

FORM 10-K
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended: December 31, 1996

or

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

For the transition period from _____ to _____

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

73-1015226

(State of Incorporation)

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

16 South Pennsylvania Avenue
Oklahoma City, Oklahoma

73107

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(405) 235-4546

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value \$.10	New York Stock Exchange
\$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2	New York Stock Exchange
Preferred Share Purchase Rights (Facing Sheet Continued)	New York Stock Exchange

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

\$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2.

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

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

As of February 28, 1997, the aggregate market value of the 8,830,654 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately \$44,153,270 based on the closing sales price for the Company's common stock as reported for that date on the New York Stock Exchange. That amount does not include (1) the 1,539 shares of Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company, (2) the 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock (the "Series B Preferred Stock"), and (3) the 915,000 shares of \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, excluding 5,000 shares held in treasury (the "Series 2 Preferred Stock"). An active trading market does not exist for the shares of Non-Cumulative Preferred Stock or the Series B Preferred Stock. The shares of Series 2 Preferred Stock do not have voting rights except under limited circumstances.

As of February 28, 1997, the Registrant had 12,949,356 shares of common stock outstanding (excluding 1,939,120 shares of common stock held as treasury stock).

TABLE OF CONTENTS

PART I

	Page
Item 1. Business	
General	1
Segment Information and Foreign and Domestic Operations and Export Sales	1
Chemical Business	1
Environmental Control Business	5
Automotive Products Business	8
Industrial Products Business	10
Employees	11
Research and Development	11
Environmental Compliance	11
Item 2. Properties	
Chemical Business	13
Environmental Control Business	14
Automotive Products Business	14
Industrial Products Business	15
Item 3. Legal Proceedings	16
Item 4. Submission of Matters to a Vote of Security Holders	19
Item 4A. Executive Officers of the Company	19

PART II

Item 5. Market for Company's Common Equity and Related Stockholder Matters	
Market Information	20
Stockholders	20
Dividends	20
Item 6. Selected Financial Data	24
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Overview	26
Results of Operations	30
Liquidity and Capital Resources	34
Item 8. Financial Statements and Supplementary Data	41
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	42

PART III

Incorporated by reference from the Company's proxy statement.	42
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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	42
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PART I

ITEM 1. BUSINESS

GENERAL

LSB Industries, Inc. (the "Company") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. The Company is a diversified holding company which is engaged, through its subsidiaries, in (i) the manufacture and sale of chemical products for the explosives, agricultural and industrial acids markets (the "Chemical Business"), (ii) the manufacture and sale of a broad range of air handling and heat pump products for use in commercial and residential air conditioning systems (the "Environmental Control Business"), and (iii) the manufacture or purchase and sale of certain automotive and industrial products, including automotive bearings and other automotive replacement parts (the "Automotive Products Business") and the purchase and sale of machine tools (the "Industrial Products Business").

SEGMENT INFORMATION AND FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

Schedules of the amounts of sales, operating profit and loss, and identifiable assets attributable to each of the Company's lines of business and of the amount of export sales of the Company in the aggregate and by major geographic area for each of the Company's last three fiscal years appear in

Note 15 of the Notes to Consolidated Financial Statements included elsewhere in this report.

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

CHEMICAL BUSINESS

GENERAL:

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

The Chemical Business' principal manufacturing facility is located in El Dorado, Arkansas ("El Dorado Facility") and its other manufacturing facilities are located in Hallowell, Kansas, Wilmington, North Carolina, four locations in Australia, and one location in New Zealand.

For 1996, approximately 26% of the sales of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 14% of the Company's 1996 consolidated sales, and 61% consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 33% of the Company's 1996 consolidated sales. The Chemical Business accounted for approximately 54% and 51% of the Company's 1996 and 1995 consolidated sales, respectively.

SEASONALITY:

The Company believes that the only seasonal products of the Chemical Business are fertilizer and related chemical products sold to the agricultural industry. The selling seasons for those products generally occur during the spring and fall planting seasons, i.e., from March through June and from September through November, which causes the Company to increase its inventory prior to the beginning of each season. Sales to this Business' markets depend upon weather conditions and other circumstances beyond the control of the Company.

RAW MATERIALS:

Ammonia represents an essential component in the production of most of the products of the Chemical Business, and the selling price of those products generally fluctuates with the price of ammonia over time. The Company has contracts with two suppliers of ammonia pursuant to which the suppliers have agreed to supply the ammonia requirements of the Chemical Business on terms the Company considers favorable. One contract is for a period of two (2) years. One contract is for a period of 120 days, and the parties are in the process of executing a long-term contract.

Substantial world-wide per ton price increases for ammonia were incurred during 1995 and 1996 by most, if not all, users of ammonia that are not also manufacturers of ammonia. Throughout 1995 and 1996, the Company's Chemical Business has been able to increase its sales prices to cover a portion of the price increases relating to the cost of ammonia that were incurred. However, the Company's Chemical Business has not been able to recover all of these cost increases by way of price increases during 1995 and 1996 on its products due to market conditions. As a result, such inability to increase prices to cover all price increases for ammonia for the Chemical Business' products had a negative impact on the Company's 1995 and 1996 earnings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of negative impact on the Chemical Business as a result of high ammonia prices.

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

MARKETING AND DISTRIBUTION:

The Chemical Business sells and markets its products to wholesalers and directly through its own sales force using 32 distribution centers operated by the Chemical Business. See "Properties". The Chemical Business sells low density prilled ammonium nitrate-based explosives primarily to the surface coal mining industry through six (6) Company-owned distribution centers, most of which are located in close proximity to the customers' surface mines in the coal producing states of Kentucky, Indiana, and Missouri, and through four (4) company-owned distribution centers in Australia and one (1) location in New Zealand located in the proximity of the mines. In addition, sales of explosives are made on a wholesale basis to independent wholesalers and other explosives companies.

The Chemical Business sells high density prilled ammonium nitrate for use in agricultural markets in geographical areas within a freight-logical distance from its El Dorado, Arkansas, manufacturing plant, primarily Texas, Oklahoma, Arkansas, and Louisiana. The products are sold through 21 distribution centers, with 15 centers located in Northern and Eastern Texas,

one center located in Oklahoma, two centers located in Missouri, and three centers located in Tennessee. The Chemical Business also sells its agricultural products directly to wholesale customers.

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

CUSTOMERS:

The Chemical Business does not depend on any single customer or a few customers. However, the Company does have a multi-year contract expiring in December 1998, to supply a customer with nitric acid from ammonia provided by such customer. The loss of that contract could have a material adverse effect on the Chemical Business.

PATENTS:

The Company believes that the Chemical Business does not depend upon any patent or license; however, the Chemical Business does own certain patents that it considers important in connection with the manufacture of certain blasting agents and high explosives. These patents expire from 1997 through 1999.

REGULATORY MATTERS:

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

COMPETITION:

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

RECENT CONSTRUCTION:

During 1994, 1995 and 1996 the Chemical Business spent approximately \$26.8 million to install an additional concentrated nitric acid plant ("DSN Plant") at its manufacturing facility located at El Dorado, Arkansas. The DSN Plant began limited operations in 1995 and such limited operations have continued through March 1997 due to certain mechanical problems at the DSN Plant. As of the date of this report, the DSN Plant is operating at approximately 80% of its design capacity.

RECENT DEVELOPMENT:

The Chemical Business has substantially finalized negotiations with the Bayer Corporation ("Bayer") for the Chemical Business to build and operate on a long-term basis a nitric acid plant located on property owned by Bayer in Baytown, Texas. If the transaction is completed, the Chemical Business would provide nitric acid from such plant to Bayer's Baytown, Texas, plant. Execution of the agreement between the Chemical Business and Bayer is subject to the Company finalizing the financing to construct the nitric acid plant and the final terms upon which the Chemical Business would lease such nitric acid plant. The Company has an agreement in principle with a lender to provide financing which is subject to a number of conditions. Such nitric acid plant would be owned by a party that is not an affiliate of the Company and would be leased to the Chemical Business for a period expected to equal ten years under an operating lease. It is currently expected that the cost to construct the nitric acid plant would be approximately \$60.0 million. Under the terms of the proposed agreement with Bayer, such nitric acid plant is to be constructed and become operational within 18 months from execution of the definitive agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

ENVIRONMENTAL CONTROL BUSINESS

GENERAL:

The Company's Environmental Control Business manufactures and sells a broad range of fan coil, air handling, air conditioning, heating, water source heat pump, geothermal water source heat pump, and dehumidification products

targeted to both commercial and residential new building construction and renovation, as well as industrial applications. The fan coil products consist of in-room terminal air distribution equipment utilizing air forced over a fin tube heat exchanger which, when connected to centralized equipment manufactured by other companies, creates a centralized air conditioning and heating system that permits individual room temperature control. The heat pump products manufactured by the Environmental Control Business consist of heat-recovery, water-to-air heat pumps that include a self-contained refrigeration circuit and blower, which allow the unit to heat or cool the space it serves when supplied with recirculating water at mild temperatures. The Environmental Control Business accounted for approximately 29% and 31% of the Company's 1996 and 1995 consolidated sales, respectively.

PRODUCTION AND BACKLOG:

Most of the Environmental Control Business' production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings, and other commercial or residential structures. As of December 31, 1996, the backlog of confirmed orders for the Environmental Control Business was approximately \$14.9 million, as compared to approximately \$12.1 million as of December 31, 1995. A customer generally has the right to cancel an order prior to the order being released to production. Past experience indicates that customers generally do not cancel orders after the Company receives them. As of February 28, 1997, the Environmental Control Business had released approximately \$12.6 million of the December 31, 1996 backlog to production. All of the December 31, 1996 backlog is expected to be filled by December 31, 1997.

DISTRIBUTION:

The Environmental Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturer's representatives, who also represent complimentary product lines not manufactured by the Company. The Environmental Control Business' sales to residential mechanical contractors are through distributors or sold directly by the Environmental Control Business to the contractors. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Environmental Control Business as a separate item in competition with the Company or as part of a package with other air conditioning-heating equipment products to form a total air conditioning system which they then sell to mechanical contractors, distributors or end-users. Sales to original equipment manufacturers accounted for approximately 28% of the sales of the Environmental Control Business in 1996 and approximately 8% of the Company's 1996 consolidated sales.

MARKET:

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

RAW MATERIALS:

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

COMPETITION:

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

JOINT VENTURES AND OPTIONS TO PURCHASE:

The Company has obtained an option to acquire 80% of the issued and outstanding stock of an Entity ("Entity") that performs energy savings contracts, primarily on U.S. government facilities (the "Option"). For the Option, the Company has paid \$1.1 million as of the date of this report. The term of the Option expires May 4, 1997, but the Company may extend such for two (2) additional years until 1999 upon payment of \$100,000 for each year the Company desires to extend such Option. As of the date of this report, the Company has not decided whether it will exercise the Option. If the Company decides to exercise the Option, the Company has agreed to pay an exercise price of \$4.0 million, less the amount already paid toward the Option ("Option Price"), with a portion of the unpaid exercise price being payable in cash and the balance over a certain period of time. The grantors of the Option have entered into an employment agreement with the Entity. Under the terms of the employment agreements, each of the three grantors will receive, among other

things, 12 1/2% of the net profits of the Entity for a period of three to five years following the date of exercise of the Option. If the Company decides not to exercise the Option, the grantors of the Option have agreed to repay to the Company the amounts paid by the Company in connection with the Option (less \$100,000), which obligation is secured by the stock of the Entity and other affiliates of the Entity. If the Company decides not to exercise the Option, there is no assurance that the grantors of the Option will have funds necessary to repay to the Company the amount paid for the Option. The grantors of the option may, under certain conditions, require the Company to accelerate its decision as to when it exercises the Option. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". For 1995 the Entity reported an unaudited net loss of approximately \$.5 million. The Company believes that the Entity sustained a loss from operations for 1996, but as of the date of this report, the amount of such loss for 1996 is undeterminable.

During 1994, a subsidiary of the Company obtained an option to acquire all of the stock of a French manufacturer of air conditioning and heating equipment. The Company's subsidiary was granted the option as a result of the subsidiary loaning to the parent company of the French manufacturer approximately \$2.1 million. Subsequent to the loan of \$2.1 million, the Company's subsidiary has loaned to the parent of the French manufacturer an additional \$1.8 million. The amount loaned is secured by the stock and assets of the French manufacturer. The Company's subsidiary may exercise its option to acquire the French manufacturer by converting approximately \$150,000 of the amount loaned into equity. The option is currently exercisable and will expire June 15, 1999. As of the date of this report, the Company has not decided whether it will exercise the option.

For 1996 and 1995, the French manufacturer had revenues of \$16.0 million and \$15.9 million, respectively, and reported an approximate breakeven level of operations in 1996 and a net loss of \$900,000 in 1995. As a result of cumulative losses by the French manufacturer, the Company has established reserves aggregating approximately \$1.5 million through December 31, 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

AUTOMOTIVE PRODUCTS BUSINESS

GENERAL:

The Automotive Products Business is primarily engaged in the manufacture and sale of a line of anti-friction bearings, which includes straight-thrust and radial-thrust ball bearings, angular contact ball bearings, and certain other automotive replacement parts (including universal joints, motor mounts, and clutches). This Business also manufactures powertrain and drive line parts for original equipment manufacturers. These products are used in automobiles, trucks, trailers, tractors, farm and industrial machinery, and other equipment. The Automotive Products Business accounted for approximately 12% of the Company's 1996 and 1995 sales. In 1996, the Automotive Products Business manufactured approximately 44% of the products it sold and approximately 37% in 1995, and purchased the balance of its products from other sources, including foreign sources.

DISTRIBUTION AND MARKET:

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

INVENTORY:

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

RAW MATERIALS:

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

FOREIGN RISK:

By purchasing a significant portion of the bearings and other automotive replacement parts that it sells from foreign manufacturers, the Automotive Products Business must bear certain import duties and international economic risks, such as currency fluctuations and exchange controls, and other risks from political upheavals and changes in United States or other countries' trade policies. Contracts for the purchase of foreign-made bearings and other

automotive replacement parts provide for payment in United States dollars. Circumstances beyond the control of the Company could eliminate or seriously curtail the supply of bearings or other automotive replacement parts from any one or all of the foreign countries involved.

COMPETITION:

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

INDUSTRIAL PRODUCTS BUSINESS

GENERAL:

The Industrial Products Business purchases and markets a proprietary line of machine tools. The current line of machine tools distributed by the Industrial Products Business includes milling, drilling, turning, and fabricating machines. The Industrial Products Business purchases most of the machine tools marketed by it from foreign companies, which manufacture the machine tools to the Company's specifications. This Business manufactures CNC bed mills and electrical control panels for machine tools. The Industrial Products Business accounted for approximately 5% of the Company's consolidated sales in each of the years 1996, 1995, and 1994.

DISTRIBUTION AND MARKET:

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

FOREIGN RISK:

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

COMPETITION:

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

EMPLOYEES:

As of December 31, 1996, the Company employed 1,563 persons. As of that date, (a) the Chemical Business employed 569 persons, with 105 represented by unions under agreements expiring in August, 1998, (b) the Environmental Control Business employed 577 persons, none of whom are represented by a union, and (c) the Automotive Products Business employed 261 persons, with 14 represented by unions under an agreement that expired in August, 1990 which has not been renewed.

RESEARCH AND DEVELOPMENT:

The Company incurred approximately \$532,000 in 1996, \$501,000 in 1995, and \$606,000 in 1994 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are sponsored by the Company.

ENVIRONMENTAL COMPLIANCE:

The Chemical Business and its operations are subject to extensive federal, state, and local environmental laws, rules, regulations and ordinances relating to pollution, the protection of the environment or the release or disposal of materials ("Environmental Laws") and is also subject to other federal, state, and local laws regarding health and safety matters ("Health Laws"). The operation of any chemical manufacturing plant and the distribution of chemical products entail risks under the Environmental Laws and Health Laws, many of which provide for substantial fines and criminal sanctions for violations, and there can be no assurance that material costs or liabilities will not be incurred to comply with such laws or to pay fines and penalties. In addition, the Environmental Laws and Health Laws, and enforcement policies thereunder, relating to the Chemical Business could bring

into question the handling, manufacture, use, emission or disposal of substances or pollutants at the facilities of the Chemical Business or the manufacture, use, or disposal of certain of its chemical products. Potentially significant expenditures could be required in order to comply with the Environmental Laws and Health Laws. The Company may be required to make additional significant site or operational modifications, potentially involving substantial expenditures and reduction or suspension of certain operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources". A subsidiary of the Company in the Automotive Products Business was notified in 1987 that it is a potentially responsible party as a result of having been a generator of waste disposed of at a site in Oklahoma City, Oklahoma. See "Legal Proceedings".

The Arkansas Department of Pollution Control & Ecology ("ADPC&E"), on behalf of the EPA, performed a preliminary assessment at the Chemical Business' El Dorado, Arkansas Plant site ("Site") in 1994. ADPC&E's preliminary assessment report stated, in part, that a release of certain types of contaminants is suspected to have occurred at the Site. In addition, subsequent to the preliminary assessment, the ADPC&E conducted additional inspections at the Site, which revealed certain instances of noncompliance with applicable hazardous waste management activities at the Site. In 1995, El Dorado Chemical Company ("EDC") and the ADPC&E entered into a Consent Agreement to address certain groundwater contamination and other issues at the Site. This Consent Agreement required EDC to undertake certain activities at the Site, including action to reduce contaminants in the groundwater at the Site. EDC submitted a groundwater monitoring work plan to the ADPC&E, which the ADPC&E approved, and EDC initiated such plan. EDC has installed additional monitoring wells at the Site to further test the groundwater. The results of tests of water from the new monitoring wells indicated that a risk assessment needed to be conducted on nitrates identified to be present in the shallow groundwater. The ADPC&E has approved a work plan submitted by EDC for the performance of such risk assessment. The risk assessment is currently being performed.

During 1995 and the first half of 1996, EDC entered into two additional Consent Administrative Agreements ("Agreements") with the ADPC&E to resolve certain environmental compliance and certain other issues associated with EDC's nitric acid concentrators. In the summer of 1996, EDC and the ADPC&E entered into an amendment ("Amendment") to the Agreements to resolve various compliance issues. In January 1997, EDC entered into a second amendment ("Second Amendment") to the Agreements, under which the ADPC&E acknowledged EDC's completion of certain engineering activities and assessed a penalty of \$150,000 to resolve a number of permit issues relating to off-site emissions and other air permit conditions. The Second Amendment also requires EDC to modify its air permit to reflect the new pollution control and other equipment installed. EDC is currently in compliance with the Agreements, as amended.

During 1996, the Chemical Business expended approximately \$6.8 million in connection with capital expenditures relating to compliance with federal, state and local Environmental Laws at its El Dorado, Arkansas, facility, including, but not limited to, compliance with the above-discussed consent agreements with the ADPC&E. The Company estimates that the Chemical Business is planning to spend approximately \$1.2 million in 1997 for capital expenditures relating to environmental control facilities at its El Dorado, Arkansas, facility to comply with Environmental Laws, including, but not limited to, such consent agreements. The amount to be spent in 1997 for capital expenditures by the Chemical Business related to compliance with Environmental Laws is a forward-looking statement and the results could materially differ, if during 1997 there are additional releases or threatened releases into the environment, changes in the Environmental Laws applicable to the Chemical Business that require the Chemical Business to spend additional amounts for capital expenditures not presently anticipated by the Company or any federal or state environmental agencies or court of competent jurisdiction, requires the Chemical Business to spend more for capital expenditures in order to comply with Environmental Laws than presently contemplated by the Company.

The Chemical Business is also involved in various lawsuits pending in federal court in El Dorado, Arkansas, relating to environmental issues at the Chemical Business' El Dorado, Arkansas, facility. See Item 3. "Legal Proceedings" for a discussion of such litigation and insurance coverage relating thereto. The above discussion relating to the amount spent in 1996 and anticipated to be spent in 1997 for capital expenditures relating to compliance with federal, state, and local Environmental Laws at the Chemical Business' El Dorado, Arkansas, facility does not include fees and expenses incurred, or to be incurred, in connection with such litigation or expenditures, if any, that may be spent to comply with any order issued by the court in connection with such lawsuits.

ITEM 2. PROPERTIES

CHEMICAL BUSINESS

The Chemical Business primarily conducts manufacturing operations (i) on 150 acres of a 1,400 acre tract of land located in El Dorado, Arkansas (the "Site"), (ii) on 10 acres of land in a facility of approximately 60,000 square feet located in Hallowell, Kansas ("Kansas facility") and (iii) a mixed acid plant in Wilmington, North Carolina. In addition, the Chemical Business has four manufacturing facilities in Australia and one in New Zealand that produce blasting related products.

As of December 31, 1996, the manufacturing facility at the Site was being utilized to the extent of approximately 76%, based on the continuous operation of those facilities. As of December 31, 1996, manufacturing operations at the Kansas facility were being utilized to the extent of

approximately 80% based on two 8 hour shifts per day and a 5 day week.

In addition, the Chemical Business distributes its products through 32 agricultural and blasting distribution centers. The Chemical Business currently operates 21 agricultural distribution centers, with 15 of the centers located in Texas (12 of which the Company owns and 3 of which it leases); 1 center located in Oklahoma which the Company owns; 2 centers located in Missouri (1 of which the Company owns and 1 of which it leases); and 3 centers located in Tennessee (all of which the Company owns). The Chemical Business currently operates 6 domestic explosives distribution centers located in Bonne Terre, Missouri (owned); Owensboro, Combs, and Pilgrim, Kentucky (leased); Midland, Indiana (leased); and Pryor, Oklahoma (leased). The Chemical Business also has four (4) explosives distribution centers in Australia, all of which are leased, and one (1) explosive distribution center located in New Zealand, which is leased.

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

The Chemical Business' El Dorado, Arkansas facility is subject to mortgages.

ENVIRONMENTAL CONTROL BUSINESS

The Environmental Control Business conducts its fan coil manufacturing operations in two adjacent facilities located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet owned by the Company subject to mortgage. As of December 31, 1996, the Environmental Control Business was using the productive capacity of the above-referenced facilities to the extent of approximately 55%, based on two eight-hour shifts per day and a five-day week.

The Environmental Control Business manufactures most of its heat pump products in a leased 270,000 square foot facility in Oklahoma City, Oklahoma. The lease term began March 1, 1988 and expires February 28, 1998 with options to renew for additional five year periods, and currently provides for the payment of rent in the amount of \$52,389 per month. The Company also has an option to acquire the facility at any time in return for the assumption of the then outstanding balance of the lessor's mortgage. As of December 31, 1996, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 64%, based on one eight-hour shift per day and a five-day week.

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

AUTOMOTIVE PRODUCTS BUSINESS

The Automotive Products Business conducts its operations in plant facilities principally located in Oklahoma City, Oklahoma which are considered by Company management to be suitable and adequate to meet its needs. One of the manufacturing facilities occupies a building owned by the Company, subject to mortgages, totaling approximately 178,000 square feet. The Automotive Products Business also uses additional manufacturing facilities located in Oklahoma City, Oklahoma, owned and leased by the Company totalling approximately 158,000 square feet. During 1996, the Automotive Products Business under-utilized the productive capacity of its facilities.

International Bearings, Inc. ("IBI"), a subsidiary of the Company operating as a separate entity within the Automotive Products Division, operates from a Company-owned warehouse of approximately 45,000 square feet in an industrial park section of Memphis, Tennessee.

INDUSTRIAL PRODUCTS BUSINESS

The Company owns several buildings, some of which are subject to mortgages, totaling approximately 360,000 square feet located in Oklahoma City, Oklahoma and Tulsa, Oklahoma, which the Industrial Products Business uses for showrooms, offices, warehouse, and manufacturing facilities. The Company also owns real property located near or adjacent to the above-referenced buildings in Oklahoma City, Oklahoma, which the Industrial Products Business uses for parking and storage. The Company also leases facilities in Middletown, New York containing approximately 25,000 square feet for manufacturing operations.

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

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

SUBSEQUENT EVENT

In February 1997, Prime Financial Corporation, a wholly-owned subsidiary of the Company, exercised its option to acquire a 22 story office building

containing approximately 293,000 square feet of office space (the "Tower") in Oklahoma City, Oklahoma, by foreclosing against the balance owed the subsidiary under a note receivable recorded on the subsidiary's records at a carrying value of approximately \$14.0 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the acquisition of the Tower by the subsidiary.

ITEM 3. LEGAL PROCEEDINGS

In December 1987, the United States Environmental Protection Agency ("EPA") notified L&S Bearing Company ("L&S") of potential responsibility for releases of hazardous substances at the Mosley Road Landfill in Oklahoma ("the Mosley Site"). The recipients of such notification were: a) generators of industrial waste allegedly sent to the Mosley Site (including L&S), and b) the current owner/operator of the Mosley Site, Waste Management of Oklahoma ("WMO") (collectively, "PRPs"). Between February 20, and August 24, 1976, the Mosley Site was authorized to accept industrial hazardous waste. During this time, a number of industrial waste shipments allegedly were transported from L&S to the Mosley Site. In February 1990, EPA added the Mosley Site to the National Priorities List. WMO and the US Air Force conducted the remedial investigation ("RI") and feasibility study ("FS"). It is too early to evaluate the probability of a favorable or unfavorable outcome of the matter for L&S. However, it is the PRP Group's position that WMO as the Mosley Site owner and operator should be responsible for at least half of total liability at the Mosley Site, and that 75% to 80% of the remaining liability, if allocated on a volumetric basis, should be assignable to the US Air Force. The Company is unable at this time to estimate the amount of liability, if any, since the estimated costs of clean-up of the Mosley Site are continuing to change and the percentage of the total waste which were alleged to have been contributed to the Mosley Site by L&S has not yet been determined. If an action is brought against the Company in this matter, the Company intends to vigorously defend itself and assert the above position.

Roy Carr, et al. v. El Dorado Chemical Company ("Carr Case"); Richard Detraz, et al. v. El Dorado Chemical Company ("Detraz Case"); Roy A. Carr, Sr., et al. v. El Dorado Chemical Company ("Citizen Suit"). The Carr Case, which was filed against El Dorado Chemical Company ("EDC") on June 26, 1996, the Detraz Case, which was filed against EDC on October 14, 1996, and the Citizen Suit, which was filed against EDC on October 17, 1996, are pending in the United States District Court, Western District of Arkansas, El Dorado Division. The plaintiffs in the Carr Case are comprised of eight (8) persons who reside in the area surrounding EDC's El Dorado, Arkansas facility, while the plaintiffs in the Detraz Case are comprised of sixteen (16) persons who reside in various locations throughout the El Dorado, Arkansas, metropolitan area. The plaintiffs in the Citizen Suit are substantially the same as the plaintiffs in the Carr Case. The plaintiffs in both the Carr Case and the Detraz Case allege that they have suffered an unspecified amount of damages under various toxic tort theories for bodily injury and/or property damage as a result of alleged releases of toxic substances into the environment from EDC's El Dorado, Arkansas facility (the "Site"), plus punitive damages. In addition, plaintiffs in the Detraz Case are seeking certification by the Court as representatives of a class of persons who allegedly have been affected by emissions from EDC's El Dorado, Arkansas facility, which certification EDC is contesting. The plaintiffs in the Citizen Suit have brought a citizen's suit alleging that EDC has violated the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended by the Emergency Planning Community Right-To-Know Act ("EPCRA"), the Clean Air Act, and the Clean Water Act and permits issued to EDC under certain of these acts, and, as a result, under the terms of such acts the plaintiffs in the Citizen Suit are seeking the Court to order EDC to pay penalties for each day in which EDC violated such acts, if any, and injunctive relief requiring EDC to remediate any such alleged violations. Recently, the Court in the Citizen Suit granted EDC's motion to dismiss some of the plaintiffs' claims in the Citizen Suit, but denied EDC's motion to dismiss other claims. It is expected that the plaintiffs in the Citizen Suit will appeal the dismissal of certain of their claims by the Court. EDC intends to vigorously defend the Carr Case, Detraz Case, and the Citizen Suit.

The Company and the Chemical Business maintain an Environmental Impairment Insurance Policy ("EIL Insurance") that provides coverage to the Company and the Chemical Business for certain discharges, dispersals, releases, or escapes of certain contaminants and pollutants into or upon land, the atmosphere or any water course or body of water from the Site, which has caused bodily injury, property damage, or contamination to others or to other property not on the Site. The EIL Insurance provides limits of liability for each loss up to \$10.0 million and a similar \$10.0 million limit for all losses due to bodily injury or property damage, except \$5 million for all remediation expenses, with the maximum limit of liability for all claims under the EIL Insurance not to exceed \$10.0 million for each loss or remediation expense and \$10.0 million for all losses and remediation expenses. The EIL Insurance also provides a retention of the first \$500,000 per loss or remediation expense that is to be paid by the Company. The Company has given notice to its insurance carrier of the above claims. The Company believes that the EIL Insurance will provide coverage for actual damages, if any, sustained by the plaintiffs, in the Carr Case and the Detraz Case, if any, up to the limits of the policy in excess of the \$500,000 retention, but will not provide coverage for punitive damages or penalties. As of the date of this report, the Company is unaware whether such claims in the Carr Case and/or the Detraz Case will exceed the limits of the coverage of the EIL Insurance. Although there can be no assurances, the Company does not believe the outcome of these matters will have a material adverse effect on the Company's financial position or results of operation. Certain statements contained in this paragraph are forward-looking statements that involve a number of risks and uncertainties that could cause actual results to differ materially, such as, among other factors, the following: the EIL Insurance does not provide coverage to the Company and the Chemical Business for any material claims made by the claimants, the claimants

alleged damages are not covered by the EIL Policy which a court may find the Company and/or the Chemical Business liable for, such as punitive damages, or a court finds the Company and/or the Chemical Business liable for damages to such claimants for a material amount in excess of the limits of coverage of the EIL Insurance.

Arch Mineral Corporation, et al. v. ICI Explosives USA, Inc., et al. On May 24, 1996, the plaintiffs filed this civil cause of action against EDC and five (5) other unrelated commercial explosives manufacturers alleging that the defendants allegedly violated certain federal and state antitrust laws in connection with alleged price fixing of certain explosive products. This cause of action is pending in the United States District Court, Southern District of Indiana. The plaintiffs are suing for an unspecified amount of damages, which, pursuant to statute, plaintiffs are requesting be trebled, together with costs. Based on the information presently available to EDC, EDC does not believe that EDC conspired with any party, including but not limited to, the five (5) other defendants, to fix prices in connection with the sale of commercial explosives. Discovery has only recently commenced in this matter. EDC intends to vigorously defend itself in this matter.

