate number of shares of Common Stock reserved and available for distribution under this Plan shall be 850,000 shares. If any shares of Common Stock that are subject to a Stock Option or Stock Appreciation Right cease to be subject to such Stock Option or Stock Appreciation Right, or any such award otherwise terminates without a payment being made to the Holder in the form of

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Common Stock, such shares shall again be available for distribution in connection with future grants and awards under this Plan. The number of shares available for distribution under this Plan shall be reduced by the number of shares of Common Stock issued under this Plan upon the exercise of a Stock Option.

4.2 Character of Shares. The Company may elect to satisfy its obligations to a Holder exercising a Stock Option entirely by issuing authorized and unissued shares of Common Stock to such Holder, entirely by transferring treasury shares to such Holder, or in part by the issue of authorized and unissued shares and the balance by the transfer of treasury shares.

5. Eligibility.

5.1 General. Awards under this Plan may be made to: (i) officers and other employees of the Company or any Subsidiary who are at the time of the grant of an award under this Plan regularly employed by the Company or any Subsidiary, including any full time salaried officer or employee who is a member of the Board (except as provided in the last sentence under Section 3.1); and, (ii) consultants or independent contractors whom the Board believes have contributed or will contribute to the success of the Company.

5.2 Multiple Awards. The Committee shall from time to time designate such employees, consultants or independent contractors to whom options are to be granted, and the number of shares to be subject to each option. The Committee may at any time grant one or more Stock Options or Stock Appreciation Rights or a combination thereof to an individual to whom a Stock Option or Stock Appreciation Right has previously been granted under this or any other stock option plan of the Company, whether or not such previously granted Stock Option or Stock Appreciation Right has been fully exercised.

5.3 Ineligibility for Awards. No person designated by the Board to serve on the Committee, effective at such future time so that he qualifies as a "disinterested person" within the meaning of Rule 16b-3(c) of the Exchange Act, shall be eligible to receive any awards under the Plan during the period from the date such designation is made to the date such designation becomes effective. Notwithstanding Section 5.1 hereof, no member of the Committee, while serving as such, shall be eligible to receive an award under the Plan.

6. Stock Options.

6.1 Grant and Exercise. Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options. Only full-time

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salaried officers or employees may be granted Incentive Stock Options. Any individual eligible to participate under this Plan may be granted Non-Qualified Stock Options. Any Stock Option granted under the Plan shall contain such terms, not inconsistent with this Plan, as the Committee may from time to time approve. The Committee shall have the authority to grant to any eligible individual Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options and, in each case, may be granted alone, in tandem with, or without, or in addition to Stock Appreciation Rights. To the

extent that any Stock Option (or portion thereof) does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option. Unless granted in substitution for another outstanding award, Stock Options shall be granted for no consideration other than services to the Company or a Subsidiary.

6.2 Exercise Price.

6.2.1 Less Than 10% Shareholder. The exercise price in any option granted under this Plan to an individual who, at the time the Stock Option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Subsidiary (computed in accordance with the provisions applicable to Section 422(b)(6) of the Code) (a "less than 10% Shareholder") shall be not less than the Fair Market Value of the shares of Common Stock subject to the Stock Option at the time the Stock Option is granted, determined by the Committee in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Stock Option is granted.

6.2.2 10% Shareholder. The exercise price in any option granted under the Plan to an individual who is not a less than ten percent (10%) Shareholder (a "10% Shareholder") shall be not less than one hundred ten percent (110%) of the Fair Market Value of the shares of Common Stock subject to the Stock Option at the time the Stock Option is granted, determined in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Stock Option is granted.

6.3 Option Term. The term of each Stock Option shall be fixed by the Board, but no Stock Option shall be exercisable more than ten (10) years (five (5) years, in the case of an

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Incentive Stock Option granted to a 10% Shareholder) after the date on which the Stock Option is granted.

6.4 Exercise of Non-Qualified Stock Options. Non-Qualified Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee; provided, however, that no Non-Qualified Stock Option granted under this Plan may be exercised until after the expiration of six (6) months from the date the Stock Option is granted. If the Committee provides, in its discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after the time of grant in whole or in part, based upon such factors as the Committee shall determine; provided that the Committee cannot waive the requirement that the Stock Option may not be exercised until after the expiration of six (6) months from the date the Stock Option is granted.

6.5 Exercise of Incentive Stock Options.

6.5.1 By an Employee. No Incentive Stock Option granted under this Plan shall be exercisable after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a person who is not a less than 10% Shareholder shall be exercisable after the expiration of five (5) years from the date such option is granted. Employment by a Subsidiary shall be employment by the Company. Unless such requirements are waived by the Committee, the employee, while still in the employment of the Company, may exercise the options as follows:

6.5.1.1 at any time after one (1) year of continuous employment from the date such ISO is granted, as to twenty percent (20%) of the shares subject to the option;

6.5.1.2 at any time after two (2) years of such continuous employment from the date such ISO is granted, as to an additional twenty percent (20%) of the shares subject to the option;

- 6.5.1.3 at any time after three (3) years of such continuous employment from the date such ISO is granted, as to an additional thirty percent (30%) of the shares subject to the option; and

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- 6.5.1.4 at any time after four (4) years of such continuous employment from the date such ISO is granted, as to all of the shares remaining subject to the option.

The Committee may decide in each case to what extent leaves of absence for government or military service, illness, temporary disability, or other reasons, shall not interrupt continuous employment.

