

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For Quarterly period ended March 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 1-7677

LSB Industries, Inc.

Exact name of Registrant as specified in its charter

DELAWARE

73-1015226

State or other jurisdiction of
incorporation or organization

I.R.S. Employer Identification No.

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES NO

The number of shares outstanding of the Registrant's voting Common Stock, as of April 30, 2001 was 11,896,419 shares excluding 3,269,290 shares held as treasury stock.

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc. at March 31, 2001, and the condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2001 and 2000 have been subjected to a review, in accordance with standards established by the American Institute of Certified Public Accountants, by Ernst & Young LLP, independent auditors, whose report with respect thereto appears elsewhere in this Form 10-Q. The financial statements mentioned above are unaudited and reflect all adjustments, consisting only of adjustments of a normal recurring nature, except for the loss provision recognized in 2000 on firm raw material purchase commitments as discussed in Note 9 to the Condensed Consolidated Financial Statements, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of operations for the three months ended March 31, 2001, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet at December 31, 2000 was derived from audited financial statements as of that date. Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, for an expanded discussion of the Company's financial disclosures and accounting policies.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
 (Information at March 31, 2001 is unaudited)
 (Dollars in thousands)

<u>ASSETS</u>	March 31, 2001	December 31, 2000
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 3,544	\$ 3,063
Trade accounts receivable, net	52,131	48,333
Inventories:		
Finished goods	28,694	18,990
Work in process	3,736	2,962
Raw materials	7,192	9,687
Total inventory	<hr/> 39,622	<hr/> 31,639
Supplies and prepaid items	8,951	5,977
Total current assets	<hr/> 104,248	<hr/> 89,012
Property, plant and equipment, net	79,490	80,884
Other assets, net	20,664	22,999
	<hr/> \$ 204,402	<hr/> \$ 192,895
	<hr/>	<hr/>

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at March 31, 2001 is unaudited)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' DEFICIT	March 31, 2001	December 31, 2000
<hr/>		
Current liabilities:		
Drafts payable	\$ 142	\$ 224
Accounts payable	28,172	26,765
Accrued liabilities	28,095	29,312
Current portion of long-term debt	53,880	42,101
	<hr/>	<hr/>
Total current liabilities	110,289	98,402
Long-term debt	96,274	93,904
Accrued losses on firm purchase commitments and other noncurrent liabilities (Note 9)	10,577	9,892
Commitments and Contingencies (Note 6)	-	-
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,462 shares issued and outstanding	139	139
Stockholders' equity (deficit)		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 628,550 shares issued	31,427	31,427
Common stock, \$.10 per value 75,000,000 shares authorized, 15,163,909 shares issued	1,516	1,516
Capital in excess of par value	52,376	52,376
Accumulated other comprehensive loss	(2,367)	-
Accumulated deficit	(81,573)	(80,480)
	<hr/>	<hr/>
	3,379	6,839
Less treasury stock at cost:		
Series 2 Preferred, 5,000 shares	200	200

Common stock, 3,269,290 shares in 2001
(3,285,957 shares in 2000)

16,056

16,081

Total stockholders' deficit

(12,877)

(9,442)

\$ 204,402

\$ 192,895

(See accompanying notes)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended March 31, 2001 and 2000
(Dollars in thousands, except per share amounts)

	2001	2000
Revenues:		
Net sales	\$ 86,476	\$ 69,621
Other income	541	1,262
	<hr/>	<hr/>
	87,017	70,883
Costs and expenses:		
Cost of sales	72,060	53,691
Selling, general and administrative	11,881	11,649
Interest	3,779	4,082
Provision for loss on firm purchase commitments(Note 9)	-	975
Other expenses	420	234
	<hr/>	<hr/>
	88.140	70.631

Income (loss) before provision for income taxes and extraordinary gain	(1,123)	252
Provision for income taxes	-	-
Income (loss) before extraordinary gain	(1,123)	252
Extraordinary gain, net of income taxes	30	-
Net income (loss)	\$ (1,093)	\$ 252
Net loss applicable to common stock (Note 3)	\$ (1,660)	\$ (543)
Weighted average common shares (Note 3):		
Basic and diluted	11,894,619	11,851,983
Loss per common share (Note 3):		
Basic and diluted net loss applicable to common stock	\$ (.14)	\$ (.05)

(See accompanying notes)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended March 31, 2001 and 2000
(Dollars in thousands)

	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$ (1,093)	\$ 252
Adjustments to reconcile net income (loss) to cash flows provided by (used in) operations:		
Extraordinary gain on extinguishment of debt	(30)	-
Gain on sale of property and equipment	(147)	-
Depreciation, depletion and amortization:		
Property, plant and equipment	2,417	1,974
Other	2	266
Provision for possible losses on receivables	142	174
Realization of losses on firm sales and purchase commitments, net of provision	(1,673)	(396)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(3,940)	(3,508)
Inventories	(7,983)	(1,717)
Supplies and prepaid items	(1,488)	533
Accounts payable	1,407	1,553
Accrued liabilities	739	2,558
Net cash provided by (used in) operating activities	(11,647)	1,689

Cash flows from investing activities:		
Capital expenditures	(1,317)	(1,798)
Proceeds from sale of property and equipment	163	76
Decrease (increase) in other assets	(121)	1,376
	<hr/>	<hr/>
Net cash used in investing activities	(1,275)	(346)
Cash flows from financing activities:		
Proceeds from long-term and other debt	2,030	2,308
Payments on long-term and other debt	(2,867)	(1,802)
Acquisition of 10 3/4% Senior Notes	(21)	-
Net change in revolving debt facilities	14,343	(1,631)
Net change in drafts payable	(82)	(106)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	13,403	(1,231)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	481	112
Cash and cash equivalents at beginning of period	3,063	3,130
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 3,544	\$ 3,242
	<hr/>	<hr/>

(See accompanying notes)

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Note 1: Basis of Presentation The accompanying Condensed Consolidated Financial Statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. The Company is a diversified holding company which is engaged, through its subsidiaries, in the manufacture and sale of chemical products (the "Chemical Business"), the manufacture and sale of a broad range of air handling and heat pump products (the "Climate Control Business"), and the purchase and sale of machine tools (the "Industrial Products Business"). See Note 5 - Segment Information. All material intercompany accounts and transactions have been eliminated.

Note 2: Income Taxes At December 31, 2000, the Company had regular- tax net operating loss ("NOL") carryforwards for tax purposes of approximately \$69.8 million (approximately \$42.5 million alternative minimum tax NOLs), exclusive of NOL carryforwards attributable to Automotive entities sold in March 2001. See Note 6-Commitments and Contingencies. Certain amounts of regular-tax NOL carryforwards expire beginning in 2001. There was no income tax expense for the three-month periods associated with operations.

Note 3: Loss Per Share Net loss applicable to common stock is computed by adjusting the net loss by the amount of preferred stock dividends. Basic loss per common share is based upon the net loss applicable to common stock and the weighted average number of common shares outstanding during each period. All potentially dilutive securities were antidilutive for all periods presented.

For the three months ended March 31, 2001, the Company's Board of Directors did not declare and pay the regular quarterly dividend of \$.8125 on the Company's Series 2 \$3.25 Convertible Class C preferred stock. Dividends in arrears at March 31, 2001, amounted to approximately \$3.5 million. In addition, the Company's Board of Directors did not declare and pay the January 1, 2001 regular dividend on the Company's Series B 12% Convertible, Cumulative Preferred Stock. Dividends in arrears at March 31, 2001, related to the Company's Series B 12% Convertible, Cumulative Preferred Stock, amounted to approximately \$.4 million.

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(Unaudited)
Three Months Ended March 31, 2001 and 2000

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

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31	
	2001	2000
Net income (loss)	\$ (1,093)	\$ 252
Preferred stock dividend requirements	(567)	(795)
Loss applicable to common stockholders	\$ (1,660)	\$ (543)
Weighted - average shares	11,894,619	11,851,983
Basic and diluted loss per share	\$ (.14)	\$ (.05)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

Note 4: Stockholders' Deficit

The table below provides detail of activity in the stockholders' deficit accounts for the three months ended March 31, 2001:

	Common Stock								
	Shares	Par Value	Non-redeemable Preferred Stock	Capital in excess of par value	Accumulated Other Comprehensive Loss	Accumulated deficit	Treasury Stock-Common	Treasury Stock-Preferred	Total
Balance at December 31 2000	15,164	\$ 1,516	\$ 33,427	\$ 52,376	\$ -	\$ (80,480)	\$ (16,081)	\$ (200)	\$ (9,442)
Net loss					(1,093)				(1,093)

(in thousands)

Cumulative effect of change in accounting in derivative financial instruments, net of taxes										(2,439)	(2,439)
Reclassification to operations, net of taxes										72	72
Comprehensive loss											(3,460)
Change in treasury stock-common									25		25
Balance at March 31, 2001	(1)15,164	\$ 1,516	\$ 33,427	\$ 52,376	\$ (2,367)	\$ (81,573)	\$ (16,056)	\$ (200)			\$ (12,877)

(1) Includes 3,269 shares of the Company's Common Stock held in treasury. Excluding the 3,269 shares held in treasury, the outstanding shares of the Company's Common Stock at March 31, 2001 were 11,895.

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LSB INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

Note 5: Segment Information

	Three Months Ended March 31,	
	2001	2000
	(in thousands)	
Net sales:		
Chemical (1)	\$ 48,504	\$ 35,067
Climate Control	35,933	31,630
Industrial Products (2)	2,039	2,924
	<u>\$ 86,476</u>	<u>\$ 69,621</u>
Gross profit: (3)		
Chemical	\$ 4,009	\$ 6,110
Climate Control	9,760	8,959
Industrial Products	647	861
	<u>\$ 14,416</u>	<u>\$ 15,930</u>
Operating profit (loss): (4)		
Chemical	\$ 1,233	\$ 3,364
Climate Control	2,975	2,686
Industrial Products	(12)	317

	4,196	6,367
General corporate expenses and other, net	(1,540)	(1,058)
Interest expense	(3,779)	(4,082)
Provision for loss on firm purchase commitments - Chemical	-	(975)
	<hr/>	<hr/>
Income (loss) before provision for income taxes and extraordinary gain	\$ (1,123)	\$ 252
	<hr/>	<hr/>

(1) Chemical net sales for the three months ended March 31, 2001, included approximately \$8.8 million associated with a subsidiary's operation of the Cherokee Plant acquired on October 31, 2000.

(2) Excludes intersegment sales to Climate Control of \$363,000 and \$494,000 for the three months ended March 31, 2001 and 2000, respectively.

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

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

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LSB INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

Note 6: Contingencies

Legal Matters

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

A. In 1987, the U.S. Environmental Protection Agency ("EPA") notified one of the Company's subsidiaries, along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. In 1990, the EPA added the site to the National Priorities List. Following the remedial investigation and feasibility study, in 1992 the Regional Administrator of the EPA signed the Record of Decision ("ROD") for the site. The ROD detailed EPA's selected remedial action for the site and estimated the cost of the remedy at \$3.6 million. In 1992, the Company made settlement proposals which would have entailed a collective payment by the subsidiaries of \$47,000. The site owner rejected this offer and proposed a counteroffer of \$245,000 plus a reopener for costs over \$12.5 million. The EPA rejected the Company's offer, allocating 60% of the cleanup costs to the potentially responsible parties and 40% to the site operator. The EPA estimated the total cleanup costs at \$10.1 million as of February 1993. The site owner rejected all settlements with the EPA, after which the EPA issued an order to the site owner to conduct the remedial design/remedial action approved for the site. In August 1997, the site owner issued an "invitation to settle" to various parties, alleging the total cleanup costs at the site may exceed \$22 million. No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in the estimated total cost of clean-up of the site and the percentage of the total waste which was alleged to have been contributed to the site by the Company. The Company had accrued an amount based on a preliminary settlement proposal by the alleged potential responsible parties; however, this liability was assumed as of May 4, 2000, by the purchaser of the Automotive Business. In connection with such assumption, certain of the Company's subsidiaries received an indemnification by the purchaser of the Automotive Business.

B. The Company and its operations are subject to numerous environmental laws ("Environmental Laws") and to other federal, state and local laws regarding health and safety matters ("Health Laws"). In particular, the manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under the Environmental Laws and the Health Laws, many of which provide for substantial fines and criminal sanctions for violations. There can be no assurance that material costs or liabilities will not be incurred by the Company in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder

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(Unaudited)
Three Months Ended March 31, 2001 and 2000

relating to the Chemical Business have in the past resulted, and could in the future result, in penalties, cleanup costs, or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from the Company's facilities or the use or disposal of certain of its chemical products. Significant expenditures have been incurred by the Chemical Business at the El Dorado Facility in order to comply with the Environmental Laws and Health Laws. The Chemical Business will be required to make additional significant site or operational modifications at the El Dorado Facility, involving substantial expenditures.

The Chemical Business entered into consent administrative order with the Arkansas Department of Environmental Quality ("ADEQ") in August, 1998 (the "Wastewater Consent Order"). The Wastewater Consent Order recognized the presence of nitrate contamination in the shallow groundwater and required the Chemical Business to undertake on-site bioremediation. The bioremediation was not successful in achieving denitrification. The Chemical Business is preparing a report to the ADEQ regarding field testing of the shallow groundwater. Upon completion of the waste minimization activities referenced below, a final remedy for groundwater contamination will be selected, based on an evaluation of risk. There are no known users of groundwater in the area, and preliminary risk assessments have not identified any risk that would require additional remediation. The Wastewater Consent Order included a \$183,700 penalty assessment, of which \$125,000 will be satisfied over five years at expenditures of \$25,000 per year for waste minimization activities.

The Wastewater Consent Order also required installation of an interim groundwater treatment system (which is now operating) and certain improvements in the wastewater collection and treatment system (discussed below). Twelve months after all improvements are in place, the risk will be reevaluated, and a final decision will be made on what additional groundwater remediation, if any, is required. There can be no assurance that the risk assessment will be approved by the ADEQ, or that further work The Wastewater Consent Order also requires the Chemical Business to undertake a facility wide wastewater evaluation and pollutant source control program and facility wide wastewater minimization program. The program requires that the subsidiary complete rainwater drain off studies including engineering design plans for additional water treatment components to be submitted to the State of Arkansas, by the revised date of October 1, 2001. The construction of the additional water treatment components is required to be completed by the revised date of October 1, 2002 and the El Dorado plant has been mandated to be in compliance with the final effluent limits on or before the revised date of April,

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LSB INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

2003. The aforementioned compliance deadlines, however, are not scheduled to commence until after the State of Arkansas has issued a renewal permit establishing new, more restrictive effluent limits. Alternative methods for meeting these requirements are continuing to be examined by the Chemical Business. The Company believes, although there can be no assurance, that any such new effluent limits would not have a material adverse effect on the Company. The Wastewater Consent Order provided that the State of Arkansas will make every effort to issue the renewal permit by December 1, 1999; however, the State of Arkansas has delayed issuance of the permit. Because the Wastewater Consent Order provides that the compliance deadlines may be extended for circumstances beyond the reasonable control of the Company, and because the State of Arkansas has not yet issued the renewal permit, the Company does not believe that failure to meet the aforementioned compliance deadlines will present a material adverse impact.

The State of Arkansas has been advised that the Company is seeking financing from Arkansas authorities for the projects required to comply with the Wastewater Consent Order and the Company has requested that the permit be further delayed until financing arrangements can be made, which requests have been met to date. The wastewater program is currently expected to require future capital expenditures of approximately \$2 to \$3 million. Negotiations for securing financing are currently underway.

C. In connection with the sale of the Automotive Business in May 2000, the buyer assumed over \$5 million of vendor liabilities. As of March 31, 2001, a majority of these liabilities existing prior to the sale had not yet been paid. As of March 31, 2001, a relatively minor amount of the vendor payables have been demanded for payment from the Company.