ASARCO v. ICI, et al. The US District Court for the Eastern District of Missouri has granted ASARCO and other plaintiffs in a lawsuit originally brought against various commercial explosives manufacturers in Missouri, and consolidated with other lawsuits in Utah, leave to add EDC as a defendant in that lawsuit. An answer or other response is due in April 1997. This lawsuit alleges a national conspiracy, as well as a regional conspiracy, directed against explosive customers in Missouri and seeks unspecified damages. EDC has been included in this lawsuit because it sold products to customers in Missouri during a time in which other defendants have admitted to participating in an antitrust conspiracy, and because it has been sued in the Arch Case discussed above. Based on the information presently available to EDC, EDC does not believe that EDC conspired with any party, to fix prices in connection with the sale of commercial explosives. EDC intends to vigorously defend itself in this matter.

Department of Justice Investigation of Explosives Industry. For several years, the explosives industry has been under an investigation by the US Department of Justice. Certain explosives companies plead guilty to antitrust violations. In connection with that investigation, EDC received and has complied with certain document subpoenas, and certain of EDC's employees have been subpoenaed to testify in connection with such investigation. As of the date of this report, EDC has not been identified as a target of this investigation.

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

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

IDENTIFICATION OF EXECUTIVE OFFICERS

The following table identifies the executive officers of the Company.

Name	Age	Position and Offices with the Company	Served as an Officer from
Jack E. Golsen	68	Board Chairman and President	December 1968
Barry H. Golsen	46	Board Vice Chairman and President of the Environmental Control Business	August 1981
David R. Goss	56	Senior Vice President of Operations and Director	March 1969
Tony M. Shelby	55	Senior Vice President - Chief Financial Officer, and Director	March 1969
Jim D. Jones	55	Vice President - Treasurer and Corporate Controller	April 1977
David M. Shear	37	Vice President and General Counsel	March 1990

The Company's officers serve one-year terms, renewable on an annual basis by the Board of Directors. In March 1996, the Company executed an employment agreement (the "Agreement") with Jack E. Golsen for an initial term of three years followed by two additional three year terms. The Agreement automatically renews for each successive three year term unless terminated by either the Company or Jack E. Golsen giving written notice at least one year prior to the expiration of the then three year term. All of the individuals listed above have served in substantially the same capacity with the Company

and/or its subsidiaries for the last five years.

FAMILY RELATIONSHIPS.

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

PART II

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

MATTERS

MARKET INFORMATION

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

Quarter	Fiscal Year Ended December 31,			
	1996		1995	
	High	Low	High	Low
First	6 3/8	3 1/2	6 1/4	5 5/8
Second	6 1/4	4 5/8	6 7/8	5 1/4
Third	5 1/8	3 1/2	6 7/8	4 7/8
Fourth	5	3 1/2	5 1/4	3 5/8

STOCKHOLDERS

As of February 28, 1997, the Company had 1,155 record holders of its Common Stock.

DIVIDENDS

Holdings of the Company's Common Stock are entitled to receive dividends only when, as, and if declared by the Board of Directors. No dividends may be paid on the Company's Common Stock until all required dividends are paid on the outstanding shares of the Company's Preferred Stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. The Company has issued and outstanding as of December 31, 1996, 915,000 shares of \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,539 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of Preferred Stock is entitled to receive an annual dividend, if, as, and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferred at the rate of \$3.25 a share payable quarterly in arrears on March 15, June 15, September 15, and December 15, which dividend is cumulative, (ii) Non Cumulative Preferred Stock at the rate of \$10 a share payable April 1, and (iii) Series B Preferred at the rate of \$12.00 a share payable January 1, which dividend is cumulative. The Company has a policy as to the payment of annual cash dividends on its outstanding Common Stock of \$.06 per share, payable at \$.03 per share semiannually, subject to change or termination by the Board of Directors at any time. The Company paid a cash dividend of \$.03 a share on its outstanding Common Stock on July 1, 1996, and January 1, 1997; however, there are no assurances that this policy will not be terminated or changed by the Board of Directors. See Notes 7,9 and 11 of Notes to Consolidated Financial Statements.

Under the terms of a loan agreement between the Company and its lender, the Company may, so long as no event of default has occurred and is continuing under the loan agreement, make currently scheduled dividends and pay dividends on its outstanding Preferred Stock and pay annual dividends on its Common Stock equal to \$.06 per share. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the financial covenants which the Company's failure to maintain could result in an event of default. In addition, the loan agreement with the lender includes as an event of default an ownership change if any Person (except Jack E. Golsen or members of his Immediate Family [as defined below] and any entity controlled by Jack E. Golsen or members of his Immediate Family together with such Person's affiliates and associates), is or becomes the beneficial owner, directly or indirectly, of more than fifty percent (50%) of the outstanding Common Stock of LSB. The term "Immediate Family" of any Person means the spouse, siblings, children, mothers and mothers-in-law, fathers and fathers-in-law, sons and daughters-in-law, daughters and sons-in-law, nieces, nephews, brothers and sisters-in-law, and sisters and brothers-in-law.

The Company is a holding company and, accordingly, its ability to pay dividends on its Preferred Stock and its Common Stock is dependent in large part on its ability to obtain funds from its subsidiaries. The ability of EDC, Slurry Explosive Corporation ("SEC"), Northwest Financial Corporation ("NFC"), and DSN Corporation ("DSN") to pay dividends to the Company, to fund

the payment of dividends by the Company, or for other purposes, is restricted by certain agreements to which they are parties.

Under the terms of a term loan agreement between EDC, EDC's wholly-owned subsidiary, SEC, both within the Company's Chemical Business, NFC, a wholly-owned subsidiary of the Company, and certain lenders, and between DSN, another subsidiary of the Company within the Chemical Business, and a lender, (i) EDC cannot transfer funds to the Company in the form of cash dividends or other distributions or advances, except (a) for the amount of taxes that the borrowers would be required to pay if they were not consolidated with the Company and (ii) an amount not to exceed fifty percent (50%) of the borrowers' net income for the immediately preceding fiscal year and (iii) DSN is prohibited from paying any dividends or making any distributions to the Company. See Note 7 of Notes to Consolidated Financial Statements and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

	Years ended December 31,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales	\$307,160	\$267,391	\$245,025	\$232,616	\$198,373
	=====	=====	=====	=====	=====
Total Revenues	\$314,051	\$274,115	\$249,969	\$237,529	\$200,217
	=====	=====	=====	=====	=====
Interest expense	\$ 10,017	\$ 10,131	\$6,949	\$ 7,507	\$ 9,225
	=====	=====	=====	=====	=====
Income (loss) from continuing operations	\$ (3,845)	\$ (3,732)	\$ 983	\$ 11,235	\$ 6,985
	=====	=====	=====	=====	=====
Net income (loss)	\$ (3,845)	\$(3,732)	\$ 24,467	\$ 12,399	\$ 9,255
	=====	=====	=====	=====	=====
Net income (loss) applicable to common stock	\$ (7,074)	\$ (6,961)	\$21,232	\$ 10,357	\$ 7,428
	=====	=====	=====	=====	=====

Primary earnings (loss) per common share:					
Income (loss) from continuing operations	\$ (.54)	\$ (.53)	\$ (.16)	\$.69	\$ (.66)
	=====	=====	=====	=====	=====
Net income (loss)	\$ (.54)	\$ (.53)	\$ 1.54	\$.77	\$.94
	=====	=====	=====	=====	=====

ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)

	Years ended December 31,				
	1996	1995	1994	1993	1992
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data:					
Total Assets	\$261,284	\$238,176	\$221,281	\$196,038	\$166,999
	=====	=====	=====	=====	=====
Long-term debt, including current portion	\$132,284	\$118,280	\$ 91,681	\$ 90,395	\$ 51,332
	=====	=====	=====	=====	=====
Redeemable preferred stock	\$ 146	\$ 149	\$ 152	\$ 155	\$ 163
	=====	=====	=====	=====	=====
Stockholders' Equity	\$ 73,742	\$ 81,576	\$90,599	\$ 74,871	\$ 18,339
	=====	=====	=====	=====	=====
Selected other Data:					
Cash dividends declared per common share	\$.06	\$.06	\$.06	\$.06	\$ -
	=====	=====	=====	=====	=====

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's December 31, 1996 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA" and Item 1 "BUSINESS" included elsewhere in this report.

OVERVIEW

The Company is pursuing a strategy of focusing on its more profitable businesses and concentrating on businesses and product lines in niche markets where the Company has established or can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of selected assets that are on its balance sheet and on which it is not realizing an acceptable return nor does it have the potential to do so.

In this connection, the Company has been concentrating on reshaping the Automotive Products Business by the liquidation of certain of their assets that don't have the potential to earn an acceptable return and focusing on product lines that management believes have strategic advantages within select niche markets. The Company has also recruited new key management people in the Automotive Products Business including marketing, materials control, manufacturing, and financial. The Company continues to explore its alternatives to accomplish these goals.

In addition, the Company has been liquidating certain slow moving inventory in the Industrial Products Business in the ordinary course of business. It is the present intention of the Company to limit this Business to lines of machine tools which should result in an acceptable return on capital employed.

Certain statements contained in this Overview are forward-looking statements, and the results thereof could differ materially from such statements if the Company is unable to liquidate such assets in a reasonable period or on reasonable terms, and if able to liquidate such assets, it may not be able to improve profits in the Automotive Products Business or have an acceptable return on capital employed in these Businesses if general economic conditions deteriorate drastically from the environment these Businesses currently operate in or these Businesses are unable to meet competitive pressures in the market place which restrict these Businesses from manufacturing or purchasing and selling their products at acceptable prices.

The following table contains certain of the information from Note 15 of Notes to the Company's Consolidated Financial Statements about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1996.

	(In Thousands)		
Sales:			
Chemical	\$ 166,163	\$ 136,903	\$ 131,576
Environmental Control	89,275	83,843	69,914
Industrial Products	13,776	13,375	11,222
Automotive Products	37,946	33,270	32,313
	<u>\$ 307,160</u>	<u>\$ 267,391</u>	<u>\$ 245,025</u>
	=====	=====	=====
Gross Profit: (1)			
Chemical	\$ 25,885	\$ 26,050	\$ 25,700
Environmental Control	21,961	21,694	17,651
Industrial Products	3,058	2,953	1,316
Automotive Products	5,868	6,366	8,442
	<u>\$ 56,772</u>	<u>\$ 57,063</u>	<u>\$ 53,109</u>
	=====	=====	=====
	1996	1995	1994

	(In Thousands)		
Operating profit (loss): (2)			
Chemical	\$ 10,971	\$ 13,393	\$ 12,809
Environmental Control	5,362	4,630	3,512
Industrial Products	(2,685)	(1,199)	(4,155)
Automotive Products	(4,134)	(3,704)	(1,462)
	<u>9,514</u>	<u>13,120</u>	<u>10,704</u>
General corporate expenses, net	(3,192)	(6,571)	(3,472)
Interest Expense	(10,017)	(10,131)	(6,949)
	<u>Income (loss) from continuing operations before provision for income taxes</u>	<u>\$ (3,695)</u>	<u>\$ (3,582)</u>
	=====	=====	=====
			\$ 283

Identifiable assets:

Chemical	\$ 132,442	\$ 111,890	\$ 94,972
Environmental Control	50,623	41,331	40,660
Industrial Products	13,614	17,328	18,423
Automotive Products	43,212	43,872	38,369
	<u>239,891</u>	<u>214,421</u>	<u>192,424</u>
Corporate assets	21,393	23,755	28,857
Total assets	<u>\$ 261,284</u>	<u>\$ 238,176</u>	<u>\$ 221,281</u>
	=====	=====	=====

(1) Gross profit by industry segment represents net sales less cost of sales. (2) Operating profit by industry segment represents revenues less operating expenses before deducting general corporate expenses, interest expense, and income taxes. As indicated in the above table the operating profit (as defined) declined from \$13.1 million in 1995 to \$9.5 million in 1996, while sales increased approximately 15% during the same period. The decline in operating profit resulted in a loss from continuing operations before income taxes for 1996 of \$3.7 million. This decline in operating profit is primarily due to lower earnings in the Chemical Business as a result of increased ammonia costs and underabsorbed overhead related to modifications at the Company's El Dorado, Arkansas chemical plant complex and to the lower margins in the Automotive Products Business and foreign sales income recognized in 1995 and not repeated in 1996 in the Industrial Products Business as discussed in Note 6 to Notes to Consolidated Financial Statements.

CHEMICAL BUSINESS

The Chemical Business manufactures and sells prilled ammonium nitrate products and high grade specialty acids to the explosives, agricultural, and industrial acids markets, and markets and licenses a number of proprietary explosives products. The Company has grown this Business through the expansion of its principal manufacturing facility in El Dorado, Arkansas, the construction of a mixed acid plant in Wilmington, North Carolina, and the acquisition of new agricultural distribution centers in key geographical markets which are freight logical to its principal plant. During the years 1996, 1995, and 1994, capital expenditures in this Business were \$19.1 million, \$18.0 million, and \$15.5 million, respectively. During the period from December 1994 through December 1996 the net investment in assets of the Chemical Business was increased from \$95.0 million to \$132.4 million primarily due to the construction of additional capacity to benefit future periods.

The operating profit in the Chemical Business is down from \$12.8 million in 1994 and \$13.4 million in 1995 to \$11.0 million in 1996. During 1996, the Chemical Business incurred significant amounts of unplanned downtime at the El

Dorado, Arkansas Plant site due to mechanical problems and planned downtime for improvements being made to the plants. The downtime resulted in increases in manufacturing overhead and lower absorption of such costs. The unabsorbed overhead combined with unexpected increases in the cost of the primary raw material, ammonia, led to higher cost of sales as a percent of sales and lower gross profit margins.

The Chemical Business purchases approximately 250,000 tons per year of anhydrous ammonia. The cost of ammonia consumed by the Chemical Business in 1996 was \$167 per ton compared to \$162 in 1995 and \$157 in 1994. In November and December 1996, ammonia prices took an unexpected increase to an average of \$200 per ton compared to an average of \$152 in November and December 1995. This spike had a disruptive effect on the fourth quarter results of operations. The increased cost of purchased ammonia in 1996 was partially passed on to customers in the form of higher prices, but the entire cost increase could not be offset by higher sales prices resulting in lower gross profit margins.

Ammonia prices continued to increase in 1997 averaging \$217 per ton in January and \$212 in February. In March, the price of ammonia began to come down, but not in time to significantly reduce the cost of sales percent in the first quarter of 1997. The price for the Chemical Business' purchased ammonia has declined to \$165 per ton as of the date of this report.

The Chemical Business has substantially finalized negotiations with Bayer for the Chemical Business to build and operate on a long-term basis a nitric acid plant located on property owned by Bayer in Baytown, Texas. If the transaction is completed, the Chemical Business would provide nitric acid from such plant to Bayer's Baytown, Texas plant. Execution of the agreement between the Chemical Business and Bayer is subject to the Company finalizing the financing to construct the nitric acid plant and the final terms upon which the Chemical Business would lease such nitric acid plant. The Company has an agreement in principle with a lender to provide financing. Such nitric acid plant would be owned by a party that is not an affiliate of the Company and would be leased to the Chemical Business for a period expected to equal ten years under an operating lease. It is expected that the cost to construct the nitric acid plant would be approximately \$60.0 million. Under the terms of the proposed agreement, such nitric acid plant can be constructed and become operational within 18 months from execution of the definitive agreement.

ENVIRONMENTAL CONTROL

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

As indicated in the above table, the Environmental Control Business reported improved sales (an increase of 6%) and improved operating profit for 1996 as compared to 1995. From December 1994 through December 1996 the net investment in assets of the Environmental Control Business was increased from \$40.7 million to \$50.6 million. During this two year period, additions to property, plant, and equipment were \$2.0 million and depreciation was approximately \$3.1 million.

AUTOMOTIVE AND INDUSTRIAL PRODUCTS BUSINESSES

The Automotive Products Business sells its products into the automotive, truck, and agricultural equipment replacement markets. Certain of the products are sold directly to original equipment manufacturers and certain major chain stores. The Industrial Products Business markets a proprietary line of machine tools most of which are purchased from foreign companies, which manufacture the machine tools to Company specifications. As indicated in the above table, during 1994, 1995, and 1996, respectively, these Businesses recorded combined sales of \$43.5 million, \$46.6 million and \$51.7 million, respectively, and reported operating losses (as defined above) of \$5.6 million, \$4.9 million, and \$6.8 million in 1994 and 1995, and 1996 respectively. The net investment in assets of these Businesses was \$56.8 million, \$61.2 million and \$56.8 million at year end 1994, 1995, and 1996, respectively. The investment in these Businesses had become excessive due to a build in inventory beyond current demand. However, the investment is beginning to come back down due to a stringent inventory reduction program put into place in 1995.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES

Total revenues for 1996 and 1995 were \$314.1 million and \$274.1 million, respectively (an increase of \$40.0 million or 14.6%). Sales increased \$39.8 million or 14.9%.

NET SALES

Consolidated net sales for 1996 were \$307.2 million, compared to \$267.4 million for 1995, an increase of \$39.8 million or 14.9%. This sales increase resulted principally from: (i) increased sales in the Environmental Control Business of \$5.4 million, primarily due to improved market conditions; (ii) increased sales in the Chemical Business of \$29.3 million which were primarily attributable to increased sales of \$16.0 million at Total Energy Systems

("TES"), the Company's subsidiary located in Australia and New Zealand, which have resulted from an expanded customer base, to higher costs being passed through to customers and higher sales of agricultural products; (iii) increased sales of \$4.4 million in the Industrial Products Business; and (iv) increased sales of \$4.7 million in the Automotive Products Business due to the addition of certain new product lines that the Company believes the Automotive Products Business has a strategic advantage in.

GROSS PROFIT

Gross profit decreased \$.3 million and was 18.5% of net sales for 1996, compared to 21.3% of net sales for 1995. The gross profit percentage declined in the Automotive Products, Chemical, and Environmental Control Businesses. The gross profit of the Chemical Business was adversely affected due to the continued high cost of anhydrous ammonia as discussed above and higher production costs due to unabsorbed overhead costs resulting from excessive downtime at the Chemical Business' El Dorado, Arkansas plant complex related to modifications made to install air emissions abatement equipment and resolve problems associated with mechanical failures at the DSN Plant. The Environmental Control Business' gross profit percentage decreased due to production inefficiencies and decreased absorption of costs due to lower production volumes in certain product lines of this Business. The primary reason for the decline in gross profit percentage in the Automotive Products Business was a less favorable customer mix i.e. decreased sales to higher margin retail customers, and increased sales to Original Equipment Manufacturers (OEM) customers which are lower margin customers.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses ("SG&A"), as a percent of net sales, were 18.7% in 1996 and 21.4% in 1995. Consolidated SG&A expenses were approximately the same in 1996 as 1995 and consolidated net sales increased by 14.9% resulting in a lower percentage of SG&A to sales. Increased SG&A of the Chemical Business consistent with sales increases were offset by reductions in SG&A in the Environmental Control Business and general corporate expenses.

INTEREST EXPENSE

Interest expense for the Company, excluding capitalized interest, was \$10.0 million during 1996, compared to \$10.1 million during 1995. During 1996, \$2.4 million of interest expense was capitalized in connection with construction of the DSN Plant, compared to \$1.4 million in 1995. The increase of \$.9 million before the effect of capitalization primarily resulted from increased borrowings and higher interest rates. The increased borrowings were necessary to support capital expenditures, higher accounts receivable balances and to meet the operational requirements of the Company. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

NET INCOME (LOSS)

The Company had a net loss of \$3.8 million in 1996 compared to a net loss of \$3.7 million in 1995. Although 1996 consolidated net sales increased, the consolidated gross profit did not increase and the net loss was approximately the same in 1996 as 1995.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

REVENUES

Total revenues for 1995 and 1994 were \$274.1 million and \$250.0 million, respectively (an increase of \$24.1 million or 9.7%). Sales increased \$22.4 million or 9.1%. Other income included in total revenues was \$6.7 million, an increase of \$1.8 million from 1994, which resulted primarily from proceeds received on the settlement of loans which were acquired in connection with the sale of Equity Bank. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

NET SALES

Consolidated net sales for 1995 were \$267.4 million, compared to \$245.0 million for 1994, an increase of \$22.4 million or 9.1%. This sales increase resulted principally from: (i) increased sales in the Environmental Control Business of \$13.9 million, primarily due to improved market conditions and increased production in the fan coil segment of this Business and to increased sales in geothermal water source heat pumps related to certain governmental projects; (ii) increased sales in the Chemical Business of \$5.3 million which were primarily attributable to higher ammonia costs being passed through to customers, and increased sales of \$2.5 million at TES, the Company's subsidiary located in Australia, which have resulted from an expanded customer base; (iii) increased sales of \$2.2 million in the Industrial Products Business primarily due to finalization of a sale to a foreign customer and increases in sales of machine tools; and (iv) increased sales of \$1.0 million in the Automotive Products Business due to the addition of new product lines.

GROSS PROFIT

Gross profit increased \$4.0 million and was 21.3% of net sales for 1995, compared to 21.7% of net sales for 1994. The gross profit percentage remained consistent, with only slight changes, in the Chemical and Environmental Control Businesses. The gross profit of the Chemical Business was adversely affected due to the continued high cost of anhydrous ammonia as discussed above. The Industrial Products Business' gross profit percentage increased due

to higher prices. The primary reason for the consolidated decline in gross profit percentage was due to customer mix in the Automotive Products Business, i.e. decreased sales to higher margin retail customers, and increased sales to Original Equipment Manufacturers (OEM) customers which are lower margin customers.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative ("SG&A") expenses, as a percent of net sales, were 21.4% in 1995 and 20.7% in 1994. SG&A remained consistent from 1994 to 1995 as a percentage of sales in the Chemical, Environmental Control, and Automotive Products Businesses. The increase in SG&A, as a percent of sales on a consolidated basis, was primarily attributable to: (1) an increase in the Company's cost of providing employee healthcare benefits of \$.7 million; and, (2) increased legal expenses of \$.6 million primarily attributable to litigation in connection with an insurance claim for damages to machine tools during transport in a prior year.

INTEREST EXPENSE

Interest expense for the Company, excluding capitalized interest, was \$10.1 million during 1995, compared to \$6.9 million during 1994. During 1995, \$1.4 million interest expense was capitalized in connection with construction of the DSN Plant compared to \$.5 million in 1994. The increase primarily resulted from increased borrowings. The increased borrowings were necessary to support capital expenditures, higher inventory levels, higher accounts receivable balances and to meet the operational requirements of the Company. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

NET INCOME (LOSS)

The Company had a net loss of \$3.7 million in 1995 compared to net income of \$24.5 million in 1994. The 1994 net income includes approximately \$23.5 million relating to a gain on the sale of a certain business and income from discontinued operations. Excluding this non-recurring activity, the 1994 net income was \$1.0 million. The decreased profitability in 1995 of \$4.7 million was primarily attributable to increased SG&A, as discussed above, and increased interest expense of \$3.2 million due to higher average balances of outstanding debt. These increased expenses were offset in part by increased income of \$1.0 million from collection of loans receivables in excess of net carrying values. Such loans were purchased at a discount in connection with the Equity Bank transaction.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FROM OPERATIONS

Net cash provided by operations for the year ended 1996 was \$13.3 million, after \$9.8 million for noncash depreciation and amortization, \$3.7 million in provisions for possible losses on accounts and notes receivable, and \$1.6 million in gains from real estate and other assets and including the following changes in assets and liabilities: (i) accounts receivable increases of \$8.3 million; (ii) inventory increases of \$1.7 million; (iii) increases in supplies and prepaid items of \$1.5 million; and (iv) increases in accounts payable and accrued liabilities of \$16.7 million. The increase in accounts receivable is due to increased sales in all businesses, especially in the Environmental Control Business and the Chemical Business' Australian subsidiary (see Results of Operations for discussion of increase in sales). The increase in inventory was due primarily to an increase of \$3.6 million at the Chemical Business' Australian subsidiary resulting from growth of that operation and increases in the Environmental Control Business to support sales increases. These increases were offset by inventory reductions in the Automotive and Industrial Products Businesses resulting from liquidation of excess inventory. The increase in supplies and prepaid items resulted primarily from an increase in manufacturing supplies in the Chemical Business. The increase in accounts payable and accrued liabilities resulted primarily from higher business volume and an increase in capital construction projects in 1996.

CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES

Cash used by investing activities for the year ended December 31, 1996 was \$21.0 million primarily for capital expenditures in the Chemical Business to complete construction of a strong nitric acid plant and for installation of certain air emissions abatement equipment, and expenditures in the Automotive Products Business related to the relocation of a u-joint manufacturing facility moved from Indiana to Oklahoma. The balance of capital expenditures were for normal additions in the Chemical, Environmental Control, and Automotive Products Businesses. The increase in other assets is due primarily to increased loans to potential acquisition candidates. Cash provided by financing activities included long-term borrowings of \$25.0 million reduced by payments on long-term debt of \$12.0 million, and (i) net paydown on revolving credit facilities of \$1.3 million, (ii) dividends of \$4.0 million and (iii) increases in other assets of \$2.3 million.

During 1996, the Company declared and paid the following aggregate dividends: (i) \$12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (ii) \$3.25 per share on each outstanding share of its \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; (iii) \$10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock; and (iv) \$.06 per share on its outstanding shares of Common Stock. The Company expects to continue the payment of such dividends in the future in accordance with the policy adopted by the Board of Directors and the terms inherent to the Company's various Preferred Stocks.

SOURCE OF FUNDS

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

On February 13, 1997 the Company's wholly-owned subsidiaries, EDC, SEC, and NFC (collectively "Borrowers") completed a \$50.0 million long-term financing agreement ("Financing") with an institutional lender. Approximately \$19.3 million in proceeds from the Financing were used to repay other outstanding term debt, and the remaining \$30.7 million in proceeds was used to pay down the Company's revolving credit facilities and thereby create additional borrowing availability for future working capital and other corporate needs. The Financing is secured by a first mortgage lien on the Chemical Business' property, plant, and equipment located in El Dorado, Arkansas and owned by the Borrowers, except rolling stock and excluding the DSN Plant which is security under a separate loan agreement. The \$50.0 million Financing consists of \$25.0 million of fixed rate notes bearing interest at 10.57% per annum and \$25.0 million of floating rate notes bearing interest at LIBOR plus 4.2% (initially 9.76%). Repayment of the notes is due in quarterly installments of \$833,332 plus interest commencing on July 1, 1997 through April 2004 at which time the balance is due. The Financing requires the Borrowers to maintain certain financial ratios and contains other financial covenants, including the ratio of funded debt to total capitalization, current ratio, and fixed charge coverage ratio, in addition to net worth and working capital requirements. The Financing also contains certain restrictions on transactions with affiliates. The Financing limits the amount of dividends or distributions on its shares to an amount equal to payments for federal income taxes determined as if the Borrowers filed returns on a separate company basis and dividends up to 50% of the Borrowers' prior year net income. See Note 7 to Notes to Consolidated Financial Statements.

The Company and certain of its subsidiaries are parties to a working capital line of credit evidenced by six separate loan agreements ("Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory, and proprietary rights of the Company and the subsidiaries that are parties to the Agreements and the stock of certain of the subsidiaries that are borrowers under the Agreements. The Agreements, as amended, provide for revolving credit facilities ("Revolver") for total direct borrowings up to \$63.0 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Agreements, as amended, provide for interest at the reference rate as defined (which approximates the national prime rate) plus 2%, or the Eurodollar rate plus 4.375%. At December 31, 1996 the effective interest rate was 9.4%. The initial term of the Agreements is through December 12, 1997, and is renewable thereafter for successive thirteen month terms. The Lender has agreed to amend the initial term maturity date to April 1, 1998. At December 31, 1996, the available borrowings, based on eligible collateral approximated \$3.3 million. Borrowings under the Revolver outstanding at December 31, 1996, were \$57.2 million. As discussed above, on February 13, 1997, certain of the Company's subsidiaries completed a \$50.0 million long-term Financing, from which \$30.7 million in proceeds were used to pay down the Revolver. Had this transaction taken place on December 31, 1996, outstanding borrowing under the revolver would have been \$26.5 million and available borrowings would have approximated \$34.0 million. The Agreements, as amended, require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. The annual interest on the outstanding debt under the Revolver at December 31, 1996 at the rates then in effect would approximate \$5.4 million.

In addition to the Agreements discussed above, the Company had the following term loans in place as of December 31, 1996:

- (1) As of December 31, 1996, the Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corporation (collectively "Chemical"), were parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement provided for a loan ("Term Loan") having a balance at December 31, 1996 of \$7.4 million. The Term Loan was repaid in February 1997 with proceeds from the \$50.0 million Financing discussed above.
- (2) As of December 31, 1996, Chemical was a party to a financing agreement ("Financing Agreement") with a leasing subsidiary of a national bank (the "Bank"). The financing provided for a loan having a balance at December 31, 1996 of \$12.0 million. On February 13, 1997, outstanding borrowings under the Financing Agreement were repaid with proceeds from the \$50.0 million Financing discussed above.
- (3) The Company's wholly-owned subsidiary, DSN, is a party to several loan agreements with a financing company (the "Financing Company") for three (3) projects. These loan agreements are for a \$16.5 million term loan (the "DSN Permanent Loan"), which was used to construct, equip, re-erect, and refurbish the DSN Plant being placed into service by the Chemical Business at its El Dorado, Arkansas facility; a loan for approximately \$1.2 million to purchase additional railcars to support the DSN Plant (the "Railcar Loan"); and a loan for approximately \$1.1 million to finance the construction of a mixed acid plant (the "Mixed Acid Plant") in North Carolina (the "Mixed Acid Loan"). At December 31, 1996, DSN had outstanding borrowings of \$13.9 million under the DSN Permanent Loan, \$0.9 million under the Mixed Acid Loan, and \$1.0 million under the Railcar Loan. The loans have repayment schedules of eighty-four (84) consecutive monthly installments of principal and interest. The interest rate on each of the loans is fixed and range from 8.24% to 8.86%. Annual interest, for the three notes as a whole, at December 31,

1996 at the agreed to interest rates would approximate \$1.4 million. The loans are secured by the various DSN and Mixed Acid Plants property and equipment, and all railcars purchased under the Railcar Loan. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. As of the date of this report, the Company is in compliance with all financial covenants or if not in compliance, has obtained appropriate waivers from the Financing Company.