- 6.5.2 Termination of Employment. Except as otherwise expressly provided in Sections 6.5.3 and 6.5.4 of this Plan or in the Agreement, no Stock Option may be exercised at any time unless the Holder thereof is then an employee of the Company or a Subsidiary.
- 6.5.3 By a Former Employee. No person may exercise an ISO after he is no longer an employee of the Company or any Subsidiary; except that if an employee ceases to be an employee on account of physical or mental disability as defined in Section 22(e)(3) of the Code ("Former Employee"), he may exercise the ISO within twelve (12) months after the date on which he ceased to be an employee, for the number of shares for which he could have exercised at the time he ceased to be an employee. No ISO granted under this Plan shall in any event be exercised by such Former Employee after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a person who is a 10% Shareholder may be exercisable after the expiration of five (5) years from the date such ISO is granted.
- 6.5.4 In Case of Death. If any employee or Former Employee who was granted an ISO dies prior to the termination of such ISO, such ISO may be exercised within twelve (12) months after the death of the employee or Former Employee by his estate, or by a person who acquired the right to exercise such ISO by bequest or inheritance, or by reason of the death of such employee or Former Employee, provided that:
- 6.5.4.1 such employee died while an employee of the Company or a Subsidiary; or
- 6.5.4.2 such Former Employee had ceased to be an employee of the Company or a Subsidiary on account of physical or mental disability and died within three (3) months after the date on which he ceased to be such employee.

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Such ISO may be exercised only as to the number of shares for which he could have exercised at the time the employee or Former Employee died. No ISO granted under this Plan shall in any event be exercised in case of death of an employee or Former Employee after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a 10% Shareholder shall be exercisable after the expiration of five (5) years from the date such ISO is granted.

- 6.5.5 The Committee may, in its discretion, waive the installment exercise provisions at any time at or after the time of grant, in whole or in part, based on such factors as the Committee shall determine; provided that at all times no ISO may be exercised until the expiration of six (6) months from the date that the Stock Option was granted.
- 6.6 Termination of Options. A Stock Option granted under this Plan shall be considered terminated, in whole or in part, to the extent that it can no longer be exercised for shares originally subject to it, provided that a Stock Option granted shall be

considered terminated at an earlier date upon surrender for cancellation by the Holder to whom such Stock Option was granted.

- 6.7 Notice of Exercise and Payment. Subject to any installment, exercise and waiting period provisions that are applicable in a particular case, Stock Options granted under this Plan may be exercised, in whole or in part, at any time during the term of the Stock Option, by giving written notice of such exercise to the Company identifying the Stock Option being exercised and specifying the number of shares then being purchased. Such notice shall be accompanied by payment in full of the exercise price, which shall be in cash or, unless otherwise provided in the Agreement, in whole shares of Common Stock which are already owned by the Holder of the Stock Option or, unless otherwise provided in the Agreement, partly in cash and partly in such Common Stock. Cash payments shall be made by wire transfer, certified check or bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which a Stock Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Common Stock (which shall be valued at the Fair Market Value of a share of Common Stock on the date of exercise) shall be made by delivery of

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stock certificates in negotiable form which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances, with signature guaranteed by a bank or investment banking firm.

- 6.8 Issuance of Shares. As soon as practicable after its receipt of such notice and payment, the Company shall cause one or more certificates for the shares so purchased to be delivered to the Holder or his or her estate, as the case may be. No Holder or estate shall have any of the rights of a shareholder with reference to shares of Common Stock subject to a Stock Option until after the Stock Option has been exercised in accordance with Section 6.7 and certificates representing the shares of Common Stock so purchased by the Holder pursuant to the Stock Option have been delivered to the Holder or estate.
- 6.9 Partial Exercise. A Stock Option granted under this Plan may be exercised as to any part of the shares for which it could be exercised. Such a partial exercise of a Stock Option shall not affect the right to exercise the Stock Option from time to time in accordance with this Plan as to the remaining shares of Common Stock subject to the Stock Option.
- 6.10 \$100,000 Per Year Limitation. To the extent that the aggregate Fair Market Value of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Holder during any calendar year (under all of the Company's plans) exceeds \$100,000, such excess Stock Options shall be treated as Non-Qualified Stock Options for purposes of Section 422 of the Code.
- 6.11 Buyout and Settlement Provisions. The Committee may at any time offer to buy out for cash or otherwise settle a Stock Option previously granted, based upon such terms and conditions as the Committee shall establish and communicate to the Holder at the time that such offer is made, including a settlement for exchange of a different award under the Plan for the surrender of the Stock Option.
7. Stock Appreciation Rights.
- 7.1 Grant and Exercise. Stock Appreciation Rights may be granted in tandem with ("Tandem Stock Appreciation Right") or in conjunction with all or part of any Stock Option granted under this Plan or may be granted on a free-standing basis. In the case of a Non-Qualified Stock Option, a Tandem Stock Appreciation Right may be granted either at or after the time of the grant of such Non-Qualified Stock Option. In the case of an Incentive Stock Option, a Tandem Stock Appreciation Right may be granted only at the time of the grant

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of such Incentive Stock Option. Unless granted in substitution for another outstanding award, Stock Appreciation Rights shall be granted for no consideration other than services to the Company or a Subsidiary.