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

Note 7: Long-Term Debt In November 1997, the Company's wholly owned subsidiary, ClimaChem, Inc. ("ClimaChem"), completed the sale of 10 3/4% Senior Notes due 2007, (the "Notes"). Interest on the Notes is payable semiannually in arrears on June 1 and December 1 of each year, and the principal is payable in the year 2007. The Notes are senior unsecured obligations of ClimaChem and rank *pari passu* in right of payment to all existing senior unsecured indebtedness of ClimaChem and its subsidiaries. The Notes are effectively subordinated to all existing and future senior secured indebtedness of ClimaChem. The outstanding principal balance of the Notes is approximately \$75.3 million at March 31, 2001.

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LSB INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

ClimaChem owns substantially all of the companies comprising the Company's Chemical and Climate Control Businesses. ClimaChem is a holding company with no significant assets other than the notes and accounts receivable from the Company or material operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly owned, directly or indirectly, by ClimaChem. ClimaChem's payment obligations under the Notes are fully, unconditionally and joint and severally guaranteed by all of the existing subsidiaries of ClimaChem (the "Guarantors"), except for one subsidiary, El Dorado Nitrogen Company ("EDNC"). ClimaChem's consolidating financial information has been included in ClimaChem's Form 10-Q.

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

Summarized consolidated unaudited balance sheet information of ClimaChem and its subsidiaries as of March 31, 2001 and December 31, 2000 and the results of operations for the three-month periods ended March 31, 2001 and 2000 are detailed below.

ClimaChem, Inc.	March 31, 2001	December 31, 2000
	<hr/>	
	(in thousands)	
Balance sheet data:		
Cash	\$ 2,677	\$ 2,838
Trade accounts receivable, net	49,758	45,981
Inventories:		
Finished goods	26,513	16,371
Work in process	3,736	2,962
Raw material	7,026	9,687
	<hr/>	
Total inventory	37,275	29,020
Supplies and prepaid items	7,557	5,989
Due from LSB and affiliates, net (1)	2,330	1,103
	<hr/>	
Total current assets	99,597	84,931
Property, plant and equipment, net	72,011	72,825

Notes and interest receivable from LSB and affiliates (1)	14,183	14,166
Other assets, net	14,004	17,245
	<hr/>	<hr/>
Total assets	\$ 199,795	\$ 189,167
	<hr/>	<hr/>
Accounts payable	\$ 26,439	\$ 25,865
Accrued liabilities	22,341	21,647
Current portion of long-term debt	50,639	37,092
	<hr/>	<hr/>
Total current liabilities	99,419	84,604
Long-term debt	88,170	89,064
Accrued losses on firm purchase commitments and other noncurrent liabilities	6,336	6,116
Stockholders' equity	5,870	9,383
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 199,795	\$ 189,167
	<hr/>	<hr/>

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

ClimaChem, Inc.	Three Months Ended March 31,	
	2001	2000
	<hr/>	
	(in thousands)	
Operations data:		
Revenues:		
Net sales	\$ 84,437	\$ 66,697
Other income, net	405	741
	<hr/>	
	84,842	67,438
Costs and expenses:		
Cost of sales	71,340	52,154
Selling, general and administrative	11,180	10,914
Interest	3,498	3,690
Provision for loss on firm purchase commitments	-	975

	86,018	67,733
Loss before provision for income taxes and extraordinary gain	(1,176)	(295)
Provision for income taxes	-	-
Loss before extraordinary gain	(1,176)	(295)
Extraordinary gain, net of income taxes	30	-
Net loss	\$ (1,146)	\$ (295)

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

Note 8: Comprehensive Income (Loss) The Company presents comprehensive income (loss) in accordance with Financial Accounting Standard No. 130 "Reporting Comprehensive Income" ("SFAS 130"). The provisions of SFAS 130 require the Company to classify items of other comprehensive income (loss) in the financial statements and display the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid in capital in the equity section of the balance sheet.

Other comprehensive income (loss) for the three-month periods ended March 31, 2001 and 2000 is detailed below.

	Three Months Ended March 31,	
	2001	2000
	(in thousands)	
Net income(loss)	\$ (1,093)	\$ 252
Cumulative effect of change in accounting for derivative financial instruments (Note 10)	(2,439)	-
Reclassification to operations	72	-
Total comprehensive income (loss)	\$ (3,460)	\$ 252

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

Note 9: Loss on Firm Purchase Commitment As of March 31, 2001, the Chemical Business has a long-term commitment to purchase anhydrous ammonia. Based on the pricing index contained in this contract, prices paid during three months ended March 31, 2000, were higher than the current market spot price. As a result, for the three months ended March 31, 2000, a subsidiary of the Company recorded loss provisions for anhydrous

ammonia required to be purchased during the remainder of the contract aggregating approximately \$1.0 million. At March 31, 2001 and December 31, 2000, the accrued liability for future payments of the loss provision included in the Condensed Consolidated Balance Sheet was approximately \$6.0 and \$6.9 million, respectively (\$3.5 million of which is included in accrued liabilities due within one year as of March 31, 2001 and December 31, 2000).

Note 10: Change in Accounting In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." The Company adopted this new Statement effective January 1, 2001. The Statement required the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that do not qualify or are not designated as hedges must be adjusted to fair value through operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

In 1997, the Company entered into an interest rate forward agreement to effectively fix the interest rate of a long-term lease commitment (not for trading purposes). In 1999, the Company executed the long-term lease agreement and terminated the forward at a net cost of \$2.8 million. The Company historically accounted for this hedge under the deferral method (as an adjustment of the initial term lease rentals). At December 31, 2000, the remaining deferred loss included in other assets approximated \$2.4 million. The deferred cost recognized in operations amounted to \$72,000 for the three months ended March 31, 2000. Upon adoption of SFAS 133 on January 1, 2001, the deferred loss was reclassified into accumulated other comprehensive loss and will be amortized to operations over the term of the lease arrangement. The amount amortized to operations for the three months ended March 31, 2001 was \$72,000. The Company also periodically enters into exchange-traded futures contracts for copper and aluminum (as such products are used in the Company's Climate Control Business), which contracts presently are accounted for on a mark to market basis.

Note 11: Liquidity and Management's Plan The Company is a diversified holding company and, as a result, it is dependent on credit agreements and its ability to obtain funds from its subsidiaries in order to pay its debts and obligations.

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

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

In April, 2001, the Company replaced its existing Revolving Credit Facility ("Revolver") for ClimaChem and its subsidiaries. ClimaChem and its subsidiaries, ("the borrowers"), entered into a new \$50 million credit facility ("Working Capital Revolver Loan") with a new lender. A subsidiary of the Company which is not a subsidiary of ClimaChem, Summit Machine Tool Manufacturing Corp. ("Summit"), executed the third amended and restated revolving credit agreement with the prior lender (the "Agreement") in April 2001. The Agreement provides a revolving line of credit of up to \$2.5 million through April 2002.

ClimaChem is restricted as to the funds that it may transfer to the Company under the terms contained in an Indenture ("Indenture") covering the Senior Unsecured Notes issued by ClimaChem and the Working Capital Revolver Loan. For the three months ended March 31, 2001, ClimaChem was not required to pay the Company \$450,000 under the Management Agreement inasmuch as earnings before interest, income taxes, depreciation and amortization ("EBITDA") did not exceed \$6.5 million for the period. It is possible that ClimaChem could pay up to \$1.8 million of management fees to the Company (if ClimaChem has EBITDA in excess of \$26 million for the year). Due to these limitations, the Company and its non-ClimaChem subsidiaries have limited resources to satisfy their obligations.

The Company has planned capital expenditures for the remainder of 2001 of approximately \$4 million, primarily in the Chemical and Climate Control Businesses, but such capital expenditures are dependent upon obtaining acceptable financing. The Company expects to delay these expenditures as necessary based on the availability of adequate working capital and the availability of financing.

The Company's plan for the remainder of 2001 identifies specific non-core assets (real estate, oil and gas properties, spare parts, etc.) which the Company is working to realize to provide additional working capital to the Company. The Company also continues to evaluate alternatives for realizing its net investment in the Industrial Products Business.

The Chemical Business entered into a letter of intent with a third party to sell its explosives distribution outlets and enter into a long-term supply agreement, which the Company currently expects to close during the second quarter of 2001. If the letter of intent to sell the Chemical Business' explosive business distribution

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 2001 and 2000

outlets and a long-term supply agreement with a third party closes, they are expected to have the effect of providing working capital from the proceeds of the sale of the assets, reduce outstanding accounts receivable and inventory, as well as provide a more constant and predictable operating margin in the Company's explosives business.

In April 2001, the Company entered into a contract with a third party to sell land adjacent to the Crystal City Plant. The buyer has 65 days to complete due diligence. Should this transaction close, a portion of the proceeds will be available to the Company and its subsidiaries which are not subsidiaries of ClimaChem with the remainder to be applied against the outstanding balance on the Working Capital Revolver Loan.

In May 2001, a subsidiary of the Company, Climate Master, Inc., sold to another subsidiary of the Company, Prime Financial Corporation ("Prime"), an option ("Option") to purchase the building in which Climate Master, Inc. builds its products ("Building") for \$1.6 million. Prime thereafter exercised the Option and sold the Building to a third party for a net amount of approximately \$1.6 million cash, plus the exercise price under the Option (which was used to pay the mortgage on the Building) and related costs, together with a non-recourse, unsecured promissory note ("Note"), in the principal amount of \$1.6 million, from the purchaser of the Building. The parties do not anticipate payment of the principal amount of the Note, but the third party buyer agreed that, although Climate Master is not the holder of the Note, Climate Master may reduce the option price as discussed below for the amount of the Note.

As a result of the transaction, the Climate Master lease and option to buy the Building was extended from 2003 to 2016. The option price for Climate Master to purchase the Building, when exercised, is to be based on the amount of the mortgage on the Building outstanding at the time the option is exercised plus up to \$200,000 less the amount of the Note.

During 2001, the Company's Chemical Business has experienced a significant increase in the sales prices of its nitrogen-based products compared to 2000, due primarily to reduced competition in the market including a reduction in foreign imports. The Company has also seen a reduction in its raw material costs of its Chemical Business from the later part of 2000 and early 2001, which are expected to result in improved margins in that business. The Company's Climate Control Business has continued to experience strong demand for its products.

Assuming all of the events discussed above are completed and the lack of other unforeseen adverse events, management of the Company believes the Company will have

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adequate resources to meet its obligations as they come due; however, this expectation could change in the near term.

Company's plan for the remainder of 2001 involves a number of initiatives and assumptions which management believes to be reasonable and achievable; however, should the Company not be able to execute this plan described above, it may not have resources available to meet its obligations as they come due.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's March 31, 2001 Condensed Consolidated Financial Statements.

Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and

Results of Operations" may be deemed forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

Overview

General

The Company continues to focus on its core businesses relating to its Chemical and Climate Control Businesses. In addition, the Company is seeking to reduce its outstanding indebtedness and improve its liquidity and operating results through liquidation of selected assets.

Chemical Business

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

In conjunction with the Company's strategy, subsidiaries of the Company, which are not subsidiaries of ClimaChem, completed the acquisition of two chemical plants during the fourth quarter of 2000. One plant is located in Cherokee, Alabama ("Cherokee Plant") and the other is located in Crystal City, Missouri ("Crystal City Plant").

Net Sales in the Chemical Business were \$48.5 million for the three months ended March 31, 2001 and \$35.1 million for the three months ended March 31, 2000. The gross profit (excluding the provision for loss on firm purchase commitments) decreased to \$4 million (or 8.3% of net sales) in 2001 from \$6.1 million (or 17.4% of net sales) in 2000.

As of March 31, 2001, the Chemical Business had commitments to purchase 69,000 tons of anhydrous ammonia under a take or pay contract at an average minimum volume of 3,000 tons per month during 2001 and 2002. In addition, under the contract the Chemical Business is committed to purchase 100% of its anhydrous ammonia requirements in 2001 and 50% of its remaining quantities in excess of the take or pay volumes of its anhydrous ammonia requirements through 2002 from this third party at prices which approximate market prices. At March 31, 2001 and December 31, 2000, the accrued liability for future payments of the loss provision included in

the Condensed Consolidated Balance Sheet was approximately \$6.0 and \$6.9 million, respectively (\$3.5 million of which is included in accrued liabilities due within one year as of March 31, 2001 and December 31, 2000).

The Chemical Business entered into a letter of intent with a third party to sell its explosives distribution outlets and enter into a long-term supply agreement, which the Company currently expects to close during the second quarter of 2001. Under the terms of the letter of intent, the Chemical Business would sell its wholesale and retail explosive distribution business (excluding accounts receivable) and enter into an ammonium nitrate tolling agreement with the third party. The buyer has prepaid to the Chemical Business \$2 million. If the transaction does not close, the \$2 million prepayment may be applied towards the purchase of ammonium nitrate products by the third party from the Chemical Business. However if the transaction does not close, the third party may require the Company to return the prepayment. If these transactions are executed, they are expected to have the effect of providing additional working capital from the proceeds of the sale of assets, reduce outstanding accounts receivable and inventory balances and provide a more constant and predictable operating margin on explosives sales in the Chemical Business. See "Special Note Regarding Forward-Looking Statements".

Climate Control

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

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

Sales of \$35.9 million for the three months ended March 31, 2001, in the Climate Control Business were approximately 13.5% greater than sales of \$31.6 million for the three months ended March 31, 2000. The gross profit was approximately \$9.8 million in the 2001 period and \$9 million in the 2000 period. The gross profit percentage decreased to 27.2% for 2001 from 28.3% for 2000.

Industrial Products Business

Net sales in the Industrial Products Business during the three months ended March 31, 2001 and 2000 were \$2 million and \$2.9 million, respectively, resulting in an operating loss of \$12,000 and operating income of \$317,000, respectively. The net investment in assets of this Business has continued to decrease and the Company expects to realize further reductions in future periods. The Company continues to eliminate certain categories of machines from the product line by not replacing those machines when sold.

RESULTS OF OPERATIONS**Three months ended March 31, 2001 vs. Three months ended March 31, 2000.****Revenues**

Total revenues for the three months ended March 31, 2001 and 2000 were \$87.0 million and \$70.9 million, respectively, an increase of \$16.1 million. Sales increased \$16.9 million and other income decreased and \$.8 million.

Net Sales

Consolidated net sales included in total revenues for the three months ended March 31, 2001, were \$86.5 million, compared to \$69.6 million for the first three months of 2000, an increase of \$16.9 million. This increase in sales resulted principally from: (i) increased sales relating to the Chemical Business of \$13.4 million from increased sales volumes of agricultural and industrial acid products due in part to the acquisition of the Cherokee Plant in the fourth quarter of 2000 and increased customer demand and improved sales prices of certain agricultural and explosive products and (ii) increased sales of \$4.3 million in the Climate Control Business due primarily from an increase in customer demand and improved sales prices relating to heat pump products and the increase in sales of new products and services introduced in the second and third quarters of 2000. This increase in sales was partially offset by a decrease in foreign sales in the Climate Control Business and a decrease in sales of machine tools in the Industrial Products Business.

Gross Profit

Gross profit as a percent of sales was 16.7% for the first three months of 2001, compared to 22.9% for the first three months of 2000. The decrease in the gross profit percentage was primarily the result of lower profit margins in the Chemical and Climate Control Businesses caused primarily from (i) increased raw material costs (primarily in December 2000 through February 2001) relating to certain agricultural, explosive and industrial acid products and decreased sales volume of certain agricultural products with higher margins relating to the Chemical Business and (ii) the variation in product sales mix due in part to the increase in sales of new products and services with lower profit margins relating to the Climate Control Business. This decrease was partially offset by improved margins of machine tools relating to the Industrial Products Business.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 13.7% in the three-month period ended March 31, 2001, compared to 16.7%

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for the first three months of 2000. This decrease is primarily the result of higher sales without a comparable increase in expense.