- (4) As of December 31, 1996, a subsidiary of the Company ("Prime") was a party to an agreement ("Agreement") with Boatmen's Bank, N.A. ("Bank"). The Agreement, as modified, requires interest per annum at a rate equal to three quarters of one percent (.75%) above the prime rate in effect from day to day as published in the Wall Street Journal. The outstanding principal balance of the note is payable in sixty (60) monthly payments of principal and interest commencing on June 30, 1996. Payment of the note is secured by a first and priority lien and security interest in and to Prime's right, title, and interest in the loan receivable relating to the real property and office building located in Oklahoma City, Oklahoma (the "Tower"), the Management Agreement relating to the Tower. In February 1997, the Company exercised its option to purchase the Tower by foreclosing against the loan receivable and paying approximately \$140,000 in related costs.

Future cash requirements include working capital requirements for anticipated sales increases in all Businesses, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by cash flow generated by the Company and the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Industrial Products Business and in the inventories of the Automotive Products Business, which increased its inventories in 1995 beyond required levels. In 1997, the Company has planned capital expenditures of approximately \$6.0 million, primarily in the Chemical and Environmental Control Businesses.

As discussed elsewhere in this report in the "Results of Operations", as a result of mechanical problems and planned downtime for improvements being made to the plants at the facility, the Chemical Business has experienced unabsorbed overhead costs at its El Dorado, Arkansas facility. The unabsorbed overhead costs adversely impacted the Chemical Business' gross profit and the Company's consolidated income before income taxes for the year ended December 31, 1996.

Management believes that cash flows from operations, the Company's revolving credit facilities, and other sources, including the \$50.0 million Financing completed in February 1997, will be adequate to meet its presently anticipated capital expenditure, working capital, debt service, and dividend requirements. This is a forward-looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, a material reduction in revenues, continuing to incur losses, inability to collect a material amount of receivables, required capital expenditures in excess of those presently anticipated, or other future events, not presently predictable, which individually or in the aggregate could impair the Company's ability to obtain funds to meet its requirements. The Company currently has no material commitment for capital expenditures, except as discussed under "Overview", "Chemical Business" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the negotiations to build a new nitric acid plant.

FOREIGN SUBSIDIARY FINANCING

The Company has guaranteed a revolving credit working capital facility (the "Facility") between TES and Bank of New Zealand. The Facility allows for borrowings based on specific percentages of qualified eligible assets. The Facility was amended on December 19, 1996 to allow for borrowings up to an aggregate of \$8.5 million Australian. This amendment also requires a reduction of \$.5 million to the amount of \$8.0 million on or before February 28 1997, then a further reduction of \$1.0 million to the amount of \$7.0 million on or before March 31, 1997. Based on the effective exchange rate at December 31, 1996, the amount of \$6.7 million. (approximately US \$4.6 million borrowed at December 31, 1996). Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from the Company. The interest rate on this debt is the Bank of New Zealand Corporate Lending Rate plus 0.5% (approximately 10.0% at December 31, 1996). The next annual review is due on September 30, 1997. TES is in technical non-compliance with a certain financial covenant contained in the loan agreement involving the Facility. However, this covenant was not met at the time of closing and the Bank of New Zealand agrees that the covenant is something to work towards in the future and has continued to allow TES to borrow under the Facility. The outstanding borrowing under the facility at December 31, 1996 has been classified as due within one year in the accompanying Consolidated Financial Statements.

JOINT VENTURES AND OPTIONS TO PURCHASE

During 1994 the Company, through a subsidiary, loaned \$2.1 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Environmental Control Business in the USA. Under the loan agreement, the Company has the option to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. During fiscal year 1995 and January 1996 the Company advanced an additional \$800,000 to the French manufacturer bringing the total of the loan at December 31, 1996 to \$2.9 million. At this time the decision has not been made to exercise such option and the \$2.9 million loan net of a \$1.5 million

valuation reserve is carried on the books as a note receivable in other assets. Subsequent to December 31, 1996, the Company advanced an additional \$1.0 million to the French manufacturer for the purchase of additional plant facilities.

During the second quarter of 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company") to enhance the marketing of the Company's air conditioning products. The stock option has a four (4) year term, and a total option granting price of \$1.0 million payable in installments including an option fee of \$500,000 paid upon signing of the option agreement and annual \$100,000 payments for yearly extensions of the stock option thereafter for up to three (3) years. Upon exercise of the stock option by the Company, or upon the occurrence of certain performance criteria which would give the grantors of the stock option the right to accelerate the date on which the Company must elect whether to exercise, the Company shall pay certain cash and issue promissory notes for the balance of the exercise price of the subject shares. The total exercise price of the subject shares is \$4.0 million, less the amounts paid for the granting and any extensions of the stock option.

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

DEBT GUARANTEE

As disclosed in Note 12 of the Notes to Consolidated Financial Statements a subsidiary of the Company and one of its subsidiaries have guaranteed approximately \$2.6 million of indebtedness of a start up aviation company in exchange for an ownership interest. The debt guarantee relates to two note instruments. One note for which the subsidiary had guaranteed up to \$600,000 had a principal balance of \$125,000 at December 31, 1996 and was paid in full subsequent to December 31, 1996. The other note in the amount of \$2.0 million requires monthly principal payments of \$11,111 plus interest beginning in October 1998 through August 8, 1999, at which time all outstanding principal and accrued interest are due. In the event of default of the \$2.0 million note, the Company is required to assume payments on the note with the term extended until August 2004. Both notes are current as to principal and interest.

In 1996, the aviation company received a cash infusion of \$4.0 million from an unrelated third party investor for a 41.6% ownership interest in the aviation company. The investor also retained an option to purchase additional stock of the aviation company in exchange for \$4.0 million.

AVAILABILITY OF COMPANY'S LOSS CARRYOVERS

The Company anticipates that its cash flow in future years will benefit from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years; however, such benefit will be limited by the Company's reduced NOL for alternative minimum tax purposes which is approximately \$10.0 million at December 31, 1996. As of December 31, 1996, the Company had available NOL carryovers of approximately \$45.0 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1995, and on the Company's estimates for 1996. These NOL carryovers will expire beginning in the year 1999.

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

CONTINGENCIES

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

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

PART III

The Company hereby incorporates by reference the information required by Part III of this report except for the information of the Company's executive officers included under Part 4A of Part I of this report, from the definitive proxy statement that the Company may file with the Securities and Exchange Commission on or before April 30, 1997, in connection with the Company's 1997 annual meeting of stockholders.

PART IV

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

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

	Pages
Report of Independent Auditors	F-1
Consolidated Balance Sheets at December 31, 1996 and 1995	F-2 to F-3
Consolidated Statements of Operations for each of the three years in the period ended December 31, 1996	F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 1996	F-5 to F-6
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1996	F-7 to F-8
Notes to Consolidated Financial Statements	F-9 to F-36
Quarterly Financial Data (Unaudited)	F-37

(a)(2) FINANCIAL STATEMENT SCHEDULE. The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts	F-38
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The Company has omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in the Company's Consolidated Financial Statements, including the notes to those statements.

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

2.1. Stock Option Agreement dated as of May 4, 1995, optionee, LSB Holdings, Inc., an Oklahoma Corporation, an option to purchase, which the Company incorporates by reference from Exhibit 2.1 to the Company's Form 10-K for fiscal year ended December 31, 1995.

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

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

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

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

4.2. Specimen Certificate for the Company's Series B Preferred Stock, having a par value of \$100 per share, which the Company

hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848.

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

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

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

4.6. First Amendment to Preferred Share Purchase Rights Plan, dated as of May 24, 1994, between the Company and Liberty National Bank and Trust Company of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.

4.7. Loan and Security Agreement, dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc., which the Company hereby incorporates by reference from Exhibit 4.12 to the Company's Form 10-K for the fiscal year ended December 31, 1994. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Company agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request.

4.8. Loan and Security Agreement dated December 12, 1994, between El Dorado Chemical Company and Slurry Explosive Corporation, as borrowers, and BankAmerica Business Credit, Inc., as lender, which the Company hereby incorporates by reference from Exhibit 4.13 to the Company's Form 10-K for the fiscal year ended December 31, 1994. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Company agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request. Substantially identical Loan and Security Agreements, dated December 12, 1994, have been entered into by each of L&S Bearing Co., International Environmental Corporation, Climate Master, Inc., and Summit Machine Tool Manufacturing, Corp. with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided to the Commission upon the Commission's request.

4.9. First Amendment dated August 17, 1995, to the Loan and Security Agreement dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc. Substantially identical First Amendments dated August 17, 1995, to the Loan and Security Agreements dated December 12, 1994, were entered into by each of L&S Bearing, International Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing, Corp., and El Dorado Chemical Company and Slurry Explosive Corporation with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided upon the Commission's request.

4.10. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc. Substantially identical Second Amendments dated December 1, 1995, to the Loan and Security Agreements dated December 12, 1994, were entered into by each of L&S Bearing, Climate Master, Inc., and Summit Machine Tool Manufacturing, Corp. with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided upon the Commission's request.

4.11. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between El Dorado Chemical Company and Slurry Explosives Corporation, and BankAmerica Business Credit, Inc., which the Company hereby incorporates by reference from Exhibit 4.18 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

4.12. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between International Environmental Corporation, and BankAmerica Business Credit, Inc., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

4.13. Third Amendment to Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. Substantially identical Third Amendments were entered into by each of L&S Bearing, International Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing Corp., and El Dorado Chemical Company and are hereby omitted, and such will be provided to the Commission upon request.

4.14. Fourth Amendment to Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. Substantially identical Fourth Amendments were entered into by each of L&S Bearing, International Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing Corp., and El Dorado Chemical Company and are hereby omitted, and such will be provided to the Commission upon request.

4.15. Fifth Amendment to Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. Substantially identical Fifth Amendments were entered into by each of L&S Bearing, International

Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing Corp., and El Dorado Chemical Company and are hereby omitted, and such will be provided to the Commission upon request.

4.16. Sixth Amendment to Loan and Security Agreement between the Company and BankAmerica Business Credit, Inc. Substantially identical Sixth Amendments were entered into by each of L&S Bearing, International Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing Corp., and El Dorado Chemical Company and are hereby omitted, and such will be provided to the Commission upon request.

4.17. Loan Agreement dated as of May 4, 1995, by and among Prime Financial Corporation, as borrower, LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., L&S Bearing Co., International Environmental Corporation, El Dorado Chemical Company, and Climate Master, Inc., as the guarantors, and Bank IV Oklahoma, N.A., which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.

4.18. Note Purchase Agreement, dated February 13, 1997 between El Dorado Chemical Company, Northwest Financial Corporation, and Slurry Explosive Corporation as Borrowers, and John Hancock Mutual Life Insurance Company.

4.19. Intercreditor Agreement dated February 13, 1997 by and between BankAmerica Business Credit, Inc. and John Hancock Mutual Life Insurance Company with respect to certain financing arrangements with El Dorado Chemical Company, Slurry Explosive Corporation, and Northwest Financial Corporation.

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

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

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

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

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

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

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

10.8. Union Contracts, dated August 5, 1995, between EDC and the Oil, Chemical and Atomic Workers, the International Association of Machinists and Aerospace Workers, and the United Steel Workers of America, dated November 1, 1995 which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

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

10.10. Agreement for Purchase and Sale of Anhydrous Ammonia, dated as of January 1, 1997, between El Dorado Chemical Company and Farmland Industries, Inc.

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

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

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

Shear, and Jim D. Jones and the Company will provide copies thereof to the Commission upon request.

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

10.15. Employment Agreement and Amendment to Severance Agreement dated January 17, 1989 between the Company and Jack E. Golsen, dated March 21, 1996 which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995.

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

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

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

10.19. Processing Agreement, dated January 1, 1994, between Monsanto Company and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.22 to the Company's Form 10-K for the fiscal year ended December 31, 1994.

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

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

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

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

10.24. Agreement for purchase and sale of ammonia dated December 31, 1996 between El Dorado Chemical Company and Koch Nitrogen Company.

11.1. Statement re: Computation of Per Share Earnings

21.1. Subsidiaries of the Company

23.1. Consent of Independent Auditors

27.1. Financial Data Schedule

(b) REPORTS ON FORM 8-K. The Company did not file any reports on Form 8-K during the fourth quarter of 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 11th day of April, 1997.

LSB INDUSTRIES, INC.

By: /s/ Jack E. Golsen

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

By: /s/ Tony M. Shelby

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

By:
/s/ Jim D. Jones

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

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

Dated: April 11, 1997 By:
/s/ Jack E. Golsen

Jack E. Golsen, Director

Dated: April 11, 1997 By:
/s/ Tony M. Shelby

Tony M. Shelby, Director

Dated: April 11, 1997 By:
/s/ David R. Goss

David R. Goss, Director

Dated: April 11, 1997 By:
/s/ Barry H. Golsen

Barry H. Golsen, Director

Dated: April 11, 1997 By:
/s/ Robert C. Brown

Robert C. Brown, Director

Dated: April 11, 1997 By:
/s/ Bernard G. Ille

Bernard G. Ille, Director

Dated: April 11, 1997 By:
/s/ Jerome D. Shaffer

Jerome D. Shaffer, Director

Dated: April 11, 1997 By:
/s/ Raymond B. Ackerman

Raymond B. Ackerman, Director

Dated: April 11, 1997 By:
/s/ Horace Rhodes

Horace Rhodes, Director

Report of Independent Auditors

The Board of Directors and Stockholders
LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB

Industries, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 7, 1997

LSB Industries, Inc.
Consolidated Balance Sheets

	December 31,	
	1996	1995
	(In Thousands)	
Assets		
Current assets (Note 7):		
Cash and cash equivalents	\$ 1,620	\$ 1,420
Trade accounts receivable, less allowance for doubtful accounts of \$3,291,000 (\$2,584,000 in 1995)	50,791	43,975
Inventories (Note 4)	67,982	66,265
Supplies and prepaid items	7,217	5,684
Total current assets	127,610	117,344
Property, plant and equipment, at cost (Notes 5 and 7)	178,050	152,730
Accumulated depreciation	(74,907)	(66,460)
Property, plant and equipment, net	103,143	86,270
Loans receivable, secured by real estate (Note 7)	15,010	15,657
Other assets, net of valuation allowances and allowance for doubtful accounts of \$5,281,000 in 1996 (\$3,090,000 in 1995) and accumulated amortization of \$5,919,000 in 1996 (\$4,795,000 in 1995)	15,521	18,905
	\$261,284	\$238,176

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31,	
	1996	1995
	----- (In Thousands)	
Liabilities and stockholders' equity		
Current liabilities:		
Drafts payable	\$ 536	\$ 424
Accounts payable	41,796	28,508
Accrued liabilities	12,780	9,239
Current portion of long-term debt (Note 7)	13,007	14,925

Total current liabilities	68,119	53,096
Long-term debt (Note 7)	119,277	103,355
Commitments and contingencies (Notes 6 and 12)		
Redeemable, noncumulative, convertible preferred stock, \$100 par value; 1,539 shares issued and outstanding (1,566 in 1995) (Note 10)	146	149
Stockholders' equity (Notes 7, 9 and 11):		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 920,000 shares issued	46,000	46,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,888,476 shares issued (14,757,416 in 1995)	1,489	1,476
Capital in excess of par value	37,843	37,567
Retained earnings (accumulated deficit)	(2,706)	5,148

	84,626	92,191
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares	200	200
Common stock, 1,913,120 shares (1,845,969 in 1995)	10,684	10,415

Total stockholders' equity	73,742	81,576

	\$261,284	\$238,176
	=====	

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations

	Year ended December 31,		
	1996	1995	1994

(In Thousands, Except Per Share Amounts)			
Revenues:			
Net sales	\$307,160	\$267,391	\$245,025
Other income	6,891	6,724	4,944
	-----	-----	-----
	314,051	274,115	249,969
Costs and expenses:			
Cost of sales	250,388	210,328	191,916
Selling, general and administrative	57,341	57,238	50,821
Interest	10,017	10,131	6,949
	-----	-----	-----
	317,746	277,697	249,686
Income (loss) from continuing operations before provision (benefit) for income taxes			
	(3,695)	(3,582)	283
Provision (benefit) for income taxes			
	150	150	(700)
Income (loss) from continuing operations			
	-----	-----	-----
	(3,845)	(3,732)	983
Discontinued operations:			
Income from discontinued operations	-	-	584
Gain on disposal of discontinued operations	-	-	24,200
Provision for income taxes related to discontinued operations	-	-	(1,300)
	-----	-----	-----
	-	-	23,484
=====			
Net income (loss)	\$ (3,845)	\$ (3,732)	\$ 24,467
=====			
Net income (loss) applicable to common stock			
	-----	-----	-----
	\$ (7,074)	\$ (6,961)	\$ 21,232
=====			
Earnings (loss) per common share:			
Primary:			
Loss from continuing operations	-----	-----	-----
	\$(.54)	\$(.53)	\$(0.16)
Net income (loss)			
	-----	-----	-----
	\$(.54)	\$(.53)	\$ 1.54
Fully diluted:			
Loss from continuing operations	-----	-----	-----
	\$(.54)	\$(.53)	\$(0.16)
Net income (loss)			
	-----	-----	-----
	\$(.54)	\$(.53)	\$ 1.46
=====			

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock		Non-redeemable Preferred Stock	Capital in Excess of Par Value
	Shares	Par Value		
(In Thousands)				
Balance at December 31, 1993	14,514	\$1,451	\$48,000	\$37,120
Net income	-	-	-	-
Conversion of 40 shares of redeemable preferred stock to common stock	1	-	-	1
Exercise of stock options for cash	105	11	-	248
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	-	-	-	-
Redeemable preferred stock (\$10.00 per share)	-	-	-	-
Common stock (\$.06 per share)	-	-	-	-
Series 2 preferred stock (\$3.25 per share)	-	-	-	-
Purchase of treasury stock	-	-	-	-
Balance at December 31, 1994	14,620	1,462	48,000	37,369
Net loss	-	-	-	-
Conversion of 31 shares of redeemable preferred stock to common stock	1	-	-	2
Exercise of stock options:				
Cash received	100	10	-	145
Stock tendered and added to treasury at market value	36	4	-	51
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	-	-	-	-
Redeemable preferred stock (\$10.00 per share)	-	-	-	-
Common stock (\$.06 per share)	-	-	-	-
Series 2 preferred stock (\$3.25 per share)	-	-	-	-
Purchase of treasury stock	-	-	-	-
Balance at December 31, 1995	14,757	1,476	48,000	37,567

	Retained Earnings (Accumulated Deficit)	Treasury Stock-- Common	Treasury Stock-- Preferred	Total
	(In Thousands)			
Balance at December 31, 1993	\$ (7,541)	\$ (4,159)	\$ -	\$74,871
Net income	24,467	-	-	24,467
Conversion of 40 shares of redeemable preferred stock to common stock	-	-	-	1
Exercise of stock options for cash	-	-	-	259
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	(240)	-	-	(240)
Redeemable preferred stock (\$10.00 per share)	(16)	-	-	(16)
Common stock (\$.06 per share)	(808)	-	-	(808)
Series 2 preferred stock (\$3.25 per share)	(2,979)	-	-	(2,979)
Purchase of treasury stock	-	(4,756)	(200)	(4,956)
Balance at December 31, 1994	12,883	(8,915)	(200)	90,599
Net loss	(3,732)	-	-	(3,732)
Conversion of 31 shares of redeemable preferred stock to common stock	-	-	-	2
Exercise of stock options:				
Cash received	-	-	-	155
Stock tendered and added to treasury at market value	-	(55)	-	-
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	(240)	-	-	(240)
Redeemable preferred stock (\$10.00 per share)	(16)	-	-	(16)
Common stock (\$.06 per share)	(774)	-	-	(774)
Series 2 preferred stock (\$3.25 per share)	(2,973)	-	-	(2,973)
Purchase of treasury stock	-	(1,445)	-	(1,445)
Balance at December 31, 1995	5,148	(10,415)	(200)	81,576

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	Common Stock		Non-redeemable	Capital in
	Shares	Par Value	Preferred Stock	Excess of Par Value
(In Thousands)				
Net loss	-	\$ -	\$ -	-
Conversion of 27 shares of redeemable preferred stock to common stock	1	-	-	2
Exercise of stock options:				
Cash received	85	8	-	185
Stock tendered and added to treasury at market value	45	5	-	89
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	-	-	-	-
Redeemable preferred stock (\$10.00 per share)	-	-	-	-
Common stock (\$.06 per share)	-	-	-	-
Series 2 preferred stock (\$3.25 per share)	-	-	-	-
Purchase of treasury stock	-	-	-	-
Balance at December 31, 1996	14,888	\$1,489	\$48,000	\$37,843

	Retained Earnings (Accumulated Deficit)	Treasury Stock-- Common	Treasury Stock-- Preferred	Total
	(In Thousands)			
Net loss	\$ (3,845)	\$ -	\$ -	\$ (3,845)
Conversion of 27 shares of redeemable preferred stock to common stock	-	-	-	2
Exercise of stock options:				
Cash received	-	-	-	193
Stock tendered and added to treasury at market value	-	(94)	-	-
Dividends declared:				
Series B 12% preferred stock (\$12.00 per share)	(240)	-	-	(240)
Redeemable preferred stock (\$10.00 per share)	(16)	-	-	(16)
Common stock (\$.06 per share)	(780)	-	-	(780)
Series 2 preferred stock (\$3.25 per share)	(2,973)	-	-	(2,973)
Purchase of treasury stock	-	(175)	-	(175)
Balance at December 31, 1996	\$ (2,706)	\$(10,684)	\$(200)	\$73,742

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	1996	1995	1994

	(In Thousands)		
Cash flows from continuing operations			
Income (loss) from continuing operations	\$(3,845)	\$ (3,732)	\$ 983
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by continuing operations:			
Depreciation, depletion and amortization:			
Property, plant and equipment	8,655	7,909	6,998
Other	1,124	1,150	1,077
Provision for possible losses:			
Trade accounts receivable	1,450	1,696	1,468
Notes receivable	1,565	1,350	650
Environmental matter	100	-	450
Loan guarantee	626	590	-
Gain on sales of assets	(1,574)	(203)	(1,303)
Cash provided (used) by changes in assets and liabilities:			
Trade accounts receivable	(8,267)	(4,092)	3,923
Inventories	(1,717)	(6,091)	(13,692)
Supplies and prepaid items	(1,533)	725	(927)
Accounts payable	13,288	(902)	6,209
Accrued liabilities	3,441	1,256	850

Net cash provided (used) by continuing operations	13,313	(344)	6,686
Cash flows from investing activities of continuing operations			
Capital expenditures	(19,950)	(17,810)	(15,647)
Purchase of loans receivable	-	-	(3,068)
Principal payments on loans receivable	742	1,586	388
Proceeds from sales of equipment and real estate properties	417	1,345	4,399
Proceeds from the sale of investment securities	1,524	-	-
Other assets	(3,745)	(3,872)	(5,566)

Net cash used by investing activities	(21,012)	(18,751)	(19,494)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	1996	1995	1994

	(In Thousands)		
Cash flows from financing activities of continuing operations			
Payments on long-term and other debt	\$(11,985)	\$ (9,476)	\$ (7,635)
Long-term and other borrowings	25,029	18,471	17,124
Net change in revolving debt facilities	(1,266)	15,070	47,004
Net change in receivables previously financed by discontinued operations	-	-	(33,570)
Net change in drafts payable	112	(867)	71
Dividends paid:			
Preferred stocks	(3,229)	(3,229)	(3,235)
Common stock	(780)	(774)	(808)
Purchase of treasury stock:			
Preferred stock	-	-	(200)
Common stock	(175)	(1,445)	(4,756)
Net proceeds from issuance of common stock	193	155	259

Net cash provided by financing activities of continuing operations	7,899	17,905	14,254

Net increase (decrease) in cash from continuing operations	200	(1,190)	1,446
Net change in cash from discontinued operations	-	-	(1,617)

Net increase (decrease) in cash and cash equivalents from all activities	200	(1,190)	(171)
Cash and cash equivalents at beginning of year	1,420	2,610	2,781

Cash and cash equivalents at end of year	\$ 1,620	\$ 1,420	\$ 2,610
	=====		

See accompanying notes.

LSB Industries, Inc.

Notes to Consolidated Financial Statements

December 31, 1996, 1995 and 1994

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. On May 25, 1994, the financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank"), was sold and, thus, the consolidated statement of operations for 1994 presents the operations of Equity Bank as discontinued operations.

2. ACCOUNTING POLICIES

USE OF ESTIMATES

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

STATEMENTS OF CASH FLOWS

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

Supplemental cash flow information includes:

	1996	1995	1994
	----- (In Thousands)		
Cash payments for interest and income taxes:			
Interest on long-term debt and other	\$12,038	\$10,613	\$7,440
Income taxes	345	670	832
Noncash financing and investing activities--			
Long-term debt issued for property, plant and equipment	2,226	2,534	4,884

LOANS RECEIVABLE

Loans receivable are stated at unpaid principal balances, less any allowance for loan losses (none in 1996, 1995 or 1994). Management's periodic evaluation of the adequacy of the allowance is

Notes to Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES (CONTINUED)

based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, and current economic conditions.

In February 1997, the Company foreclosed on a loan receivable with a carrying amount of \$14.0 million and exercised its option to acquire the related office building located in Oklahoma City, known as "The Tower." The estimated fair value of The Tower at the date of acquisition exceeds the Company's carrying amount at December 31, 1996 plus the exercise payment.

INVENTORIES

Purchased machinery and equipment are carried at specific cost plus duty, freight and other charges, not in excess of net realizable value. All other inventory is priced at the lower of cost or market, with cost being determined using the first-in, first-out (FIFO) basis, except for certain heat pump products with a value of \$8,595,000 at December 31, 1996 (\$5,981,000 at December 31, 1995), which are priced at the lower of cost or market, with cost being determined using the last-in, first-out (LIFO) basis. The difference between the LIFO basis and current cost is not material at December 31, 1996 or 1995.

DEPRECIATION

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

CAPITALIZATION OF INTEREST

Interest costs of \$2,405,000, \$1,357,000 and \$491,000 related to the construction of a new nitric acid plant were capitalized in 1996, 1995 and 1994, respectively, and will be amortized over the related plant's estimated useful life.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED

The excess of purchase price over net assets acquired totals \$3,941,000 and \$4,361,000, net of accumulated amortization, of \$3,400,000 and \$2,980,000 at December 31, 1996 and 1995, respectively, is included in other assets and is being amortized by the straight-line method over periods of 10 to 22 years. The carrying value of the excess of purchase price over net assets acquired is reviewed (using estimated future net cash flows, including proceeds from disposal) if the facts and circumstances indicate that it may be impaired. No impairment provisions were required in 1996, 1995 or 1994.

Notes to Consolidated Financial Statements (continued)

2. ACCOUNTING POLICIES (CONTINUED)

RESEARCH AND DEVELOPMENT COSTS

Costs incurred in connection with product research and development are expensed as incurred. Such costs amounted to \$532,000 in 1996, \$501,000 in 1995 and \$606,000 in 1994.

ADVERTISING COSTS

Costs incurred in connection with advertising and promotion of the Company's products are expensed as incurred. Such costs amounted to \$1,814,000 in 1996, \$1,658,000 in 1995 and \$1,321,000 in 1994.

NET INCOME (LOSS) APPLICABLE TO COMMON STOCK

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

EARNINGS (LOSS) PER SHARE

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

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

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

	1996	1995	1994

Primary	13,035,660	13,223,445	13,831,128
Fully diluted	13,035,660	13,233,022	15,155,461

3. DISCONTINUED OPERATIONS--FINANCIAL SERVICES

On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994 (the "Acquisition Agreement"), the Company sold for \$91.1 million its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth

Notes to Consolidated Financial Statements (continued)

3. DISCONTINUED OPERATIONS--FINANCIAL SERVICES (CONTINUED)

Financial Corporation (the "Purchaser"). The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank. Equity Bank's revenues for the period from January 1, 1994 to May 25, 1994 were \$16.5 million.

4. INVENTORIES

Inventories at December 31, 1996 and 1995 consist of:

	Finished (or Purchased) Goods	Work-In- Process	Raw Materials	Total
----- (In Thousands) -----				
1996:				
Air handling units	\$ 2,739	\$ 2,376	\$ 8,125	\$13,240
Machinery and industrial supplies	7,020	-	-	7,020
Automotive products	17,766	3,456	2,383	23,605
Chemical products	8,779	6,252	9,086	24,117

Total	\$36,304	\$12,084	\$19,594	\$67,982
	=====			
1995 total	\$38,796	\$12,247	\$15,222	\$66,265
	=====			

Notes to Consolidated Financial Statements (continued)

5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31,	
	1996	1995

	(In Thousands)	
Land and improvements	\$ 4,860	\$ 4,405
Buildings and improvements	21,540	20,615
Machinery, equipment and automotive	141,972	118,567
Furniture, fixtures and store equipment	6,399	5,854
Producing oil and gas properties	3,279	3,289

	178,050	152,730
Less accumulated depreciation, depletion and amortization	74,907	66,460
	=====	
	\$103,143	\$ 86,270
	=====	

6. FOREIGN SALES CONTRACT

In connection with a 1992 equipment sales contract with a foreign customer, a subsidiary of the Company agreed to a contract amendment in May 1995 that enabled collection of outstanding billings on the contract and required the customer deliver bearing products to the subsidiary, at a future date, without charge to the subsidiary. The amendment also included a purchase commitment by the subsidiary to purchase \$30 million of bearing products from the customer over a five-year period. During 1995, the subsidiary purchased approximately \$3.1 million of product in connection with such requirement.

In January 1996, the subsidiary negotiated another amendment to the agreement with the foreign customer, modifying the subsidiary's firm commitment to purchase \$30 million of bearing products over the five-year period in exchange for waiver of the foreign customer's commitment to provide bearing products without charge to the subsidiary at a future date. Under this amendment, the Company will not be required to purchase more bearing products each year than it can sell in its normal course of business.

Accordingly, as a result of the elimination of the subsidiary's future bearing product commitment, the Company recognized the remaining \$1.8 million of contract revenue in the fourth quarter of 1995 which had been previously deferred pending completion of the subsidiary's firm purchase commitment.