- 7.2 Termination. A Tandem Stock Appreciation Right shall terminate and shall no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise determined by the Board, a Tandem Stock Appreciation Right granted with respect to less than the full number of shares covered by a related Stock Option shall not be reduced until after the number of shares remaining under the related Stock Option equals the number of shares covered by the Tandem Stock Appreciation Right.
- 7.3 Method of Exercise. A Tandem Stock Appreciation Right may be exercised by a Holder, in accordance with Section 7.4 hereof, by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the Holder shall be entitled to receive such amount in the form of payment determined in the manner prescribed in Section 7.5 hereof. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent Tandem Stock Appreciation Rights have been exercised.
- 7.4 Exercisability. Tandem Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 6 hereof and this Section 7, and may be subject to such additional limitations on exercisability as shall be determined by the Committee and set forth in the Agreement. Other Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee and set forth in the Agreement. Notwithstanding anything to the contrary contained herein (including the provisions of Section 8.1 hereof), any Stock Appreciation Right granted to a Section 16(b) Holder to be settled wholly or partially in cash (i) shall not be exercisable during the first six (6) months of the term of such Stock Appreciation Right, except that this special limitation shall not apply in the event of death or disability of such Holder prior to the expiration of the six (6) month period, and (ii) shall only be exercisable during the period beginning on the third business day following the date of release for publication of the Company of quarterly or annual summary statements of sales and earnings and ending on the twelfth (12) business day following such date.
- 7.5 Receipt of SAR Value. Upon the exercise of a Stock Appreciation Right, a Holder shall be entitled to receive up to, but not more than, an amount in cash and/or shares of Common

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Stock equal to the SAR Value with the Committee having the right to determine the form of payment.

- 7.6 Shares Affected Under Plan. Upon the exercise of a Tandem Stock Appreciation Right, the Stock Option or part thereof to which such Tandem Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 4.1 hereof on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares, if any, issued under the Tandem Stock Appreciation Right at the time of exercise based upon the SAR Value.
- 7.7 Limited Stock Appreciation Rights. The Committee may grant "Limited Stock Appreciation Rights", i.e., Stock Appreciation Rights that become exercisable upon the occurrence of one or more of the events which trigger a Change of Control as defined in Section 8.2 hereof, and shall be settled in an amount equal to the Formula Price Per Share, subject to such other terms and conditions as the Committee may specify; provided, however, if any Limited Stock Appreciation Right is granted to a Section 16(b) Holder such Limited Stock Appreciation Right (i) shall only be exercisable within sixty (60) days after the event triggering the Change of Control; and (ii) may not be exercised during the first six (6) months after the date of grant of such Limited Stock Appreciation Right (except in the event of death or disability of such Holder prior to the expiration of the six (6) month period); and (iii) shall only be exercisable in the event that the date of the Change of Control was outside the control of such Holder; and (iv) shall only be settled in cash in an amount equal to the Formula Price Per Share.

8. Acceleration.

8.1 Acceleration Upon Change of Control. Unless the award Agreement provides otherwise or unless the Holder waives the application of this Section 8.1 prior to a Change of Control (as hereinafter defined), in the event of a Change of Control, each outstanding Stock Option, Stock Appreciation Right and Limited Stock Appreciation Right granted under the Plan shall immediately become exercisable in full notwithstanding the vesting or exercise provisions contained in the Agreement.

8.2 Change of Control Defined. A "Change of control" shall be deemed to have occurred upon any of the following events:

8.2.1 The consummation of any of the following transactions: any merger, reverse stock split, recapitalization or other business combination of the Company, with or into another corporation, or an acquisition of securities or assets

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by the Company, pursuant to which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a transaction in which the majority of the holders of Common Stock immediately prior to such transaction will own at least fifty percent (50%) of the total voting power of the then-outstanding securities of the surviving corporation immediately after such transaction; or

8.2.2 A transaction in which any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company, or any profit-sharing, employee ownership or other employee benefit plan sponsored by the Company or any Subsidiary, or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or any group comprised solely of such entities): (i) shall purchase any Common Stock (or securities convertible into Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board, or (ii) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly (in one transaction or a series of transactions), of securities of the Company representing fifty percent (50%) or more of the total voting power of the then-outstanding securities of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire the Company's securities); or

8.2.3 If, during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board and any new director whose election by the Board, or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election by the stockholders was previously so approved, cease for any reason to constitute a majority thereof.

8.3 General Waiver by Board. The Committee may, after grant of an award, accelerate the vesting of all or any part of any Stock Option, and/or waive any limitations or restrictions, if any, for all or any part of an award.

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8.4 Acceleration Upon Termination of Employment. In the case of a Holder whose employment or affiliation with the Company or a Subsidiary is involuntarily terminated for any reason (other than for cause), the Committee may, at its option and in its sole discretion, accelerate the vesting of all or any part of any award and/or waive, in

whole or in part, any or all of the remaining deferral limitations or restrictions imposed hereunder or pursuant to the Agreement.

9. Amendments and Termination.

9.1 Amendments to Plan; Termination. The Board may at any time, and from time to time, amend any of the provisions of the Plan, and may at any time suspend or terminate the Plan; provided, however, that no such amendment shall be effective unless and until it has been duly approved by the stockholders of the outstanding shares of Common Stock if (i) such amendment materially increases the benefits accruing to participants under this Plan; (ii) such amendment materially increases the number of securities which may be issued under this Plan; (iii) such amendment materially modifies the requirements as to eligibility for participation in this Plan; or, (iv) the failure to obtain such approval would adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation.

9.2 Amendments to Individual Awards. The Board may amend the terms of any award granted under the Plan; provided, however, that subject to Section 11 hereof, no such amendment may be made by the Board which in any material respect impairs the rights of the Holder without the Holder's consent.

10. Term of Plan.

10.1 Effective Date. The Plan shall be effective as of August 13, 1998 ("Effective Date"), subject to the approval of the Plan by the stockholders of the Company within one year after the Effective Date. Any awards granted under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant) but shall be conditioned upon, and subject to, such approval of the Plan by the Company's stockholders and approval of the Company's application to list the shares of the Company's Common Stock covered by the Plan on the New York Stock Exchange (and no awards shall vest or otherwise become free of restrictions prior to such approvals).