Interest Expense

Interest expense was \$3.8 million in the first three months of 2001, compared to \$4.1 million for the first three months of 2000. The decrease of \$.3 million primarily resulted from the reduced debt outstanding resulting from the repurchase of the Senior Unsecured Notes during 2000 offset in part by the increase in borrowings from the revolving credit facility.

Provision for Loss

The Company had a provision for loss on firm purchase commitments of approximately \$1.0 million for the three months ended March 31, 2000. See discussion in Note 9 of Notes to Condensed Consolidated Financial Statements.

Other Expense

Other expense for the three months ended March 31, 2001 included financing fees relating to the amending of the revolving credit facility.

Loss before Income Taxes and Extraordinary Gain

The Company had a loss before income taxes and extraordinary gain of \$1.1 million in the first three months of 2001 compared to net income of \$.3 million in the three months ended March 31, 2000. The increase in loss of \$1.4 million was due to the decreased gross profit of the Chemical and Industrial Products Businesses as discussed above. This decrease was partially offset by the loss provision of firm purchase commitments incurred in 2000 and the increased gross profit of the Climate Control Business as discussed above.

Provision for Income Taxes

As a result of the Company's net operating loss carry-forward for income tax purposes as discussed

elsewhere herein and in Note 2 of Notes to Condensed Consolidated Financial Statements, no provision or benefit for income taxes associated with operations was recognized for the three months ended March 31, 2001 and 2000.

Extraordinary Gain

During the three months ended March 31, 2001, a subsidiary of the Company repurchased approximately \$53,000 of the Senior Unsecured Notes and recognized a gain of approximately \$30,000.

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Liquidity and Capital Resources

Cash Flow From Operations

Historically, the Company's primary cash needs have been for operating expenses, working capital and capital expenditures. The Company has financed its cash requirements primarily through internally generated cash flow, borrowings under its revolving credit facilities and secured equipment financing.

Net cash used in operating activities for the three months ended March 31, 2001 was \$11.6 million, after adjustments for depreciation and amortization of \$2.4 million, provision for possible losses on receivables of \$.1 million, realization of losses on firm sales and purchase commitments of \$1.7 million, and including an accounts receivable increase of \$3.9 million; an increase in inventories of \$8.0 million; an increase in supplies and prepaid items of \$1.5 million; an increase in accounts payable of \$1.4 million; and an increase in accrued liabilities of \$.7 million. The increase in receivables is primarily due to the increase and timing of sales of products and services in the Climate Control Business and explosive products in the Chemical Business. The increase in inventories relates primarily to the increase of agricultural products due to the anticipated demands relating to the spring fertilizing season. The increase in supplies and prepaid items includes the increase in supply of precious metals used in the Chemical Business. The increase in accounts payable is primarily due to resumed production at the nitric acid plant in Baytown, Texas. The increase in accrued liabilities is due primarily to the accrued interest on the Senior Unsecured Notes and the prepayment received on the possible sale of the Company's explosives distribution outlets. This increase was partially offset by payments on certain equipment note guarantees relating to the sale of the Automotive Business in 2000 and a decrease in the amount of customer deposits outstanding in the Chemical Business.

Cash Flow From Investing and Financing Activities

Net cash used in investing activities for the three months ended March 31, 2001 included \$1.3 million for capital expenditures. The capital expenditures were primarily for the benefit of the Chemical and Climate Control Businesses.

Net cash provided by financing activities included proceeds from long-term debt and other debt of \$2 million and a net increase in revolving debt of \$14.3 million to fund increases in accounts receivable and inventory offset in part, by payments on long-term debt and Senior Unsecured Note acquisitions of \$2.9 million.

Source of Funds

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

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

In April, 2001, the Company replaced its existing Revolving Credit Facility ("Revolver") for ClimaChem and its subsidiaries. ClimaChem and its subsidiaries, ("the borrowers"), entered into a new \$50 million credit facility with a new lender (the "Working Capital Revolver Loan"). The Working Capital Revolver Loan provides for advances based on specified percentages of eligible accounts receivable and inventory of ClimaChem and its subsidiaries and accrues interest at a base rate (generally equivalent to the prime rate) plus 2% or the LIBOR rate plus 4.5%. Interest is due monthly. The Working Capital Revolver Loan matures in April 2005 and is secured by receivables, inventory and intangibles of certain entities. The Working Capital Revolver Loan requires ClimaChem to meet certain financial covenants on a monthly, quarterly and/or annual basis. The Working Capital Revolver Loan requires that ClimaChem's excess availability, as defined, equal an amount not less than \$3.8 million, on each interest payment date, after giving effect to the interest payment due under ClimaChem's 10 3/4% Senior Notes. The Working Capital Revolver Loan requires the borrowers to have various minimum amounts of availability under the revolver which amounts generally increase prior to interest payment due dates of the Senior Notes discussed in Note 7 of the Notes to Condensed Consolidated Financial Statements. A subsidiary of the Company which is not a subsidiary of ClimaChem, Summit Machine Tool Manufacturing Corp. ("Summit"), executed the third amended and restated revolving credit agreement with the prior lender (the "Agreement") in April 2001. The Agreement provides a revolving line of credit of up to \$2.5 million through April 2002. The Agreement is guaranteed by the Company. The Agreement requires monthly payments of interest which accrue based on the lender's prime rate plus the applicable margin (2.5% in April 2000). Effective July 1, 2001, the applicable margin increases .50% and increases .50% monthly thereafter

until the Agreement is terminated. The Agreement may be terminated by Summit with proper notice without premium or penalty.

As of April 30, 2001, the Company, exclusive of ClimaChem, and ClimaChem had a borrowing availability under the Agreement of \$.2 million and ClimaChem had borrowing availability under the Working Capital Revolver Loan of \$3.1 million, prior to the interest reserve of \$840,000. The effective interest rates under the Agreement and the Working Capital Revolver Loan were 10% and 9.5%, respectively. Borrowings under the Working Capital Revolver Loan outstanding at April 30, 2001, were \$42.8 million. The annual interest on the outstanding debt under the Working Capital Revolver Loan at April 30, 2001, at the rates then in effect would approximate \$4.1 million annually.

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ClimaChem is restricted as to the funds that it may transfer to the Company under the terms contained in an Indenture ("Indenture") covering the Senior Unsecured Notes issued by ClimaChem and the Working Capital Revolver Loan. For the three months ended March 31, 2001, ClimaChem was not required to pay the Company \$450,000 under the Management Agreement inasmuch as earnings before interest, income taxes, depreciation and amortization ("EBITDA") did not exceed \$6.5 million for the period. It is possible that ClimaChem could pay up to \$1.8 million of management fees to the Company (if ClimaChem has EBITDA in excess of \$26 million for the year). Due to these limitations, the Company and its non-ClimaChem subsidiaries have limited resources to satisfy their obligations.

Due to the Company's and ClimaChem operating losses for the last three years, and the limited borrowing ability under the Agreements, the Company discontinued payment of cash dividends on its Common Stock for periods subsequent to January 1, 1999, until the Board of Directors determines otherwise. As of the date of this report, the Company has not paid the regular quarterly dividend of \$.8125 on its outstanding \$3.25 Convertible Exchangeable Class C Preferred Stock Series 2 ("Series 2 Preferred") since June 15, 1999, totaling approximately \$3.5 million. In addition, the Company did not pay the January 1, 2000 and 2001 regular dividend on the Series B Preferred totaling \$480,000. The Company does not anticipate having funds available to pay dividends on its stock for the foreseeable future.

As of March 31, 2001, ClimaChem has outstanding \$79.8 million in Senior Unsecured Notes ("Notes"), which require that a semi-annual interest payment of \$4.3 million be paid on June 1, 2001. As of the date of this report, the Company does not believe the interest payment will be made on June 1, 2001. If ClimaChem does not pay the June 1, 2001 interest payment on June 1, it has thirty (30) days to cure such before it becomes an event of default under the terms of the Indenture. Under an event of default, among other things, the holders of the Notes may declare the debt immediately due and payable. An event of default under the Indenture to the Notes could result in a default of the Working Capital Revolver Loan and certain other indebtedness of the Company and its subsidiaries. The Company currently anticipates achieving satisfactory resolution of this matter.

The Company has retained the services of independent financial advisors to provide assistance to them in considering alternatives for de-leveraging its balance sheet.

The Company has planned capital expenditures for the remainder of 2001 of approximately \$4 million, primarily in the Chemical and Climate Control Businesses, but such capital expenditures are dependent upon obtaining acceptable financing. The Company expects to delay these expenditures as necessary based on the availability of adequate working capital and the availability of financing.

The Company's plan for the remainder of 2001 identifies specific non-core assets (real estate, oil and gas properties, spare parts, etc.) which the Company is working to realize to provide additional working capital to the Company. The

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Company also continues to evaluate alternatives for realizing its net investment in the Industrial Products Business.

If the letter of intent to sell the Chemical Business' explosive business distribution outlets and a long-term supply agreement with a third party closes, they are expected to have the effect of providing working capital from the proceeds of the sale of the assets, reduce outstanding accounts receivable and inventory, as well as provide a more constant and predictable operating margin in the Company's explosives business.

In April 2001, the Company entered into a contract with a third party to sell land adjacent to the Crystal City Plant. The buyer has 65 days to complete due diligence. Should this transaction close, a portion of the proceeds will be available to the Company and its subsidiaries which are not subsidiaries of ClimaChem with the remainder to be applied against the outstanding balance on the Working Capital Revolver Loan.

In May 2001, a subsidiary of the Company, Climate Master, Inc., sold to another subsidiary of the Company, Prime Financial Corporation ("Prime"), an option ("Option") to purchase the building in which Climate Master, Inc. builds its products ("Building") for \$1.6 million. Prime thereafter exercised the Option and sold the Building to a third party for a net amount of approximately \$1.6 million cash, plus the exercise price under the Option (which was used to pay the mortgage on the Building) and related costs,

together with a non-recourse, unsecured promissory note ("Note"), in the principal amount of \$1.6 million, from the purchaser of the Building. The parties do not anticipate payment of the principal amount of the Note, but the third party buyer agreed that, although Climate Master is not the holder of the Note, Climate Master may reduce the option price as discussed below for the amount of the Note.

As a result of the transaction, the Climate Master lease and option to buy the Building was extended from 2003 to 2016. The option price for Climate Master to purchase the Building, when exercised, is to be based on the amount of the mortgage on the Building outstanding at the time the option is exercised plus up to \$200,000 less the amount of the Note.

During 2001, the Company's Chemical Business has experienced a significant increase in the sales prices of its nitrogen-based products compared to 2000, due primarily to reduced competition in the market including a reduction in foreign imports. The Company has also seen a reduction in its raw material costs of its Chemical Business from the later part of 2000 and early 2001, which are expected to result in improved margins in that business. The Company's Climate Control Business has continued to experience strong demand for its products.

Assuming all of the events discussed above are completed and the lack of other unforeseen adverse events, management of the Company believes the Company will have

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adequate resources to meet its obligations as they come due; however, this expectation may change in the near term. See "Special Note Regarding Forward-Looking Statements".

The Company's plan for the remainder of 2001 involves a number of initiatives and assumptions which management believes to be reasonable and achievable; however, should the Company not be able to execute this plan described above, it may not have resources available to meet its obligations as they come due.

Contingencies

The Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome. The preceding sentence is a forward looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially. See Note 6 of Notes to Condensed Consolidated Financial Statements.

Quantitative and Qualitative Disclosure about Market Risk

General

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

Interest Rate Risk

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

Reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, for an expanded analysis of expected maturities of long term debt and its weighted average interest rates and discussion related to raw material price risk.

As of March 31, 2001, the Company's variable rate and fixed rate debt, which aggregated \$150.2 million, exceeded the debt's fair market value by approximately \$46.7 million (\$49.4 million at December 31, 2000). The fair value of the Senior Notes of a subsidiary of the Company was determined based on a market quotation for such securities.

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Raw Material Price Risk

The Company has a remaining commitment at March 31, 2001 to purchase 69,000 tons of anhydrous ammonia under a contract. The Company's purchase price can be higher or lower than the current market spot price. As of March 31, 2001, an accrual for losses during the remainder of the purchase period of approximately \$6.0 million was recorded in the accompanying Condensed Consolidated Balance Sheet. See Note 9 of Notes to Condensed Consolidated Financial Statements.

**SPECIAL NOTE REGARDING
FORWARD-LOOKING STATEMENTS**

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", "will", and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein relate to, among other things,

- * ability to improve operations and become profitable from operations on an annualized basis,
- * establishing a position as a market leader,
- * the amount of the loss provision for anhydrous ammonia required to be purchased or that the cost to produce Chemical Business products will improve,
- * the market for certain of the Climate Control Business products will continue to grow,
- * losses arising from the mechanical failure and interruption of production will be fully paid by insurance,
- * availability of net operating loss carryovers,
- * amount to be spent relating to compliance with federal, state and local environmental laws at the El Dorado Facility,
- * liquidity and availability of funds,
- * profits through liquidation of assets or realignment of assets or some other method,
- * anticipated financial performance,
- * ability to be able to continue to borrow under the Company's revolving lines of credit,
- * the ability to obtain necessary materials for the manufacturing of products,
- * adequate cash flows to meet its presently anticipated capital requirements,
- * fertilizer and related chemical products sold to the agricultural industry are the only seasonal products,
- * the sale of the Company's explosive business distribution outlets and related long-term supply agreement will close,
- * the Company's EBITDA and pre-tax income will be sufficient for the remainder of 2001 for the management fee and income taxes to be paid by ClimaChem,
- * ability to obtain anhydrous ammonia from other sources in the event of a termination of its existing contract,
- * management expects to see significant improvements in operating results from the

Company for the remainder of 2001 and believes that the Company has adequate resources to meet its obligations as they come due, and

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* ability to carry out its plans for the remainder of 2001. While the Company believes the expectations reflected in such Forward- Looking Statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to,

* decline in general economic conditions, both domestic and foreign,

* material reduction in revenues,

* material increase in interest rates,

* inability to collect in a timely manner a material amount of receivables,

* increased competitive pressures,

* changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending,

* additional releases (particularly air emissions into the environment),

* material increases in equipment, maintenance, operating or labor costs not presently anticipated by the Company,

* the requirement to use internally generated funds for purposes not presently anticipated,

* ability to become profitable from operations, or if unable to become profitable from operations, the inability to secure additional liquidity in the form of additional equity or debt,

* the cost for the purchase of anhydrous ammonia and natural gas,

* changes in competition,

* the loss of any significant customer,

* changes in operating strategy or development plans,

* inability to fund the working capital and expansion of the Company's businesses,

* adverse results in any of the Company's pending litigation,

* inability to obtain necessary raw materials,

* Bayer's inability or refusal to purchase all of the Company's production at the Baytown nitric acid plant,

* the sale of the land adjacent to the Crystal City Plant does not close,

* insurance does not cover all of the Company's losses due to mechanical failure and interruption,

* sale of the Chemical Business' explosive distribution centers does not close by a certain date, and in such event, the buyer does not believe that the Chemical Business can deliver product to it, and

* other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report. Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-looking Statements. The Company disclaims any obligation to update any such factors or to

publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Independent Accountants' Review Report

Board of Directors
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of March 31, 2001, and the related condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2001 and 2000. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 2000, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year then ended (not presented herein); and in our report dated April 16, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

/s/ Ernst & Young LLP

Oklahoma City, Oklahoma

May 17, 2001

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the fiscal period ended December 31, 2000, which Item 3 is incorporated by reference herein.

Item 2. Changes in Securities

Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ClimaChem, Inc. and each of its subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which is incorporated by reference from exhibit 10.51 to ClimaChem, Inc.'s Form 10-K/A Amendment No. 1 for the fiscal year ended December 31, 2000.