Notes to Consolidated Financial Statements (continued)

7. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	1996	1995

	(In Thousands)	
Secured revolving credit facility with interest at a base rate of a certain bank plus a specified percentage (9.42% aggregate rate at December 31, 1996) (A) (E)	\$ 57,248	\$ 59,175
Secured loans of a subsidiary with interest payable quarterly at rates indicated (B) (E):		
10.415% to 12.72% term loans	5,542	10,688
Revolving credit facility at a base rate of a certain bank plus a specified percentage (10.5% at December 31, 1996)	1,944	3,750
Secured loan with interest payable monthly (C)	13,855	15,728
Note payable to bank, due in monthly installments of principal and interest through May 2001, interest at a rate equal to the Wall Street Journal prime rate plus .75% (aggregate rate of 9.0% at December 31, 1996) (D)	12,866	8,819
Secured loan due in monthly installments of principal and interest through July 31, 2003, interest at a rate equal to the "three-month adjusted LIBOR rate plus 4.25%" (9.75% at December 31, 1996) (E)	11,819	-
Other, with interest at rates of 7.5% to 12.25%, most of which is secured by machinery and equipment	29,010	20,120
	-----	-----
	132,284	118,280
Less current portion of long-term debt	13,007	14,925
	-----	-----
Long-term debt due after one year	\$119,277	\$103,355
	=====	=====

(A) In December 1994, the Company, certain subsidiaries of the Company (the "Borrowing Group") and a bank entered into a series of six asset-based revolving credit facilities aggregating up to \$65 million based upon defined eligible assets. The agreement provides for an initial term of three years; however, the agreement will automatically renew for successive 13-month terms, unless terminated by either party by notice from either party 60 days prior to maturity. Subsequent to December 31, 1996, the Company obtained a commitment from the bank to renew the credit

Notes to Consolidated Financial Statements (continued)

7. LONG-TERM DEBT (CONTINUED)

facilities through April 1, 1998. Accordingly, all amounts outstanding at December 31, 1996 have been classified as long-term debt due after one year in the accompanying 1996 consolidated balance sheet. The revolving loans are available based on varying percentages of eligible accounts receivable and inventory and also provide for the issuance of letters of credit of up to \$11 million, subject to certain restrictions. The agreement provides for loans at the reference rate as defined (which approximates the national prime rate) plus 2%, or the Eurodollar rate plus 4.375%, with interest due monthly. The agreement is secured by substantially all of the Company's receivables, inventory, proprietary rights, and proceeds thereof and the stock of certain participating subsidiaries. The agreement contains financial covenants, including limitations on dividends, investments and capital expenditures, and requires maintenance of tangible net worth, as defined (escalating from \$64.5 million in 1996 to \$80.4 million in 1998), and debt ratios whereby the Borrowing Groups' debt shall not exceed 2.39 times the Company's adjusted tangible net worth. See (E) below.

(B) This agreement between a subsidiary of the Company and two institutional lenders provided for two series of term loans and a revolving credit facility. The balance outstanding at December 31, 1996 was paid in February 1997. See Note (E).

(C) This agreement, as amended, between a subsidiary of the Company and an institutional lender provided for a loan in the aggregate amount of \$16.5 million, the proceeds of which were used in the construction of a nitric acid plant, requiring 84 equal monthly payments of principal plus interest, with interest at a fixed rate of 8.86%. This agreement is secured by the plant, equipment and machinery, and proprietary rights associated with the plant which has an approximate carrying value of \$28.9 million.

This agreement contains various financial and restrictive covenants, including a requirement to maintain tangible net worth, as defined, of \$66 million, escalating to \$76 million by December 31, 1997.

(D) In May 1995, a subsidiary of the Company entered into a term loan agreement with a bank in the amount of \$9 million. The agreement was amended in May 1996 to increase the loan to \$13 million. The loan, which matures in May 2001, is payable in 60 monthly payments of principal and

Notes to Consolidated Financial Statements (continued)

7. LONG-TERM DEBT (CONTINUED)

interest, commencing on June 30, 1996. The monthly principal and interest payment is based on a 240-month period ("Amortization Period") at a rate of interest equal to .75% in excess of the prime rate of a certain bank. On September 30, 1996, and on the last day of each calendar quarter thereafter, the monthly principal and interest payment is adjusted to an amount which will fully amortize the outstanding principal balance over the remaining part of the Amortization Period. When the loan matures in May 2001, all outstanding principal and all unpaid interest on the loan shall become immediately due. The loan is secured by The Tower, subsequent to its acquisition in February 1997 as discussed in Note 2.

- (E) On February 13, 1997, certain subsidiaries of the Company entered into a \$50 million financing arrangement with John Hancock Mutual Life Insurance Company (the "New Note Agreement"). Approximately \$19.3 million of the proceeds from the New Note Agreement were used to retire the principal balances outstanding on the term and revolving credit facility discussed in (B) above and the secured loan due in monthly installments through 2003. The remaining proceeds of the New Note Agreement (approximately \$30.7 million) were used to pay down the revolving credit facility described in (A). In connection with the new financing, \$9.5 million of debt previously due within one year has been classified as due after one year reflecting the payment terms of the New Note Agreement.

The New Note Agreement consists of: (i) \$25 million of fixed rate notes bearing interest at 10.57% per annum and (ii) \$25 million of floating rate notes bearing interest at LIBOR plus 4.2%. Repayment of the notes is due in quarterly installments of \$833,332 plus interest through April 2004 commencing on July 1, 1997. The notes are secured by real and personal property of the subsidiaries. The New Note Agreement contains several financial covenants related to the borrowing subsidiaries. These financial covenants, as defined, include the maintenance of a debt to capitalization ratio, combined net worth, combined working capital, current ratio and fixed charge coverage ratio. The New Note Agreement also restricts payments that can be made by the borrowing subsidiaries to the Company or its subsidiaries.

Maturities of long-term debt, after consideration of the New Note Agreement discussed in (E) above, for each of the five years after December 31, 1996 are: 1997--\$13,007; 1998--\$36,745; 1999--\$10,428; 2000--\$10,456; 2001--\$21,771 and thereafter--\$39,877.

Notes to Consolidated Financial Statements (continued)

8. INCOME TAXES

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

	1996	1995	1994

	(In Thousands)		
Current:			
Federal	\$ 54	\$ -	\$(1,150)
State	96	150	450

	\$150	\$150	\$ (700)
	=====		

The approximate tax effects of each type of temporary difference and carryforward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 1996 and 1995 are as follows:

	1996	1995

	(In Thousands)	
Deferred tax assets		
Allowances for doubtful accounts and other asset impairments not deductible for tax purposes	\$ 4,896	\$ 3,508
Capitalization of certain costs as inventory for tax purposes	3,415	2,425
Net operating loss carryforward	17,642	16,745
Investment tax and alternative minimum tax credit carryforwards	1,397	1,300
Other	1,079	1,032

Total deferred tax assets	28,429	25,010
Less valuation allowance	17,363	15,492

Net deferred tax assets	\$11,066	\$ 9,518
	=====	
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	\$ 8,918	\$ 7,256
Inventory basis difference resulting from a business combination	2,139	2,139
Other	9	123

Total deferred tax liabilities	\$11,066	\$ 9,518
	=====	

Notes to Consolidated Financial Statements (continued)

8. INCOME TAXES (CONTINUED)

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

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income (loss) from continuing operations before provision (benefit) for income taxes" for each of the three years in the period ended December 31, 1996 are detailed below:

	1996	1995	1994

	(In Thousands)		
Provision (benefit) for income taxes at federal statutory rate	\$(1,293)	\$(1,254)	\$ 96
Changes in the valuation allowance related to deferred tax assets	1,871	409	(1,591)
State income taxes, net of federal benefit	62	99	297
Amortization of excess of purchase price over net assets acquired	143	143	139
Foreign subsidiary loss (income)	(635)	615	(19)
Nondeductible life insurance premiums	99	142	98
Alternative minimum tax	54	-	150
Other	(151)	(4)	130

Provision (benefit) for income taxes	\$ 150	\$ 150	\$ (700)
	=====		

At December 31, 1996, the Company has regular-tax net operating loss ("NOL") carryforwards of approximately \$45 million (approximately \$10 million alternative minimum tax NOLs). Such amounts of regular-tax NOL expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$356,000 which begin expiring in 1997.

Notes to Consolidated Financial Statements (continued)

9. STOCKHOLDERS' EQUITY

STOCK OPTIONS

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

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1996 and 1995, respectively: risk-free interest rates of 6.0% and 6.4%; an dividend yield of 1.38% and 1.04%; volatility factors of the expected market price of the Company's common stock of .41 and .41; and a weighted average expected life of the option of 6.8 and 7.3 years.

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

Notes to Consolidated Financial Statements (continued)

9. STOCKHOLDERS' EQUITY (CONTINUED)

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

	Year ended December 31,	
	1996	1995

	(In thousands, except per share data)	
Net loss applicable to common stock	\$(7,184)	\$(7,036)
Loss per common share	(.55)	(.53)

Because Statement 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1997.

QUALIFIED STOCK OPTION PLANS

In November 1981, the Company adopted the 1981 Incentive Stock Option Plan (1,350,000 shares), in March 1986, the Company adopted the 1986 Incentive Stock Option Plan (1,500,000 shares) and, in September 1993, the Company adopted the 1993 Stock Option and Incentive Plan (850,000 shares). Under these plans, the Company is authorized to grant options to purchase up to 3,700,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. The 1981 and 1986 Incentive Stock Option Plans have expired and, accordingly, no additional options may be granted from these plans. Options granted prior to the expiration of these plans continue to remain valid thereafter in accordance with their terms. At December 31, 1996, there are 331,140 of options outstanding related to these two plans. At December 31, 1996, there are 845,500 options outstanding related to the 1993 Incentive Stock Option Plan which continues to be effective. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options to be granted under this plan is equal to the fair market value of the Company's common stock at the date of grant. For participants who own 10% or more of the Company's common stock at the date of grant, the option price is 110% of the fair market value at the date of grant and the options lapse after five years from the date of grant.

Notes to Consolidated Financial Statements (continued)

9. STOCKHOLDERS' EQUITY (CONTINUED)

Activity in the Company's qualified stock option plans during each of the three years in the period ended December 31, 1996 is as follows:

	1996		1995		1994	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	611,140	\$3.40	581,140	\$2.84	556,640	\$2.43
Granted	720,500	4.33	91,000	5.88	54,000	6.63
Exercised	(120,000)	2.13	(61,000)	1.74	(29,500)	2.10
Surrendered, forfeited or expired	(35,000)	4.21	-	-	-	-
Outstanding at end of year	1,176,640	4.08	611,140	3.40	581,140	2.84
Exercisable at end of year	354,540	3.76	390,540	2.39	356,940	1.93
Weighted average fair value of options granted during year		2.00		3.01		3.60

Outstanding options to acquire 1,026,640 shares of stock at December 31, 1996 had exercise prices ranging from \$1.13 to \$4.88 per share and had a weighted average remaining contractual life of 8.1 years. The balance of options outstanding at December 31, 1996 had exercise prices ranging from \$5.36 to \$9.00 per share and a weighted average remaining contractual life of 8.1 years.

NON-QUALIFIED STOCK OPTION PLANS

The Company's Board of Directors approved the grant of non-qualified stock options to the Company's outside directors, President and a key employee of one of the Company's subsidiaries, as detailed below. The option price was based on the market value of the Company's common stock at the date of grant and these options are exercisable at any time after the date of grant (except for the 1994 extension discussed below) and expire five years from such date; however, the options granted to the key employee have a vesting schedule which has been completed and do not expire until ten years from the date of grant. In June 1994, the Board of Directors extended the expiration date on the grant of options for 165,000 shares to the Company's Chairman for an additional five years. The option price and terms of the option were unchanged except that, in consideration of the extension of time to exercise, the Chairman agreed to a

Notes to Consolidated Financial Statements (continued)

9. STOCKHOLDERS' EQUITY (CONTINUED)

revised vesting schedule for exercise of 20% of the option shares in each of the years 1995, 1996 and 1997 and 40% of the option shares in 1998.

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

The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of \$9.2 million or more for such fiscal year. The exercise price for an option granted under this plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under this plan to the extent not exercised shall terminate upon the earlier of the termination as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. During each 1995 and 1994, there were 25,000 options granted at \$5.375 and \$9.00 per share, respectively, under the Outside Director Plan (40,000 options outstanding at December 31, 1996).

Activity in the Company's non-qualified stock option plans during each of the three years in the period ended December 31, 1996 is as follows:

	Shares	1996 Weighted Average Exercise Price	Shares	1995 Weighted Average Exercise Price	Shares	1994 Weighted Average Exercise Price
Outstanding at beginning of year	285,000	\$3.44	335,000	\$ 2.83	385,000	\$2.36
Granted	-	-	25,000	5.38	25,000	9.00
Exercised	(10,000)	3.13	(75,000)	1.38	(75,000)	2.63
Surrendered, forfeited, or expired	(10,000)	7.19	-	-	-	-
Outstanding at end of year	265,000	3.31	285,000	3.44	335,000	2.83
Exercisable at end of year	166,000	3.64	153,000	4.06	170,000	2.96
Weighted average fair value of options granted during year		-		2.14		3.85

9. STOCKHOLDERS' EQUITY (CONTINUED)

Outstanding options to acquire 225,000 shares of stock at December 31, 1996 had exercise prices ranging from \$1.38 to \$3.13 per share and had a weighted average remaining contractual life of 2.2 years. The balance of options outstanding at December 31, 1996 had exercise prices ranging from \$5.38 to \$9.00 per share and a weighted average remaining contractual life of 2.8 years.

PREFERRED SHARE PURCHASE RIGHTS

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

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

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

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

Notes to Consolidated Financial Statements (continued)

10. REDEEMABLE PREFERRED STOCK

Each share of the noncumulative redeemable preferred stock, \$100 par value, is convertible into 40 shares of the Company's common stock at any time at the option of the holder; entitles the holder to one vote and is redeemable at par. The redeemable preferred stock provides for a noncumulative annual dividend of 10%, payable when and as declared. Dividend payments were current at December 31, 1996 and 1995.

11. NON-REDEEMABLE PREFERRED STOCK

The 20,000 shares of Series B cumulative, convertible preferred stock, \$100 par value, are convertible, in whole or in part, into 666,666 shares of the Company's common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. Dividend payments were current at December 31, 1996 and 1995.

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

The Series 2 Preferred is redeemable subsequent to June 15, 1996. The Series 2 Preferred will be redeemable at the option of the Company, in whole or in part, at \$52.28 per share if redeemed on or after June 15, 1996, and thereafter at prices decreasing ratably annually to \$50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. Dividend payments were current at December 31, 1996 and 1995.

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

Notes to Consolidated Financial Statements (continued)

11. NON-REDEEMABLE PREFERRED STOCK (CONTINUED)

conversion and optional redemption provisions similar to those of the Series 2 Preferred and will be subject to a mandatory annual sinking fund redemption of five percent of the amount of Debentures initially issued, commencing June 15, 2003 (or the June 15 following their issuance, if later).

At December 31, 1996, the Company is authorized to issue an additional 248,461 shares of \$100 par value preferred stock and an additional 5,000,000 shares of no par value preferred stock. Upon issuance, the Board of Directors of the Company is to determine the specific terms and conditions of such preferred stock.

12. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases certain property, plant and equipment under noncancelable operating leases. Future minimum payments on operating leases with initial or remaining terms of one year or more at December 31, 1996 are as follows:

	(In Thousands)
1997	\$ 2,279
1998	1,685
1999	1,084
2000	982
2001	915
After 2001	7,340

	\$14,285
	=====

Rent expense under all operating lease agreements, including month-to-month leases, was \$4,337,000 in 1996, \$3,400,000 in 1995 and \$3,149,000 in 1994. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was \$90,000 in 1996, 1995 and 1994.

Notes to Consolidated Financial Statements (continued)

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

DEBT GUARANTEE

The Company has guaranteed approximately \$2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company, in exchange for a 25.6% ownership interest, to which no value has been assigned as of December 31, 1996. The Company has advanced the aviation company \$241,000 as of December 31, 1996 (none in 1995) and is accruing losses of the aviation company based on its ownership percentage. As a result, the Company has recorded losses of \$1,216,000 (\$626,000 in 1996, \$590,000 in 1995 and none in 1994) related to the debt guarantee. The debt guarantee relates to a \$2 million term note and a \$2 million revolving credit facility. The \$2 million term note requires interest only payments through September 1998; thereafter, it requires monthly principal payments of \$11,111 plus interest beginning in October 1998 until it matures on August 8, 1999, at which time all outstanding principal and unpaid interest are due. In the event of default of this note, the Company is required to assume payments on the note with the term extended until August 2004. The \$2 million revolving credit facility, on which a subsidiary of the Company has guaranteed up to \$600,000 of indebtedness, had been paid down to \$125,000 at December 31, 1996 and was paid in full subsequent to year end, although the full line of credit remains available.

The aviation company expects to complete the Federal Aviation Authority certification process by the end of 1997, at which time commercial production may begin. The aviation company will require a significant amount of additional funding in 1997 to complete the certification process and to establish commercial production facilities.

In 1996, the aviation company received \$5.0 million from an unrelated third party investor for a 41.6% ownership interest in the aviation company. The investor also retained an option to purchase additional stock of the aviation company in exchange for \$4 million. The Company believes these events reduce its likelihood of performing under the debt guarantee; however, if the aviation company is not successful in completing the certification process and obtaining additional external funding, the Company is likely to become responsible for the \$2.6 million indebtedness guarantee and may not be able to recover amounts advanced.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEGAL MATTERS

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

- A. In 1987, the U.S. Government notified one of the Company's subsidiaries, along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in (i) the estimated total cost of clean-up of the site and (ii) the percentage of the total waste which was alleged to have been contributed to the site by the Company, accordingly, no provision for any liability which may result has been made in the accompanying financial statements. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.
- B. The State of Arkansas performed a preliminary assessment of the Chemical Business' primary manufacturing facility (the "Site") and advised the Company that the Site has had certain releases of contaminants. On July 18, 1994, the Company received a report from the State of Arkansas which contained findings of violations of certain environmental laws and requested the Company to conduct further investigations to better determine the compliance status of the Company and releases of contaminants at the Site. On May 2, 1995, the Company signed a Consent Administrative Agreement ("Agreement") with the State of Arkansas. The Agreement provides for the Company to remediate and close a certain landfill, monitor groundwater for certain contaminants and depending on the results of the monitoring program to submit a remediation plan, upgrade certain equipment to reduce wastewater effluent, and pay a civil penalty of \$25,000.

Subsequent to the signing of the Agreement on May 2, 1995, the Company completed its remediation and closure activities and had the "Closure Certification Report" approved by the State of Arkansas. The Company also submitted a "Groundwater Monitoring Work Plan" to the State of Arkansas which has been approved and the initial phase of field work has been completed. A work plan for the second phase of the monitoring has also been submitted and approved by the State of Arkansas.

Notes to Consolidated Financial Statements (continued)

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On February 12, 1996, the Company entered into another Consent Administrative Agreement ("Original Agreement") to resolve certain compliance issues associated with nitric acid concentrations. The Company has installed additional pollution control equipment to reduce opacity and constituent emissions which impact opacity. The Company was assessed \$50,000 in civil penalties associated with the Original Agreement. In the Summer of 1996 and then on January 28, 1997, the Company executed amendments to the Original Agreement ("Amended Agreement") which amended the Original Agreement. The January 28, 1997 Amended Agreement acknowledges compliance with the requirements of the prior Amended Agreement and imposed a \$150,000 civil penalty. As of December 31, 1996, the Company has paid \$13,000 of the above penalties and, subsequent to 1996, the Company paid an additional \$127,000 of penalties. The Company is planning to undertake one or more supplemental environmental projects in lieu of paying the remaining penalty due. Based on information presently available, the Company does not believe that compliance with these agreements should have a material adverse effect on the Company or the Company's financial condition or results of operations.

C. In 1996, a lawsuit was filed against the Company's Chemical Business by a group of residents of El Dorado, Arkansas, asserting a citizens' suit against the Chemical Business as a result of certain alleged violations of the Clean Air Act, the Clean Water Act, the Chemical Business' air and water permits and certain other environmental laws, rules and regulations. The citizens' suit requests the court to order the Chemical Business to cure such alleged violations, if any, plus penalties as provided under the applicable statutes. The Company's Chemical Business will assert all defenses available to it and will vigorously defend itself.

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

Notes to Consolidated Financial Statements (continued)

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In October 1996, individuals who reside in various locations throughout the El Dorado, Arkansas metropolitan area filed a class action toxic tort lawsuit against the Chemical Business alleging that, due to releases of certain allegedly toxic substances by the Chemical Business' El Dorado, Arkansas facility, certain property damage and bodily injury resulted to residents of El Dorado, Arkansas. The plaintiffs are attempting to have themselves certified by the court as representatives of persons who allegedly have been affected by emissions from the Chemical Business' El Dorado, Arkansas facility. The plaintiffs are suing for an unspecified amount of actual and punitive damages.

The Company's insurance carriers have been notified of these matters.

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

OTHER

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

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

13. EMPLOYEE BENEFIT PLANS

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. The Company does not contribute to this plan, although it does pay for all costs associated with administering the plan.

Notes to Consolidated Financial Statements (continued)

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

LOANS RECEIVABLE: For variable-rate loans with no significant change in credit risk since loan origination, fair values approximate carrying amounts. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates which would currently be offered for loans with similar terms to borrowers of similar credit quality and for the same remaining maturities (interest rates range from 5.0% to 11.0% at December 31, 1996). The fair values of loans which are collateral dependent for realization are estimated using the fair value of the underlying collateral.

As of December 31, 1996 and 1995, the net book value of loans receivable was \$15.0 million and \$15.7 million and fair values of loans receivable were approximately \$18.9 million and \$18.2 million, respectively (assuming an estimated fair value of the underlying collateral for collateral dependent loans of \$18.0 million and \$16.5 million in 1996 and 1995, respectively).

BORROWED FUNDS: Fair values for fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair value. As of December 31, 1996 and 1995, carrying values of variable rate and fixed-rate long-term debt which aggregated \$132.3 million and \$118.3 million, respectively, approximated their estimated fair value.

As of December 31, 1996, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair value.

15. SEGMENT INFORMATION

The Company and its subsidiaries operate principally in four industries.

CHEMICAL

This segment manufactures and sells chemical products for mining, agricultural, electronic, paper and other industries. Production from the Company's primary

Notes to Consolidated Financial Statements (continued)

15. SEGMENT INFORMATION (CONTINUED)

manufacturing facility in El Dorado, Arkansas, comprises approximately 72% of the chemical segment's sales. Sales to customers of this segment primarily include coal mining companies throughout the United States and farmers in Texas, Missouri and Tennessee.

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

The Chemical Business is currently constructing a concentrated nitric acid plant (carrying value of \$28.9 million at December 31, 1996) which has a stated production capacity of 285 tons per day. The Company has incurred significant delays and costs in attempting to achieve the plant's stated capacity. The Company anticipates maintaining an economically feasible rate of production. If such rate of production is not maintained, the Company may sustain significant future operating losses related thereto.

Further, the Company purchases substantial quantities of anhydrous ammonia for use in manufacturing its products. The pricing volatility of such raw material directly affects the operating profitability of the chemical segment.

ENVIRONMENTAL CONTROL

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

Notes to Consolidated Financial Statements (continued)

15. SEGMENT INFORMATION (CONTINUED)

INDUSTRIAL PRODUCTS

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

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

AUTOMOTIVE PRODUCTS

This segment manufactures and sells anti-friction bearings and other products for automotive applications to wholesalers, retailers and original equipment manufacturers located throughout the world. Net sales from the Company's primary facility in Oklahoma City comprises approximately 87% of the automotive products segment sales.

At December 31, 1996, the automotive segment has \$23.6 million of inventory, a portion of which is in excess of current requirements based on recent sales levels. Management has developed a program to reduce this inventory to desired levels over the near term and believes no significant loss will be incurred on disposition.

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

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

Information about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1996 is detailed below.

	1996	1995	1994

	(In Thousands)		
Sales:			
Chemical	\$166,163	\$136,903	\$131,576
Environmental Control	89,275	83,843	69,914
Industrial Products	13,776	13,375	11,222
Automotive Products	37,946	33,270	32,313

	\$307,160	\$267,391	\$245,025
	=====		
Gross profit:			
Chemical	\$ 25,885	\$ 26,050	\$ 25,700
Environmental Control	21,961	21,694	17,651
Industrial Products	3,058	2,953	1,316
Automotive Products	5,868	6,366	8,442

	\$ 56,772	\$ 57,063	\$ 53,109
	=====		
Operating profit (loss):			
Chemical	\$ 10,971	\$ 13,393	\$ 12,809
Environmental Control	5,362	4,630	3,512
Industrial Products	(2,685)	(1,199)	(4,155)
Automotive Products	(4,134)	(3,704)	(1,462)

	9,514	13,120	10,704
General corporate expenses, net	(3,192)	(6,571)	(3,472)
Interest expense	(10,017)	(10,131)	(6,949)

Income (loss) before provision for income taxes	\$ (3,695)	\$ (3,582)	\$ 283
	=====		

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

	1996	1995	1994
	----- (In Thousands) -----		
Depreciation, depletion and amortization of property, plant and equipment:			
Chemical	\$ 5,504	\$ 4,532	\$ 4,044
Environmental Control	\$ 1,552	\$ 1,582	\$ 1,427
Industrial Products	\$ 126	\$ 124	\$ 117
Automotive Products	\$ 1,050	\$ 986	\$ 785
	=====	=====	=====
Additions to property, plant and equipment:			
Chemical	\$ 19,137	\$ 17,979	\$ 15,532
Environmental Control	\$ 1,551	\$ 447	\$ 3,722
Industrial Products	\$ 37	\$ 265	\$ 74
Automotive Products	\$ 1,306	\$ 1,341	\$ 1,203
	=====	=====	=====
Identifiable assets:			
Chemical	\$132,442	\$111,890	\$ 94,972
Environmental Control	50,623	41,331	40,660
Industrial Products	13,614	17,328	18,423
Automotive Products	43,212	43,872	38,369
	-----	-----	-----
	239,891	214,421	192,424
	-----	-----	-----
Corporate assets and other	21,393	23,755	28,857
	-----	-----	-----
Total assets	\$261,284	\$238,176	\$221,281
	=====	=====	=====

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

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

Gross profit by industry segment represents net sales less cost of sales. Operating profit by industry segment represents revenues less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, income taxes or interest expense.

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

Information about the Company's domestic and foreign operations for each of the three years in the period ended December 31, 1996 is detailed below:

Geographic Region	1996	1995	1994

(In Thousands)			
Sales:			
Domestic	\$270,675	\$250,028	\$230,434
Foreign:			
Australia/New Zealand	32,917	16,884	14,371
Others	3,568	479	220
	-----	-----	-----
	\$307,160	\$267,391	\$245,025
	=====	=====	=====
Income (loss) before provision for income taxes:			
Domestic	\$ (5,174)	\$ (693)	\$ 949
Foreign:			
Australia/New Zealand	1,705	(1,871)	(22)
Others	(226)	(1,018)	(644)
	-----	-----	-----
	\$ (3,695)	\$ (3,582)	\$ 283
	=====	=====	=====
Identifiable assets:			
Domestic	\$237,557	\$221,656	\$206,557
Foreign:			
Australia/New Zealand	19,740	13,757	11,608
Others	3,987	2,763	3,116
	-----	-----	-----
	\$261,284	\$238,176	\$221,281
	=====	=====	=====

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

Revenues from unaffiliated customers include foreign export sales as follows:

Geographic Region	1996	1995	1994

(In Thousands)			
Mexico and Central and South America	\$ 9,084	\$ 5,955	\$ 6,976
Canada	9,703	10,311	11,649
Slovakia	-	2,147	1,783
Other	14,517	16,300	16,195

	\$33,304	\$34,713	\$36,603
=====			

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)

	March 31	Three months ended June 30	September 30	December 31
1996				
Total revenues	\$70,906	\$91,460	\$76,841	\$74,844
Gross profit on net sales	\$14,807	\$17,233	\$13,529	\$11,203 (A)
Net income (loss)	\$ (531)	\$ 2,372	\$ (3,218)	\$ (2,468)
Net income (loss) applicable to common stock	\$ (1,350)	\$ 1,568	\$ (4,021)	\$ (3,271)
Primary earnings (loss) per common share	\$(.10)	\$.12	\$(.31)	\$(.25)
1995				
Total revenues	\$65,931	\$79,932	\$65,525	\$62,727
Gross profit on net sales	\$16,142	\$16,888	\$12,976	\$11,057
Net income (loss)	\$ 1,448	\$ 1,503	\$ (1,801)	\$ (4,882)
Net income (loss) applicable to common stock	\$ 629	\$ 699	\$ (2,604)	\$ (5,685)
Primary earnings (loss) per common share	\$.05	\$.05	\$(.20)	\$(.43)

(A) In the fourth quarter of 1996, the Company recorded adjustments to the cost of the DSN plant for depreciation, interest capitalization, excess cost accruals and advances on an insurance settlement. These adjustments increased gross profit on net sales by approximately \$3.7 million for the three months ended December 31, 1996.

In the fourth quarter of 1996, the Company also sustained a loss of \$1.0 million related to writing-off a note receivable from a customer in the Chemical Business.