10.2 Termination Date. No award shall be granted pursuant to the Plan on or after the tenth (10th) anniversary of the Effective Date, but awards granted prior to such tenth (10th)

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anniversary may extend beyond that date. The Plan shall terminate at such time as no further awards may be granted and all awards granted under the Plan are no longer outstanding.

11. Adjustment Upon Change of Shares. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock for which Stock Options may thereafter be granted, and the number of shares of Common Stock then subject to Stock Options previously granted, and the price per share payable upon exercise of such Stock Option and the number of shares and exercise price relating to Stock Appreciation Rights, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company.

11.1 If the Company is reorganized or consolidated or merged with another corporation, in which the Company is the non-surviving corporation, a Holder of an outstanding Stock Option and/or Stock Appreciation Right granted under this Plan shall be entitled (subject to the provisions of this Section 11) to receive options and/or stock appreciation rights covering shares of such reorganized, consolidated or merged corporation in the same proportion as granted to Holder prior to such reorganization, consolidation or merger at an equivalent exercise price, and subject to the same terms and conditions as this Plan. For purposes of the preceding sentence, the excess of the aggregate Fair Market Value of shares subject to the option immediately after the reorganization, consolidation or merger over the aggregate exercise price of such shares shall not be more than the excess of the aggregate Fair Market Value of all shares of Common

Stock subject to the option or Stock Appreciation Right immediately before such reorganization, consolidation or merger over the aggregate exercise price of such shares of Common Stock, and the new stock option or stock appreciation right or assumption of the old Stock Option or old Stock Appreciation Right by any surviving corporation shall not give the Holder additional benefits which he did not have under the old Stock Option or Stock Appreciation Right.

- 11.2 To the extent that the foregoing adjustments relate to the shares of Common Stock of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive, provided that each Incentive Stock Option granted pursuant to this Plan shall not be adjusted in a manner that causes the Incentive Stock Option to fail to continue to qualify as an incentive stock option within the meaning of Section 422 of the Code.

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- 11.3 Except as expressly provided in this Section 11, the Holder shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, consolidation, reorganization or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to the Stock Option or the number or price of Stock Appreciation Rights granted under this Plan.
- 11.4 The grant of a Stock Option or Stock Appreciation Right pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

12. General Provisions.

- 12.1 Investment Representations. The Committee may require each person acquiring shares of Common Stock pursuant to an award under this Plan to represent to and agree with the Company in writing that the Holder is acquiring the shares for investment without a view to distribution thereof.
- 12.2 Additional Incentive Arrangements. Nothing contained in this Plan shall prevent the Board from adopting such other or additional incentive arrangements as it may deem desirable, including, but not limited to, the granting of Stock Options and the awarding of stock and cash otherwise than under this Plan; and such arrangements may be either generally applicable or applicable only in specific cases.
- 12.3 No Right of Employment. Nothing contained in this Plan or in any award hereunder shall be deemed to confer upon any employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, nor shall it interfere in any way with the right of the Company or any Subsidiary to terminate the employment of any of its employees at any time.
- 12.4 Withholding Taxes. Not later than the date as of which an amount first becomes includible in the gross income of the Holder for federal income tax purposes with respect to any award under the Plan, the Holder shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of,

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any federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Board, tax withholding or payment obligations may be settled with Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under this Plan shall be conditional upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Holder from the Company.

- 12.5 Governing Law. This Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware (without regard to choice of law provisions).
- 12.6 Other Benefit Plans. Any award granted under this Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation (unless required by specific reference in any such other plan to awards under this Plan).
- 12.7 Employee Status. A leave of absence, unless otherwise determined by the Board prior to the commencement thereof, shall not be considered a termination of employment. Any awards granted under this Plan shall not be affected by any change of employment, so long as the Holder continues to be an employee of the Company or any Subsidiary.
- 12.8 Non-Transferability. Other than the transfer of a Stock Option or Stock Appreciation Right by will or by the laws of descent and distribution, no award under this Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbered or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such benefit. Unless otherwise provided in this Plan or the Agreement, any Stock Option or Stock Appreciation Right granted under this Plan is only exercisable during the lifetime of the Holder by the Holder or by his guardian or legal representative.
- 12.9 Applicable Laws. The obligations of the Company with respect to all awards under this Plan shall be subject to (i) all applicable laws, rules and regulations, including, without limitation, the requirements of all federal securities laws, rules and regulations and state securities and blue sky laws, rules and regulations, and such approvals by any

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governmental agencies as may be required, including, without limitation, the effectiveness of a registration statement under the Act, and (ii) the rules and regulations of any national securities exchange on which the Common Stock may be listed or the NASDAQ National Market System if the Common Stock is designated for quotation thereon.

- 12.10 Conflicts. If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation, and/or with respect to Incentive Stock Options, Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of said Rule 16b-3, and/or with respect to Incentive Stock Options, Section 422 of the Code. With respect to Incentive Stock Options, if this Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein.
- 12.11 Written Agreements. Each award granted under this Plan shall be confirmed by, and shall be subject to the terms of the Agreement approved by the Committee and executed by the Company and the Holder. The Committee may terminate any award made under this Plan if the Agreement relating thereto is not executed and

returned to the Company within sixty (60) days after the Agreement has been delivered to the Holder for his or her execution.