Item 3. Defaults upon Senior Securities

(b) The Company's Board of Directors did not declare and pay the March 15, 2001 dividends on the Company's outstanding \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"). Accrued and unpaid dividends on the Series 2 Preferred are cumulative. The amount of the total arrearage of unpaid dividends on the outstanding Series 2 Preferred is approximately \$3.5 million as of the date of this report. In addition, management of the Company has decided not to recommend the Company's Board of Directors approve the June 15, 2001 dividend payment on its outstanding Series 2 Preferred. If the June 15 dividend on the Series 2 Preferred is not paid, the amount of the total arrearage of unpaid dividends payable on the outstanding Series 2 Preferred will be approximately \$4.1 million and the Company will have exceeded six quarters without paying the quarterly dividend on its Series 2 Preferred.

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

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directors so elected by the holders of the Series 2 Preferred shall terminate immediately upon the termination of the right of the holders of the Series 2 Preferred to vote for such two additional directors, subject to the requirements of Delaware law.

Also the Company's Board of Directors did not declare and pay the January 1, 2000 and 2001 regular dividend on the Company's Series B 12% Convertible, Cumulative Preferred Stock ("Series B"). Dividends in arrears at March 31, 2001, related to the Company's Series B amounted to approximately \$.4 million.

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

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

10.1 Covenant Waiver Letter, dated May 17, 2001, between The CIT Group and DSN Corporation.

10.2 Form of Assignment, dated May 8, 2001, between Climate Master, Inc. and Prime Financial Corporation.

10.3 Form of Agreement for Purchase and Sale, dated April 10, 2001, by and between Prime Financial Corporation and Raptor Master, L.L.C.

10.4 Form of Amended and Restated Lease Agreement, dated May 8, 2001, between Raptor Master, L.L.C. and Climate Master, Inc.

10.5 Form of Option Agreement, dated May 8, 2001, between Raptor Master, L.L.C. and Climate Master, Inc.

15.1 Letter Re: Unaudited Interim Financial Information

(B) Reports of Form 8-K. The Company filed the following reports on Form 8-K during the quarter ended March 31, 2001:

a) Form 8-K/A was filed on January 16, 2001, which report included financial information in connection with the acquisition of the Cherokee Facility.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 21st day of May 2001.

LSB INDUSTRIES, INC.

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

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

May 17, 2001

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

Dear Mr. Jones:

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

Debtor has requested, that notwithstanding anything to the contrary in the Agreement, that CIT waive the instances of non-compliance through April 1, 2002.

CIT hereby waives, as of this date, the instances of non-compliance under the Agreement, under the following condition:

a) receipt of a \$3,000.00 processing fee.

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

Sincerely,

The CIT Group Equipment Financing Inc.

By: /s/ Anthony Joseph
Title: V.P.

Acknowledged and Agreed to

LSB Industries, Inc.

By: /s/ Jim D. Jones
Title: Vice President

ASSIGNMENT

THIS ASSIGNMENT is made and entered into as of the 8th day of May, 2001, by and between Climate Master, Inc., a Delaware corporation, ("Assignor"), and Prime Financial Corporation, an Oklahoma corporation ("Assignee") with reference to the following:

WHEREAS, Assignor is party to a certain Option Agreement dated November 12, 1987 (the "Option Agreement"), whereby Assignor holds an irrevocable right and option (the "Purchase Option Right") to purchase from West Point Company, L.L.C. ("West Point"), an Oklahoma limited liability company, certain real property and the improvements located thereon, more particularly described on Exhibit "A", attached hereto and incorporated herein by this reference (the "Property"); and

WHEREAS, Assignee desires to acquire the Option Agreement and exercise the Purchase Option Right in order to obtain title to the Property; and

WHEREAS, Assignee further desires to sell the Property to Raptor Master, L.L.C. ("Raptor"), an Oklahoma limited liability company; and

WHEREAS, Assignor shall continue to lease the Property from Raptor on terms substantially similar to those contained in that certain Lease Agreement dated November 12, 1987, as amended, between Assignor and West Point Company, an Oklahoma corporation, as assigned to West Point, with the exception that (i) the rental amounts shall be increased in a minor amount, (ii) Assignor shall receive an extended lease term, and (iii) Assignor shall receive an extended purchase option right relating to the Property; and

WHEREAS, Assignee deems it in its best interest to acquire and Assignor deems it in its best interest to assign to Assignee all of Assignor's rights, title and interest in, to and under the Option Agreement, pursuant to the terms of this Assignment.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Assignment. Assignor hereby grants, bargains, sells, conveys, transfers, sets over and assigns to Assignee all of Assignor's right, title and interest in, to and under the Option Agreement.
2. Purchase Price. Assignee shall pay to Assignor the sum of One Million Six Hundred Thousand and No/100 Dollars (\$1,600,000.00) for the purchase of the Purchase Option Right to be paid at the time the transaction involving the sale of the Property by Assignee to Raptor is closed.
3. Representation and Warranties. Assignor hereby represents and warrants that Assignor has not previously assigned, transferred, sold or encumbered any right, title or interest in or to the Option Agreement. Assignor

hereby agrees to execute all documents and perform all acts which may be desirable or necessary to carry this Assignment to full effect.

4. DISCLAIMER. OTHER THAN THE WARRANTY OF TITLE SET FORTH IN PARAGRAPH 2 ABOVE, ASSIGNOR MAKES NO EXPRESS OR IMPLIED WARRANTY OF ANY KIND AS TO THE OPTION AGREEMENT OR PURCHASE OPTION RIGHT.

5. Acceptance of Assignment. Assignee hereby accepts the assignment of all of Assignor's right, title and interest in and to the Option Agreement and agrees to assume the obligations of Assignor under the Option Agreement.

6. Applicable Law. This Assignment and the interpretation and enforcement thereof shall be governed by the laws of the State of Oklahoma.

7. Binding Effect. This Assignment shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective heirs, assigns and successors.

This Assignment becomes effective upon receipt by Assignor of the Purchase Price, which shall be evidenced by the recording of this Assignment.

IN WITNESS WHEREOF, Assignor and Assignee have caused this Assignment to be duly executed under seal the day and year first above written.

("Assignor")

CLIMATE MASTER, INC.,
a Delaware corporation

By: _____
Title: _____

ATTEST:

[SEAL] Secretary

("Assignee")

PRIME FINANCIAL CORPORATION
an Oklahoma corporation

By: _____
Title: _____

ATTEST:

[SEAL] Secretary

STATE OF OKLAHOMA)
) SS.
COUNTY OF _____)

Before me, the undersigned, a Notary Public, in and for said County and State on this ____ day of May, 2001, personally appeared _____, to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as its _____ President of Climate Master, Inc., and acknowledged that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

Notary Public

My Commission Expires: _____
[SEAL]

STATE OF OKLAHOMA)
) SS.
COUNTY OF _____)

Before me, the undersigned, a Notary Public, in and for said County and State on this ____ day of May, 2001, personally appeared _____, to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as its _____ President of Prime Financial Corporation, and acknowledged that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

Notary Public

My Commission Expires: _____
[SEAL]

AGREEMENT FOR PURCHASE AND SALE

THIS AGREEMENT FOR PURCHASE AND SALE is made and entered into this 10th day of April, 2001, by and between PRIME FINANCIAL CORPORATION, an Oklahoma corporation (hereinafter referred to as "Seller"), and RAPTOR MASTER, L.L.C., an Oklahoma limited liability company (hereinafter referred to as "Buyer") upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants herein contained, the amounts to be paid hereunder and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1. Definitions. When used herein the following terms shall have the meanings set forth in this section.

1.1 Property. All of Seller's right, title and interest in and to the real property, improvements and appurtenances thereunto belonging located in Oklahoma County, Oklahoma, as described on Exhibit A, including but not limited to:

1.1.1 Improvements. All building structures, parking areas, landscaping and other improvements on the Property.

1.1.2 Easements. All right, title and interest of Seller in and to any easements, rights-of-way, and rights of ingress or egress benefiting and appurtenant to the Property and to the Improvements.

1.2 Personal Property. All equipment, appliances, furnishings and other personal property owned by Seller and attached to, appurtenant to, and used in connection with the ownership or operation of the Property excluding, however, those items of equipment, appliances, furnishings or other tangible and intangible personal property owned or leased by Seller, Climate Master, Inc., a Delaware Corporation ("Climate Master"), an affiliate of Seller, or their affiliates and located on the Property and used in connection with the operation of Seller's or Climate Master's business.

1.3 Title Company. Lawyers Title Insurance Company.

1.4 Brokers or Agents. Those persons listed on Exhibit B hereto.

2. Purchase and Sale. Seller shall sell and Buyer shall purchase from Seller, for the consideration and on the terms herein provided, the Property, free and clear of all mortgages, security interests, liens, encumbrances and charges whatsoever except as shown on Exhibit C hereto and such other matters as Buyer may approve in writing.

3. Purchase Price. The Purchase Price for the Property shall be Eight Million One Hundred Thousand Dollars (\$8,100,000) and shall be payable Six Million Five Hundred Thousand Dollars (\$6,500,000) in cash at Closing and the balance by a promissory note in the form attached as Exhibit D.

4. Lease. At Closing as defined below, and as a material condition to Buyer's obligation to close, Climate Master shall lease the Property from Buyer and execute the lease attached hereto as Exhibit E (the "Lease"). The tenant's obligations under the Lease shall be guaranteed by Seller.

5. Earnest Money. The amount of \$10,000 together with interest earned thereon (the "Earnest Money Deposit") in the form of cash, certified check or a negotiable certificate of deposit properly endorsed to the Title Company shall be delivered to the Title Company upon execution by the parties of this Agreement and shall be held under the terms and conditions of this Agreement and applied to the cash portion of the purchase price at Closing as defined below. The Earnest Money Deposit shall be invested at the instructions of Buyer and interest earned shall be for the account of Buyer except in the event of a default of Buyer under Section 12.2.

6. Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at 10:00 a.m. on or before May 31, 2001 (provided such date may be extended as provided in Section 7.2 hereof) at the offices of the Title Company, or at such other time as the parties may hereafter agree in writing.

7. Title Material.

7.1 Commitment for Title Insurance. Within twenty (20) days after the date of this Agreement, Seller shall furnish to Buyer (i) a survey of the Property of current date sufficient to cause removal of the survey exception from the title insurance policy (the "Survey"), and (ii) a commitment for title insurance issued by the Title Company, by which said company agrees to issue at Closing an owner's form in the amount of the Purchase Price insuring the fee simple title to the Property to Buyer, excepting only such matters as are approved by Buyer herein or hereafter in writing. Buyer agrees that the title insurance policy may be subject to easements, covenants and restrictions of record, including, but not limited to, utility easements, building restrictions and zoning regulations which do not hinder the use of the Property for its current use and a leasehold mortgage granted by Climate Master to the Oklahoma Industrial Finance Authority to secure the debt associated with certain equipment owned by Climate Master and located on the Property.

7.2 Buyer's Objections. Buyer shall have a period of ten (10) days following receipt of the commitment for title insurance in which to advise Seller of any defects in the Survey or title which are unacceptable. Seller shall have until Closing to cure such defects to the reasonable satisfaction of Buyer. If Seller is unable to cure defects noted by Buyer at Closing, Buyer may, at its option (i) waive any such defects, or (ii) extend the time of Closing for a period reasonably required to cure such defects but in no event later than fifteen (15) days, or (iii) terminate this Agreement whereupon neither party shall have any further obligation hereunder, and the Earnest Money Deposit shall be promptly returned to Buyer. Seller agrees to use its best efforts to cure any such matter.

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8. Representations and Warranties.

8.1 Seller's Representations and Warranties. Seller represents and warrants to Buyer, as of the date of Closing, as follows:

8.1.1 Authority. Seller is a corporation duly organized under the laws of the State of Oklahoma and is validly existing under the laws of the State of Oklahoma, and has the power to enter into and carry out the transactions described in this Agreement and has taken such action necessary to authorize the execution of this Agreement.

8.1.2 Condemnation. Seller has no knowledge that the property or any portion thereof is or will be the subject of or affected by any condemnation, eminent domain or similar proceeding.

8.1.3 Litigation. To the Seller's knowledge, there is no existing or threatened action, suit or proceeding affecting the Property or any part thereof or relating to or arising out of Seller's ownership and operation of the Property or any part thereof in any court or before or by any federal, state, county or municipal department, commission, board, bureau or governmental instrumentality.

8.1.4 Labor and Materials. All bills for work done at the order of Seller or materials furnished at the order of Seller with respect to the Property have been paid in full or discharged by law.

8.1.5 Legal Compliance. To Seller's knowledge, Seller has complied with all federal, state, local laws and administrative regulations relating to the maintenance and operation of the Property including, without limitation, all building codes and zoning ordinances of the City of Oklahoma City, Oklahoma.

8.1.6 Grant of Rights. Seller has not granted and will not grant any person, firm or other entity a right or option to acquire the Property or any portion thereof.

8.1.7 Taxes. All general taxes and special assessments on the Property due and payable with respect to calendar years prior to 2001 have been paid in full.

8.1.8 Insurance. Seller has not received any request from any insurer under a policy of hazard insurance covering the Property or by any board of underwriters to perform any repairs to or other work on the Property.

8.1.9 Utilities. To the best of the Seller's knowledge, the existing water, sewer, gas, electricity and other utility systems on the Property are adequate to serve the utility needs of the Property. All utilities required for the current operation of the Property enter the Property through adjoining public streets or public utility easements.

8.1.10 Covenants. To Seller's knowledge, no default or breach exists by Seller or by any other party thereto under any of the covenants, conditions, restrictions or easements affecting the Property or any portion thereof.

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8.1.11 Hazardous Materials. To Seller's knowledge there are no hazardous materials or environmental contaminants located in or on the Property other than in compliance with the law.

8.2 Buyer's Representations and Warranties. Buyer represents and warrants to the Seller that Buyer is a duly organized and validly existing limited liability company under the laws of the State of Oklahoma, has the power to enter into and carry out the transactions described in this Agreement and the execution and performance of this Agreement will not conflict with or result in any breach of the terms or provisions of Buyer's organization agreement or any other instrument or agreement to which Buyer is a party or by which Buyer is bound. All action necessary to authorize the manager of Buyer to enter into this Agreement and to consummate the transactions provided for herein has been taken.

9. Covenants Pending Closing.

9.1 Expenses and Claims. Seller shall pay all bills and expenses which are incurred by Seller in connection with the ownership and operation of the Property to the date of Closing.

10. Conditions Precedent to Buyer's Obligations. The obligations of Buyer hereunder at Closing shall be subject at its option to the following conditions:

10.1 Representation and Warranties. All representations and warranties by Seller hereunder shall be true and correct in all material respects as of the date hereof and as of Closing.

10.2 Condemnation. Neither the Property nor any portion thereof shall have been condemned by any authority having the right and power, nor shall the Property or any portion thereof be the subject of any pending or threatened eminent domain proceeding.

10.3 Building and Personal Property. The Improvements and all Personal Property constituting equipment used in connection therewith shall be in the same condition as of the date of this Agreement, ordinary wear and tear excepted.

11 Conditions Precedent to Seller's Obligations. Seller's obligations hereunder shall be subject at its option to the following conditions:

11.1 Performance by Buyer. Buyer shall have performed all its obligations to be performed hereunder at or prior to Closing.

11.2 Representations and Warranties. All representations and warranties of Buyer hereunder shall be true and correct as of the date hereof and as of Closing.

11.3 Exercise Price of Option Agreement with West Point Company, L.L.C. The purchase price under the Option Agreement between West Point Company, L.L.C. ("West Point") and Climate Master, dated November 12, 1987, as assigned to Seller, shall not exceed a total of \$4.4 million, including the prepayment of

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the First Fee Mortgage referenced in such Option Agreement, and West Point shall have conveyed title to the Property to Seller in accordance with such Option Agreement.