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 1996, 1995 and 1994

(Dollars in Thousands)

Description	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
		Charged to Costs and Expenses	Write- offs/ Costs Incurred	

Allowance for doubtful accounts (1):				
1996	\$2,584	\$1,451	\$ 744	\$3,291
=====				
1995	\$2,000	\$1,696	\$1,112	\$2,584
=====				
1994	\$2,083	\$1,468	\$1,551	\$2,000
=====				
Other assets:				
1996	\$3,090	\$2,191	\$ -	\$5,281
=====				
1995	\$1,150	\$1,940	\$ -	\$3,090
=====				
1994	\$ 500	\$ 650	\$ -	\$1,150
=====				
Product warranty liability:				
1996	\$ 699	\$ 208	\$ 230	\$ 677
=====				
1995	\$ 689	\$ 259	\$ 249	\$ 699
=====				
1994	\$ 653	\$ 667	\$ 631	\$ 689
=====				

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

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

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-8302) pertaining to the 1981 and 1986 Incentive Stock Option Plans of LSB Industries, Inc. and the Registration Statement (Form S-3, No. 33-69800) and related Prospectus of LSB Industries, Inc. of our report dated March 7, 1997, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
April 10, 1997

EL DORADO CHEMICAL COMPANY,
NORTHWEST FINANCIAL CORPORATION,
SLURRY EXPLOSIVE CORPORATION

and

THE PURCHASERS NAMED HEREIN

NOTE PURCHASE AGREEMENT

Dated February 13, 1997

\$50,000,000 Notes due 2004

TABLE OF CONTENTS

ARTICLE	PAGE
ARTICLE 1. - DEFINITIONS	1
1.1. Defined Terms.. . . .	1
1.2. Miscellaneous.. . . .	10
ARTICLE 2. - THE NOTES	11
2.1. Authorization of Notes.	11
2.2. Sale and Purchase of Notes.	11
ARTICLE 3. - CLOSING	11
ARTICLE 4. - CONDITIONS TO CLOSING	11
4.1. Opinion of Counsel.	11
4.2. Representations, Warranties and Covenants	12
4.3. Notes	12
4.4. Collateral Agreements.. . . .	12
4.5. Recordings, Filings and Priority.	12
4.6. Title Insurance; Survey.. . . .	13
4.7. Compliance with Securities Laws.. . . .	13
4.8. Proceedings and Documents.. . . .	13
4.9. No Event of Default or Potential Event of Default	13
4.10. Payment of Closing Fees..	13
4.11. Original Documents.	14
4.12. Loan to Appraised Values.	14
4.13. Insurance..	14
4.14. Due Diligence	14
4.15. Environmental Matters..	14
ARTICLE 5. - REPRESENTATIONS AND WARRANTIES RELATING TO THE BORROWERS	14
5.1. Organization, Standing, etc	14
5.2. Qualification..	15
5.3. Business and Financial Statements..	15
5.4. Adverse Changes..	15
5.5. Tax Returns and Payments.	15
5.6. Debt.	15
5.7. Title to Properties and Assets; Liens..	16
5.8. Litigation.	16
5.9. Compliance with Collateral Agreements..	16
5.10. Compliance with Other Instruments..	16
5.11. Governmental Consents..	17
5.12. Permits and Licenses.	17
5.13. Federal Reserve Regulations..	17
5.14. Status Under Certain Federal Statutes..	17
5.15. Compliance with ERISA	17
5.16. Matters Pertaining to Mortgaged Properties.	19
5.17. Use of Proceeds..	20
5.18. Solvency of the Borrowers..	20
5.19. Environmental Matters	20
5.20. Brokers..	20
5.21. No Defaults..	20
5.22. Disclosure.	20
ARTICLE 6. - REPRESENTATIONS AND WARRANTIES OF PURCHASERS.	21
6.1. Purchase for Investment..	21
6.2. Purchasers' ERISA Representation.	21
ARTICLE 7. - INTEREST RATE PROVISIONS.	22
7.1. Interest on Fixed Notes..	22
7.2. Interest on Floating Notes.	22
7.3. Interest Rate Lock.	23
7.4. Past Due Payments	23

ARTICLE 8. - PAYMENT OF NOTES.	23
8.1. Required Payments of Notes.	23
8.2. Optional Prepayments of Notes; Allocations.	24
8.3. Notice of Prepayments; Officers' Certificate.	24
8.4. Maturity; Surrender.	25
ARTICLE 9. - ACCOUNTING, REPORTING AND INSPECTION	
COVENANTS OF THE BORROWERS.	25
9.1. Accounting.	25
9.2. Financial Statements and Other Information.	25
9.3. Inspection.	28
ARTICLE 10. - BUSINESS AND FINANCIAL COVENANTS OF THE BORROWERS.	29
10.1. Covenants.	29
(a) Debt to Capitalization.	29
(b) Combined Net Worth.	29
(c) Combined Working Capital.	29
(d) Current Ratio.	29
(e) Fixed Charge Coverage.	29
(f) Liens.	29
(g) Investments, Guaranties, etc.	30
(h) Restricted Payments.	30
(i) Consolidation, Merger and Sale of Substantially All Assets.	30
(j) Formation of Subsidiaries.	31
(k) Interested Party Transactions.	31
(l) Existence.	31
(m) Payment of Taxes and Claims; Tax Consolidation.	31
(n) Compliance with ERISA.	31
(o) Compliance with Laws.	32
(p) Maintenance of Properties; Insurance.	32
(q) Title.	32
(r) Conduct of Business.	32
(s) Capital Improvements.	33
10.2. Calculations.	33
ARTICLE 11. - [intentionally omitted].	33
ARTICLE 12. - REGISTRATION, TRANSFER, AND SUBSTITUTION OF	
NOTES.	33
12.1. Note Register; Ownership of Notes.	33
12.2. Transfer and Exchange of Notes.	33
12.3. Replacement of Notes.	33
ARTICLE 13. - PAYMENTS ON NOTES.	34
ARTICLE 14. - EVENTS OF DEFAULT AND ACCELERATION	34
14.1. Events of Default	34
14.2. Acceleration.	36
14.3. Remedies.	37
ARTICLE 15. - EXPENSES	37
ARTICLE 16. - MISCELLANEOUS.	38
16.1. Survival.	38
16.2. Amendments and Waivers.	38
16.3. Indemnification	38
16.4. Usury Not Intended.	39
16.5. Notices.	40
16.6. Reproduction of Documents.	40
16.7. Successors and Assigns.	41
16.8. Invalid Provisions.	41
16.9. Headings.	41
16.10. Counterparts.	41
16.11. Further Action.	41
16.12. Creditors	41
16.13. Waiver.	41
16.14. Entire Agreement.	41
16.15. GOVERNING LAW.	41

Schedule of Purchasers
Schedule of Information for Payment and Notices

EXHIBITS

- A-1 Form of Fixed Note
- A-2 Form of Floating Note
- B-1 Form of Arkansas Mortgage and Security Agreement
- B-2 Form of Assignment of Leases and Rents
- C Environmental Indemnity Agreement
- D Receipt of Funds
- E Closing Certificate
- F Officer's Certificate

Draft of 2/12/97

NOTE PURCHASE AGREEMENT

This Note Purchase Agreement (this "Agreement") dated February 13, 1997, by and among the entities identified on Schedule I attached hereto (each a "Purchaser" and collectively, "Purchasers"), El Dorado Chemical Company, an Oklahoma corporation ("EDC"), Northwest Financial Corporation, an Oklahoma corporation ("NFC"), and Slurry Explosive Corporation, an Oklahoma corporation ("Slurry") (EDC, NFC and Slurry are sometimes individually referred to as a "Borrower" and collectively, the "Borrowers").

R E C I T A L S :

WHEREAS, EDC and NFC are each, directly or indirectly, wholly owned subsidiaries of LSB Industries, Inc. and are affiliates of each other, and Slurry is a wholly owned subsidiary of EDC;

WHEREAS, the Borrowers desire to jointly and severally issue and sell Floating Notes and Fixed Notes in the aggregate principal amount of \$50,000,000 (the "Notes") to Purchasers for the purpose of refinancing existing debt and other general corporate purposes; and

WHEREAS, Purchasers desire to purchase severally and not jointly the Notes from the Borrowers upon the terms and conditions contained in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements set forth in this Agreement, the parties to this Agreement mutually agree as follows:

ARTICLE 1.
DEFINITIONS

1.1. Defined Terms. As used herein the following terms have the following respective meanings:

Affiliate: with respect to any Person, (a) any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with, such Person, or (b) any director, officer, partner or employee of such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise. The term "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and shall in any event include the ownership or power to vote ten percent (10%) or more of the outstanding equity interests of such other Person.

Appraised Value: The appraised value of the Mortgaged Properties, as determined by AccuVal Associates, Inc., or such other appraiser selected by Purchasers.

Bankruptcy Code: the meaning provided in Section 14.1(e).

Borrower: individually, EDC, NFC or Slurry, or any successor thereto by merger, consolidation, or otherwise.

Business Day: any day on which national banks are open in Dallas, Texas, Chicago, Illinois and Boston, Massachusetts.

Called Principal: with respect to any Fixed Note, the principal of such Fixed Note that is to be prepaid pursuant to Section 8.2 or is declared to be immediately due and payable pursuant to Article 14, as the context requires.

Capital Expenditures: for any period, expenditures (including, without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by a Borrower or any of its respective Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP.

Capital Lease Obligations: all obligations to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet under GAAP, and for purposes of this Agreement, the amount of such obligation shall be the capitalized amount thereof, determined in accordance with GAAP.

Certificate: the meaning specified in Section 4.4(d).

Change of Control: the failure of LSB to directly or indirectly own and control 100% of the capital stock of any Borrower.

Closing: the meaning specified in Article 3.

Closing Date: the meaning specified in Article 3.

Code: the Internal Revenue Code of 1986, as amended from time to time.

Collateral: the Mortgaged Properties.

Collateral Agreements: the Security Documents, the Financing Statements, the Environmental Indemnity Agreement, the Receipt of Funds, the Certificate and all other documents and instruments that may be executed or delivered hereunder or in connection herewith.

Combined Debt: at any time, the total consolidated Debt of EDC and NFC and their respective Subsidiaries determined on a combined basis, excluding (without duplication in any instance) any Debt owed to EDC or NFC by any of its respective Subsidiaries or another Subsidiary and any Debt owed by a Borrower to any of its respective Subsidiaries or to another Borrower.

Combined Fixed Charge Coverage Ratio: the ratio of (A) EBITDA plus total lease payments (other than payments under Capital Lease Obligations and rents paid by a Borrower to another Borrower) to (B) the sum of (i) Combined

Interest Expense, (ii) total lease payments (other than Capital Lease Obligations), (iii) principal payments due on or scheduled mandatory redemptions of Debt (including the Notes) within one year, whether or not actually paid and (iv) the current portion of Capital Lease Obligations, all determined on a consolidated and combined basis for EDC and NFC and their respective Subsidiaries.

Combined Interest Expense: for any period, the total consolidated interest expense of EDC and NFC and their respective Subsidiaries for such period, determined in accordance with GAAP (minus, to the extent included therein, any interest expense not paid in cash and interest expense paid by a Borrower to another Borrower) including, without limitation (and without duplication in any instance), (a) all interest paid on Debt of a Borrower and its Subsidiaries (other than Debt owing from one Borrower to another Borrower), (b) all commissions, discounts and other fees and charges owed with respect to letters of credit and banker's acceptances allocable to or amortized over such period, (c) net costs under Interest Rate Agreements and (d) the portion of any amount payable under Capital Lease Obligations that is, in accordance with GAAP, allocable to interest expense, determined on a combined basis.

Combined Net Income: for any period, the total of all amounts which, in conformity with GAAP, would be included under net income (or deficit) on a consolidated income statement of each of EDC and NFC and their respective Subsidiaries for such period, after deducting all operating expenses, provisions for all taxes and reserves (including, but not limited to, reserves for deferred income taxes), and all other proper deductions, determined on a combined basis.

Combined Net Worth: the total consolidated assets of EDC and NFC and their respective Subsidiaries (in accordance with GAAP) less in each case Total Liabilities, determined on a combined basis.

Combined Working Capital: total Current Assets less Current Liabilities of EDC and NFC and their respective Subsidiaries, determined on a combined basis.

Commission: the Securities and Exchange Commission or any other Federal agency at the time administering the Securities Act.

Current Assets: the consolidated assets of EDC and NFC and their respective Subsidiaries, as the case may be, which can be readily converted into cash within one year and all other assets deemed current assets in accordance with GAAP, determined on a combined basis.

Current Liabilities: the consolidated Debt, trade payables, accrued expenses and other obligations of EDC and NFC and their respective Subsidiaries, which must be satisfied or have maturities within one year, as determined in accordance with GAAP, and the outstanding balance of any revolving credit facility, determined on a combined basis, but excluding any Debt owing by one Borrower to another Borrower.

Debt: as of any date of determination, all items (other than trade payables, accrued expenses, advance payments from customers, capital stock, capital surplus and retained earnings, and long-term deferred taxes) that in accordance with GAAP would constitute a liability as shown on the liability side of a balance sheet of a Borrower including Capital Lease Obligations. Without limiting the generality of the foregoing, with respect to any Person, the term "Debt" in any event shall include indebtedness for borrowed money, including long-term and short-term debt, obligations and liabilities secured by any Lien existing on property owned subject to such Lien, whether or not the indebtedness, obligation or liability secured thereby shall have been assumed.

Default Rate: (i) with respect to the Fixed Notes, 12.57% per annum and (ii) with respect to the Floating Notes, two percent (2%) above the then current interest rate on the Floating Notes, but in each instance not to exceed the Highest Lawful Rate.

Discounted Value: with respect to the Called Principal of any Fixed Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on a semiannual basis) equal to the Reinvestment Yield with respect to such Called Principal.

EBITDA: for any period, shall mean the Combined Net Income after restoring amounts deducted for depreciation, amortization, interest expense and taxes for each of EDC and NFC and their respective Subsidiaries, determined on a combined basis.

Eligible Subsidiary: any corporation or other entity organized under the laws of a state of the United States and located entirely within the United States and 100% of all equity interests of which is owned by a Borrower either directly or through another Eligible Subsidiary.

Environmental Consultant: the meaning specified in Section 4.15.

Environmental Indemnity Agreement: the meaning specified in Section 4.4(c).

ERISA: the Employee Retirement Income Security Act of 1974, as amended from time to time.

Event of Default: the meaning specified in Section 14.1.

Exchange Act: the Securities Exchange Act of 1934, as amended, and the

rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

Financial Statements: the meaning specified in Section 5.3.

Financing Statements: the meaning specified in Section 4.4(b).

Fiscal Year: the fiscal year of each Borrower for purposes of Article 9.

Fixed Note: the meaning specified in Section 2.1. Fixed Notes shall also include any Floating Notes for which the interest rate is permanently set pursuant to Section 7.3.

Floating Note: the meaning specified in Section 2.1.

Funded Debt: the consolidated Debt (excluding any Guaranty, the outstanding balance of any revolving credit facility and Debt owing from one Borrower to another Borrower) of EDC and NFC and their respective Subsidiaries, other than Debt that by its terms matures within one year of the date of determination, determined on a combined basis.

GAAP: generally accepted accounting principles as set forth from time to time in the opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements of the Financial Accounting Standards Board or in such opinions and statements of such other entities as shall be approved by a significant segment of the accounting profession.

Guaranty: all obligations by a Person which in any manner directly or indirectly guarantee the payment or performance of any indebtedness or other obligation of any other Person or assure or in effect assure the holder of any guaranteed obligation against the loss in respect thereof.

Hancock: John Hancock Mutual Life Insurance Company and its successors and assigns.

Highest Lawful Rate: the meaning specified in Section 16.4.

Indemnified Party: the meaning specified in Section 11.2.

Interest Option Notice: the meaning specified in Section 7.2.

Interest Period: with respect to the Floating Notes, a period commencing (i) in the case of the initial Interest Period thereunder, on the Closing Date or (ii) in the case of subsequent Interest Periods thereunder, on the termination date of the immediately preceding Interest Period applicable thereto in the case of a rollover to a new Interest Period in accordance with Section 7.2, and ending in each case three months, six months or one year thereafter as the Borrowers shall select in accordance with Section 7.2; provided, however, that (A) any Interest Period that would otherwise end on a day that is not a LIBOR Business Day shall be extended to the next succeeding LIBOR Business Day unless such next succeeding LIBOR Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding LIBOR Business Day and (B) any Interest Period that would otherwise end after the Maturity Date shall end on the Maturity Date.

Interest Rate Agreement: any interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap or other interest rate hedge or arrangement under which a Borrower or any of its respective Subsidiaries is a party or a beneficiary.

Interest Rate Set Window: the period of time not more than ten (10) days nor less than five (5) days prior to the commencement of each Interest Period.

Investment: any direct or indirect purchase or other acquisition by a Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution (other than any Guaranty) by a Person to any other Person, including all indebtedness and accounts receivable from such other Person that did not arise from sales to such other Person in the ordinary course of business.

LIBOR Business Day: a Business Day on which dealings in dollars are carried out in the London interbank eurodollar market.

LIBOR Premium: with respect to any Floating Note, a premium of (i) three percent (3%) of the principal amount prepaid, if the prepayment occurs on or before March 31, 2000, (ii) two percent (2%) of the principal amount prepaid, if the prepayment occurs on or after April 1, 2000 and on or before March 31, 2001 and (iii) one percent (1%) of the principal amount prepaid, if the prepayment occurs on or after April 1, 2001 and on or before March 31, 2002.

LIBOR Rate: for any Interest Period in effect under the Floating Notes, the rate announced in The Wall Street Journal (Northeast Edition) as the London Interbank Offered Rates (LIBOR) for a period of corresponding duration.

Lien: with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this Agreement, a Person shall be deemed to own, subject to a Lien, any Property that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement (other than an operating lease) relating to such Property.

LSB: LSB Industries, Inc., a Delaware corporation and the parent

corporation, directly or indirectly, of each Borrower.

Majority Holders: a registered holder or holders (other than a Borrower or any Affiliate thereof) of, in the aggregate, a majority in principal amount of the Notes at any time outstanding (excluding any Note directly or indirectly owned by a Borrower or any Affiliate thereof).

Make-Whole Premium: with respect to any Fixed Note (including any Floating Note that becomes a Fixed Note pursuant to the Borrowers' election to fix the interest rate thereunder in accordance with Section 7.3), a premium equal to the excess, if any, of the Discounted Value of the Called Principal of such Fixed Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Make-Whole Premium shall in no event be less than zero.

Material Adverse Effect: a material adverse effect on the business, operations, affairs, condition or properties of the Borrowers, taken as a whole, or a matter which materially affects the ability of any Borrower to perform its respective obligations hereunder or under the Collateral Agreements.

Maturity Date: April 1, 2004 or such earlier date upon which the maturity of the Notes is accelerated pursuant to Section 14.2.

Moody's: Moody's Investors Services, Inc.

Mortgaged Properties: the aggregate of all properties pledged, conveyed and encumbered under or pursuant to the Security Documents.

Net Income: for any period, the total of all amounts which, in conformity with GAAP, would be included under net income (or deficit) on a consolidated income statement of such Person for such period, after deducting all operating expenses, provisions for all taxes and reserves (including, but not limited to, reserves for deferred income taxes), and all other proper deductions.

Net Tangible Assets: total consolidated assets of EDC and NFC and their respective Subsidiaries less intangible assets of EDC or NFC and their respective Subsidiaries such as goodwill, patents and similar assets that would be of an intangible nature in accordance with GAAP, determined on a combined basis.

Notes: collectively, the Fixed Notes and the Floating Notes.

Officers' Certificate: a certificate executed by the President and the Secretary of each Borrower.

PBGC: the Pension Benefit Guaranty Corporation or any governmental authority succeeding to any of its functions.

Payment Date: the first day of each calendar quarter, but if such day is not a Business Day, the first Business Day of such quarter.

Permitted Exceptions: those Liens permitted under the Security Documents.

Permitted Investments: (a) direct obligations of the United States, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States, or of any agency thereof, in either case maturing not more than one year from the date of acquisition thereof; (b) direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of the acquisition thereof and, at the time of such acquisition, having the highest rating obtainable from either S&P or Moody's; (c) certificates of deposit issued by any bank or trust company organized under the laws of the United States or any state thereof and having capital, surplus and undivided profits of at least \$200,000,000, maturing not more than six months from the date of acquisition thereof; (d) commercial paper rated A-1 or better or P-1 or better by S&P or Moody's, respectively, maturing not more than six months from the date of acquisition thereof; and (e) Eurodollar time deposits having a maturity of less than six months purchased directly from any such bank (whether such deposit is with such bank or any other such bank).

Person: a corporation, an association, a partnership, a limited liability company, an organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

Plan: an "employee pension benefit plan" (as defined in Section 3(2) of ERISA) that is or has been established or maintained, or to which contributions are or have been made, by the Borrower or any of the Subsidiaries or any Related Person with respect to any of them, or an employee pension benefit plan as to which the Borrower or any of the Subsidiaries or any Related Person with respect to any of them, would be treated as a contributory sponsor under Section 4069 of ERISA if it were to be terminated.

Potential Event of Default: a default that, with notice or lapse of time or both, becomes an Event of Default.

Premium: a LIBOR Premium or a Make-Whole Premium, as the case may be.

Property: any right or interest in or to property of any kind whatsoever, whether real, personal (including, without limitation, cash) or mixed and whether tangible or intangible.

Purchasers: the Persons identified on Schedule I attached hereto and

their respective successors and assigns.

Receipt of Funds: the meaning specified in Section 4.4(d).

Reinvestment Yield: with respect to the Called Principal of any Note, the yield to maturity implied by (a) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 5" on the Telerate Service (or such other display as may replace Page 5 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Life of such Called Principal as of such Settlement Date, plus 100 basis points, or (b) if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Life of such Called Principal as of such Settlement Date, plus 100 basis points. Such implied yield shall be determined, if necessary, by (x) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (y) interpolating linearly between reported yields.

Related Person: as to any Person, either (a) any corporation or trade or business that is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as such Person, or (b) is under common control (within the meaning of Section 414(c) of the Code) with such Person, or (c) is a member of any affiliated service group (within the meaning of Section 414(m) of the Code) that includes such Person, or (d) is otherwise treated as part of the controlled group that includes such Person (within the meaning of Section 414(o) of the Code).

Remaining Life: with respect to the Called Principal of any Fixed Note, the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

Remaining Scheduled Payments: with respect to the Called Principal of any Fixed Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

Responsible Officer: the President, the Chief Executive Officer, the Chief Operating Officer or the Chief Financial Officer of a Borrower.

S&P: Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc.

Schedule of Information for Payment and Notices: the meaning specified in Article 13.

Secured Debt: all indebtedness for borrowed money or evidenced by a bond, debenture, note or similar evidence of indebtedness, which is secured by a Lien on any assets of a Borrower or any of its respective Subsidiaries or any shares of stock or Debt of any Subsidiary of a Borrower.

Securities Act: the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

Security Documents: the meaning specified in Section 4.4(a).

Settlement Date: with respect to the Called Principal of any Fixed Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or is declared to be immediately due and payable pursuant to Article 14.

Special Counsel: Locke Purnell Rain Harrell (A Professional Corporation) as special counsel to Purchasers in connection with this Agreement.

Stock: all shares, options, warrants, interests, participations or other equity equivalents (regardless of how designated) of a corporation or equivalent entity whether voting or nonvoting, including, without limitation, common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3(a)11-1 of the General Rules and Regulations promulgated by the Commission under the Exchange Act).

Subordinated Debt: Debt of a Borrower that by its terms is subordinated to the Notes.

Subsidiary: any corporation or other entity of which more than 50% of the outstanding voting shares are at the time owned (either alone or through Subsidiaries or together with Subsidiaries) by a Borrower or another Subsidiary of such Borrower.

Total Capitalization: total stockholder's equity of EDC and NFC and their respective Subsidiaries on a consolidated basis plus total Funded Debt, all determined on a combined basis.

Total Liabilities: total consolidated liabilities of EDC and NFC and their respective Subsidiaries, as the case may be, as shown on its annual balance sheet in accordance with GAAP, determined on a combined basis

Unfunded Current Liability: as to any Plan, the amount, if any, by which the actuarial present value of the accumulated plan benefits under the

Plan as of the close of its most recent plan year, determined in accordance with Statement of Financial Accounting Standards No. 35, based upon the actuarial assumptions used by the Plan's actuary in the most recent annual valuation of the Plan, exceeds the fair market value of the assets allocable thereto, determined in accordance with Section 412 of the Code.

Welfare Plan: an employee welfare benefit plan (as defined in Section 3(1) of ERISA) or a group health plan (as defined in Section 4980B(g)(2) of the Code) which is or has been established or maintained, or to which contributions are or have been made, by the Borrower or any of the Subsidiaries or any Related Person with respect to any of them.

1.2. Miscellaneous. References herein to an "Exhibit" or "Schedule" are, unless otherwise specified, to one of the exhibits or schedules attached to this Agreement, and references herein to a "Section" are, unless otherwise specified, to one of the Sections of this Agreement. As used in this Agreement, the words "herein," "hereof," "hereby," and "hereunder" refer to this Agreement as a whole and not to any particular Section or subdivision of this Agreement. References herein to masculine or neuter are construed to include masculine, feminine or neuter, where applicable, and references herein to singular include plural and to plural include singular, where applicable. When a definition or calculation in Section 1.1 refers to a matter on a "combined basis," it shall mean a determination based on the combined financial statements of EDC and NFC and their respective Subsidiaries.

ARTICLE 2. THE NOTES

2.1. Authorization of Notes. The Borrowers have authorized the issuance and sale on a joint and several basis of (i) \$25,000,000 aggregate principal amount of 10.57% Fixed Rate Notes (together with all notes issued in substitution or exchange therefor pursuant to Article 12, the "Fixed Notes") and (ii) \$25,000,000 aggregate principal amount of Floating Rate Notes (together with all notes issued in substitution or exchange therefor pursuant to Article 12, the "Floating Notes") pursuant to this Agreement. Each Note will be in the amount of \$1,000 or a multiple thereof, will bear interest on the unpaid principal balance thereof from the date of the Note as prescribed herein, payable as set forth in Articles 7 and 8, will mature on April 1, 2004 and will be substantially in the form of Exhibit A-1 (for the Fixed Notes) and Exhibit A-2 (for the Floating Notes). In addition, any note issued following a permanent setting of the interest rate in accordance with Section 7.3 shall be in the form of Exhibit A-1 and shall be deemed a Fixed Note.

2.2. Sale and Purchase of Notes. Subject to the terms and conditions hereof, the Borrowers will issue and sell to Purchasers and, subject to the terms and conditions hereof, each Purchaser will purchase severally and not jointly from the Borrowers, at the Closing provided for in Article 3, the aggregate principal amount of Fixed Notes and Floating Notes as indicated on Schedule I attached hereto.

ARTICLE 3. CLOSING

The closing of the sale of the Notes to the Purchasers (the "Closing") shall take place at the offices of Locke Purnell Rain Harrell (A Professional Corporation), 2200 Ross Avenue, Suite 2200, Dallas, Texas 75201, at 10:00 a.m. Dallas, Texas time (with funding to occur no later than 12:00 p.m.), on February 13, 1997 (the "Closing Date"). At the Closing the Borrowers will deliver to each Purchaser the Notes (in the amounts provided on Schedule I) in the form prescribed by each such Purchaser, dated the Closing Date and registered in such Purchaser's name (or the name of its nominee), against delivery by such Purchaser to EDC, on behalf of each Borrower, of immediately available funds in the aggregate amount of the purchase price therefor.

ARTICLE 4. CONDITIONS TO CLOSING

Each Purchaser's obligation to purchase and pay for the Notes is subject to the fulfillment to such Purchaser's satisfaction, by the time of Closing, of the following conditions:

4.1. Opinion of Counsel. Purchaser shall have received an opinion, dated the Closing Date and satisfactory in form and substance to Purchaser, from Conner & Winters, counsel for the Borrowers, covering such matters relevant to the transactions contemplated hereby as Purchaser or Special Counsel may reasonably request.

4.2. Representations, Warranties and Covenants. The representations and warranties of each Borrower contained in this Agreement shall be true and correct at the time of Closing as if made at and as of such time, and each Borrower shall have complied with all agreements and covenants hereunder required to be performed by such Borrower on or prior to the time of Closing.

4.3. Notes. The Notes (with appropriate insertions) to be issued to and accepted by Purchaser, shall have been duly executed and delivered to Purchaser by the Borrowers and shall be in full force and effect and no term or condition thereof shall have been amended, modified or waived, except with the prior written consent of Purchaser and the Borrowers.

4.4. Collateral Agreements.

(a) The Arkansas Mortgage and Security Agreement substantially in the form of Exhibit B-1 and the Assignment of Leases and Rents substantially in the form of Exhibit B-2 (collectively, the "Security

Documents"), shall have been duly executed and delivered by the Borrowers for the benefit of Purchasers, the registered holders from time to time of the Notes, and the beneficiaries named in the Security Documents and shall be in full force and effect.

(b) UCC-1 Financing Statements (the "Financing Statements") shall have been duly executed and delivered by each Borrower.

(c) The Environmental Indemnity Agreement substantially in the form of Exhibit C (the "Environmental Indemnity Agreement") shall have been duly executed and delivered by the Borrowers and shall be in full force and effect.

(d) A Receipt of Funds, substantially in the form of Exhibit D (the "Receipt of Funds"), shall have been duly executed and delivered by the Borrowers and shall be in full force and effect.

(e) A certificate, substantially in the form of Exhibit E (the "Certificate"), shall have been duly executed and delivered by each Borrower and shall be in full force and effect.

4.5. Recordings, Filings and Priority. Except as waived in writing by Purchaser, all recordings and filings of or with respect to the Security Documents and the Financing Statements shall have been duly made and all other instruments relating thereto shall have been duly executed, delivered and recorded or filed, in all such places as may be required by law, or as may be deemed necessary or desirable by Special Counsel, in order to establish, protect and perfect as of the Closing Date the interests and rights (and the priority thereof) created or intended to be created thereby. The Lien of the Security Documents and Financing Statements shall constitute a first Lien of record on and a first security interest of record in the Mortgaged Properties, subject only to the Permitted Exceptions.

4.6. Title Insurance; Survey. Purchaser shall have received (a) a title insurance policy with respect to the Mortgaged Properties in the form of the American Land Title Association Loan Policy (10/17/92) issued by a title underwriter acceptable to Purchaser, issued by a title underwriter acceptable to Purchaser, and containing affirmative coverages and reinsurance arrangements and agreements satisfactory in form and substance to Purchaser and Special Counsel, insuring in the amount of \$50,000,000, Purchaser's interest under the Security Documents as the holder of a valid first lien of record on the Mortgaged Properties or, in the case of leased properties, a valid first Lien on the Borrower's leasehold interest, subject only to the Permitted Exceptions, containing no exception as to creditors' rights, and containing affirmative zoning endorsements, affirmative coverage as to claims and liens of mechanics and materialmen, affirmative endorsements as to claims relating to the environmental conditions of the Mortgaged Properties, and such other affirmative conditions and coverages as are available and as Purchaser may request, all satisfactory in substance and form to Purchaser and Special Counsel; (b) reports of Uniform Commercial Code searches in the Uniform Commercial Code central filing offices of the Secretary of State of Arkansas issued by the State of Arkansas, and such other evidence concerning Uniform Commercial Code filings as is requested by Purchasers, in each case reasonably satisfactory in form and substance to Purchasers and Special Counsel; (c) a report of a tax and judgment lien search in the recording district of each county or similar jurisdiction where the Mortgaged Properties are located, satisfactory in form and substance to Purchasers and Special Counsel; and (d) surveys of each part of the Mortgaged Properties and surveyors' certifications as Purchaser shall approve.

4.7. Compliance with Securities Laws. The offering and sale of the Notes to be issued at the Closing shall have complied with all applicable requirements of federal and state securities laws, and Purchaser shall have received evidence thereof reasonably satisfactory to Purchaser and Special Counsel.

4.8. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated hereby and all documents and instruments incident to such transactions shall be satisfactory to Purchaser and Special Counsel, and Purchaser and Special Counsel shall have received an original executed counterpart of this Agreement, and all such other counterpart originals or certified or other copies of such documents as Purchaser or Special Counsel may reasonably request.

4.9. No Event of Default or Potential Event of Default. There shall not exist and, upon consummation of the transactions contemplated hereby, there shall not exist any Event of Default or Potential Event of Default.