- 12.12 Indemnification of Committee. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any award granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member is liable for negligence or misconduct in the performance of his duties; provided that within sixty (60) days after institution of

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any such action, suit or proceeding a Committee member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

- 12.13 Consideration for Common Stock. The Committee may not grant any awards under this Plan pursuant to which the Company will be required to issue any shares of Common Stock unless the Company will receive consideration for the shares of Common Stock sufficient under the laws of the State of Delaware so that such shares of Common Stock will be, when issued, validly issued and fully paid and nonassessable when issued.
- 12.14 Common Stock Certificates. All certificates for shares of Common Stock delivered under this Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, any applicable federal or state securities law and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding anything to the contrary contained herein, whenever certificates representing shares of Common Stock subject to an award are required to be delivered pursuant to the terms of this Plan, the Company may, in lieu of such delivery requirement, comply with the provisions of Section 158 of the Delaware General Corporation Law.
- 12.15 Unfunded Status of Plan. This Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Holder by the Company, nothing contained herein shall give any such Holder any rights that are greater than those of a general creditor of the Company.

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LSB INDUSTRIES, INC.
1998 STOCK OPTION AND INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT made this 8th day of July, 1999, between LSB INDUSTRIES, INC., a Delaware corporation, hereinafter called the "Company", and _____, hereinafter called "Optionee";

W I T N E S S E T H:

In consideration of the mutual covenants and conditions herein set forth and for good and valuable consideration, the Company and the Optionee agree as follows:

I. **Recitations.** The Company or its Subsidiary is presently employing the Optionee as its employee and considers it desirable and in its best interest that Optionee be given an inducement to acquire an initial or additional proprietary interest in the Company as an added incentive to advance the interest of the Company in the form of this option to purchase certain shares of the Company's common stock, par value \$.10 per share ("Common Stock"), which option hereunder is granted subject to and in accordance with the Company's 1998 Stock Option and Incentive Plan, as amended prior to this date (the "Plan"). The capitalized terms herein shall have the same meaning as set forth in the Plan, unless otherwise indicated.

II. **Employment.** This Agreement shall not impose upon the Company or its Subsidiary any obligation to retain Optionee in its employ or to retain Optionee at his present salary or position. If Optionee shall leave the employ of the Company or its Subsidiary for any reason, the option granted herein shall immediately terminate, except as otherwise expressly provided in Section IV hereof.

III. **Grant of Option.** The Company hereby grants to Optionee as of the close of business on this 8th day of July, 1999 (the "Date of Grant"), the right, privilege and option to purchase an aggregate of _____ (_____) shares of its Common Stock for a price of \$1.375 per share (the "Exercise Price"), under and subject to the terms and conditions of the Plan to which reference is hereby made and a copy of which is attached to and made a part hereof, such Exercise Price being one hundred and ten percent (110%) of the Fair Market Value of the Common Stock as determined pursuant to the Plan. Such option is hereinafter referred to as the "Option" and the shares of Common Stock purchasable upon the exercise of the Option are hereinafter sometimes referred to as the "Option Shares." The Option is intended by the parties hereto to be an incentive stock option, as such term is defined under Section 422 of the Internal Revenue Code of 1986, as amended.

IV. **Exercise of Stock Options.**

A. **As an Employee.** If the Option has not been terminated pursuant to Section VII hereof, the Option granted herein may be exercised by Optionee as hereinafter provided. Unless waived by the Board of Directors or a committee thereof that administers the Plan (the Board of Directors or a committee thereof is referred to herein as the "Committee"), the Optionee, while in the employment of the Company or its Subsidiary, may exercise the option as follows:

1. at any time after one (1) year of continuous employment by the Optionee from the Date of Grant, the Option may be exercised in whole or in part as to not more than twenty percent (20%) of the total number of Option Shares;
2. at any time after two (2) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to an additional twenty percent (20%) of the total number of Option Shares;
3. at any time after three (3) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to an additional thirty percent (30%) of the total number of Option Shares;
4. at a time after four (4) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to all of the Option

Shares remaining subject to the Option.

The right to exercise the Option shall be cumulative. Employment by a Subsidiary of the Company shall be considered employment by the Company. The Committee shall have the sole right to accelerate the time when Optionee will become entitled to exercise the Option pursuant to the terms hereof and the Plan.

B. As a Former Employee. The Option granted herein may not be exercised after the Optionee is no longer an employee of the Company or any Subsidiary; except that if the Optionee ceases to be an employee on account of physical or mental disability as defined in Section 22(e)(3) of the Code ("Former Employee"), he may exercise the option within twelve (12) months after the date on which he ceased to be an employee, for the number of Option Shares for which he could have exercised at the time he ceased to be an employee. In no event may the Option be exercised after the expiration of ten (10) years from the Date of Grant.

C. In Case of Death. If the Optionee dies prior to the termination of this Option, the Option may be exercised within one (1) year after the death of the Optionee by the personal representative of his estate, or

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by a person who acquired the right to exercise the Option by bequest, inheritance, or by reason of the death of the Optionee, provided that:

1. the Optionee died while an employee of the Company or a Subsidiary; or
2. the Optionee ceased to be an employee of the Company or a Subsidiary on account of physical or mental disability and died within three (3) months after the date on which he ceased to be such employee.

The Option may be exercised only as to the number of shares for which the Optionee could have exercised at the time the Optionee died. In no event may the Option be exercised after the expiration of five (5) years from the Date of Grant.

D. Continuous Employment. The Committee shall decide, in its sole and absolute discretion, to what extent leaves of absence for government or military service, illness, temporary disability or other reasons, shall not interrupt continuous employment, which decision shall be binding for the purpose of this Agreement.