12. Default.

12.1 Default by Seller. In the event Seller defaults in the performance of its obligations hereunder arising prior to or at Closing or any representation or warranty of Seller shall be untrue when made or at Closing, Buyer may at its option, pursue one of the following remedies which shall be Buyer's sole remedies: (i) waive any default(s) and close according to this Agreement, (ii) terminate this Agreement by written notice to Seller on or prior to Closing and obtain the return to Buyer of the Earnest Money Deposit, or (iii) enforce specific performance of this Agreement against Seller. Buyer shall be entitled to damages for Seller's willful failure to perform its obligations hereunder.

12.2 Default by Buyer. In the event Buyer fails to perform any of its obligations hereunder arising prior to or at Closing or if any representation or warranty made by Buyer hereunder is untrue when made or at Closing, Seller shall be entitled to pursue one of the following remedies which shall be Seller's sole remedies: (i) retain the Earnest Money Deposit as its sole and exclusive remedy, including all accrued interest, it being agreed between Buyer and Seller that such sum shall be liquidated damages for the default of Buyer hereunder because of the difficulty, inconvenience and uncertainty of ascertaining the actual damages in the event of any such default, or (ii) enforce specific performance of this Agreement against Buyer.

13. Transactions at Closing. The following transactions and deliveries shall take place at Closing:

13.1 Deliveries. Seller shall deliver to Buyer a Warranty Deed and Bill of Sale covering the Property. Buyer and Climate Master shall execute and deliver counterparts of the Lease to each other. Buyer and Climate Master shall execute the Option Agreement attached hereto as Exhibit F.

13.2 Documentary Stamp Taxes. Seller shall pay to Buyer all sums necessary for the purchase of the documentary stamps required to be affixed to the warranty deed under Oklahoma law.

13.3 Title Insurance. The Title Company shall endorse the commitment described in Section 7.1 hereof to be effective as of the Closing and deleting any defects in accordance with Section 7.2 hereof, thereby agreeing to issue a policy of title insurance in accordance therewith.

13.4 Foreign Person Affidavit. Seller shall execute and deliver to Buyer an affidavit to the effect that it is not a "foreign person" as defined in the Internal Revenue Code of 1954, as amended, sufficient to relieve Buyer of any withholding requirement under applicable federal law.

13.5 Authorization. Seller and Buyer shall each provide to the other with reasonable evidence of such party's authority to perform the transactions contemplated by this Agreement.

13.6 Payments. Buyer shall pay to the Seller by certified or bank cashier's check the Purchase Price, subject to Closing adjustments and execute and deliver the promissory note in the form attached as Exhibit D.

14. Expenses. The costs of the title insurance policy and the Survey to be provided by Seller hereunder, the cost of documentary stamps required to be affixed to the deed to be delivered hereunder, and one-half of the Closing charges of the Title Company shall be paid by Seller. The cost of recording the deed, any sales taxes payable with respect to the sale of the Personal Property and one-half of the escrow Closing fees of the Title Company shall be paid by Buyer. Otherwise, each party will bear and pay its own expenses including attorneys' expenses, in negotiating and consummating the transactions contemplated hereby.

15. Damage or Destruction Prior to Closing.

15.1 Risk. Seller shall bear the risk of all loss, destruction or damage to the Property or any portion thereof prior to Closing.

15.2 Casualty. In the event of casualty, if the cost of repair shall not exceed \$50,000, the obligations of the parties hereunder shall not be affected and Seller shall repair such damage according to the terms of the Lease. If the cost of repair exceeds \$50,000 and is not covered by insurance, Seller may either (i) terminate this Agreement in which event neither party shall have any further obligations hereunder except the Earnest Money Deposit deposited hereunder shall be returned to the Buyer, or (ii) proceed with the transaction in accordance herewith in which event Seller shall repair the damage according to the terms of the lease. For purposes of this section, the term "cost of repair" shall mean an estimate of the actual cost of repair obtained promptly following such casualty from a reputable contractor reasonably acceptable to Seller and Buyer. All insurance proceeds payable under Seller's policies of insurance for any such casualty shall be paid to Seller.

16. Broker. The persons listed on Exhibit B hereto are the only brokers or agents involved in this transaction. Seller will pay a brokerage fee to such persons as shown on Exhibit B hereto at Closing provided, no commission shall be payable in the event the transaction contemplated by this Agreement does not close.

17. Notices. All notices, requests, demands, instructions or other communications called for hereunder or contemplated hereby shall be in writing and shall be personally delivered in return for a receipt or mailed by registered or certified mail, return receipt requested, to the parties at the addresses set forth below. Any party may change the address to which notices are to be given by giving notice in the manner herein provided. Any notice given by mail as herein provided shall be deemed received on the earlier of the date of actual receipt or three business days following the date of mailing.

17.1 Seller. Notices to Seller shall be addressed as follows:

Prime Financial Corporation
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: Jack E. Golsen, President

with a copy to: Office of the General Counsel
Prime Financial Corporation
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: David M. Shear, Esq.

17.2 Buyer. Notices to Buyer shall be addressed as follows:

Raptor Master, L.L.C.
1141 North Robinson, Suite 300
Oklahoma City, Oklahoma 73103
Attn: J. Roddy Bates

with a copy to: McAfee & Taft
Two Leadership Square
10th Floor
Oklahoma City, Oklahoma 73102
Attn: Jack Sargent, Esq.

18. Whole Agreement - -- No Oral Modifications. This Agreement embodies all the representations, warranties and agreements of the parties and may not be altered or modified except by an instrument in writing signed by the parties.

19. Benefit of Agreement. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

20. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and performed entirely therein.

21. Counterparts. This Agreement may be executed in any number of counterparts which taken together shall constitute one in the same agreement.

22. Section Headings. The section headings contained in this Agreement are for convenient reference only and shall not in any way affect the meaning or interpretation hereof.

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

PRIME FINANCIAL CORPORATION

By _____
President

"SELLER"

RAPTOR MASTER, L.L.C.

By _____
General Partner

"BUYER"

Performance of all obligations of Buyer herein is guaranteed by Raptor Properties, L.L.C.

RAPTOR PROPERTIES, L.L.C.

By _____
General Partner

The undersigned agrees to execute and deliver counterparts of the Lease and Option Agreement to Buyer, pursuant to Section 13.1 of this Agreement.

CLIMATE MASTER, INC.

By _____
President

The undersigned acknowledges receipt of the Earnest Money Deposit and agreed to hold the same according to the terms of the foregoing Agreement.

LAWYERS TITLE INSURANCE COMPANY

By _____ President

AMENDED AND RESTATED LEASE AGREEMENT

THIS AMENDED AND RESTATED LEASE AGREEMENT is made effective the 8th day of May, 2001, between RAPTOR MASTER, L.L.C., an Oklahoma limited liability company (the "Landlord"), and CLIMATE MASTER, INC., a Delaware corporation (the "Tenant"). The capitalized terms used in this Agreement are defined at Section 19 below.

W I T N E S S E T H:

WHEREAS, Tenant and West Point Company, L.L.C. ("West Point"), an Oklahoma limited liability company, are parties to a certain Lease Agreement, dated November 12, 1987, as amended (the "Original Lease"), pursuant to which Tenant leases from West Point certain real property and the improvements located thereon, more particularly described on Schedule "1" attached as a part hereof (the "Premises"); and

WHEREAS, through a series of transactions, the Landlord acquired title to the Premises; and

WHEREAS, Landlord desires to continue to lease the Premises to Tenant on terms substantially similar to those contained in the Original Lease, with the exception of the rental amount which shall be subject to a minor increase; and

WHEREAS, Tenant and Landlord have agreed to enter into this Agreement which amends and restates in its entirety the Original Lease to, among other matters, (i) reflect Landlord as the title owner of the Premises, and (ii) extend the lease term and purchase option right granted to Tenant; and

WHEREAS, Landlord desires to assume the obligations of West Point under the Original Lease as modified by the terms of this Agreement, thereby releasing West Point from its obligations under such Original Lease.

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

SECTION 1. PREMISES

Subject to the terms of this Agreement, the Landlord hereby demises and lets to the Tenant and the Tenant hereby leases from the Landlord, all of the Landlord's right, title and interest in and to the following:

1.1 Land. Certain real property situated in the City of Oklahoma City, Oklahoma County, Oklahoma, more particularly described on Schedule "1" attached as a part hereof and the Building.

1.2 Building.

1.3 Improvements (the above collectively referred to as the "Premises").

SECTION 2. TERM

2.1 Lease Term. Except as otherwise provided in this Agreement, the Lease Term is fifteen (15) years, having a Commencement Date of May ___, 2001 and an Expiration Date of May ___, 2016, unless sooner terminated or extended as herein provided.

2.2 Prorations. If the Commencement Date or the Expiration Date of the Lease Term is a date other than the first day of a month, the installment of Rent for the month in which such date occurs will be prorated on a per diem charge based on a three hundred sixty-five (365) day year. If any charge comprising Additional Rent is computed for a term beginning before the Commencement Date or extending beyond the Expiration Date, the charge will be prorated between the Landlord and the Tenant based on a three hundred sixty-five (365) day year.

SECTION 3. RENT

3.1 Base Rent. The Tenant agrees to pay to the Landlord throughout the primary term of this Agreement a Base Rent, payable in equal monthly installments of Fifty-Six Thousand Seven Hundred Fifty and No/100 Dollars (\$56,750.00) each, payable in advance and without demand beginning on the Commencement Date and continuing thereafter on the first day of each month throughout the primary term.

3.2 Additional Rent. All other amounts, liabilities and obligations which the Tenant agrees to pay or cause to be paid pursuant to this Agreement (as between the Landlord and the Tenant), will constitute rent payable hereunder in addition to the Base Rent specified in Section 3.1 of this Agreement. If the Tenant fails to pay such Additional Rent, the Landlord will be entitled to exercise all rights, powers and remedies provided in this Agreement, or as provided by law or in equity, to the same extent as if the Tenant had failed to pay the Base Rent specified by this Agreement.

3.3 Net Rent. Subject to Tenant's rights under this Agreement, the Rent payable by the Tenant hereunder will be net to the

Landlord throughout the Lease Term and the Tenant agrees to pay all expenses relating to the operation, maintenance and repair of the Premises, including, but not limited to, taxes, insurance, utilities, repairs, ground maintenance and any and all other expenses relating to the Premises of any nature whatsoever incurred after the beginning of the Lease Term.

SECTION 4. USE

4.1 Use. The Tenant is hereby granted the right to occupy and use the Premises as a manufacturing facility, office functions and other manufacturing uses, subject to such restrictions as are imposed by: (a) Legal Requirements; and (b) all easements, rights-of-way, restrictions, covenants and encumbrances of record on the date of execution of this Agreement.

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4.2 Quiet Enjoyment. So long as the Tenant has not committed an Event of Default that is continuing, the Landlord warrants the peaceful and quiet occupation and enjoyment of the Premises by the Tenant free and clear of interference by any Person claiming under the Landlord. The Tenant hereby grants to the Landlord, its agents and representatives, the right to enter and inspect the Premises at reasonable times with prior reasonable notice. It is understood that the Landlord will have no duty to make any such inspection and will not incur any liability or obligation with respect to any state of facts which are or might have been discovered by reason of any such inspection.

SECTION 5. IMPOSITIONS

5.1 Payment. Subject to the terms of this Agreement, throughout the Lease Term, the Tenant will pay or cause to be paid all Impositions directly to the charging authority promptly as the same become due, prior to the time penalties or interest attach thereto and before nonpayment gives rise to a lien on the Premises. The Landlord will have no responsibility of any kind with respect to any Imposition, except the Landlord shall pay or cause to be paid all of the Landlord's Impositions directly to the charging authority promptly as the same become due, prior to the time penalties or interest attach thereto and before nonpayment gives rise to a lien on the Premises. The Tenant will have no responsibility of any kind with respect to any Landlord's Imposition.

5.2 Conversion to Installments. If permitted by law, the Tenant will have the right to apply for conversion of Impositions to installment payments. The Landlord agrees to permit the application for such conversion to be filed in the Landlord's name, if necessary, and agrees to execute all documents reasonably requested by the Tenant in connection therewith. Impositions which have been assessed during the Lease Term and converted to installment payments will be paid in full by the Tenant on the termination of the Lease Term.

5.3 Right to Contest. The Tenant will have the right to contest the validity, amount or application of any Imposition by diligent pursuit of appropriate legal proceedings conducted at the Tenant's expense. If required by applicable law, the Landlord agrees that such proceedings may be conducted in the name of the Landlord, and the Landlord agrees to execute and deliver all documents which are reasonably requested by the Tenant in connection therewith. If at any time the Premises or any part thereof becomes subject to forfeiture, or the Landlord becomes subject to liability arising from nonpayment of any Imposition, the Tenant will promptly pay the disputed Imposition or deposit with the Landlord such collateral or other assurances as might be reasonably required by the Landlord to protect the Premises and the Landlord from liability or forfeiture by reason of nonpayment.

5.4 Refunds. The Landlord agrees that any refunds or rebates of Impositions previously paid by the Tenant pursuant to the provisions of this Agreement will belong to the Tenant. The Landlord agrees to sign such receipts and other documents as might be reasonably requested by the Tenant to obtain payment of such refunds.

5.5 Evidence of Payment. The Tenant agrees to furnish to the Landlord within ten (10) days after the written request of the Landlord, receipts or other appropriate evidence of payment of such Imposition, unless such are being contested pursuant to Section 5.3 hereof.

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SECTION 6. REPAIRS, ALTERATIONS, ADDITIONS

6.1 Maintenance and Repair. The Tenant will maintain, repair and replace the Building and the Improvements in good and clean order and condition, ordinary wear and tear excepted, during the Lease Term and will promptly make all necessary or appropriate repairs, whether interior or exterior, ordinary or extraordinary, foreseen or unforeseen. All repairs, replacements and renewals by the Tenant will be reasonably equal in quality to that of the original Improvements, ordinary wear and tear excepted. In no event will the Tenant allow any such repair, replacement or renewal to weaken or impair the structural strength or integrity of the Building.

6.2 Alterations and Additions. If no Event of Default has occurred and is continuing, the Tenant may make additions to and alterations of the Improvements; provided that any such additions and alterations: (a) will not weaken or impair the structural strength of the Improvements or reduce the fair market value of the Land and Improvements below the fair market value which existed immediately before such alteration or addition, or impair the usefulness of the Land and Improvements; (b) are effected

with due diligence, in a good and workmanlike manner and in compliance with all Legal Requirements; and (c) are promptly and fully paid for by the Tenant. Title to all such additions and alterations and to all new Improvements constructed on the Land will vest in the Landlord on the installation or construction of all such new Improvements; provided, however, in no event will the Tenant be deemed to have been divested of title with respect to any new Tenant Equipment installed or constructed with such new Improvements and ownership thereof will remain vested in the Tenant throughout the Lease Term and thereafter. The Landlord and the Tenant intend for the Tenant Equipment to constitute personal property for all purposes, and do not intend to characterize the Tenant Equipment as Real Property for any purposes; ownership of the Tenant Equipment will remain vested in the Tenant.

6.3 Utilities Charges. Throughout the Lease Term the Tenant will pay all Utilities Charges incurred on and after the beginning of the Lease Term, before the same become delinquent, and the Landlord will have no obligation with respect thereto.

SECTION 7. LEGAL REQUIREMENTS

7.1 Compliance. The Tenant agrees to comply with all Legal Requirements throughout the Lease Term at the Tenant's expense, except for such Legal Requirements that the Landlord is to comply with in order to carry out and perform its obligations under this Agreement. The Landlord will have no responsibility of any kind with respect to any Legal Requirement, except for such Legal Requirements as the Landlord must comply with in order to carry out and perform its obligations under the terms of this Agreement, which obligations shall be complied with by the Landlord at the Landlord's expense.