4.10. Payment of Closing Fees. The Borrowers shall have paid the reasonable fees, expenses and disbursements of Special Counsel and special local counsel relating to the preparation and completion of the transactions contemplated by this Agreement that are reflected in statements of such counsel rendered prior to or on the Closing Date, without limitation on the Borrowers' obligation to pay any additional fees and disbursements of all such counsel pursuant to Article 15.

4.11. Original Documents. Purchaser shall have received an original executed counterpart of the Notes, the Security Documents, the Financing Statements, the Receipt of Funds, the Certificate, and the title insurance policies and surveys referred to in Section 4.6.

4.12. Loan to Appraised Values. The Appraised Value of the Mortgaged Properties shall not be less than \$77,000,000.

4.13. Insurance. Purchaser shall have received certificates satisfactory to Purchaser as to, or copies of, all insurance policies required by the Security Documents

4.14. Due Diligence. The results of any due diligence review of the Borrowers and their respective Subsidiaries and Properties, businesses, operations, affairs, results of operations, financial condition and prospects and the proposed organizational, legal and tax aspects of the proposed transactions, performed by or on behalf of Purchaser shall be satisfactory to Purchaser and Special Counsel.

4.15. Environmental Matters. The Borrowers shall have delivered to Purchaser a Phase I environmental assessment and environmental compliance audit, addressed to Purchaser, in form and substance acceptable to Purchaser and prepared by Law Engineering and Environmental Services, Inc. (the "Environmental Consultant"), to the effect that, except as otherwise disclosed on Schedule 5.19, (i) nothing has come to the attention of the Environmental Consultant that the current activities at the Mortgaged Properties do not comply in all material respects with applicable requirements of any applicable governmental authority relating to air or water pollution, hazardous substance or waste management and disposal, or other Environmental Laws, and (ii) none of the Mortgaged Properties is impacted by Hazardous Substances in any respect that would require investigation, reporting, monitoring, cleanup or other response under applicable Environmental Laws that could have a Material Adverse Effect. The terms of engagement of the Environmental Consultant shall be approved by Hancock and the engagement agreement shall specify that Hancock shall be the principal client and the Borrowers shall be exclusively liable for all payments and any indemnification or similar obligations under the engagement agreement.

ARTICLE 5.

REPRESENTATIONS AND WARRANTIES RELATING TO THE BORROWERS

The Borrowers jointly and severally represent and warrant that:

5.1. Organization, Standing, etc. Each Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Oklahoma and has all requisite power and authority (i) to own and operate its properties, (ii) to carry on its business as now conducted and as proposed to be conducted, (iii) to enter into this Agreement, the Security Documents and each of the other Collateral Agreements to which it is a party, (iv) to issue and sell the Notes, and (v) to carry out the terms of this Agreement, the Notes, the Security Documents and each of the other Collateral Agreements to the extent it is a party thereto. This Agreement, the Notes, the Security Documents and the other Collateral Agreements have been duly executed and delivered and are valid and binding agreements of each Borrower, enforceable in accordance with their terms, except as enforceability may be subject to and limited by applicable principles of equity and by bankruptcy, reorganization, moratorium, insolvency or other similar laws from time-to-time in effect affecting the enforcement of creditors' rights generally.

5.2. Qualification. Each Borrower is duly qualified and in good standing as a foreign corporation authorized to do business in each jurisdiction in which the nature of its activities or the character of the properties it owns or leases makes such qualification necessary, except where the failure to so qualify would not have Material Adverse Effect. Set forth on Schedule 5.2 is a list of each jurisdiction in which each Borrower owns Property or otherwise conducts business.

5.3. Business and Financial Statements. The Borrowers have delivered to Purchasers true, complete and correct copies of (i) LSB's audited consolidated financial statements for the Fiscal Year ended December 31, 1995, and the unaudited financial statements of LSB for the nine months ended September 30, 1996, EDC's audited consolidated financial statements for the Fiscal Year ended December 31, 1995, and the unaudited financial statements of EDC for the nine months ended September 30, 1996 and (iii) NFC unaudited financial statements for the year ended December 31, 1995 and the nine months ended September 30, 1996 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with GAAP (except that the unaudited financial statements contain no footnotes) applied on a consistent basis throughout the periods specified and present fairly the historical financial positions of LSB and the Borrowers as of the respective dates and for the respective periods specified.

5.4. Adverse Changes. There has been no Material Adverse Effect on any Borrower since December 31, 1995, except as disclosed on Schedule 5.4.

5.5. Tax Returns and Payments. Each Borrower is a corporation subject to United States federal income taxation. Each Borrower has timely and accurately filed all tax returns required by law to be filed by it and has paid all taxes, assessments and other governmental charges levied upon it or any of its properties, assets, income or franchises that are due and payable, other than those presently being contested in good faith by appropriate proceedings diligently conducted for which such reserves and other appropriate provision as are required by GAAP have been made. There are no material tax Liens upon any of the assets of any Borrower except for statutory liens in respect of taxes or assessments the payment of which is not yet delinquent. If a Borrower is contesting any such tax or assessment in accordance with this Section 5.5, such Borrower has disclosed to Purchasers, in writing, the nature and extent of such contest.

5.6. Debt. Other than the Notes and the indebtedness disclosed in the Financial Statements or as listed on Schedule 5.6, no Borrower has any secured or unsecured Debt outstanding. Other than as provided in this Agreement and the Collateral Agreements, or in the instruments or agreements listed on Schedule 5.6, no instrument or agreement applicable to or binding on a Borrower contains any restrictions on the incurrence by such Borrower of any Debt.

5.7. Title to Properties and Assets; Liens. Each Borrower has good and marketable fee title to all the real property purported to be owned by it and good and marketable title to all other property and assets purported to be owned by it. The Mortgaged Properties are owned free and clear of all Liens, except for Liens and other matters that constitute Permitted Exceptions or Liens that are permitted under Section 10.1(f) hereof. At the time of the Closing and upon giving effect to the transactions contemplated hereby, and except for the Permitted Exceptions and Liens permitted under Section 10.1(f) hereof, (a) no currently effective financing statement under the Uniform Commercial Code that names a Borrower as debtor or lessee relating to the Mortgaged Properties will be on file in any jurisdiction in which the Mortgaged Properties are located, and (b) no Borrower nor any of its respective Subsidiaries has signed any currently effective financing statement or any currently effective security agreement authorizing any secured party thereunder to file any such financing statement relating to the Mortgaged Properties, except (i) as required to perfect the Liens created by the Collateral Agreements, (ii) as listed on Schedule 5.7, or (iii) as evidenced by any Permitted Exception or Liens permitted under Section 10.1(f) hereof.

5.8. Litigation. Except as set forth on Schedule 5.8, there is no action, proceeding or investigation pending or, to the best knowledge of the Borrowers, threatened against LSB, any Borrower or any of the Borrowers' respective Subsidiaries or any of their respective Properties which if adversely determined, could have a Material Adverse Effect.

5.9. Compliance with Collateral Agreements. Each Borrower has performed and complied in all material respects with every term, covenant, condition and provision of the Collateral Agreements to be performed or complied with by such Borrower on or prior to the date hereof, every representation or warranty of the Borrowers contained in the Collateral Agreements is true and correct in all material respects on and as of the date hereof, and no default or Event of Default (as any such term may be defined in the Collateral Agreements) has occurred and is continuing (without regard to any applicable cure period) under the Collateral Agreements.

5.10. Compliance with Other Instruments. Except as disclosed on Schedule 5.10, no Borrower (a) is in violation of any term of any agreement or instrument to which it is a party or by which it is bound, or of any applicable law, ordinance, rule or regulation of any governmental authority, or of any applicable order, judgment or decree of any court, arbitrator or governmental authority (including, without limitation, any such law, ordinance, rule, regulation, order, judgment or decree relating to environmental protection or pollution control, occupational health and safety standards and controls, consumer protection or equal employment practice requirements), the consequence of any of which violations could reasonably be expected to result in a Material Adverse Effect; or (b) is in violation of any term of its respective Articles of Incorporation or Bylaws. Neither the execution, delivery and performance by any Borrower of this Agreement, any Collateral Agreement, or the Notes nor the consummation of the transactions contemplated hereby or thereby will result in any violation of or be in conflict with or constitute a default under any such term or result in the creation of (or impose any obligation on such Borrower to create) any Lien upon any of the properties of such Borrower pursuant to any such term which could reasonably be expected to result in a Material Adverse Effect.

5.11. Governmental Consents. Other than those that have been duly obtained and are in full force and effect (copies of which have been delivered to Purchasers or Special Counsel) and any filings contemplated by the Security Documents and the Financing Statements (which filings will be made promptly after Closing), no consent, approval or authorization of, or declaration or filing with, any governmental authority on the part of the Borrowers is currently required for the valid execution and delivery of this Agreement or any Collateral Agreement, or the consummation of the transactions contemplated hereby or thereby, or the valid offer, issue, sale and delivery of the Notes pursuant to this Agreement.

5.12. Permits and Licenses. Except for any failure to obtain or recover permits and licenses that could not reasonably be expected to have a Material Adverse Effect, each Borrower has all permits and licenses necessary for the operation of its business as presently conducted.

5.13. Federal Reserve Regulations. No Borrower will use any of the proceeds of the sale of the Notes for the purpose, whether immediate, incidental or ultimate, of buying any "margin stock" or of maintaining, reducing or retiring any indebtedness originally incurred to purchase a stock that is currently any "margin stock," or for any other purpose that would constitute this transaction a "purpose credit," in each case within the meaning of Regulation G of the Board of Governors of the Federal Reserve System (12 C.F.R. 207, as amended), or otherwise take or permit to be taken any action that would involve a violation of such Regulation G or of Regulation T (12 C.F.R. 220, as amended), Regulation U (12 C.F.R. 221, as amended) or Regulation X (12 C.F.R. 224, as amended) or any other regulation of such board. No indebtedness being reduced or retired out of the proceeds of the sale of the Notes was incurred for the purpose of purchasing or carrying any such "margin stock," and no Borrower owns nor has any present intention of acquiring any such "margin stock."

5.14. Status Under Certain Federal Statutes. No Borrower is (a) a "holding company" or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended, (b) a "public utility," as such term is defined in the Federal Power Act, as amended, (c) an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, or (d) a "rail carrier," or a "person controlled by or affiliated with a rail carrier," within the meaning of Title 49, U.S.C., or a "carrier" to which 49 U.S.C. Section 11301(b)(1) is applicable.

5.15. Compliance with ERISA. Except as otherwise disclosed on Schedule 5.15,

(a) Each Plan that is or has been maintained for employees of any Borrower or any of its respective Subsidiaries, or any Related Person with respect to any of them, or to which any Borrower or any of its respective Subsidiaries, or any Related Person with respect to any of them, has made or was required to make contributions has been administered in material compliance with its terms and all applicable statutes (including but not limited to ERISA and the Code, and all regulations and interpretations thereunder), the failure of which would have a Material Adverse Effect. No reportable event (as defined in Section 4043 of ERISA and regulations issued thereunder) has occurred with respect to any Plan that is a defined benefit plan (as defined in Section 3(35) of ERISA and regulations issued thereunder) and subject to Title IV of ERISA ("Title IV Plan"). No material liability to the PBGC has been incurred, or is expected to be incurred, by any Borrower or any of its respective Subsidiaries or any Related Person with respect to any Title IV Plan. The PBGC has not instituted any proceedings, and there exists no event or condition that would constitute grounds for institution of proceedings, against any Borrower, its respective Subsidiaries or any Related Person by the PBGC to terminate any Title IV Plan under Section 4042 of ERISA that would have a Material Adverse Effect. No case, matter or action with respect to any Plan, pursuant to any federal or state law, has been brought, is pending or is threatened, against any Borrower, its respective Subsidiaries or any Related Person with respect to any of them, or any officer, director or employee of any of them, or any fiduciary of any Plan that would have a Material Adverse Effect.

(b) No Title IV Plan had an accumulated funding deficiency (as such term is defined in Section 302 of ERISA and regulations issued thereunder) as of the last day of the most recent plan year of such Plan ended prior to the date hereof that would have a Material Adverse Effect. All contributions payable to each qualified Plan of any Borrower or its respective Subsidiaries (that is an employee pension benefit plan as defined in Section 3(2) of ERISA and regulations issued thereunder and that is intended to meet the qualification requirements of the Code ("Qualified Plan")), for all benefits earned or other liabilities accrued through the end of the latest plan year for such Qualified Plan, determined in accordance with the terms and conditions of such Qualified Plan, ERISA and the Code, have been paid or otherwise provided for, the result of which would have a Material Adverse Effect. No waiver of the minimum funding standard requirements of Section 302 of ERISA and Section 412 of the Code has been obtained, applied for or is contemplated with respect to any Title IV Plan.

(c) None of the Borrowers or any of their respective Subsidiaries nor any Related Person with respect to any of them, is or has been a contributor to any multi-employer plan within the meaning of Section 3(37) of ERISA and regulations issued thereunder.

(d) The execution and delivery of this Agreement and the Collateral Agreements, the issue of the Notes hereunder and the consummation of the transactions contemplated hereby will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax would be imposed pursuant to Section 4975 of the Code which would result in a Material Adverse Effect.

(e) No Lien imposed under Section 412(n) of the Code exists in favor of any Plan upon any property belonging to any Borrower or any of its respective Subsidiaries, or any Related Person of any of them which would result in an Material Adverse Effect.

(f) The consummation of the transactions contemplated by this Agreement will neither result in a "prohibited transaction" as described in Section 406(a) of ERISA nor a tax under Section 4975 of the Internal Revenue Code of 1986, as amended, that would result in a Material Adverse Effect. The foregoing representation is made in reliance upon the Purchasers' representations in Section 6.2 as to the source of funds to be used to purchase the Notes.

5.16. Matters Pertaining to Mortgaged Properties.

(a) Each of EDC and NFC has all easements and other rights, including those for use, maintenance, repair and replacement of and access to structures, facilities or space for support, mechanical systems, roads, utilities (including electricity, gas, water, sewer disposal, telephone and CATV) and any other private or municipal improvements, services and facilities necessary or appropriate to the proper operation, repair, maintenance, occupancy or use of the Mortgaged Properties as currently being and proposed to be used.

(b) There are no service (other than utility) or construction contracts currently outstanding relating to any part of the Mortgaged Properties, except those contracts that are set forth on Schedule 5.16, nor have any labor or materials been supplied to the Mortgaged Properties, other than in the ordinary course of business, that have not been fully paid for, except as disclosed on Schedule 5.16.

(c) There are no permits, licenses, certificates or approvals that are required to occupy or operate (except as specified in Section 5.8) any part of the Mortgaged Properties as presently operated, except those permits, licenses, certificates and approvals that are set forth on Schedule 5.16 or which have been delivered to Purchasers.

(d) The Borrowers do not possess and are not aware of any reports of engineers, architects or other Persons relating to any part of the

Mortgaged Properties which would be material to the Mortgaged Properties, except those reports that are set forth on Schedule 5.16 or which have been delivered to Purchasers.

(e) The Borrowers do not possess and are not aware of any plans and specifications relating to any part of the Mortgaged Properties which are material to the Mortgaged Properties, except those plans and specifications that are set forth on Schedule 5.16 or which have been delivered to Purchasers.

(f) Other than Phase I and Phase II environmental studies which have been delivered to Purchasers, there are no soil reports in the possession of any Borrower relating to any part of the Mortgaged Properties that would be material to the Mortgaged Properties, except as set forth on Schedule 5.16 or which have been delivered to Purchasers.

(g) The Mortgaged Properties that constitute real property are zoned in the manner that permits the use of the Mortgaged Properties as currently being and proposed to be used by the Borrowers and their Subsidiaries.

(h) No certificates of occupancy or similar permits are required with respect to the Mortgaged Properties.

(i) Slurry does not own any interest in, or conduct any activities at, any of the Mortgaged Properties.

5.17. Use of Proceeds. The Borrowers will apply the proceeds of the sale of the Notes to refinance existing debt, to make an intercompany advance from EDC to LSB in an amount not to exceed \$15,000,000, and for general corporate purposes.

5.18. Solvency of the Borrowers. Each Borrower is solvent prior to and after giving effect to the issuance and sale of the Notes, and after taking into account any intercompany debt. If at any time a Borrower should become insolvent, such Borrower shall within ten (10) Business Days after such Borrower learns of such insolvency cause LSB to recapitalize such Borrower in order to restore such Borrower to a solvent state. No Borrower, upon giving effect to the transactions contemplated hereby, will be engaged in any business or transaction, or about to engage in any business or transaction, for which such Borrower has an unreasonably small capital, and no Borrower has any intent (a) to hinder, delay or defraud any entity to which it is, or will become, on or after the Closing Date, indebted, or (b) to incur debts that would be beyond its ability to pay as they mature.

5.19. Environmental Matters. Except as disclosed on Schedule 5.19, each Borrower has been complying with, and is in compliance with, all Environmental Laws in each jurisdiction where it is presently doing business except for failures to comply which would not have a Material Adverse Effect. Except as disclosed on Schedule 5.19, to the best knowledge of the Borrowers, none of the Mortgaged Properties is impacted by Hazardous Substances in any respect that would require investigation, reporting, monitoring, cleanup or other response under any Environmental Law which could reasonably be expected to have a Material Adverse Effect.

5.20. Brokers. No Borrower nor any of its Affiliates has dealt with any brokers or finders in connection with the transactions contemplated by this Agreement.

5.21. No Defaults. At the time of the Closing, there exists no Event of Default or Potential Event of Default.

5.22. Disclosure. Neither this Agreement, the Financial Statements nor any other document, certificate or instrument delivered to Purchaser by or on behalf of the Borrowers in connection with the transactions contemplated hereby, when all such documents, certificates and instruments are taken as a whole, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading. There is no fact actually known to a Borrower that may have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and instruments delivered to Purchasers by or on behalf of a Borrower specifically for use in connection with the transactions contemplated hereby.

ARTICLE 6. REPRESENTATIONS AND WARRANTIES OF PURCHASERS

6.1. Purchase for Investment. Each Purchaser represents and warrants to the Borrowers and the other Purchasers that it is an "Accredited Investor," as defined in Regulation D under the Securities Act, and that it is purchasing the Notes for investment and not with a view to the distribution thereof except in compliance with the Securities Act and applicable state securities laws, provided that the disposition of such Purchaser's property shall at all times be within such Purchaser's control and without prejudice to such Purchaser's right at all times to sell or otherwise dispose of all or any part of the Notes by registration under the Securities Act and applicable state securities laws or under an exemption from such registration available under the Securities Act (including, without limitation, (a) a disposition to an institutional investor in a private sale, (b) a disposition pursuant to Rule 144 under the Securities Act, (c) a disposition to a qualified institutional buyer pursuant to Rule 144A under the Securities Act, or (d) a disposition under any other rules that may be promulgated by the Commission

under the Securities Act providing for the resale of securities to institutional or other sophisticated investors or others without registration under the Securities Act) and applicable state securities laws. Each Purchaser covenants that it will not sell any Notes except in compliance with the registration requirements, or an exemption therefrom, under the Securities Act and applicable state securities laws.

6.2. Purchasers' ERISA Representation. Each Purchaser represents and warrants that, with respect to each source of funds to be used by it to purchase the Notes (respectively, the "Source"), at least one of the following statements is accurate as of the Closing Date:

(a) the Source is an "insurance company general account," as such term is defined in section V(e) of prohibited Transaction Class Exemption 95-60 (issued July 12, 1995) (PTE 95-60), and the purchase is exempt under the provisions of PTE 95-60;

(b) the Source is a "governmental plan" as defined in Title I, Section 3 (32) of ERISA;

(c) the Source is either (i) an insurance company pooled separate account, and the purchase is exempt in accordance with Prohibited Transaction Exemption 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, in which case the purchaser is exempt in accordance with PTE 91-38 (issued July 12, 1991);

(d) the Source is an "investment fund" managed by a "qualified professional asset manager" or "QPAM" (as defined in Part V of PTE 84-14, issued March 13, 1984) which QPAM has been identified in writing, and the purchase is exempt under PTE 84-14 provided that no other party to the transaction described in this Agreement and no "affiliate" of such other party (as defined in Section V(c) of PTE 84-14) has at this time, and has not exercised at any time during the immediately preceding year, the authority to appoint or terminate said QPAM as manager of the assets of any "plan" identified in writing pursuant to this Section 6.2(d) or to negotiate the terms of said QPAM's management agreement on behalf of any such identified "plans"; or

(e) the Source is one or more "plans" or a separate account or trust fund comprised of one or more "plans," each of which has been identified in writing pursuant to this Section 6.1(e).

As used in this section, "plan" or "plans" shall have the meaning set forth in Title I, Section 3 (3) of ERISA.

ARTICLE 7. INTEREST RATE PROVISIONS

7.1. Interest on Fixed Notes. Interest on the outstanding principal balance of the Fixed Notes shall accrue at the lesser of (i) 10.57% per annum or (ii) the Highest Lawful Rate, and shall be due and payable in accordance with Section 8.1. Interest on the unpaid principal of the Fixed Notes shall be calculated on the basis of the actual days elapsed in a year consisting of 365 or 366 days, as applicable.

7.2. Interest on Floating Notes.

(a) Interest on the outstanding principal balance of the Floating Notes shall accrue at an interest rate per annum during the applicable Interest Period equal to the lesser of (i) the LIBOR Rate plus 4.20% or (ii) the Highest Lawful Rate. Interest on the Floating Notes accrued during a calendar month shall be due and payable in accordance with Section 8.1. Interest on the unpaid principal of the Floating Notes shall be calculated on the basis of the actual days elapsed in a year consisting of 360 days.

(b) Not more than ten days nor less than five days prior to Closing and during each Interest Rate Set Window, EDC, on behalf of all the Borrowers, shall notify Hancock on behalf of all Purchasers of their selection of the duration of the immediately following Interest Period with respect to the Floating Notes, which may be three months, six months or one year (the "Interest Option Notice"). The duration of the Interest Period selected shall be the same for all then outstanding Floating Notes. The Interest Option Notice must be in writing and may be sent via telecopy, with the originally executed copy delivered to Hancock immediately thereafter. The LIBOR Rate for the following Interest Period shall be the applicable rate for a period of corresponding duration announced in The Wall Street Journal (Northeast Edition) on the first Business Day following receipt of the Interest Option Notice.

(c) In connection with determining the applicable LIBOR Rate for the following Interest Period, Purchasers shall calculate the principal and interest payments due on the Floating Notes during such Interest Period, as required under Section 8.1(b), and shall provide such amount to EDC on behalf of the Borrowers.

7.3. Interest Rate Lock. With respect to the Floating Notes, during any Interest Rate Set Window, the Borrowers shall have the option to permanently set the interest rate on the Floating Notes. EDC, on behalf of all the Borrowers, shall provide notice to Hancock on behalf of Purchasers of their desire to set the rate and Hancock shall promptly thereafter notify EDC, on behalf of the Borrowers, of the then prevailing fixed interest rates (based on Purchasers' interest rate spreads and the average remaining life of the Floating Notes) (the "Fixed Rate"). If the Borrowers elect to have the

Floating Notes accrue interest at the Fixed Rate, EDC, on behalf of all the Borrowers, shall so notify Hancock on behalf of Purchasers in the Interest Option Notice (which election shall be irrevocable) and immediately following the then current Interest Period, the Floating Notes shall thereafter accrue interest at the Fixed Rate, and the Floating Notes shall for all purposes be deemed Fixed Notes. Any such election shall be with respect to all then outstanding Floating Notes and shall be made in full and not in part. Purchasers shall recompute the principal and interest payments required under Section 8.1(b) based on the outstanding principal balance on the Floating Notes and the Fixed Rate, and the Borrowers shall thereafter make principal and interest payments on the Floating Notes equal to such amount.

7.4. Past Due Payments. All payments of principal and, to the extent permitted by law, the applicable Premium (if any) and interest on or in respect of any Note or this Agreement that are not made when due shall bear interest at the applicable Default Rate from the date due and payable to the date paid. Any payment in respect of any other obligation or amount payable hereunder that is not paid when due shall bear interest at the applicable Default Rate from the date due and payable to the date paid.

ARTICLE 8. PAYMENT OF NOTES

8.1. Required Payments of Notes.

(a) On April 1, 1997, the Borrowers shall make a payment of all accrued and unpaid interest on the Fixed Notes. On each Payment Date thereafter while the Fixed Notes are outstanding, commencing July 1, 1997, the Borrowers shall make a payment on the Fixed Notes, in immediately available funds, in an amount equal to \$416,666 of principal plus accrued and unpaid interest thereon. Each such payment shall be applied pro rata against all outstanding Fixed Notes and paid to the accounts as provided in the Schedule of Information for Payment and Notices. On the Maturity Date, the entire outstanding principal balance of the Fixed Notes, together with interest accrued thereon, shall be due and payable.

(b) On April 1, 1997, the Borrowers shall make a payment of all accrued and unpaid interest on the Floating Notes. On each Payment Date thereafter while the Floating Notes are outstanding, commencing July 1, 1997, the Borrowers shall make a payment on the Floating Notes, in immediately available funds, in an amount equal to \$416,666 of principal plus accrued and unpaid interest thereon. Each such payment shall be applied pro rata against all outstanding Floating Notes and paid to the accounts as provided in the Schedule of Information for Payment and Notices. On the Maturity Date, the entire outstanding principal balance of the Floating Notes, together with interest accrued thereon, shall be due and payable.

(c) No partial prepayment of the Notes pursuant to Section 8.2 shall relieve the Borrowers from their obligation to make the payments required under this Section 8.1, except to the extent that the outstanding principal balance of the Notes is less than the amount of the scheduled payment otherwise due under this Section 8.1.

8.2. Optional Prepayments of Notes; Allocations.

(a) At any time or from time to time, the Borrowers are hereby granted the right, at their option, upon notice as provided in Section 8.3, to prepay all or any part (in integral multiples of principal of \$100,000) of the Fixed Notes, which prepayment shall be applied pro rata among all outstanding Fixed Notes and shall be applied to the outstanding principal amount thereof in the inverse order of maturity.

(b) From time to time from and after February 1, 1999, the Borrowers shall have the right, at their option, upon notice as provided in Section 8.3, to prepay all or any part (in integral multiples of principal of \$100,000) of the Floating Notes, which prepayment shall be applied pro rata among all outstanding Floating Notes and shall be applied to the outstanding principal amount thereof in the inverse order of maturity.

(c) Each such prepayment shall include the principal amount of the Notes so prepaid, plus interest accrued thereon to the date of payment, plus the Premium described in Section 8.2(d) (based on such principal amount so prepaid). In the case of each partial prepayment of the Notes, unless the Borrowers otherwise direct, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment, rounded upward to the nearest \$1,000 for each Note, with adjustments to the extent practicable, to compensate for any prior prepayments not made exactly in such proportion.

(d) Any prepayment of the Fixed Notes shall be subject to and include the Make-Whole Premium. Any prepayment of the Floating Notes shall be subject to and include the LIBOR Premium. Notwithstanding the foregoing, no Premium shall be due if the Notes are prepaid pursuant to Section 8.1(c).

8.3. Notice of Prepayments; Officers' Certificate. EDC on behalf of the Borrowers will give each registered holder of any Note written notice of each prepayment of the Notes under Section 8.2 not less than fifteen (15) Business Days and not more than sixty (60) days prior to the date fixed for such prepayment, which notice shall be irrevocable. Each such notice and each such prepayment shall be accompanied by an Officers' Certificate (a) stating the principal amount and serial number of each Note to be prepaid and the principal amount thereof to be prepaid; (b) stating the proposed date of prepayment; (c) stating the accrued interest on each such Note to such date to be paid in accordance with Section 8.4; and (d) estimating the Make-Whole Premium or LIBOR Premium required under Section 8.2 (calculated as of the date

of such prepayment and proffered solely as an estimate of the Make-Whole Premium or LIBOR Premium, as applicable, due upon prepayment) and setting forth the method of determination and calculations used in computing such Premium, accompanied by a copy of the Statistical Release H.15(519) (or other source of market data) used in determining the United States Treasury Yield.

8.4. Maturity; Surrender. In the case of each prepayment of the Notes, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Premium payable, if any. From and after such date, unless the Borrowers shall fail to pay such principal amount when so due and payable, together with the interest and premium, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Borrowers and canceled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

ARTICLE 9.
ACCOUNTING, REPORTING AND INSPECTION
COVENANTS OF THE BORROWERS

From the date hereof through the Closing and thereafter so long as any Note shall be outstanding, the Borrowers will perform and comply with each of the following covenants:

9.1. Accounting. The Borrowers will maintain a system of accounting established and administered in accordance with GAAP and will accrue all such liabilities as shall be required by GAAP.