E. Acceleration upon Change in Control. The Option shall become immediately exercisable in full, notwithstanding the four (4) year vesting schedule provided in Section IV.A, upon a change in control of the Company. A "change in control" shall be defined as set forth in the Plan.

V. Notice of Exercise and Payment of Exercise Price. Subject to the terms of this Agreement, the Option shall be exercised by giving written notice of such exercise to the Company identifying the Option being exercised and specifying the number of Option Shares then being purchased. Such notice shall be accompanied by payment in full of the Exercise Price, which shall be in cash or in whole shares of Common Stock which are already owned by the Optionee, or partly in cash and partly in such Common Stock. Cash payments shall be made by wire transfer, certified check, bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which the Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Common Stock (which shall be valued at the Fair Market Value of a share of Common Stock on the date of exercise) shall be made by delivery of stock certificates in negotiable form (in form and content satisfactory to the Company) which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances.

VI. Issuance of Shares. As soon as practicable after its receipt of such notice and payment, the Company shall cause one or more certificates for the shares so purchased to be delivered to the Optionee or his or her estate, as the case may be; provided, however, the obligation of the Company to deliver such

certificates shall be subject to the Company's compliance with any applicable federal and state securities laws as provided in Section 10 hereof.

VII. **Termination of Option.** This Agreement and the Option granted herein, to the extent not theretofore exercised, shall terminate and become null and void immediately upon the earlier of the following to occur:

A. **Option No Longer Exercisable.** At such time as the Option is no longer exercisable pursuant to the terms of Section IV hereof;

B. **Surrender of Options.** Upon the Optionee's surrender to the Company for cancellation of this Agreement and the Option granted herein; and,

C. **Expiration of Term.** Upon the fifth (5th) anniversary of the Date of Grant.

VIII. **Restrictions.** The Option will not be transferrable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by Optionee. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged, or hypothecated in any way, will not be assignable by operation of law and will not be subject to execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the Option, will be null and void and without effect.

IX. **Adjustments.** Pursuant to the terms of the Plan, in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, reverse stock split, or other change in the corporate structure or capitalization affecting the Corporation's common stock, a fair and equitable adjustment will be made in the number, kind, option price, etc., of shares subject to the Option to the extent that the proportionate interest of the holder of the Option will be maintained as before the occurrence of such event.

X. **Compliance with Law and Approval of Regulatory Bodies.** No shares of Common Stock will be issued or, in the case of treasury shares, transferred, upon exercise of the Option, except in compliance with all applicable federal and state laws and regulations and in compliance with rules of stock exchanges on which the Company's shares may be listed. Any share certificate issued to evidence shares as to which the Option is exercised shall bear such restrictive legends and statements as the Committee shall deem advisable to assure compliance with federal and state laws and regulations. No shares of Common Stock will be issued or, in the case of treasury shares, transferred, upon exercise of the Option until the Company has obtained such consent or approval from regulatory bodies, federal or state, having jurisdiction over such matters as the Committee may deem advisable.

XI. **Investment Representations.** Optionee, or his personal representative, may be required by the Committee to give a written representation that the shares subject to the Option will be acquired, or are being acquired, as the case may be, for investment and not with a view to a public distribution of them; provided, however, that the Committee in its sole discretion, may release the Optionee, or his personal representative, from such investment representations either prior to or subsequent to the exercise of the Option.

XII. **Rights as a Shareholder.** Optionee shall have no rights as a shareholder with respect to any shares covered by this Agreement or the Option until the date of issuance of a stock certificate to him for such shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

XIII. **Binding Effect.** This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

XIV. **Incorporation by Reference; Interpretation.** The Option is granted pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and the Option and this Agreement shall be interpreted in accordance with the Plan. The Committee shall construe and interpret the terms and provisions of the Plan and this Agreement and shall at its discretion make general and special rules and regulations for administering the Plan, which construction, interpretation, rules and regulations shall be binding and conclusive upon all persons granted an option pursuant to the Plan and this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the Date of Grant.

ATTEST:

LSB INDUSTRIES, INC.

Secretary

By: _____
Name: Jack E. Golsen
Title: President

[S E A L]

"Optionee"

LSB INDUSTRIES, INC.
1998 STOCK OPTION AND INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT made this 8th day of July, 1999, between LSB INDUSTRIES, INC., a Delaware corporation, hereinafter called the "Company", and _____, hereinafter called "Optionee";

W I T N E S S E T H:

In consideration of the mutual covenants and conditions herein set forth and for good and valuable consideration, the Company and the Optionee agree as follows:

I. **Recitations.** The Company or its Subsidiary is presently employing the Optionee as its employee and considers it desirable and in its best interest that Optionee be given an inducement to acquire an initial or additional proprietary interest in the Company as an added incentive to advance the interest of the Company in the form of this option to purchase certain shares of the Company's common stock, par value \$.10 per share ("Common Stock"), which option hereunder is granted subject to and in accordance with the Company's 1998 Stock Option and Incentive Plan, as amended prior to this date (the "Plan"). The capitalized terms herein shall have the same meaning as set forth in the Plan, unless otherwise indicated.

II. **Employment.** This Agreement shall not impose upon the Company or its Subsidiary any obligation to retain Optionee in its employ or to retain Optionee at his present salary or position. If Optionee shall leave the employ of the Company or its Subsidiary for any reason, the option granted herein shall immediately terminate, except as otherwise expressly provided in Section IV hereof.