7.2 Permitted Contest. The Tenant will have the right to contest the validity or application of any Legal Requirement which the Tenant is hereunder required to comply with, by diligent pursuit of appropriate legal

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proceedings conducted at the Tenant's expense. Any such contest may be brought in the name of the Landlord if required by law, and the Landlord agrees to execute and deliver such instruments as are reasonably requested by the Tenant to facilitate such contest. If allowed by law, the Tenant may delay compliance with the contested Legal Requirement until final determination of the contest; provided, that if the failure of the Tenant to comply with the disputed Legal Requirement will subject the Land, the Improvements or any part thereof to forfeiture or the Landlord to liability arising from such noncompliance, the Tenant will promptly comply with the Legal Requirement or deposit with the Landlord such collateral or other assurance as might be reasonably required by the Landlord to protect the Land, the Improvements and the Landlord from liability or forfeiture by reason of such noncompliance.

7.3 Evidence of Compliance. The Tenant agrees to furnish to the Landlord within ten (10) days after the Landlord's written request therefor such permits, orders, certificates or other documents as might be reasonably requested by the Landlord to evidence compliance with Legal Requirements which are applicable to the Land, or the Improvements and which the Tenant is hereunder required to comply with.

SECTION 8. LIENS

8.1 Liens. The Tenant will not directly or indirectly create or permit to be created or to remain any lien, encumbrance or claim affecting the Land and the Improvements or the Landlord's interest under this Agreement other than: (a) the leasehold estate created by this Agreement; (b) liens for Impositions not yet due or payable or which are the subject of a contest as permitted by Section 5.3 of this Agreement; and (c) lien in favor of the Oklahoma Industrial Finance Authority covering Tenant's leasehold interest created by this Agreement; and (d) liens, encumbrances or claims placed on, created by or permitted to be created on the Land or the Improvements by the Landlord. In the event of the filing of any such claim against the Landlord, the Land, the Improvements or the Landlord's interest hereunder, the Tenant will cause the same to be discharged of record at the Tenant's expense within thirty (30) days after written notice from the Landlord of the filing thereof or such additional time as the Landlord determines to be reasonable under the circumstances, except such liens, encumbrances or claims, referred to in (a), (b) (c) and (d) above or such liens, encumbrances or claims being contested in the manner provided below. The Tenant will have the right to contest any such claim by diligent pursuit of appropriate legal proceedings which may be conducted by the Tenant at the Tenant's expense in the name of the Landlord, if legally required. If at any time during the contest of such claim the Land, or the Landlord's interest hereunder becomes subject to forfeiture, or if the Landlord becomes subject to liability arising from nonpayment of the same, the Tenant will promptly pay the disputed claim or will deposit with the Landlord such collateral or other assurances as might be, reasonably required by the Landlord to protect the Land, the Improvements, the Landlord's interest hereunder and the Landlord from liability or forfeiture by reason of such claim.

SECTION 9. TENANT'S TRANSFER

9.1 Assignment; Subletting. The Tenant will not assign this Agreement or any interest herein or sublet the Premises in whole or in part or suffer any other person to occupy the Premises or any portion thereof without the prior written consent of the Landlord, which consent will not be unreasonably withheld, and any such assignment, subletting or occupancy without such consent will be void. If the Tenant desires to assign this

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Agreement or sublet the Premises, or any part thereof, the Tenant will give the Landlord written notice of such desire specifying the name of the proposed assignee or sublessee and all of the terms of the proposed assignment or sublease at least thirty (30) days prior to the date such assignment or sublease is proposed to be effective. The Landlord will have the option for a period of fifteen (15) days after the receipt of such notice to: (a) permit the Tenant to assign or sublet on the terms proposed by the Tenant; or (b) refuse to consent to the proposed assignment or subletting (which consent shall not be unreasonably withheld by the Landlord) and continue this Agreement in effect as to the entire Premises. Notwithstanding any consent granted by the Landlord, the Tenant and each assignee and sublessee will at all times remain fully liable for the payment of Rent and for the performance of the Tenant's obligations hereunder, unless such liability as to the Tenant is waived by the Landlord. No consent granted by the Landlord will constitute a waiver of the provisions of this Agreement except as to the specific instance covered thereby. Notwithstanding the above, this Agreement may be assigned to any purchaser of the business of Tenant, and Tenant shall be released from all of its obligations under this Agreement provided such purchaser shall assume all of Tenant's obligations under this Lease.

SECTION 10. LANDLORD'S TRANSFER

10.1 Right to Transfer. Subject to the Tenant's rights under this Agreement and the Purchase Option, the Landlord will have the right at any time and from time to time during the Lease Term to sell, convey, transfer and assign all or any portion of the Landlord's interest in this Agreement, the Land or the Improvements. In the event the Landlord elects to enter into one or more such transfers, the Landlord agrees to deliver to the Tenant true and complete copies of the instrument or instruments effecting each such transfer within thirty (30) days after the effective date of such transfer and in connection with such transfer, the transferee shall agree to comply with and abide by the terms of this Agreement and the Purchase Option to the reasonable satisfaction of Tenant.

10.2 Attornment. The Tenant agrees to accept and attorn to the transferee of the Landlord's interest hereunder as if such transferee had been the party named as the original Landlord in this Agreement and the Purchase Option, if the transferee has agreed, to the reasonable satisfaction of the Tenant, to comply with and abide by the terms of such agreements.

SECTION 11. INDEMNITY; INSURANCE

11.1 Indemnity. During the Lease Term, the Tenant agrees to protect, indemnify and hold harmless the Landlord against all liabilities, obligations, claims, damages, penalties; causes of action, judgments, costs and expenses (including, without limitation, reasonable attorney's fees and expenses) incurred by the Landlord or asserted against the interest of the Landlord in the Land, the Improvements or this Agreement which do not result from the Landlord's failure to perform the obligations of the Landlord under this Agreement or the willful act or negligence of the Landlord, its agents, contractors, employees, licensees and invitees and which arise by reason of: (a) any injury to or death of any person or any damage to property located in or on the Premises; (b) any failure by the Tenant to perform the obligations of the Tenant under this Agreement; or (c) any negligence or willful act on the part of the Tenant or any of the Tenant's agents, contractors, employees, licensees or

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subtenants. If any action, suit or proceeding is brought against the Landlord by reason of any such occurrence, the Tenant, promptly after the written request of the Landlord, will defend such action, suit or proceeding at the Tenant's expense with legal counsel designated by the Tenant which is reasonably acceptable to the Landlord. The Landlord agrees to protect, indemnify and hold harmless the Tenant against all liabilities, obligations, claims, damages, penalties, causes of action, judgments, costs and expenses (including, without limitation, reasonable attorney's fees and expenses) incurred by the Tenant or asserted against the interest of the Tenant in the Land, the Improvements or this Agreement which do not result from the Tenant's failure to perform the obligations under this Agreement or the willful act or negligence of the Tenant, its agents, contractors, employees, licensees and invitees. If any action, suit or proceeding is brought against the Tenant by reason of any such occurrence, the Landlord, promptly after the written request of the Tenant, will defend such action, suit or proceeding at the Landlord's expense with legal counsel designated by the Landlord which is reasonably acceptable to the Tenant.

11.2 Insured Risks. Throughout the Lease Term the Tenant will, at the Tenant's expense, maintain: (a) insurance against loss or damage to the Building and the Improvements by fire, lightning, windstorm, hail, explosion, riot, aircraft, vehicles, smoke and other risks commonly included in extended coverage policies written in an amount not less than one hundred percent (100%) of the full insurable value of the Building and the Improvements (any insurance policy maintained by the Tenant will exclude any coinsurance provision obligation); (b) public liability and property damage insurance applicable to the Premises in an amount reasonably satisfactory to the Landlord; (c) appropriate workmen's compensation insurance; and (d) all other forms of insurance imposed by Legal Requirements.

11.3 Policy Provisions. All insurance maintained by the Tenant will: (a) name the Landlord and the Tenant as insureds as their respective interests appear; (b) include an effective waiver by the insurer of all rights of subrogation against any named insured; (c) provide that the coverage afforded by such policies will not be cancelled by the insurer without ten (10) days prior written notice to the Landlord; and (d) be issued by companies and in forms reasonably satisfactory to the Landlord in all other respects. Notwithstanding the preceding, the Landlord agrees that the Tenant may effect such insurance by adding the Building, the Improvements and the Land, where appropriate, to one or more so-called "blanket" policies maintained by the Tenant, provided that such insurers and such policies are reasonably satisfactory to the Landlord.

11.4 Evidence of Policies. Promptly after the execution of this Agreement and continuously thereafter during the Lease Term, the Tenant will deliver to the Landlord certificates of insurance evidencing such policies of insurance as required by this Agreement.

SECTION 12. DAMAGE AND DESTRUCTION

12.1 Notice. In case of damage to the Premises in excess of Twenty-Five Thousand Dollars (\$25,000.00), the Tenant will promptly give written notice thereof to the Landlord describing the nature and extent of the casualty.

12.2 Restoration. If the Building and/or the Improvements are damaged or destroyed during the Lease Term and all of the insurance proceeds from policies required hereunder and which are paid in connection with

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such damage or loss to the Building and/or the Improvements are made available to the Tenant to make such repairs or restoration, the Tenant will as soon as practicable after the casualty restore such portion of the Premises as nearly as possible to the condition which existed immediately prior to such damage or destruction. The Tenant will not be entitled to any offset or abatement in Rent or to any termination or extension of the Lease Term as a result of deprivation or limitation of use of the Premises occasioned by any casualty, or by repairs or replacements required by this Section 12.2.

12.3 Insurance Proceeds. Insurance proceeds will be applied by the Tenant to the payment of the costs of restoration as such costs are incurred. After full payment of all costs of restoring the Premises, any balance of insurance proceeds will be paid to the Tenant.

SECTION 13. EMINENT DOMAIN

13.1 Total Taking. If, during the Lease Term, all of the Land and the Improvements are taken as a result of the exercise of the power of eminent domain or by purchase in lieu thereof, or if less than all of the Land and the Improvements are taken, but the Improvements cannot be restored to an economically useful unit, this Agreement will terminate on the date of vesting of title to the Land and Improvements in the condemnor. The rights of the Landlord and the Tenant to the award or awards arising from any such taking will be determined in accordance with Section 13.6 of this Agreement.

13.2 Partial Taking. If less than all of the Land and the Improvements are taken as a result of the exercise of the power of eminent domain or by purchase in lieu thereof, and the Improvements can be restored to an economically useful unit and can be used by the Tenant in substantially the same manner as such was being used by the Tenant before such taking, this Agreement will not terminate but will continue in full force and effect (except for the adjustment to the Rent as provided below) for the remainder of the Lease Term with respect to that portion of the Land and the Improvements which is not the subject of the taking. The rights of the Landlord and the Tenant to the award or awards arising from any such taking will be determined in accordance with Section 13.6 of this Agreement. In such event,, the Tenant agrees, at Tenant's expense, to restore that portion of the Improvements not so taken to a complete architectural unit of substantially the same usefulness, design, construction and character as the Improvements existing before such taking; provided, however, the Tenant shall have no obligation to make any repairs to or restoration of the Improvements the cost of which exceeds that portion of the award for such taking made available to the Tenant to restore that portion of the Improvements not so taken. For the balance of the Lease Term, a just and appropriate part of the Rent, according to the nature and extent of the taking, will be abated.

13.3 Temporary Taking. If all or any portion of the Land or the Improvements is taken by the exercise of the right of eminent domain for governmental occupancy for a limited period, this Agreement will not terminate and the Tenant will continue to perform all of the Tenant's obligations hereunder as though such taking had not occurred (except to the extent that the Tenant is prevented from doing so by reason of such taking; provided, in no event will the Tenant be excused from the payment of Rent and all other charges required to be paid by the Tenant under this Agreement). In the event of such taking, the Tenant will be entitled to receive the entire amount of any award made for such taking (whether paid by way of damages, rent or otherwise) and the

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Landlord hereby assigns such award to the Tenant, unless the period of governmental occupancy extends beyond the termination of the Lease Term, in which case the award will be apportioned between the Landlord and the Tenant as set forth in Section 13.6 of this Agreement. The Tenant agrees to restore the Improvements to the condition which existed prior to such taking at the Tenant's expense at the termination of any such governmental occupancy, provided, however, the Tenant shall have no obligation to make any repairs to or restoration of the Improvements the cost of which exceeds that portion of the award for such taking made available to the Tenant for such repairs or restoration.

13.4 Minor Taking. A taking of any bridge, vault, easement or portion of the Improvements projecting into any public way will not be deemed a taking of any part of the Land or the Improvements for the purposes of this Section 13, and this Agreement

will not be affected by any such taking. The Tenant will be entitled to receive any award made for any such taking and will make any alteration to the Improvements required by such taking at the Tenant's expense.

13.5 Abatement of Rent. In the event of any partial taking of the Premises as set forth in Section 13.2 of this Agreement, the Rent payable by the Tenant with respect to that portion of the Premises so taken will terminate on the date title to that portion of the Land and Improvements which is the subject of the taking vests in the condemnor and Rent will be apportioned as of the date of such vesting. The obligation of the Tenant to pay Rent with respect to such portion during the remainder of the Lease Term will abate on a proportionate basis based on that portion of the Premises remaining.

13.6 Apportionment of Award. If all or a portion of the Premises are taken as contemplated by Sections 13.1 or 13.2 of this Agreement, the Landlord and the Tenant agree that the award(s) for any such taking will be apportioned in the following manner and paid in the following order:

13.6.1 Expenses. The award will first be applied to reimburse the Landlord and the Tenant for reasonable expenses (including, without limitation, attorneys' fees) incurred in connection with obtaining the award.

13.6.2 Mortgage. The award will next be applied to Landlord's Mortgage.

13.6.3 Restoration Costs. Then to the extent that the Tenant is obligated to and restores the Improvements, the award will next be applied to payment of the costs reasonably incurred by the Tenant in effecting such restoration.

13.6.4 Tenant's Lease. To the Tenant in an amount equal to the fair market value of that portion of the leasehold interest taken at the date as of which the award is determined; this amount will be computed by: (i) determining the excess of the present worth of the fair rental value of the Premises for the remaining Lease Term less the present worth of the remaining Rent payable by the Tenant for the remaining Lease Term then, (ii) determining an amount as the fair market value which is in the same proportion to that excess that the area of the Premises taken bears to the total Premises.

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13.6.5 Landlord's Cost. Any balance of the award remaining after the foregoing applications will be allocated to the Landlord.

13.7 Participation in Proceedings. The Landlord and the Tenant will each have the right at their respective expense to participate in any proceeding seeking to take all or any portion of the Premises and any appeals which might be taken therefrom.

SECTION 14. FEE MORTGAGES

14.1 Landlord's Mortgage. This Agreement and the rights of the Tenant hereunder will be subject and subordinate to the First Fee Mortgage. The Landlord agrees to use its best efforts to furnish to the Tenant a nondisturbance agreement from the holder of the First Fee Mortgage. Landlord shall not modify or amend the terms of the First Fee Mortgage or refinance or increase the mortgage amount without the prior written consent of Tenant.

SECTION 15. DEFAULT; REMEDIES

15.1 Events of Default. The following events if not cured within the applicable cure period set forth in Section 15.2 hereof will be deemed to be Events of Default by the Tenant under this Agreement: (a) failure to pay any Rent or other sums payable by the Tenant hereunder when such sums become due; (b) failure to comply with any material term of this Agreement to be observed by the Tenant; (c) abandonment of any substantial portion of the Premises; (d) the filing by or against the Tenant of any proceeding under the Federal Bankruptcy Act or any similar law; (e) the insolvency of the Tenant; (f) the making by the Tenant of an assignment for the benefit of creditors; or (g) the appointment of a receiver or trustee for the Tenant or any material portion of the assets of the Tenant.