9.2. Financial Statements and Other Information. The Borrowers will deliver (in duplicate) to each Purchaser (except as hereinafter provided) so long as such Purchaser or Purchaser's nominee shall hold any Note, and to each other registered holder of a Note:

(a) within ninety (90) days after the end of each Fiscal Year (unless LSB has filed with the Commission a Form 12b-25 pursuant to the Exchange Act, in which case the financial statements prescribed herein shall be due within one hundred five (105) days after such Fiscal Year end):

(i) the balance sheet of EDC as of the end of such Fiscal Year and the related statements of income and retained earnings and of cash flows of EDC for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and (1) accompanied by the report thereon of any independent public accountants of recognized national standing selected by EDC, which report shall state that (v) such financial statements present fairly the financial position of EDC as of the dates indicated and the results of its operations and cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise specified in the report), and (w) the audit by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, (2) accompanied by a written statement of such accountants that (x) the accountants have confirmed the ratios and other financial calculations required to be set forth in the officer's certificate for such Fiscal Year pursuant to subsection (c) below, (y) without any independent investigation except that conducted in the ordinary course of their audit, the accountants do not have knowledge of the existence of any condition or event that constitutes an Event of Default or Potential Event of Default, or, if any such condition or event existed or exists, specifying the nature and period of existence thereof, and (z) the accountants have confirmed that the officer's certificate provided in connection with such financial statements satisfies, in form, the requirements of subsection (c) below, and (3) certified by the chief financial officer or vice president and corporate controller of EDC as presenting fairly, in accordance with GAAP, applied (except as specifically set forth therein) on a basis consistent with such prior fiscal periods, the information contained therein;

(ii) the balance sheet of NFC as of the end of such Fiscal Year and the related statements of income and retained earnings and of cash flows of NFC of such year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and certified by the chief financial officer of NFC as presenting fairly, in accordance with GAAP, applied (except as specifically set forth therein) on a basis consistent with such prior fiscal periods, the information contained therein;

(iii) the balance sheet of EDC and NFC on a combined basis as of the end of such Fiscal Year and the related statements of income, and retained earnings and of cash flows of EDC and NFC on a combined basis, all in reasonable detail and certified by the chief financial officers of EDC and NFC as presenting fairly, in accordance with GAAP (except as specifically set forth therein), the information contained therein; and

(iv) the audited financial statements of LSB for the Fiscal Year then ended;

(b) within forty-five (45) days after the end of the first three fiscal quarters of each Fiscal Year (unless LSB has filed with the Commission a Form 12b-25 pursuant to the Exchange Act, in which case the financial statements prescribed herein shall be due within fifty (50) days after such quarter ended), the consolidated balance sheet of each of EDC and NFC as of the end of such fiscal quarter and the related consolidated statements of income and retained earnings and of cash flows of each of EDC and NFC for such fiscal quarter and for the portion of the Fiscal Year from the first day of such Fiscal Year through the end of such fiscal quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous Fiscal Year, all in reasonable detail and certified by the chief

financial officer or vice president and corporate controller of such Borrower as presenting fairly, in accordance with GAAP, applied (except as specifically set forth therein) on a basis consistent with such prior fiscal periods, the information contained therein;

(c) together with each delivery of financial statements pursuant to subsections (a) or (b) above, an officer's certificate in the form of Exhibit F (i) showing in detail the determination of the ratios and other financial calculations specified in Sections 10.1(a) through (e) during the accounting period covered by such financial statements, (ii) stating that the signer has reviewed the terms hereof and of the Notes and has made, or caused to be made under his supervision, a review of the transactions and condition of the Borrowers during the accounting period covered by such financial statements and that such review has not disclosed the existence during or at the end of such accounting period, and that the signer does not have knowledge of the existence as of the date of such officer's certificate, of any condition or event that constitutes an Event of Default or Potential Event of Default, or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Borrowers have taken or are taking or propose to take with respect thereto; and (iii) if not specified in the related financial statements being delivered pursuant to subsection (a) above, specifying the aggregate amount of interest and rentals received or accrued by the Borrowers, and the aggregate amount of depreciation, depletion and amortization charged on the books of the Borrowers during the accounting period covered by such financial statements;

(d) promptly upon receipt thereof, copies of all reports submitted to LSB or any Borrower by independent public accountants in connection with each annual, interim or special audit of the books of LSB or a Borrower made by such accountants, including, without limitation, any comment letter submitted to management by such accountants in connection with their annual audit;

(e) promptly upon their becoming available, copies of all press releases and other statements made available generally by LSB or a Borrower to the public concerning material developments in the business of the Borrower;

(f) within five (5) days of any officer of any Borrower obtaining knowledge of any condition or event that constitutes an Event of Default or Potential Event of Default, or that the registered holder of any Note has given any notice or taken any other action with respect to a claimed Event of Default or Potential Event of Default under this Agreement or that any person has given notice to a Borrower or taken any other action with respect to a claimed default or event or condition of the type referred to in Article 14, an Officers' Certificate describing the same and the period of existence thereof and specifying what action the Borrowers have taken, are taking and propose to take with respect thereto;

(g) promptly upon (and in any event within ten (10) Business Days of) any officer of any Borrower obtaining knowledge of the occurrence of any (i) "reportable event," as such term is defined in Section 4043 of ERISA, or (ii) "prohibited transaction," as such term is defined in Section 4975 of the Code, that is not exempt by law or ruling in connection with any Plan or any trust created thereunder, a written notice specifying the nature thereof, what action the Borrowers have taken, are taking and propose to take with respect thereto, and any action taken or threatened by the Internal Revenue Service or the PBGC with respect thereto, provided that, with respect to the occurrence of any "reportable event" as to which the PBGC has waived the 30-day reporting requirement, such written notice need not be given;

(h) immediately upon the occurrence of any of the following events, an Officers' Certificate describing such event: (i) the respective Articles of Incorporation or Bylaws of any Borrower shall have been amended or any Borrower shall have changed its jurisdiction of organization; or (ii) any Borrower shall have changed its name or shall do business under any name other than as set forth on Schedule 9.2; or (iii) any Borrower shall have changed its principal place of business or its chief executive offices; or (iv) any Borrower shall have become a party to any suit, action or proceeding that, if adversely determined, would have a Material Adverse Effect or in which the projected settlement amount involved therein would equal \$1,000,000 or more and not fully covered by insurance; or (v) any Borrower shall have opened or closed any material place of business; or (vi) there shall occur any strike, walkout, work stoppage or other material employee disruption relating to any of the Mortgaged Properties, or the expiration of any labor contract affecting any of the Mortgaged Properties (unless there exists a new labor contract in substitution therefor); or (vii) any Borrower shall have obtained knowledge that any of its insurance policies or any insurance policies affecting any of the Mortgaged Properties will be canceled or not renewed (unless there exists a similar insurance policy in substitution therefor);

(i) promptly (i) upon receipt thereof, copies of any notices to any Borrower from any federal or state administrative agency relating to any order, ruling, statute or other law or regulation that would, with reasonable probability, have a Material Adverse Effect; (ii) following filing with the Commission, any reports or statements filed with the Commission by LSB; and (iii) upon preparation thereof, copies of any reports or financial statements that any Borrower files annually with any state regulatory agency;

(j) promptly upon receipt thereof, copies of any notice delivered pursuant to Article 14; and

(k) with reasonable promptness, such other information and data with respect to any Borrower as from time to time may be reasonably requested by any registered holder of a Note, including, without limitation, any final projections or business plans prepared by or for the Borrowers.

9.3. Inspection. The Borrowers will permit, subject to rights of

parties in possession, any authorized representatives designated by any Purchaser, so long as such Purchaser or its nominee shall hold any Notes, or designated by any other registered holder of any Notes, without expense to the Borrowers, at such reasonable times and as often as may be reasonably requested, (a) to visit and inspect the Mortgaged Properties, including its books of account, and to make copies and take extracts therefrom, and (b) to discuss the Borrowers' affairs, finances and accounts with each respective Borrower's directors, officers and independent public accountants (and by this provision each Borrower authorizes such directors, officers and accountants to discuss with such representatives the affairs, finances and accounts of such Borrower, whether or not an officer or other representative of such Borrower is present, provided that such Borrower shall receive notice of any such meeting and be given a reasonable opportunity to have a representative attend).

ARTICLE 10.

BUSINESS AND FINANCIAL COVENANTS OF THE BORROWERS

10.1. Covenants. So long as any Note shall be outstanding, the Borrowers will jointly and severally perform and comply, and will cause each Subsidiary to perform and comply, as applicable, with each of the following covenants:

(a) Debt to Capitalization. EDC and NFC shall at all times maintain a ratio of Funded Debt to Total Capitalization of not more than 0.7 to 1.0.

(b) Combined Net Worth. EDC and NFC shall at all times maintain a Combined Net Worth of not less than \$35,000,000, as increased from time to time after the date hereof by (i) the proceeds of any Stock of EDC or NFC or any of their respective Subsidiaries issued and sold to third Persons, (ii) the amount of Subordinated Debt of EDC or NFC or any of their respective Subsidiaries owed by third parties converted into or exchanged for Stock of EDC or NFC or any of their respective Subsidiaries, and (iii) 50% of the annual positive Combined Net Income of EDC and NFC.

(c) Combined Working Capital. EDC and NFC shall at all times maintain Combined Working Capital of not less than \$8,000,000.

(d) Current Ratio. EDC and NFC shall at all times maintain a ratio of Current Assets to Current Liabilities of not less than 1.25 to 1.0.

(e) Fixed Charge Coverage. EDC and NFC shall at all times maintain for the period of eight consecutive fiscal quarters most recently ended a Combined Fixed Charge Coverage Ratio of not less than 1.20 to 1.0.

(f) Liens. The Borrowers will not, directly or indirectly, create, incur, assume or permit to exist any Lien on or with respect to any of the Mortgaged Properties, whether now owned or held or hereafter acquired, other than (i) the Liens and security interests created to secure the Notes; (ii) Liens that constitute Permitted Exceptions; (iii) Liens set forth on Schedule 10.1; (iv) any Lien on any property acquired, constructed or improved by a Borrower after Closing and created contemporaneously with or within 12 months of such acquisition, construction or improvement to secure Debt incurred to provide for all or a portion of the purchase price of such property as acquired, constructed or improved; (v) Liens on property of a Borrower in favor of the United States of America or any political subdivision thereof to secure partial payments pursuant to any contract; (vi) Liens, pledges or deposits to secure obligations under worker's compensation, unemployment insurance, social security or similar laws or laws or judgments being appealed that are not currently dischargeable, and pledges, deposits, performance bonds, appeal bonds or similar security interests in connection with bids, tenders, contracts and leases to which a Borrower is a party (all of which are in the ordinary course of business and which do not relate to indebtedness of such Borrower); (vii) Liens for taxes, assessments or governmental charges not then due and delinquent or the validity of which is being contested in good faith and a reserve has been established for such taxes, as required by GAAP; (viii) Liens arising in connection with court proceedings, provided the execution of such Liens is effectively stayed and such Liens are contested in good faith and a bond or other security satisfactory to Purchasers has been posted by the Borrowers; (ix) Liens arising in the ordinary course of business (including easements and similar encumbrances) that are not incurred in connection with the borrowing of money, provided that such Liens do not materially interfere with the conduct of the business of such Borrower; (x) inchoate Liens; (xi) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and similar title exceptions to real property; (xii) Liens on goods consigned to any Borrower; (xiii) mechanics, materialmen and like liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings and adequately reserved against; (xiv) Liens on (A) accounts, (B) inventory, (C) documents and instruments representing such accounts and inventory, (D) guarantees, collateral and other rights, agreements and property securing or relating to payment of accounts, (E) books and records relating to the foregoing, and (F) proceeds, products and insurance of, or relating to, the foregoing; and (xv) any Lien resulting from renewing, extending or refunding outstanding Secured Debt provided that the principal amount of the Debt secured thereby is not increased and the Lien is not extended to any other property.

(g) Investments, Guaranties, etc. The Borrowers shall not, directly or indirectly, (i) make or own any Investment other than (A) Permitted Investments, (B) the purchase or ownership of assets or stock and other securities of a Subsidiary, (C) loans to officers, directors, employees or Subsidiaries to the extent that following such loan, no Event of Default or Potential Event of Default would exist, (D) loans, advances and Investments in

an amount allowed as a dividend or distribution under Section 10.1(h)(ii) less any such amount paid by a Borrower as a dividend or distribution in accordance with Section 10.1(h)(ii), (E) loans, advances and Investments permitted under Section 5.17, (F) Investments outstanding as of the Closing Date, (G) Investments in and to El Dorado Nitrogen Company, (H) Investments in other Borrowers and (I) other Investments not otherwise permitted under this Section 10.1(g) in an amount not to exceed \$5,000,000 in the aggregate at any time; or (ii) create or become liable with respect to any Guaranty, except for (A) Guaranties outstanding as of the Closing Date, and (B) Guaranties on behalf of other Borrowers or Subsidiaries or not otherwise permitted under this Section 10.1(g), in an amount not to exceed \$3,000,000 in the aggregate (on a consolidated and combined basis) at any time.

(h) Restricted Payments. No Borrower shall directly or indirectly, (i) redeem, purchase, or otherwise acquire for value any shares of its capital stock, except out of the net cash proceeds received by such Borrower after Closing from the issuance of additional shares of capital stock or other securities subsequently converted into capital stock, or (ii) declare or pay any dividends or any other distributions on any shares of a Borrower's capital stock after Closing in excess of (A) an amount equal to such Borrower's federal income tax liability owing in any Fiscal Year (calculated as if such Borrower was a stand-alone entity) and (B) an amount not to exceed 50% of such Borrower's Net Income for the immediately preceding Fiscal Year.

(i) Consolidation, Merger and Sale of Substantially All Assets. No Borrower shall, directly or indirectly, (i) consolidate with or merge into any other Person or permit any other Person to consolidate with or merge into it (other than a consolidation or merger between a Borrower and an Eligible Subsidiary or between Eligible Subsidiaries); (ii) sell, transfer, lease, abandon or otherwise dispose of all or substantially all of its assets in a single or series of related transactions; or (iii) permit a Change of Control with respect to such Borrower to occur.

(j) Formation of Subsidiaries. Borrowers shall have the right from time to time to form new Subsidiaries; provided, however, that Borrowers shall not be permitted to make any loans or advances to any such new Subsidiary unless such Subsidiary satisfies the representation and warranty of Section 5.18 and guarantees the obligations of the Borrowers hereunder pursuant to a guaranty agreement in form and substance satisfactory to the Majority Holders.

(k) Interested Party Transactions. No Borrower shall conduct any transactions (including payments of management or similar fees) with any Affiliate on terms that are not fair and reasonable and no less favorable to such Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate; provided, however, that no Borrower may pay management, administrative or similar fees to any Affiliate in excess of \$70,000 in the aggregate per calendar month; and provided further, that upon the occurrence of an Event of Default or Potential Event of Default, no Borrower shall be permitted to pay any management, administrative or similar fees to any of its Affiliates.

(l) Existence. The Borrowers will, or will cause to be done all things necessary to, preserve keep and maintain in full force and effect their respective corporate existence, rights (charter and statutory), franchises and authority to do business and the corporate existence, rights (charter and statutory), franchises and authority to do business of each of the Subsidiaries.

(m) Payment of Taxes and Claims; Tax Consolidation. The Borrowers will pay and cause to be paid all taxes, assessments and other governmental charges imposed upon it or any of its properties or assets or in respect of any of the franchises, business, income or profits of each such Borrower before any penalty or interest accrues thereon or within ten (10) days thereafter, but in any event prior to such time as such taxes, assessments or charges become delinquent, and all claims (including, without limitation, claims for labor, services, materials and supplies) for sums that have become due and payable and that by law have or would become a Lien upon any of the properties or assets of each such Borrower, provided that no such charge or claim need be paid if being contested in good faith by appropriate proceedings promptly initiated and diligently conducted, such bonds or escrows are in place as the Majority Holders at the time shall request, or if such reserves or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor. No Borrower will file or permit the filing of any consolidated income tax return with any Person (other than LSB).

(n) Compliance with ERISA. No Borrower will, nor permit any employee pension benefit plan (as that term is defined in Section 3 of ERISA) maintained by such Borrower, any Subsidiary or any Related Person to (a) engage in any "prohibited transaction" as such term is defined in Section 4975 of the Code, as amended from time to time, which is likely to result in a liability for such Person; (b) incur any "accumulated funding deficiency", as such term is defined in Section 302 of ERISA, whether or not waived which is likely to result in a liability of such Person; or (c) terminate any such benefit plan in a manner which could result in the imposition of a lien or encumbrance on the assets of such Person pursuant to Section 4068 of ERISA, the occurrence of which would have a Material Adverse Effect.

(o) Compliance with Laws. The Borrowers will (i) comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards (collectively, "Laws") to which it may be subject, except where such noncompliance would not have a Material Adverse Effect or if any such Laws are being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and (ii) promptly obtain, maintain, apply for renewal, and not allow to lapse, any authorization, consent, approval, license or order, and accomplish any filing or registration with, any court or judicial, administrative or governmental authority which is or becomes

necessary in order that it perform in all material respects all of its obligations under this Agreement and the Security Documents and in order that the same are and remain valid and binding and effective in accordance with their terms and in order that the Purchasers may be able freely to exercise and enforce any and all of their rights under this Agreement and the Security Documents. Without affecting the Purchasers' or other registered holders' rights subsequent to the Closing Date, any matter disclosed in the Schedules hereto shall not be deemed a default under this Section 10.1(o) solely by virtue of its existence prior to the Closing Date.

(p) Maintenance of Properties; Insurance. (i) The Borrowers will maintain or cause to be maintained in good repair, working order and condition (reasonable wear and tear excepted) all properties used or useful in, and deemed material to, the business of any Borrower and from time to time will make or cause to be made all appropriate repairs, renewals and replacements thereof, the failure of which could reasonably be expected to have a Material Adverse Effect. (ii) The Borrowers will maintain or cause to be maintained, with financially sound and reputable insurers, insurance with respect to their respective properties and business, against loss or damage of the kinds customarily insured against by companies of established reputation engaged in the same or similar business and similarly situated, of such types and in such amounts as are customarily carried under similar circumstances by such other companies. In any event, the Borrowers shall, at a minimum, comply with all maintenance, insurance and similar requirements under the Security Documents.

(q) Title. As of the Closing Date and upon giving effect to the transactions contemplated hereby, except Liens and other matters that may constitute Permitted Exceptions and Liens permitted under Section 10.1(f), the Borrowers will have good and marketable title to all of the Mortgaged Properties and none of the Mortgaged Properties will be subject to any Liens, other than Permitted Exceptions and Liens permitted under Section 10.1(f) hereof.

(r) Conduct of Business. No Borrower will engage in any business other than businesses engaged in by such Borrower on the date hereof, other businesses or activities substantially similar or related thereto, and other lines of business consented to by the registered holders of the Notes.

(s) Capital Improvements. The Borrowers shall incur not less than \$750,000 in the aggregate (and on a combined basis) per Fiscal Year for capital improvements and repair and maintenance of the Collateral.

(t) Release of Guaranty. Within 90 days following the Closing Date, EDC shall have obtained a full release of its obligations as a guarantor under the Loan Agreement dated May 4, 1995, as amended, by and between Prime Financial Corporation and Bank IV Oklahoma, N.A.

(u) Supply Contracts. Borrowers shall cause the suppliers of all supply contracts for ammonia and/or sulphur, pertaining to the Mortgaged Properties, now or hereafter entered into, to give their written consent (in form reasonably acceptable to Purchasers) to the security interest of Purchasers and other registered holders of Notes in and to such supply contracts within thirty (30) days after entering into such supply contracts and to deliver evidence of such written consent to Purchasers within such thirty (30) day period.

10.2. Calculations. It is the understanding of the parties hereto that notwithstanding the obligation of the Borrowers to comply at all times with the covenants set forth in Sections 10.1(a), (b), (c), (d) and (e), the Borrowers shall have an affirmative obligation to calculate the ratios and other financial tests in Sections 10.1(a) through (d) once per quarter and Section 10.1(e) once per Fiscal Year, and shall demonstrate compliance in accordance with Section 9.2(c).

ARTICLE 11.
[intentionally omitted]

ARTICLE 12.
REGISTRATION, TRANSFER, AND SUBSTITUTION OF NOTES

12.1. Note Register; Ownership of Notes. EDC, on behalf of the Borrowers, will keep at its principal office a register in which EDC will provide for the registration of the Notes and the registration of transfers of the Notes. EDC may treat the Person in whose name any Note is registered on such register as the owner thereof for the purpose of receiving payment of the principal of and the Premiums, if any, and interest on such Note and for all other purposes, whether or not such Note shall be overdue, and the Borrowers shall not be affected by any notice to the contrary.

12.2. Transfer and Exchange of Notes. Upon surrender of any Note for registration of transfer or for exchange to EDC at its principal office, at the expense of the transferring parties, the Borrowers will execute and authenticate and deliver in exchange therefor a new Note or Notes in denominations, as requested by the registered holder or transferee, which aggregate the unpaid principal amount of such surrendered Note, provided such transfer or exchange does not violate applicable federal or state securities laws. Each such new Note shall be registered in the name of such Person as such registered holder or transferee may request, shall be dated so that there will be no loss of interest on such surrendered Note and shall be otherwise of like tenor.

12.3. Replacement of Notes. Upon receipt of evidence reasonably satisfactory to EDC of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction, upon delivery of an

indemnity agreement reasonably satisfactory to EDC from the registered holder of such Note and financial information reasonably satisfactory to EDC verifying such registered holder's ability to provide such indemnification, or in the case of any such mutilation, upon the surrender of such Note for cancellation to EDC at its principal office, at the expense of the party requesting replacement, the Borrowers will execute, authenticate and deliver, in lieu thereof, a new Note of like tenor, dated so that there will be no loss of interest on such lost, stolen, destroyed or mutilated Note. Any Note in lieu of which any such new Note has been executed and delivered by the Borrowers shall not be deemed to be an outstanding Note for any purpose hereof.

ARTICLE 13.
PAYMENTS ON NOTES

So long as a Purchaser or its nominee shall hold any Note, the Borrowers will pay all sums becoming due on such Note for principal, Premiums, if any, and interest in immediately available funds by the method and at the address specified for such purpose in the Schedule of Information for Payment and Notices at the end hereof (the "Schedule of Information for Payment and Notices"), or by such other method or at such other address as such Purchaser shall have specified from time to time to the Borrowers in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that any Note paid or prepaid in full shall be surrendered to the Borrowers for cancellation at its principal office. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee, such Purchaser will, at its election, either (a) endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon, or (b) surrender such Note to the Borrowers in exchange for a new Note or Notes pursuant to Section 12.2. The Borrowers will afford the benefits of this Article 13 to any registered holder of a Note that has made the same agreement relating to such Note as a Purchaser have made in this Article 13.

ARTICLE 14.
EVENTS OF DEFAULT AND ACCELERATION

14.1. Events of Default. The occurrence of any of the following conditions or events shall constitute an "Event of Default" under this Agreement:

(a) Payments. The Borrowers shall default in the payment when due of any principal, Premium, if any, or interest on any Note (whether the same becomes due and payable at maturity, by declaration or otherwise) or any other amounts owing hereunder; or

(b) Representations, Etc. Any representation or warranty made in writing by or on behalf of any Borrower herein or in any Collateral Agreement or in any statement or certificate delivered or required to be delivered pursuant hereto or thereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or

(c) Covenants. Any Borrower shall (i) default in the due performance or observance by it of any term, covenant or agreement contained in Sections 10.1(f), (g), (h), (i), (j), (k), (l), (m), (n), (q), (r), (s), (t) or (u) or clause (ii) of subsection (p), or (ii) default in the due performance or observance by it of any term, covenant or agreement contained in Sections 10.1(a), (b), (c), (d), (e) or (o) or clause (i) of subsection (p) and such default shall continue unremedied for a period of at least 10 calendar days after the earlier of (x) written notice to the defaulting party by any registered holder of a Note or (y) a Responsible Officer has knowledge of such default, or (iii) default in the due performance or observance by it of any term, covenant or agreement (other than those referred to in subsections (a) and (b) of this Section 14.1 or clauses (i) and (ii) of this subsection (c)) contained in this Agreement and such default shall continue unremedied for a period of at least 30 calendar days after the earlier of (x) written notice to the defaulting party by any registered holder of a Note or (y) a Responsible Officer has knowledge of such default; or

(d) Default Under Other Agreements. Any Borrower shall be in default under the Security Documents or the Environmental Indemnity Agreement; or

(e) Default Under Other Debt. (i) Any Borrower shall default in the payment when due of any principal of or interest on any Debt (which Debt is in an aggregate principal amount of \$2,000,000 or more) and such default shall not be waived or accrued within any applicable grace or cure period; or (ii) the maturity of any Debt of a Borrower in an aggregate principal amount of \$2,000,000 shall be accelerated or subject to acceleration due to a default thereunder; or

(f) Bankruptcy, etc. Any Borrower shall commence a voluntary case concerning itself under title 11 of the United States Code entitled "Bankruptcy", as now or hereafter in effect, or any successor statute thereto (the "Bankruptcy Code"); or an involuntary case is commenced against a Borrower under the Bankruptcy Code and the petition is not controverted within 10 Business Days, or is not dismissed within 60 days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of a Borrower; or a Borrower commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to such Borrower; or there is commenced against a Borrower any such proceeding which remains undismissed for a period of 60 days; or a Borrower is adjudicated insolvent or bankrupt; or any order of relief or other

order approving any such case or proceeding is entered; or a Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or a Borrower makes a general assignment for the benefit of creditors; or any corporate action is taken by a Borrower for the purpose of effecting any of the foregoing; or

(g) ERISA. (i) Any Plan shall fail to satisfy the minimum funding standard required for any plan year or part thereof or a waiver of such standard or extension of any amortization period is sought or granted under Section 412 of the Code, any Plan is, shall have been or is reasonably likely to be terminated or the subject of termination proceedings under ERISA, any Plan shall have an Unfunded Current Liability, a Borrower or any Related Person has incurred or is reasonably likely to incur a liability to or on account of a Plan under Section 409, 502(i), 501(1), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 4971 or 4975 of the Code, or a Borrower or any Related Person has incurred or is reasonably likely to incur liabilities pursuant to one or more Welfare Plans that provide benefits to retired employees or other former employees (other than as required by Section 601 of ERISA); and (ii) there shall result from any event or events described in clause (i) of this subsection (g) the imposition or granting of a Lien, or a liability or a material risk of incurring a liability; and (iii) any Lien or liability referred to in clause (ii) of this subsection (g) could reasonably be expected to have a Material Adverse Effect; or

(h) Judgments. There shall remain in force, undischarged, unsatisfied, unstayed and unbounded, for more than 60 days, any final judgment entered against any one or more of the Borrowers which is not funded by insurance in due course in accordance with applicable insurance coverage, from which no further appeal may be taken and which, with other outstanding undischarged, unsatisfied, unstayed and unbounded final judgments against such Person not funded by insurance in due course in accordance with applicable insurance coverage, exceeds \$2,000,000 in the aggregate.

14.2. Acceleration.

(a) Upon the occurrence of any Event of Default described in Section 14.1(f), the unpaid principal amount of and accrued interest on the Notes shall automatically become due and payable, and there shall also be due and payable the applicable Premium in respect of the unpaid principal amount of the Notes, all without presentment, demand, protest, notice of intent to accelerate, notice of acceleration, or any other notice of any kind, which are hereby waived.

(b) (i) Upon the occurrence of an Event of Default described in Section 14.1(a), any Purchaser or any other registered holder of a Note and (ii) upon the occurrence of any Event of Default other than as described in Section 14.1(a) or 14.1(f), any registered holder (if authorized by the Majority Holders) may at any time (unless all defaults shall theretofore have been remedied and all costs and expenses including, without limitation, reasonable attorneys' fees and expenses incurred by or on behalf of the registered holders of the Notes by reason thereof shall have been paid in full by the Borrowers) at its or their option, by written notice or notices to the Borrowers, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable, together with interest accrued thereon, and there shall also be due and payable the applicable Premium in respect of the principal amount of the Notes so declared due and payable, all without presentment, demand, protest, notice of intent to accelerate, notice of acceleration, or any other notice of any kind (except as otherwise specifically provided herein), which are hereby waived. The Borrowers acknowledge that Purchasers purchased the Notes on the basis and assumption that Purchasers and the registered holders from time to time of the Notes would receive the payments of principal and/or interest set forth in Section 2.1 and Articles 7 and 8 hereof for the full term of the Notes; therefore, whenever the maturity of the Notes has been accelerated by reason of an Event of Default, a tender of the amount necessary to satisfy any part or all of the indebtedness represented by the Notes paid at any time following such Event of Default and prior to a foreclosure or trustee's sale shall be deemed a voluntary prepayment, and such payment shall include the applicable Premium. Similarly, any purchase at a foreclosure sale or a trustee's sale shall be deemed a voluntary prepayment, and the registered holders of the Notes shall, to the extent permitted by law, receive out of the proceeds of such sale, in addition to all other amounts to which they are entitled, the applicable Premium.

14.3. Remedies. If any Event of Default shall occur and be continuing, the registered holder of any Note at the time outstanding may proceed to protect and enforce the rights available to such registered holder at law, in equity, by statute or otherwise, whether for the specific performance of any agreement contained herein or, in the case of any registered holder of Notes, in such Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise. In case of a default in the payment of any principal of or Premium, if any, or interest on any Note, the Borrowers will pay to the registered holder thereof such further amount as shall be sufficient to cover the costs and expenses of collection, including, without limitation, reasonable attorneys' fees, expenses and disbursements incurred in connection therewith. No course of dealing and no delay on the part of any registered holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such registered holder's rights, powers or remedies except as expressly provided for herein. No right, power or remedy conferred hereby upon any registered holder of any Note or by any Note upon any registered holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Subject to Section 14.2(b), any registered holder or registered holders (other than a Borrower or any Affiliate) of, in the aggregate, a majority in principal amount of the

Notes at the time outstanding (excluding any Notes directly or indirectly owned by a Borrower or any Affiliate) may at any time pursue any remedies available under this Agreement or any of the Collateral Agreements.

ARTICLE 15.
EXPENSES

The Borrowers will jointly and severally pay all reasonable out-of-pocket expenses in connection with the negotiation, execution and delivery, performance and enforcement, and amendment or waiver of any terms or provisions of this Agreement, any Collateral Agreement, and the Notes, including, without limitation: (a) the cost and expenses of preparing and reproducing this Agreement, the Collateral Agreements and the Notes, of furnishing all opinions of Special Counsel, Purchasers' special local counsel, and counsel for the Borrowers (including any opinions requested by Special Counsel as to any legal matter arising hereunder) and all certificates on behalf of the Borrowers and of the Borrowers' performance of and compliance with all agreements and conditions contained therein on its part to be performed or complied with; (b) the cost of delivering to each Purchaser's principal office, insured to such Purchaser's satisfaction, the Notes sold to such Purchaser hereunder; (c) the reasonable out-of-pocket expenses and reasonable fees, expenses and disbursements of Special Counsel and Purchasers' special local counsel in connection with any amendments or waivers hereunder; and (d) the reasonable cost and expense related to title insurance and charges, survey, environmental audit, engineering and architect fees, recording fees, and real estate taxes contemplated herein or in the Collateral Agreements. The Borrowers also will pay, and will save Purchasers and each registered holder of any Notes harmless from, (i) all claims in respect of the fees of any brokers and finders, except those engaged by Purchasers, and (ii) any and all liabilities with respect to any taxes (including interest and penalties), other than federal income taxes, that may be payable in respect of (A) the execution and delivery hereof and of the Collateral Agreements, (B) the issue of the Notes hereunder, and (C) any amendment or waiver under or in respect hereof, of any Collateral Agreement or of the Notes.

ARTICLE 16.
MISCELLANEOUS

16.1. Survival. All representations, warranties and covenants contained herein, in the Notes and in any other Collateral Agreement or made in writing by or on behalf of the Borrowers in connection with the transactions contemplated hereby and thereby shall survive the execution and delivery hereof, any investigation at any time made by Purchasers or on Purchasers' behalf, the purchase of the Notes hereunder, or any disposition or payment of the Notes. All statements contained in any certificate delivered by or on behalf of a Borrower pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties of the Borrowers hereunder.