III. **Grant of Option.** The Company hereby grants to Optionee as of the close of business on this 8th day of July, 1999 (the "Date of Grant"), the right, privilege and option to purchase an aggregate of _____ (_____) shares of its Common Stock for a price of \$1.25 per share (the "Exercise Price"), under and subject to the terms and conditions of the Plan to which reference is hereby made and a copy of which is attached to and made a part hereof, such Exercise Price being one hundred percent (100%) of the Fair Market Value of the Common Stock as determined pursuant to the Plan. Such option is hereinafter referred to as the "Option" and the shares of Common Stock purchasable upon the exercise of the Option are hereinafter sometimes referred to as the "Option Shares." The Option is intended by the parties hereto to be an incentive stock option, as such term is defined under Section 422 of the Internal Revenue Code of 1986, as amended.

IV. **Exercise of Stock Options.**

A. **As an Employee.** If the Option has not been terminated pursuant to Section VII hereof, the Option granted herein may be exercised by Optionee as hereinafter provided. Unless waived by the Board of Directors or a committee thereof that administers the Plan (the Board of Directors or a committee thereof is referred to herein as the "Committee"), the Optionee, while in the employment of the Company or its Subsidiary, may exercise the option as follows:

1. at any time after one (1) year of continuous employment by the Optionee from the Date of Grant, the Option may be exercised in whole or in part as to not more than twenty percent (20%) of the total number of Option Shares;
2. at any time after two (2) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to an additional twenty percent (20%) of the total number of Option Shares;
3. at any time after three (3) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to an additional thirty percent (30%) of the total number of Option Shares;
4. at a time after four (4) years of continuous employment by the Optionee from the Date of Grant, the Option may be exercised, in whole or in part, as to all of the Option Shares remaining subject to the Option.

The right to exercise the Option shall be cumulative. Employment by a Subsidiary of the Company shall be considered employment by the Company. The Committee shall have

the sole right to accelerate the time when Optionee will become entitled to exercise the Option pursuant to the terms hereof and the Plan.

B. As a Former Employee. The Option granted herein may not be exercised after the Optionee is no longer an employee of the Company or any Subsidiary; except that if the Optionee ceases to be an employee on account of physical or mental disability as defined in Section 22(e)(3) of the Code ("Former Employee"), he may exercise the option within twelve (12) months after the date on which he ceased to be an employee, for the number of Option Shares for which he could have exercised at the time he ceased to be an employee. In no event may the Option be exercised after the expiration of ten (10) years from the Date of Grant.

C. In Case of Death. If the Optionee dies prior to the termination of this Option, the Option may be exercised within one (1) year after the death of the Optionee by the personal

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representative of his estate, or by a person who acquired the right to exercise the Option by bequest, inheritance, or by reason of the death of the Optionee, provided that:

1. the Optionee died while an employee of the Company or a Subsidiary; or
2. the Optionee ceased to be an employee of the Company or a Subsidiary on account of physical or mental disability and died within three (3) months after the date on which he ceased to be such employee.

The Option may be exercised only as to the number of shares for which the Optionee could have exercised at the time the Optionee died. In no event may the Option be exercised after the expiration of ten (10) years from the Date of Grant.

D. Continuous Employment. The Committee shall decide, in its sole and absolute discretion, to what extent leaves of absence for government or military service, illness, temporary disability or other reasons, shall not interrupt continuous employment, which decision shall be binding for the purpose of this Agreement.

E. Acceleration upon Change in Control. The Option shall become immediately exercisable in full, notwithstanding the four (4) year vesting schedule provided in Section IV.A, upon a change in control of the Company. A "change in control" shall be defined as set forth in the Plan.

V. Notice of Exercise and Payment of Exercise Price. Subject to the terms of this Agreement, the Option shall be exercised by giving written notice of such exercise to the Company identifying the Option being exercised and specifying the number of Option Shares then being purchased. Such notice shall be accompanied by payment in full of the Exercise Price, which shall be in cash or in whole shares of Common Stock which are already owned by the Optionee, or partly in cash and partly in such Common Stock. Cash payments shall be made by wire transfer, certified check, bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which the Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Common Stock (which shall be valued at the Fair Market Value of a share of Common Stock on the date of exercise) shall be made by delivery of stock certificates in negotiable form (in form and content satisfactory to the Company) which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances.

VI. Issuance of Shares. As soon as practicable after its receipt of such notice and payment, the Company shall cause one or more certificates for the shares so purchased to be delivered to the Optionee or his or her estate, as the case may be; provided, however, the obligation of the Company to deliver such

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certificates shall be subject to the Company's compliance with any applicable federal and state securities laws as provided in Section 10 hereof.

VII. Termination of Option. This Agreement and the Option granted herein, to the extent not theretofore exercised, shall terminate and become null and void immediately upon the earlier of the following to occur:

A. Option No Longer Exercisable. At such time as the Option is no longer exercisable pursuant to the terms of Section IV hereof;

B. Surrender of Options. Upon the Optionee's surrender to the Company for cancellation of this Agreement and the Option granted herein; and,

C. Expiration of Term. Upon the tenth (10th) anniversary of the Date of Grant.

VIII. Restrictions. The Option will not be transferrable otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Optionee, only by Optionee. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged, or hypothecated in any way, will not be assignable by operation of law and will not be subject to execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon the Option, will be null and void and without effect.

IX. Adjustments. Pursuant to the terms of the Plan, in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, reverse stock split, or other change in the corporate structure or capitalization affecting the Corporation's common stock, a fair and equitable adjustment will be made in the number, kind, option price, etc., of shares subject to the Option to the extent that the proportionate interest of the holder of the Option will be maintained as before the occurrence of such event.