15.2 Notice; Opportunity to Cure. On the occurrence of any of the events set forth in Section 15.1, the Landlord will have the option to serve written notice thereof to the Tenant specifying the nature of such default. In the event the Tenant, to the reasonable satisfaction of the Landlord, cures a default arising from the events specified at Section 15.1(a) within ten (10) days after receipt of such notice, or cures a default arising from the events specified at Sections 15.1(b) through (g), inclusive, within thirty (30) days after receipt of such notice (or if such default cannot be cured by the exercise of all diligent efforts within such thirty (30) day period then the Tenant will have such additional time as might be reasonable under the circumstances to cure such default), the Landlord and the Tenant will be restored to their respective rights and obligations under this Agreement as if no such event had occurred.

15.3 Remedies. On the failure of the Tenant to cure a default within the time provided and upon such becoming an Event of Default, the Landlord will have the option to do any one or more of the following without any further notice or demand, in addition to and not in limitation of any other remedy permitted by law, in equity or by this Agreement:

15.3.1 Termination. The Landlord may terminate this Agreement, in which event the Tenant will immediately surrender the Premises to the Landlord, but if the Tenant fails to do so, the Landlord may without notice and without prejudice to any other remedy the Landlord might have, enter and take possession of the

Premises and remove the Tenant and the Tenant's property therefrom without being liable to prosecution or any claim for damages therefor.

15.3.2 Reletting. The Landlord may enter and take possession of the Premises as the agent of the Tenant without terminating this Agreement without being liable to prosecution or any claim for damages therefor, and the Landlord may relet the Premises as the agent of the Tenant and receive the rent therefor, in which event the Tenant will pay to the Landlord, on demand, the cost of renovating, repairing and altering the Premises, except for obligations of the Landlord under this Agreement, and any deficiency that might arise by reason of such reletting; provided, however, the Landlord will have no duty to relet the Premises and the failure of the Landlord to relet the Premises will not release or affect the Tenant's liability for Rent or for damages.

15.3.3 Option to Perform. The Landlord may perform or cause to be performed the obligations of the Tenant under this Agreement and may enter the Premises to accomplish such purpose without being liable to prosecution or any claim for damages therefor. The Tenant agrees to reimburse the Landlord on demand for any expense which the Landlord might incur in effecting compliance with this Agreement on behalf of the Tenant, and the Tenant further agrees that the Landlord will not be liable for any damages resulting to the Tenant from such action, whether caused by the negligence of the Landlord or otherwise.

15.4 No Waiver. No action by the Landlord during the Lease Term will be deemed an acceptance by the Landlord of an attempted surrender of the Premises. No re-entry or taking possession of the Premises by the Landlord will be construed as an election by the Landlord to terminate this Agreement, unless a written notice of termination is signed by the Landlord. Notwithstanding any such reletting, re-entry or taking possession, the Landlord may at any time thereafter elect to terminate this Agreement for a previous uncured Default. The acceptance by the Landlord or payment by the Tenant of Rent following the occurrence of an Event of Default will not be construed as the waiver of such Event of Default unless the Landlord waives such Event of Default in writing. No waiver of any Event of Default by the Landlord will be deemed to constitute a waiver of any other or future Event of Default hereunder. Forbearance by the Landlord to enforce one or more of the remedies herein provided will not be deemed to constitute a waiver of any Default. No provision of this Agreement will be deemed to have been waived by the Landlord unless such waiver is in writing signed by the Landlord. The rights and remedies granted to the Landlord in this Agreement are cumulative of every other right or remedy which the Landlord might otherwise have at law or in equity and the exercise of one or more rights or remedies will not prejudice the concurrent or subsequent exercise of other rights or remedies. If the Landlord brings any action for enforcement of any right under this Agreement or if the Landlord places any amount payable by the Tenant hereunder with an attorney for collection, the party against whom any final judgment is rendered agrees to pay the reasonable attorney's fees and other expenses incurred by the prevailing party in connection therewith.

15.5 Surrender. On the Expiration Date or sooner termination of the Lease Term, the Tenant will quit and surrender the Premises to the Landlord in good order and condition, ordinary wear and tear excepted and except that the Tenant shall not have any obligation to make any such repairs as are imposed on the Landlord

under this Agreement. It is specifically understood that the Tenant will as soon as possible after the Expiration Date have the right to remove the Tenant Equipment, provided, however, in the event any of the Tenant Equipment cannot be removed without damage to the Premises the Tenant will on ten (10) days written request therefor reimburse to the Landlord the Landlord's reasonable costs incurred in repairing such damage and restoring the Premises to the condition which existed prior to the removal of the Tenant Equipment. In the event any of the Tenant Equipment is not removed by the Tenant within forty-five (45) days after the termination of the Lease Term the Landlord may thereafter remove or store such property, at the expense of the Tenant, without being liable to the Tenant therefor.

15.6 Holding Over. If the Tenant continues to occupy the Premises after the expiration or other termination of the Lease Term, such holding over will, unless otherwise agreed by the Landlord in writing, constitute a tenancy at will at a daily rental equal to one-thirtieth (1/30th) of that amount which is equal to twice the amount of the Rent payable during the last month prior to the termination of the Lease Term and such holding over will be subject to all of the other provisions of this Agreement.

SECTION 16. TENANT'S PURCHASE

16.1 Purchase Option. Provided that this Agreement is then in effect and no Event of Default has occurred and is continuing, the Tenant is hereby granted the continuing option to purchase the Premises on the terms and conditions of the Option Agreement executed by the Landlord and the Tenant of even date herewith, the terms of which are incorporated herein.

SECTION 17. EXTENSION OPTIONS

17.1 Extended Term. Provided that this Agreement is in effect and the Tenant is not in an Event of Default hereunder on the Expiration Date and on the last day of any extension period as hereunder provided, the Tenant is hereby granted the continuing option to extend the Lease Term for three (3) additional, consecutive periods of five (5) years each, on the same terms and conditions as existed during the initial Lease Term, except that:

17.1.1 Base Rent. Notwithstanding the terms of Section 3.1 of this Agreement, and assuming the Tenant's exercise of the foregoing options, the Base Rent for the extension periods will be as follows: (a) Beginning on the first day of the first extension period and for each month during such term and any subsequent extended term, monthly installments in the amount of Fifty-Six Thousand Seven Hundred Fifty and No/100 Dollars \$56,750.00) each, payable in advance and without demand.

17.1.2 Improvements. The Landlord for any extension period will neither be obligated to furnish any additional Improvements to the Tenant nor pay any additional Supplemental Allowance to the Tenant and the Tenant will accept the Premises in an "AS IS" condition on the commencement date of each extension period.

17.1.3 Further Exercise. To exercise each of the foregoing extension options, the Tenant must serve notice in writing to the Landlord of the Tenant's exercise of each such option on or before ninety (90)

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days prior to the last day of the Expiration Date and each respective extension period. The Tenant will have no option to extend the term of this Agreement beyond the expiration of the fifth five (5) year extension period.

SECTION 18. MISCELLANEOUS

18.1 Force Majeure. If either the Landlord or the Tenant is delayed or prevented from performing any term of this Agreement by reason of strikes, walkouts, inability to procure materials, failure of power, restrictive laws or regulations, riots, war or other reason beyond the party's control, then performance will be excused for the period of delay and the time for performance will be extended for a period equal to the period of such delay.

18.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be deemed to have been given when delivered personally to the party or, when deposited with the United States Postal Service by registered or certified mail, postage and charges prepaid, addressed as follows:

To the Landlord: Raptor Master, Inc.
1141 North Robinson
Oklahoma City, Oklahoma 73102
Attention: President

To the Tenant: Climate Master, Inc.
16 South Pennsylvania
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attention: President

With copy to: Legal Department
LSB Industries, Inc.
16 South Pennsylvania
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attention: David M. Shear, Esq.

or to such other address as is designated as above provided from time to time in writing by those entitled to receive such notice.

18.3 Certificates. Either party will at any time and without charge, within ten (10) days after written request by the other, certify by written instrument as to: whether this Agreement has been supplemented or amended, and if so, in what manner; the validity of the Agreement as of the time the request is received; the existence of any Default by either party and any offsets, counterclaims or defenses on the part of the other party; the commencement and termination dates of the Lease Term; and such other matters as might be reasonably requested. Such certification may be delivered to any mortgagee or purchaser, or prospective mortgagee or prospective purchaser, or to any other Person specified in the certificate. Information so communicated will be binding on the executing party and may be relied on by the party requesting the same and by the Person to whom the certificate is delivered.

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18.4 Governing Law. This Agreement is being executed, delivered and is intended to be performed in Oklahoma City, Oklahoma, and the substantive laws of the State of Oklahoma will govern the validity, construction and enforcement of this Agreement. All claims, disputes and other matters in question arising out of or relating to this Agreement, or the breach thereof, will be decided by proceedings instituted and litigated in a court of competent jurisdiction located in the State of Oklahoma.

18.5 Binding Effect. This instrument together with the Purchase Option constitutes the entire agreement between the parties and may not be changed, modified, amended or supplemented except in writing, signed by both the Landlord and the Tenant. This Agreement together with the Purchase Option will be binding on each of the parties and their respective successors and permitted assigns. All Persons to whom any interest in this Agreement, the leasehold estate hereby created, the Land or the Improvements might be transferred in accordance with the terms of this Agreement will, by accepting such transfer, be bound by this Agreement together with the Purchase Option to the same extent as if such transferee had been an original party hereto or thereto. This Agreement together with the Purchase Option is intended to create rights between the Landlord and the Tenant and are not intended to confer rights on any other Person or to constitute such Person a third party beneficiary hereunder. If at any time the Landlord or the Tenant is comprised of more than one Person, this Agreement together with the Purchase Option will be jointly and severally binding on each Person comprising the Landlord and the Tenant.

18.6 Execution. This Agreement may be executed in multiple counterparts with the same effect as if both parties had signed the same document. All counterparts will be construed together and will constitute one agreement. This Agreement will not be binding on or constitute evidence of an agreement until both parties affix their signature to a counterpart of this document.

18.7 Time. Time is of the essence of this Agreement.

18.8 Merger. This Agreement and the leasehold estate hereby created will merge or not with any other estate or interest in the Land or the Improvements in the event that the same Person might own or hold directly or indirectly: (a) the rights of the Tenant under this Agreement or the leasehold estate hereby created or any interest therein; and (b) any other estate or interest in all or any part of the Land or Improvements; at the option of the person holding such estate or interest. No such merger will occur until such time as all Persons holding an interest in this Agreement and the leasehold estate hereby created and any such other estate or interest in the Land or Improvements or any part thereof join in a written instrument evidencing such merger.

18.9 Severability. If any clause or provision of this Agreement is illegal, invalid or unenforceable under any present or future law, the remainder of this Agreement will not be affected thereby. It is the intention of the parties that if any such provision is held to be illegal, invalid or unenforceable, there will be added in lieu thereof a provision as similar in terms to such provision as is possible and be legal, valid and enforceable.

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18.10 Recording. The Landlord and the Tenant agree that this Agreement will not be recorded, but that a memorandum hereof in substantially the form set forth at Schedule "2" attached as a part hereof will be executed and delivered simultaneously with the execution of this Agreement which memorandum shall be recorded in the real estate records in Oklahoma County, Oklahoma.

SECTION 19. DEFINITIONS

19.1 Defined Terms. The words defined in this Section are intended to have the following meanings when used in this Agreement:

19.1.1 Additional Rent. The Impositions, insurance premiums, maintenance expenses and other charges and expenses to be paid by the Tenant under the terms of this Agreement.

19.1.2 Agreement. This Amended and Restated Lease Agreement and all modifications and amendments thereto bearing the written approval of both the Landlord and the Tenant.

19.1.3 Base Rent. The payments specified at Section 3.1 of this Agreement as the same might be adjusted from time to time pursuant to Section 3.2 of this Agreement.

19.1.4 Building. The 230,00 square feet of warehouse space, related office space and facilities located on the Land.

19.1.5 Commencement Date. The date on which the Lease Term commences as specified in Section 2 of this Agreement.

19.1.6 Default. The occurrence of an Event of Default.

19.1.7 Event(s) of Default. The actions or inactions of the Tenant specified at Section 15.1 of this Agreement and the failure of the Tenant to cure the same within the periods provided in Section 15.2 of this Agreement.

19.1.8 Expiration Date. The date on which the Lease Term expires or such earlier date as might be specified by the Landlord in the exercise of the Landlord's rights hereunder.

19.1.9 First Fee Mortgage. The Mortgage and Security Agreement creating a lien and security interest in favor Gold Bank, covering the Land and the Improvements, and all increases, renewals, modifications, consolidations, replacements and extensions thereof.

19.1.10 Imposition(s). All taxes (including, without limitation, sales and use taxes), assessments, water, sewer and other

rents, rates and charges, excises, levies, license fees, permit fees, inspection fees and other authorization fees and other charges, whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character (including all interest and penalties thereon), which at any time during the Lease

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Term may be assessed, levied, confirmed or imposed on the Land, the Improvements or against the Tenant or the Landlord in connection with the Land or the Improvements. The term "Impositions" specifically excludes all income, estate, succession, inheritance, transfer or franchise taxes imposed against the Landlord, the Rent paid to landlord or the Landlord's interest in the Land and fees, assessments, and other charges, whether general, special, ordinary or extraordinary, foreseen or unforeseen of every character relating to or incurred in connection with the performance of Landlord's obligations under this Agreement (the "Landlord's Impositions").

19.1.11 Improvements. The Building, Tenant Improvements, walkways, plazas, parking areas and related facilities, structures, fixtures, and all subsequent alterations and additions thereto, except under no condition shall the Tenant Equipment be considered Improvements.

19.1.12 Land. The real property more particularly described at Schedule "1" attached hereto and made a part hereof and the appurtenances relating thereto.

19.1.13 Landlord. Raptor Master, Inc., an Oklahoma limited liability company and its successors and assigns.

19.1.14 Lease Term. The five (5) year period identified at Section 2.1 of this Agreement, as the same might be extended, postponed or accelerated as herein provided.

19.1.15 Legal Requirement(s). All laws, statutes, codes, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements of and agreements with all federal, state and local governments, agencies and officials, foreseen and unforeseen, ordinary or extraordinary, which now or at any time hereafter may be applicable to all or any part of the Land or the Improvements or to any use or condition of all or any part of the Land or the Improvements .

19.1.16 Person(s). Any individual, corporation, association, trust, partnership, joint venture or any government or agency or political subdivision thereof.

19.1.17 Premises. The Land, the Building and the Improvements.

19.1.18 Purchase Option. The Tenant's Right to purchase the Premises as specified in Section 16 of this Agreement.

19.1.19 Rent. The sum of the Base Rent and the Additional Rent.

19.1.20 Tenant. Climate Master, Inc., a Delaware corporation, and its successors and permitted assigns.

19.1.21 Tenant Equipment. All machines, inventory, equipment, furniture or furnishings now or hereafter owned or leased by the Tenant and relating to the Tenant's operation of the Premises as a manufacturing facility, office functions and other similar uses.

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19.1.22 Utilities Charge(s). All charges for water, sewer, gas, heat, light, power, telephone service, electricity, refuse collection and other utility and communication services rendered or used on or about all or any part of the Land or the Improvements and all other similar costs and expenses relating to the use, operation and maintenance of the Land or the Improvements.

19.1.23 Construction. Except for the terms defined in Section 19.1 above, the descriptive headings contained elsewhere in this Agreement are for convenience only and are not intended to define the subject matter of the provisions of this Agreement.

SECTION 20. ASSUMPTION BY LANDLORD

Landlord hereby expressly assumes and agrees to perform, observe and confirm all of the agreements, terms, conditions, duties and obligations of West Point under the Original Lease as modified by the terms of this Agreement. In furtherance of the foregoing assumption by Landlord, Tenant acknowledges and agrees to the release of West Point as landlord under the Original Lease.

SECTION 21. AMENDMENT AND RESTATEMENT

This Agreement constitutes an amendment, extension and restatement, but not an extinguishment of the Original Lease. The Original Lease, as modified by the provisions of this Agreement, shall be construed as one agreement.

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Lease Agreement this ____ day of May, 2001, effective the date first above written.

RAPTOR MASTER, L.L.C.

CLIMATE MASTER, INC.

By: _____
(the "Landlord")

By: _____
(the "Tenant")

WEST POINT ASSIGNMENT OF ORIGINAL LEASE

West Point acknowledges the foregoing Amended and Restated Lease Agreement and hereby assigns to Landlord all of its right title and interest in and to the Original Lease. West Point represents and warrants that West Point has not previously assigned, transferred, sold or encumbered any right, title or interest in or to the Lease and agrees to execute all documents and perform all acts which may be desirable or necessary to carry out this assignment to full effect.

Executed this ____ day of May, 2001.

WEST POINT COMPANY, L.L.C.

By: _____
Title: _____

GUARANTY

Performance of all obligations of Tenant hereunder, including the payment of rent, is guaranteed by Prime Financial Corporation, an Oklahoma Corporation.

Executed this ____ day of May, 2001.

PRIME FINANCIAL CORPORATION

By: _____
Title: _____

OPTION AGREEMENT

THIS AGREEMENT is made this 8th day of May, 2001, between RAPTOR MASTER, L.L.C., an Oklahoma limited liability company ("Raptor"), having a notice address at 1141 N. Robinson, Suite 300, Oklahoma City, Oklahoma 73102 and CLIMATE MASTER, INC., a Delaware corporation ("CMI"), having a notice address at 16 South Pennsylvania, P.O. Box 754, Oklahoma City, Oklahoma 73101.

W I T N E S S E T H:

1. Purchase Option. Raptor, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, does hereby grant to CMI on the terms hereafter stated, the irrevocable right and option to purchase (the "Purchase Option") the fee simple title to the property described on Exhibit A hereto (hereafter collectively called the "Property").

1.1 Real Property. All of the real property (the "Real Property") described on Schedule 1 attached hereto, together with the manufacturing warehouse and office facility located thereon, containing approximately 230,000 square feet of gross area, together with improvements, fixtures, walkways, parking areas and other items of real property located thereon (collectively the "Building").

1.2 Tangible Personal Property. All tangible personal property located on the Real Property which is owned by Raptor and used in the ownership, operation, management and maintenance of the Building and Real Property.

1.3 Intangible Personal Property. All intangible personal property owned by Raptor and used in the ownership, operation and maintenance of the Building and the Real Property, including, without limitation, all contract rights, documents of title, general intangibles and business records pertaining to the Building and the Real Property, excluding therefrom only: cash on hand and in bank accounts held by Raptor.

2. Exercise of Option. The Purchase Option hereby granted to CMI may be exercised by CMI by service to Raptor of written notice of such exercise at any time during the primary term of that certain Amended and Restated Lease of even date herewith between Raptor as landlord and CMI as tenant covering the Real Property and Building.

3. Purchase Price. If CMI elects to exercise the Purchase Option hereby granted, CMI agrees at closing to pay to Raptor a purchase price of \$40,000 if this Purchase Option is exercised by May ___, 2002, \$80,000 if exercised by May ___, 2003, \$120,000 if exercised by May ___, 2004, \$160,000 if exercised by May ___, 2005, and \$200,000 if exercised thereafter during the term of this Option. As additional consideration to Raptor for the Purchase Option, CMI agrees: (a) to assume Raptor's obligations under the Lease Agreement arising subsequent to the Closing Date and to assume Raptor's obligations under the First Fee Mortgage and obtain the full release of Raptor under the First Fee Mortgage (as defined in Schedule 1 hereto); (b) to indemnify and hold Raptor harmless from all loss, cost and expense incurred in connection with

such obligations assumed by CMI under (a) above of this section; and (c) to execute such additional documents as might reasonably be required by Raptor to further evidence such assumption and indemnification.

4. Option Consideration. In consideration of the grant of the option in this Agreement, CMI shall pay to Raptor \$40,000 on the ___ day of November, 2001, and \$40,000 on the ___ day of each sixth month thereafter during the term of this Option but only insofar as payments are made by Raptor, or properly set off, under that certain promissory note, endorsed to CMI, dated May ___, 2001, with Raptor as maker and Prime Financial Corporation as holder.

5. Title. Raptor will deliver the following items to CMI at the times hereafter specified:

5.1 Title Commitment. Within thirty (30) days after the date of CMI's exercise of the Purchase Option, Raptor will furnish to CMI a current commitment (the "Title Commitment") for issuance of an ALTA Form B Owner's Title Insurance Policy covering the Property (the "Title Policy") in an amount equal to the sum of the purchase price of the Property described in paragraph 3, plus the face amounts of the First Fee Mortgage, issued and reinsured or coinsured by title insurance companies designated by Raptor (collectively hereafter called the "Title Company") subject to reasonable approval by CMI, showing good and marketable, fee simple title to the Property to be vested in Raptor, free and clear of any and all liens, encumbrances and mortgages (except the First Fee Mortgage), subject only to those exceptions to title as previously approved by CMI and to any existing easements, rights-of-way, restrictions and covenants of record that do not adversely materially affect CMI's permitted use of the Property (the "Approved Title Exceptions").

5.2 Title Defects. If the Title Commitment sets forth exceptions other than the Approved Title Exceptions and other than the standard printed exceptions contained in the Title Commitment, CMI will have fifteen (15) days after delivery of the Title Commitment to furnish to Raptor a written report specifying any objections to such exceptions and Raptor will thereafter have forty-five (45) days after the date of delivery of such written notification to cure such defects or to obtain a revised Title Commitment from which the objectionable exceptions have been removed. No matter will be construed as, or constitute, a title defect so long as the same is not so construed under the Real Estate Title Examination Standards of the Oklahoma Bar Association.

In the event that the Title Commitment contains at the expiration of the above described forty-five (45) day period an exception other than the Approved Title Exceptions or the standard printed exceptions, then CMI will be entitled, at its sole option, to either: (i) waive such exception to title, or (ii) to exercise any and all other rights or remedies against Raptor to which CMI may be entitled at law or in equity.

5.3 Title Policy. Raptor's sole obligation with respect to the status of title to the Property is to have on the date of this Agreement, during the term hereof and on the Closing Date good and marketable, fee simple title to the Property, free and clear of any and all liens, encumbrances and mortgages (except the First Fee Mortgage) subject to the Approved Title Exceptions, and furnish the Title Commitment in the manner required under paragraphs 4.1 and 4.2 and all costs and premiums relating to the issuance of the Title Commitment and the Title Policy will be borne by CMI.

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6. Closing. Raptor and CMI agree that the purchase will be consummated as follows:

6.1 Closing Date. The sale of the Property will be consummated on or before thirty (30) days after the date of satisfaction of Raptor's obligations with respect to title; the parties agree in good faith to try to consummate the sale of the Property in no event later than sixty (60) days after the date CMI gives written notice of its exercise of the Purchase Option granted hereby. The exact time and place of closing to be designated by CMI, subject to the reasonable approval of Raptor (the "Closing Date").

6.2 Raptor's Deliveries. At closing, Raptor will deliver or cause to be delivered to CMI the following items (all documents will be duly executed and acknowledged where required): (a) a general warranty deed conveying the Real Property to CMI; (b) a bill of sale and assignment conveying all of the tangible and intangible personal property to CMI; (c) a certificate reasonably setting forth an inventory of personal property and a listing of accounts payable and contracts relating to the Property; and (d) such additional documents as might be reasonably required by CMI to consummate the sale of the Property to CMI. All such documents shall be in form and content reasonably satisfactory to CMI.

6.3 CMI's Deliveries. As closing, CMI will deliver or cause to be delivered to Raptor the following items (all documents will be duly executed and acknowledged where required): (a) the purchase price of the Property, in certified funds; (b) an appropriate Oklahoma sales tax return; and (c) such additional documents as might be reasonably required by Raptor to consummate the sale of the Property to CMI. All such documents shall be in form and content reasonably satisfactory to Raptor.

6.4 Closing Costs. Raptor will pay the following closing costs: (a) Raptor's attorneys' fees; and (b) the expenses, including recording costs applicable thereto, relating to the satisfaction of any objections to title made in accordance with paragraph 4.2 above. CMI will pay all other closing costs, including without limitation: (a) CMI's attorneys' fees; (b) all recording fees or costs, except those recording costs relating to the satisfaction of any objections to title made in accordance with paragraph 4.2 above; (c) the cost of documentary stamps to be affixed to the general warranty deed conveying the Property to CMI; (d) any premium charge or expense related to the issuance of the Title Commitment or the Title Policy; and (e) any escrow or closing fees charged with respect to the closing of this transaction.

6.5 Closing Memorandum. On the Closing Date the parties agree to execute and deliver a memorandum of closing to acknowledge delivery and acceptance of the items required by this paragraph and the status of performance of the other provisions of this Agreement.

7. Adjustments and Prorations. All receipts and disbursements of the property will be prorated on the Closing Date and the purchase price will be adjusted on the following basis :

7.1 Rents. All rents payable or receivable from the tenant of the Building prior to the Closing Date will be paid to Raptor; rents payable or receivable subsequent to the Closing Date and thereafter will be paid to

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CMI. Any rents received by CMI after the Closing Date that were payable or receivable prior to the Closing Date will be paid to Raptor.

7.2 Accounts Payable. All sums due for accounts payable which were owing or incurred by Raptor prior to the Closing Date with respect to the structural maintenance of the Building, the Building's roof and other obligations of Raptor as Landlord under the Lease Agreement will be paid by Raptor and Raptor agrees to indemnify and hold CMI harmless with respect thereto. CMI will furnish to Raptor for payment any such bills for which prior period received after the Closing Date and MCI will have no further obligation with respect thereto. All other accounts payable with respect to maintenance of the Building will be paid by CMI and CMI agrees to indemnify and hold Raptor harmless with respect thereto.

7.3 Property Taxes. All real and personal property ad valorem taxes and installments of special assessments, if any, will be paid by Raptor.

7.4 Utility Charges. All utility charges will be paid by CMI. All utility security deposits, if any, will be retained by the party originally funding those deposits.

8. Project Condition. Except as Raptor is otherwise obligated under the Lease Agreement or this Agreement, it is understood that Raptor has not made hereunder and will not be obligated to make any representation or warranty as to the condition or state of repair of the Building and Improvements on the Property and has not hereunder made and will not be obligated to make any agreement to alter, repair or improve the Building and Improvements on the Property. Except as Raptor is otherwise obligated under the Lease Agreement or this Agreement, the sole obligation of Raptor on the Closing Date will be to deliver to CMI: (i) good and marketable, fee simple title to the Property, free and clear of any and all liens, encumbrances and mortgages (except the First Fee Mortgage), subject to the Approved Title Exceptions; and (ii) possession of the Property in substantially the same condition (normal wear and tear and insured casualty loss excepted) as existed on the date of CMI's exercise of the Purchase Option and CMI agrees to accept possession of the Property on the Closing Date in an "AS IS" condition "WITH ALL FAULTS".

9. Defaults; Remedies. The events of default by Raptor under this Agreement will include: (a) the failure to comply with any term of this Agreement to be observed and performed by Raptor; and (b) the failure to perform and failure by Raptor to cure within the times provided, of any of Raptor's obligations under that certain lease agreement (the "Lease Agreement") between Raptor and CMI of even date herewith and default thereunder will further constitute an event of default under this Agreement. The events of default by CMI under this Agreement will include: (a) the failure to comply with any term of this Agreement to be observed or performed by CMI; and (b) the occurrence, and failure by CMI to cure within the times provided, of any of the events specified at subparagraphs (a) through (g) as provided under Section 15 of the Lease Agreement. In the event either party fails to perform such party's respective obligations hereunder (except as excused by the other party's default), the party claiming default shall make written demand for performance. If the defaulting party fails to comply with such written demand within ten (10) days after receipt thereof, the non-defaulting party will have the option either to waive such default or to seek any right or remedy to which the non-defaulting party may be entitled at law or in equity.

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10. Subordination. Subject to the terms of the Lease Agreement, the Purchase Option hereby granted shall be and is hereby made subject and subordinate to the First Fee Mortgage.

11. Assignment. The rights of CMI hereunder cannot be assigned in whole or in part without the contemporaneous assignment by CMI to the same entity of CMI's leasehold estate under the Lease Agreement in accordance with the requirements of Section 9.1 thereunder.

12. Representations. Raptor hereby represents, warrants and covenants to CMI that Raptor has and during the term of this Agreement will at all times have good and marketable, fee simple title in and to the Property, free and clear of any and all liens, encumbrances and mortgages (except the First Fee Mortgage) and subject only to those exceptions to title as previously approved in writing by CMI (whether pursuant to Section 16.2.3 of the Lease Agreement or otherwise) and to any existing easements, rights-of-way, restrictions and covenants of record that do not adversely materially affect CMI's permitted use of the Property.

13. Miscellaneous.

13.1 Time. Time is of the essence of this Agreement.

13.2 Notice. All notices required hereunder will be in writing and served by certified mail, return receipt requested, postage prepaid, at the addresses shown above, until service of proper notice of a change of such address.

13.3 Amendment. This Agreement will not be altered, waived, amended or extended, except by written agreement signed by Raptor and CMI.

13.4 Severability. If any clause or provision of this Agreement is illegal, invalid or unenforceable under any present or future law, the remainder of this Agreement will not be affected thereby. It is the intention of the parties that if any provision is held to be illegal, invalid or unenforceable, there will be added in lieu thereof a provision of similar terms to such provision as is possible and be legal, valid and enforceable.

13.5 Binding Effect. Subject to the restrictions set forth herein, the provisions of this Agreement will inure to the benefit of and be binding on Raptor and CMI and their respective successors and permitted assigns.

13.6 Litigation Expense. In the event either party hereto commences litigation against the other to enforce its rights hereunder, the prevailing party in such litigation shall be entitled to recover from the other its reasonable attorneys' fees and expenses incidental to such litigation.

13.7 Other Instruments. On termination, expiration or release of the Purchase Option and within ten (10) days after written request by Raptor, from time to time, CMI agrees to execute such further documents as might be reasonably requested by Raptor to document such termination, expiration or release of the Purchase Option.

13.8 Governing Law. This Agreement will be construed and enforced according to the internal laws of the State of Oklahoma. All claims, disputes and other matters in question arising out of or relating to this Agreement, or the breach thereof, will be decided by proceedings in a court of competent jurisdiction in the State of Oklahoma.

IN WITNESS WHEREOF, the undersigned have executed this instrument on the date first above written.

RAPTOR MASTER, L.L.C., an Oklahoma limited liability company

By _____
Manager

CLIMATE MASTER, INC., a Delaware corporation

By _____
President

STATE OF OKLAHOMA)
) ss:
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on May ____, 2001, by _____, as Manager of Raptor Master, L.L.C., an Oklahoma limited liability company.

(Seal) _____
Notary Public
My Commission Expires: _____

STATE OF OKLAHOMA)
) ss:
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on May ____, 2001, by _____, as President of Climate Master, Inc., a Delaware corporation.

(Seal) _____
Notary Public
My Commission Expires: _____

SCHEDULE 1

First Fee Mortgage is that certain mortgage dated May ____, 2001 between Raptor Master, L.L.C. as mortgagor and Gold Bank covering the property which is the subject of the attached Option, together with the debt secured thereby.

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) pertaining to the 1981 and 1986 Stock Option Plans, the Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan, the Registration Statements (Forms S-8 No. 333-62831, No. 333-62835, No. 333-62839, No. 333-62843, and No. 333-62841) pertaining to the registration of an aggregate of 225,000 shares of common stock pursuant to the certain Non-Qualified Stock Option Agreements for various employees and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our report dated May 17, 2001, relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which is included in its Form 10-Q for the quarter ended March 31, 2001.

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

ERNST & YOUNG LLP
/s/ Ernst & Young LLP

Oklahoma City, Oklahoma
May 17, 2001