X. Compliance with Law and Approval of Regulatory Bodies. No shares of Common Stock will be issued or, in the case of treasury shares, transferred, upon exercise of the Option, except in compliance with all applicable federal and state laws and regulations and in compliance with rules of stock exchanges on which the Company's shares may be listed. Any share certificate issued to evidence shares as to which the Option is exercised shall bear such restrictive legends and statements as the Committee shall deem advisable to assure compliance with federal and state laws and regulations. No shares of Common Stock will be issued or, in the case of treasury shares, transferred, upon exercise of the Option until the Company has obtained such consent or approval from regulatory bodies, federal or state, having jurisdiction over such matters as the Committee may deem advisable.

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XI. Investment Representations. Optionee, or his personal representative, may be required by the Committee to give a written representation that the shares subject to the Option will be acquired, or are being acquired, as the case may be, for investment and not with a view to a public distribution of them; provided, however, that the Committee in its sole discretion, may release the Optionee, or his personal representative, from such investment representations either prior to or subsequent to the exercise of the Option.

XII. Rights as a Shareholder. Optionee shall have no rights as a shareholder with respect to any shares covered by this Agreement or the Option until the date of issuance of a stock certificate to him for such shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

XIII. Binding Effect. This Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

XIV. Incorporation by Reference; Interpretation. The Option is granted pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and the Option and this Agreement shall be interpreted in accordance with the Plan. The Committee shall construe and interpret the terms and provisions of the Plan and this Agreement and shall at its discretion make general and special rules and regulations for administering the Plan, which construction, interpretation, rules and regulations shall be binding and conclusive upon all persons granted an option pursuant to the Plan and this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed effective as of the Date of Grant.

ATTEST:

LSB INDUSTRIES, INC.

Secretary

By: _____
Name: Jack E. Golsen
Title: President

[S E A L]

"Optionee"

CONNER & WINTERS

A PROFESSIONAL CORPORATION
LAWYERS

1700 ONE LEADERSHIP SQUARE
211 NORTH ROBINSON
OKLAHOMA CITY, OKLAHOMA 73102-7101
(405) 272-5711
FAX (405) 232-2695

August 19, 2002

LSB Industries, Inc.
16 South Pennsylvania
Post Office Box 754
Oklahoma City, Oklahoma 73101

Re: *LSB Industries, Inc.; Form S-8 Registration Statement; 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan;*
Our File No. 7033.11

Ladies and Gentlemen:

We are delivering this opinion to you in connection with the preparation and filing with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), of the Registration Statement on Form S-8 (the "Registration Statement") of LSB Industries, Inc., a Delaware corporation (the "Company"), for the registration of 1,387,800 shares of the Company's Common Stock, \$0.10 par value (the "Common Stock"), to be issued by the Company pursuant to the Company's 1998 Stock Option and Incentive Plan (987,800 shares; the "Employee Plan") and the Outside Directors Stock Purchase Plan (400,000 shares; the "Outside Director Plan") (together, the "Plans") from time to time to employees of the Company and its subsidiaries.

In connection with this opinion, the undersigned has examined and relied upon such corporate records, certificates, other documents and questions of law, as we have considered necessary or appropriate for the purposes of this opinion, including, but not limited to, the following:

- (a) Company's Certificate of Incorporation, as amended;
- (b) Company's Bylaws, as amended;
- (c) Plans;
- (d) Resolutions of the Board of Directors of the Company, dated August 13, 1998, and August 13, 2002;
- (e) Certificate of Good Standing of the Company issued by the Secretary of State of Delaware, dated August 9, 2002;
- (f) Registration Statement; and
- (g) Summary Information regarding the Plans.

In our examination, we have assumed the genuineness of all signatures, the legal capacity of all persons, the authenticity of all documents submitted as originals, the conformity with the original documents of all documents submitted as certified or photostatic copies, and the authenticity of the originals of such copies. We have further assumed that each recipient of shares of the Company's Common Stock under the Employee Plan is a Holder and each potential recipient of shares of the Company's Common Stock under the Outside Director Plan is an Eligible Director, as defined in the respective Plans, and that any shares of the Company's Common Stock to be issued under the Plans will have been issued pursuant to the terms of the Plans and will have been registered in accordance with the Act, absent the application of an exemption from registration, prior to the issuance of such shares.

In reliance upon and based on such examination and review, we are of the opinion that, when the Registration Statement becomes effective pursuant to the rules and regulations of the Commission, the 1,387,800 shares of Common Stock which may be issued pursuant to the Plans will constitute, when purchased and issued pursuant to the terms of such Plans, duly authorized, validly issued, fully paid and nonassessable shares of Common Stock of the Company.

We hereby consent to the filing of this opinion as Exhibit 5.1 to the Registration Statement and to the reference to Conner & Winters, a Professional Corporation, wherever it appears in such Registration Statement. However, in rendering this opinion, we do not admit that we are acting within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Act.

Very truly yours,

CONNER & WINTERS, P.C.

/s/ Conner & Winters, P.C.

IHS/MHB/jtk

Letter of Acknowledgment Re: Unaudited Financial Information

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8) of LSB Industries, Inc. for the registration of an aggregate of 1,387,800 shares of its common stock under the 1998 Stock Option and Incentive Plan and the Outside Directors Stock Purchase Plan of our reports dated May 10, 2002 and August 12, 2002 relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. that are included in its Forms 10-Q for the quarters ended March 31, 2002 and June 30, 2002.

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 16, 2002

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan of LSB Industries, Inc. of our report dated March 27, 2002, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in its Annual Report (Form 10-K) for the year ended December 31, 2001, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 16, 2002