16.2. Amendments and Waivers. Any term hereof or of the Notes may be amended (with written consent of the Borrowers), and the observance of any term hereof or of the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively), only upon the written consent of the Majority Holders, provided that without the prior written consent of the registered holders of all the Notes at the time outstanding (excluding any Notes directly or indirectly owned by the Borrower or any Affiliate), no such amendment or waiver shall (a) extend the fixed maturity or reduce the amount or extend the time of payment of any principal or premium payable (whether as an installment or upon any prepayment) on any Note of such class; (b) reduce the percentage set forth above of the principal amount of the Notes, the registered holders of which are required to consent to any amendment or waiver set forth in such subdivision; or (c) change the percentage of the principal amount of the Notes, the registered holders of which may declare the Notes to be due and payable as provided in Section 14.2. Any amendment or waiver effected in accordance with this Section 16.2 shall be binding upon each registered holder of any Note, at the time outstanding, each future registered holder of any Note, and the Borrowers.

16.3. Indemnification. The Borrowers will jointly and severally indemnify and hold harmless each Indemnified Party from and against any and all losses, claims, damages and liabilities, joint or several (including all reasonable legal fees or other expenses reasonably incurred by any Indemnified Party in connection with the preparation for or defense of any pending or threatened claim, action or proceeding, whether or not resulting in any liability), to which such Indemnified Party may become subject (whether or not such Indemnified Party is a party thereto) under any applicable federal or state law or otherwise caused by or arising out of, or allegedly caused by or arising out of, this Agreement, any Collateral Agreement, or any transaction contemplated hereby, other than losses, claims, damages or liabilities resulting from any grossly negligent or unlawful act by Indemnified Party seeking indemnification hereunder. THESE PROVISIONS ARE INTENDED TO INDEMNIFY THE INDEMNIFIED PARTIES AGAINST THE RESULTS OF THEIR OWN NEGLIGENCE.

Promptly after receipt by an Indemnified Party of notice of any claim, action or proceeding with respect to which an Indemnified Party is entitled to indemnity hereunder, such Indemnified Party will notify EDC on behalf of the Borrowers of such claim or the commencement of such action or proceeding, provided that the failure of an Indemnified Party to give notice as provided herein shall not relieve the Borrowers of their obligations under this Section 16.3 with respect to such Indemnified Party, except to the extent that the Borrowers are actually prejudiced by such failure. The Borrowers will assume the defense of such claim, action or proceeding and will employ counsel satisfactory to the Indemnified Party and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, the Indemnified Party will be entitled, at the expense of the Borrowers, to employ counsel separate

from counsel for the Borrowers, and for any other party in such action, if the Indemnified Party reasonably determines that a conflict of interest and in such event Borrowers shall not be responsible for the payment of reasonable fees and expenses to more than one law firm to represent all of the Indemnified Parties. If an Indemnified Party appears as a witness in any action or proceeding brought against a Borrower or any of its respective Affiliates (or any of their partners, officers, directors or employees) in which an Indemnified Party is not named as a defendant, the Borrowers agree to reimburse such Indemnified Party for all out-of-pocket expenses incurred by it (including fees and expenses of counsel) in connection with the appearance as a witness. The Indemnified Party shall settle no claim or take any other action prejudicing a Borrower's defense without the consent of such Borrower, which consent will not be unreasonably withheld or delayed. Purchaser agrees to reasonably cooperate with the Borrowers in the defense of any such action or proceeding.

16.4. Usury Not Intended. The Borrowers, Purchasers and all other registered holders of any Notes intend to conform strictly to the usury laws in force that apply to the transactions evidenced or contemplated hereby. Accordingly, all agreements among the Borrowers, Purchasers, and any other registered holder of any Notes, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of acceleration of the maturity of the Notes, or otherwise, shall the interest (and all other sums that are deemed to be interest) contracted for, charged, received, paid or agreed to be paid exceed the Highest Lawful Rate (as defined below). The Borrowers and Purchasers stipulate and agree that the terms and provisions contained in this Agreement and the Collateral Agreements are not intended to and shall never be construed to create a contract to pay for the use, forbearance or detention of money an amount in excess of the maximum amount permitted to be charged by applicable law, if any.

Anything in this Agreement or the Collateral Agreements to the contrary notwithstanding, neither the Borrowers nor any other party now or hereafter becoming liable for payment of the Notes shall ever be required to pay interest on or with respect to the Notes or any other obligation hereunder at a rate in excess of the Highest Lawful Rate, and if the effective rate of interest that would otherwise be payable under this Agreement or on or with respect to the Notes would exceed the Highest Lawful Rate, or if the registered holders of such Notes or obligation shall receive anything of value that is deemed or determined to constitute interest that would increase the effective rate of interest payable under this Agreement or on or with respect to the Notes or the Collateral Agreements to a rate in excess of the Highest Lawful Rate, then (a) the amount of interest that would otherwise be payable under this Agreement, the Notes or the Collateral Agreements shall be reduced to the amount allowed at the Highest Lawful Rate under applicable law, and (b) any unearned interest paid by the Borrowers or any interest paid by the Borrowers in excess of the Highest Lawful Rate shall, at the option of the registered holders of the Notes, be either refunded to the Borrowers or credited on the principal of such Notes. It is further agreed that, without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received by any registered holder of the Notes, or under this Agreement, that are made for the purpose of determining whether such rate exceeds the Highest Lawful Rate, shall be made, to the extent permitted by applicable law (now or, to the extent permitted by law, hereafter enacted) governing the Highest Lawful Rate, by (i) characterizing any nonprincipal payment as an expense, fee or premium rather than as interest, and (ii) amortizing, prorating, allocating and spreading in equal parts during the period of the full term of the Notes (including the period of any renewal or extension thereof), all interest at any time contracted for, charged or received by such registered holder in connection therewith. As used in this Section 16.4, the term "Highest Lawful Rate" means the maximum nonusurious rate of interest permitted from time to time to be contracted for, taken, charged or received with respect to the Notes by the registered holders thereof, under applicable law as in effect with respect to this Agreement or the Notes.

16.5. Notices.

(a) For all purposes under this Agreement, the address of the Borrowers shall be c/o El Dorado Chemical Company, 16 South Pennsylvania, Oklahoma City, OK 73107, Attention: _____, telecopy no. (405) 235-5067, with a copy to the General Counsel of LSB at the above address, telecopy no. (405) 236-1209, and for each Purchaser shall be the address set forth on the Schedule of Information for Payment and Notices or such other address of which all such Persons have received ten (10) days prior written notice.

(b) Any notice, demand, request or report required or permitted to be given or made to the Borrowers or Purchasers under this Agreement shall be in writing and shall be deemed given or made when delivered in person, when sent if by overnight courier or telecopy (if followed by hard copy) or five (5) Business Days after the date when sent by United States registered or certified mail to any such Person at its address referenced in Section 16.5(a) above.

16.6. Reproduction of Documents. This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by Purchasers at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to Purchasers, may be reproduced by a Purchaser or the registered holder of any Notes by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and Purchaser or the registered holder of any Notes may destroy any original document so reproduced. The Borrowers agree and stipulate that any such reproduction

shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser or the registered holder of any Notes in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

16.7. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, whether so expressed or not, and shall inure to the benefit of and be enforceable by any registered holder or registered holders from time to time of any Notes. The representations, warranties and covenants of the Borrowers hereunder are intended to be for the benefit of, and inure to, all registered holders from time to time of any of the Notes.

16.8. Invalid Provisions. If any provision hereof or any application thereof shall be invalid or unenforceable, the remainder hereof and any other application of such provision shall not be affected thereby.

16.9. Headings. The Table of Contents and Section headings herein are for purposes of reference only and shall not constitute a part hereof.

16.10. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

16.11. Further Action. The parties shall execute all documents, provide all information, and take or refrain from taking all actions as may be necessary or appropriate to achieve the purposes of this Agreement.

16.12. Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Borrower, except as otherwise expressly provided herein.

16.13. Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement, or condition. No single or partial exercise of any power or right shall preclude any other or further exercise thereof or the exercise of any other power or right. No waiver by a party of any right hereunder or of any default by another shall be binding upon such party unless in writing.

16.14. Entire Agreement. THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

16.15. GOVERNING LAW. THIS AGREEMENT AND THE NOTES SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA (WITHOUT REGARD TO ITS CONFLICT OF LAW PROVISIONS).

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

BORROWERS:

EL DORADO CHEMICAL COMPANY

By:

Name:

Title:

NORTHWEST FINANCIAL CORPORATION

By:

Name:

Title:

SLURRY EXPLOSIVE CORPORATION

By:

Name:

Title:

PURCHASERS:

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY

By:

Name:
Title:

JOHN HANCOCK VARIABLE LIFE INSURANCE
COMPANY

By:

Name:
Title:

JOHN HANCOCK LIFE INSURANCE COMPANY OF
AMERICA

By:

Name:
Title:

NYNEX MASTER PENSION TRUST

By: Mellon Bank, N.A., as Trustee

By:

Name:
Title:

THE LONG-TERM INVESTMENT TRUST

By: Mellon Bank, N.A., as Trustee

By:

Name:
Title:

SIGNATURE 1A (CAYMAN), LTD.

By: John Hancock Mutual Life Insurance
Company, Portfolio Adviser

By:

Name:
Title:

SCHEDULE I

Purchaser
Fixed Notes
Floating Notes

John Hancock Mutual Life Insurance
Company - General Account
\$13,000,000
\$13,000,000

John Hancock Mutual Life Insurance
Company - GBSA
\$1,500,000
\$1,500,000

John Hancock Variable Life Insurance
Company
\$2,000,000
\$2,000,000

John Hancock Life Insurance Company
of America
\$1,000,000
\$1,000,000

The Long-Term Investment Trust
\$3,000,000
\$3,000,000

NYNEX Master Pension Trust
\$2,000,000
\$2,000,000

Signature 1A (Cayman), Ltd.
\$2,500,000
\$2,500,000

FIFTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of November 18, 1996, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, and (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996 (as so amended, the "Agreement");

WHEREAS, Lender and Borrower desire to amend the Agreement as hereinafter set forth;

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

ARTICLE I

Definitions

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

Section 1.02. New Definitions. The following new definitions are hereby added to the Agreement:

"Fifth Amendment Date" means November 18, 1996.

"First Source Payment" means the final payment in the amount of \$7,500,000 due and owing to First Source under the HCFS Loan Agreement as defined in the Loan and Security Agreement entered into by and among Lender and EDC & Slurry.

Section 1.03. Amended Definitions. The definition of "Adjusted Tangible Assets" is hereby amended to read as follows:

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

ARTICLE II

Amendments

Section 2.01. Amendment to Section 3.1(a) of the Agreement. Subsections (i) and (ii) of Section 3.1(a) of the Agreement are hereby amended to read in their entirety as follows:

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

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: four and three-eighths percent (4.375%) per annum (the "Eurodollar Margin") plus the Eurodollar Rate determined for the applicable Interest Period.

Notwithstanding the foregoing, if the LSB Borrowing Group has, during any month, a combined average excess Availability of at least (a) \$13,300,000 (prior to making the First Source Payment, or (b) \$6,300,000 after making the First Source Payment, then, during the following month, the Reference Rate Margin and the Eurodollar Margin will be reduced by one-half of one percent (.50%).

In addition, if Adjusted Tangible Net Worth equals or exceeds \$72,500,000, as reflected on Borrower's most current quarterly Financial Statements, provided no Event of Default has occurred and is continuing, then for so long as Adjusted Tangible Net Worth is at least \$72,500,000, both the Reference Rate Margin and the Eurodollar Margin with respect to the Revolving Loans will be reduced by an additional one-half of one percent (.50%), and the reduction will be effective as of the first day of the month following receipt by Lender of the applicable quarterly Financial Statements.

Finally, if Adjusted Tangible Net Worth equals or exceeds \$84,000,000, as reflected on Borrower's most current quarterly Financial Statements, provided no Event of Default has occurred and is continuing, then for so long as Adjusted Tangible Net Worth is at least \$84,000,000, both the Reference Rate Margin and the Eurodollar Margin with respect to the Revolving Loans will be reduced by an additional one-half of one percent

(.50%), and the reduction will be effective as of the first day of the month following receipt by Lender of the applicable quarterly Financial Statements.

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

The remaining provisions of Section 3.1(a) are unchanged.

Section 2.02. Amendment to Section 9.15. Section 9.15 of the Agreement is hereby amended to read in its entirety as follows:

"9.15 Capital Expenditures. Borrower shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Borrowing Group during the following periods would exceed the following amounts: Fiscal Year ending December 31, 1996; \$11,000,000; Fiscal Year ending December 31, 1997 and each Fiscal Year thereafter: \$6,000,000."

Section 2.03. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter -----	2nd Quarter -----	3rd Quarter -----	4th Quarter -----
Fiscal Year Ending December 31, 1996			\$66,000,000	\$64,500,000
Fiscal Year Ending December 31, 1997	\$64,500,000	\$66,300,000	\$67,300,000	\$68,300,000

Each Fiscal Quarter during each Fiscal Year ending thereafter: \$80,400,000

Section 2.04. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter -----	2nd Quarter -----	3rd Quarter -----	4th Quarter -----
Fiscal Year Ending December 31, 1996			2.39 to 1	2.39 to 1
Fiscal Year Ending December 31, 1997	2.39 to 1	2.39 to 1	2.39 to 1	2.39 to 1

Each Fiscal Quarter during each Fiscal Year ending thereafter: 2.39 to 1."

ARTICLE III

Ratifications, Representations and Warranties

Section 3.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) that Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower Authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

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

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used

in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits, and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

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

"BORROWER"

LSB INDUSTRIES, INC.

By:

Name: Tony M. Shelby
Title: Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:

Name: Michael J. Jasaitis
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of November 18, 1996.

INTERNATIONAL ENVIRONMENTAL CORPORATION

By:

Name: Tony M. Shelby
Title: Vice President

CLIMATE MASTER, INC.

By:

Name: Tony M. Shelby

Title: Vice President

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:
Name: Tony M. Shelby
Title: Vice President

L&S BEARING CO.

By:
Name: Tony M. Shelby
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of November 18, 1996.

UNIVERSAL TECH CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

LSB CHEMICAL CORP.

By:
Name: Tony M. Shelby
Title: Vice President

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a LSB Bearing Corp.)

By:
Name: Tony M. Shelby
Title: Vice President

INTERNATIONAL BEARINGS, INC.

By:
Name: Tony M. Shelby
Title: Vice President

LSB EXTRUSION CO.

By:
Name: Tony M. Shelby
Title: Vice President

ROTEX CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

TRIBONETICS CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

SUMMIT MACHINE TOOL SYSTEMS, INC.

By:
Name: Tony M. Shelby
Title: Vice President

HERCULES ENERGY MFG. CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

MOREY MACHINERY MANUFACTURING
CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

CHP CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

KOAX CORP.

By:
Name: Tony M. Shelby
Title: Vice President

APR CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

SIXTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS SIXTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of February 13, 1997, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. (Lender) and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, and (v) that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996 (as so amended, the "Agreement");

WHEREAS, Lender and Borrower desire to amend the Agreement as hereinafter set forth;

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

ARTICLE I

Definitions

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

Section 1.02. Amended Definitions. The definition of "Guarantor Subsidiaries" is hereby amended to read as follows:

"'Guarantor Subsidiaries' means Universal Tech Corporation, LSB Chemical Corp., L&S Automotive Products, Co. (f/k/a LSB Bearing Corp.), International Bearing, Inc., LSB Extrusion Co., Rotex Corporation, Tribonetics Corporation, Summit Machine Tool Systems, Inc., Hercules Energy Manufacturing Corporation, Morey Machinery Manufacturing Corporation, CHP Corporation, Koax Corp., APR Corporation, and El Dorado Nitrogen Company."

ARTICLE II

Amendments

Section 2.01. Amendment to Section 9.15. Section 9.15 of the Agreement is hereby amended to read in its entirety as follows:

"9.15 Capital Expenditures. Borrower shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Borrowing Group during the following periods would exceed the following amounts: Fiscal Year ending December 31, 1996; \$14,500,000; Fiscal Year ending December 31, 1997 and each Fiscal Year thereafter: \$6,000,000."

Section 2.02. Amendment to Section 11.1. Section 11.1 is hereby amended by adding a new subsection (q) which reads as follows:

(q) any of the LSB-Related Loan Agreements are terminated independently of the other LSB-Related Loan Agreements without Lender's prior written consent, or as otherwise provided in such LSB-Related Loan Agreement.

All other subsections of Section 11.1 remain unchanged.

Section 2.03. Amendment to Section 13.10. The Lender's address and the address of Borrower's legal counsel as provided in the Notices provision in Section 13.10 of the Agreement are hereby amended and restated to read as follows:

If to the Lender: BankAmerica Business Credit, Inc.
55 South Lake Avenue, Suite 900
Pasadena, California 91101
Attn: Mr. Charles Burtch,
Executive Vice President

with a copy to: Bank of America - Legal Department
10124 Old Grove Road
San Diego, California 92131
Attn: Thomas G. Montgomery, Esq.

If to Borrower: [no change]

with a copy to: Conner & Winters
One Leadership Square
211 North Robinson, Suite 1700
Oklahoma City, Oklahoma 73102-7101
Attn: Irwin H. Steinhorn, Esq.

All other provisions of Section 13.10 remain unchanged.

ARTICLE III

Ratifications, Representations and Warranties

Section 3.01.Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02.Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Conditions Precedent

Section 4.01.Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) that Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

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

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits, and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

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

"BORROWER"

LSB INDUSTRIES, INC.

By:
Name: Tony M. Shelby
Title: Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:
Name: Michael J. Jasaitis
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its

obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of February 13, 1997.

CLIMATE MASTER, INC.

By:
Name: Tony M. Shelby
Title: Vice President

L&S BEARING CO.

By:
Name: Tony M. Shelby
Title: Vice President

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:
Name: Tony M. Shelby
Title: Vice President

INTERNATIONAL ENVIRONMENTAL
CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of February 13, 1997.

UNIVERSAL TECH CORPORATION

By:
Name: Tony M. Shelby
Title: Vice President

LSB CHEMICAL CORP.

By:
Name: Tony M. Shelby
Title: Vice President

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a LSB Bearing Corp.)

By:
Name: Tony M. Shelby
Title: Vice President

INTERNATIONAL BEARINGS, INC.

By:
Name: Tony M. Shelby
Title: Vice President

LSB EXTRUSION CO.

By:
Name: Tony M. Shelby
Title: Vice President

ROTEX CORPORATION

By:
Name: Tony M. Shelby

Title: Vice President

TRIBONETICS CORPORATION

By:

Name: Tony M. Shelby

Title: Vice President

SUMMIT MACHINE TOOL SYSTEMS, INC.

By:

Name: Tony M. Shelby

Title: Vice President

HERCULES ENERGY MFG. CORPORATION

By:

Name: Tony M. Shelby

Title: Vice President

MOREY MACHINERY MANUFACTURING
CORPORATION

By:

Name: Tony M. Shelby

Title: Vice President

CHP CORPORATION

By:

Name: Tony M. Shelby

Title: Vice President

KOAX CORP.

By:

Name: Tony M. Shelby

Title: Vice President

APR CORPORATION

By:

Name: Tony M. Shelby

Title: Vice President

INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT (this "Agreement") made as of this 13th day of February, 1997, by and between BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation, with offices at 55 South Lake Avenue, Suite 900, Pasadena, California 91101 ("BABC"), and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY, JOHN HANCOCK LIFE INSURANCE COMPANY OF AMERICA, NYNEX MASTER PENSION TRUST, THE LONG-TERM INVESTMENT TRUST and SIGNATURE 1A (CAYMAN), LTD. (collectively referred to herein as "TERM LENDER") with respect to certain financing arrangements with EL DORADO CHEMICAL COMPANY ("EDC"), SLURRY EXPLOSIVES CORPORATION ("Slurry") and NORTHWEST FINANCIAL CORPORATION ("Northwest") (collectively referred to herein as "Borrower").

R E C I T A L S:

TERM LENDER has made a seven year term loan to Borrower in the principal amount of \$50,000,000 pursuant to the TERM LENDER Loan Documents (as defined in this Agreement).

BABC has made and intends to continue making loans and advances from time to time to EDC and Slurry pursuant to and subject to the BABC Loan Documents (as defined in this Agreement). BABC and TERM LENDER desire to confirm and agree as to the relative priority of their respective security interests in, and liens on, the Collateral (as defined in this Agreement) and certain other rights, priorities and interests.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 Definitions. In addition to other words and terms defined elsewhere in this Agreement, the following words and terms have the following meanings, respectively, unless the context otherwise clearly requires:

"BABC Claim" means all of the obligations of EDC and Slurry to BABC as set forth in the BABC Loan Documents, including but not limited to, all sums loaned and advanced to or for the benefit of EDC and Slurry at any time, any interest on such sums (including interest accruing after the commencement of a bankruptcy proceeding by or against EDC and Slurry), any future advances, any costs of preservation of the Collateral and of collection or enforcement, including reasonable attorneys' and paralegals' fees and any prepayment premiums.

"BABC Collateral" means collectively (i) all Receivables, Inventory, documents and instruments representing the Receivables and all Proceeds thereof, wherever located and whether now existing or hereafter arising or acquired; (ii) all moneys, securities and other property and the Proceeds thereof, now or hereafter held or received by, or in transit to, BABC from or for Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including, without limitation, all of Borrower's deposit accounts, credits, and balances with BABC and all claims of EDC and Slurry against BABC at any time existing; (iii) all of the deposit accounts with any financial institutions with which EDC or Slurry maintains deposits; and (iv) all books, records and other property relating to or referring to any of the foregoing, including, without limitation, all books, records, ledger cards, data processing records, computer software and other property and general intangibles at any time evidencing or relating to the Receivables, Inventory, Documents, Instruments, Proceeds, and other property referred to above.

"BABC Loan Documents" means, singularly or collectively as the context may require, the Loan and Security Agreement dated as of December 12, 1994, executed and delivered by and among EDC, Slurry and BABC (the "Loan and Security Agreement"), the "Loan Documents" as defined in the Loan and Security Agreement, and any and all other documents, instruments, certificates, and agreements executed and delivered in connection therewith, as any of them may be amended, modified, extended or supplemented from time to time.

"Claim" means either the TERM LENDER Claim or the BABC Claim.

"Code" means the Uniform Commercial Code as in effect on the date of this Agreement and as amended from time to time, of the state or states having jurisdiction with respect to all or any portion of the Collateral from time to time. Unless otherwise defined in this agreement or unless the context otherwise requires, all terms used in this agreement which are defined by the Code shall have the meanings stated in the Code.

"Collateral" means the BABC Collateral and the TERM LENDER Collateral and the Proceeds and products of such collateral, and where applicable, the proceeds of insurance or escrow accounts covering any such property.

"Enforcement Action" means, with respect to any Collateral: repossessing, foreclosing, selling, leasing or otherwise disposing of all or any part of such Collateral, or exercising notification or collection rights with respect to all or any portion thereof, or attempting or agreeing to do so; commencing the enforcement with respect to such Collateral of any of the default remedies under any of the BABC or TERM LENDER Loan Documents, the UCC or other applicable laws; or appropriating, setting off, or coming into the

possession of such Collateral, by BABC or TERM LENDER or its agent or bailee, with respect to its Claim.

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

"Inventory" means all of the now owned and hereafter acquired inventory, goods, merchandise, and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work-in-process, finished goods, returned goods, and materials and supplies of any kind, nature or description which are or might be used or consumed in the business of EDC or Slurry or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise and such other personal property, and all documents, of title or other documents representing them.

"Proceeds" shall have the meaning given to that term in the Code and shall include without limitation all products and proceeds of any Collateral, and all proceeds of such proceeds and products, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty, or guaranty payable with respect to any Collateral, all awards for taking by eminent domain, all proceeds of fire or other insurance, and all money and other Property obtained as a result of any claims against third parties or any legal action or proceeding with respect to Collateral.

"Receivables" means all of the now owned and hereafter arising or acquired: Accounts (as defined in the Loan and Security Agreement, whether or not earned by performance), including Accounts owed to EDC or Slurry by any of their Subsidiaries (as defined in the Loan and Security Agreement) or Affiliates (as defined in the Loan and Security Agreement), (but excluding Accounts arising solely from the sale of Equipment, Real Property [as defined in the Loan and Security Agreement] or other fixed assets) together with all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; proceeds of any letters of credit naming EDC or Slurry as beneficiary except such letters of credit as are issued solely in connection with the purchase of Equipment, Real Property or other fixed assets; contract rights, chattel paper, instruments, documents, general intangibles (including without limitation choices in action, causes of action, tax refunds, tax refund claims, and Reversions (as defined in the Loan and Security Agreement) and other amounts payable to EDC or Slurry from or with respect to any Plan (as defined in the Loan and Security Agreement) and all forms of obligations owing to EDC or Slurry (including, without limitation, in respect of loans, advances, and extensions of credit by EDC or Slurry to their Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

"TERM LENDER Claim" means all of the obligations of Borrower to TERM LENDER as set forth in the TERM LENDER Loan Documents, including but not limited to, all sums loaned and advanced to Borrower pursuant to the TERM LENDER Loan Documents, any interest on such sums including interest accruing after the commencement of a bankruptcy proceeding by or against Borrower and any costs of preservation of the TERM LENDER Collateral and of collection or enforcement, including reasonable attorney's and paralegal fees and any prepayment premiums.

"TERM LENDER Collateral" means all Equipment and Mortgaged Properties (as defined in the Term Lender Loan Documents) located at the Union County, Arkansas facility of Borrower.

"TERM LENDER Loan Documents" means, singularly or collectively as the context may require, (a) the Note Purchase Agreement dated on or about February 13, 1997 executed and delivered by and between Borrower and TERM LENDER; (b) the Floating Notes and Fixed Notes dated on or about February 13, 1997 in the aggregate original principal amount of \$50,000,000, executed and delivered by Borrower to TERM LENDER; and (c) any and all other documents, instruments, certificates and agreements executed and delivered in connection with such Note Purchase Agreement.

ARTICLE II

INTERCREDITOR AGREEMENT

2.01 Lien Priorities and Distribution of Proceeds. Notwithstanding the date, manner or order of perfection of the security interests and liens granted BABC or TERM LENDER or whether either BABC or TERM LENDER holds possession of all or any part of the Collateral, and notwithstanding any provisions of the BABC Loan Documents or the TERM LENDER Loan Documents or of the Code or any applicable law or decision, the following, as between BABC and TERM LENDER, shall be the relative priority of the security interests and liens of BABC and TERM LENDER in the Collateral:

(a) BABC shall have a first and prior assignment of, or security interest in, the BABC Collateral and all Proceeds of the BABC Collateral including all insurance proceeds relating to the BABC Collateral and products

of the BABC Collateral. TERM LENDER shall not have, take or receive any assignment of, security interest in or lien of any nature with respect to the BABC Collateral.

(b) TERM LENDER shall have a first and prior assignment of, or security interest in, the TERM LENDER Collateral and all Proceeds thereof, including insurance proceeds relating to the TERM LENDER Collateral and products of the TERM LENDER Collateral. BABC shall not have, take or receive any assignment of, security interest in, or lien of any nature with respect to the TERM LENDER Collateral.

2.02 Distribution of Proceeds of Collateral. All proceeds of Collateral shall be distributed in accordance with the following procedure to the extent permitted by law:

(a) All Proceeds of the BABC Collateral shall be paid to BABC for application to the BABC Claim.

(b) All Proceeds of the TERM LENDER Collateral shall be paid to TERM LENDER for application to the TERM LENDER Claim.

2.03 Enforcement Actions. BABC and TERM LENDER agree that upon the commencement of an Enforcement Action by TERM LENDER, TERM LENDER grants to BABC a non-exclusive ninety (90) day license to use the TERM LENDER Collateral at the place or places where the TERM LENDER Collateral may be located as may be necessary for the disposition of the BABC Collateral. BABC agrees to insure (including naming TERM LENDER as a loss payee) and to take such other steps as are necessary to protect, preserve and maintain the TERM LENDER Collateral, while it is using such TERM LENDER Collateral. BABC shall indemnify, defend and hold harmless TERM LENDER against any loss, damage or claim resulting from the exercise of the license and the use of such TERM LENDER Collateral, its agents or employees, including property damage (including damage to the TERM LENDER Collateral). BABC shall compensate TERM LENDER for the use of the TERM LENDER Collateral during the term of this license at the fair market rental value at such time. In no event shall the license granted hereunder restrict or limit TERM LENDER'S ability and right to enter upon the TERM LENDER Collateral and commence any Enforcement Action.

2.04 Proceeds Received in Contravention of Agreement. All payments or distributions with respect to the Collateral which are received by TERM LENDER or BABC contrary to the provisions of this Agreement shall be received in trust for the benefit of the other, shall be segregated from other funds and property held by such lender in respect of any such payments or distributions and shall be forthwith paid over to the other lender, in the same form as so received (with any necessary endorsement).

2.05 Insurance. The lender having a security interest or lien in the applicable Collateral shall, subject to such lender's rights under its agreements with Borrower, have the sole and exclusive right, as against the other lender, to adjust settlement of any insurance policy in the event of any loss. All Proceeds of such policy shall be paid to the lender named in the Loss Payable Endorsement and having the claim as set forth in this Agreement.

2.06 Waiver of Right to Require Marshaling. BABC and TERM LENDER each hereby expressly waive any right that it otherwise might have to require the other to marshal assets or to resort to Collateral in any particular order or manner, whether provided for by common law or statute, provided that this paragraph shall not override any specific provision of this Agreement. Neither BABC or TERM LENDER shall be required to enforce any guaranty or any security interest given by any person or entity other than Borrower as a condition precedent or concurrent to the taking of any Enforcement Action.

2.07 UCC Notices. In the event that BABC or TERM LENDER shall be required by the Code or any other applicable law to give notice to the other of intended disposition of Collateral, such notice shall be given in accordance with paragraph 3.01 of this Agreement, and ten (10) days' notice shall be deemed to be commercially reasonable.

ARTICLE III

MISCELLANEOUS

3.01 Notices. All notices under this Agreement shall be effective upon receipt, shall be in writing, and shall be sent by either certified mail, return receipt requested, mailgram, telecopy, telegram or telex, if to BABC, BankAmerica Business Credit, Inc., 55 South Lake Avenue, Suite 900, Pasadena, California 91101, Attention: Mr. Charles Burtch; if to TERM LENDER, John Hancock Mutual Life Insurance Company, John Hancock Place, P. O. Box 111, 200 Clarendon Street, Boston, Massachusetts 02117, Attn: Bond and Corporate Finance Dept. T-57, with a copy to John Hancock Mutual Life Insurance Company, 12770 Coit Road, Suite 1020, Dallas, Texas 75251, Attention: William Hasson, or to such other address or person as any of the parties to this Agreement may designate in writing to the other parties. Notice shall be deemed received when presented for delivery to the United States Post Office or the transmitting utility.

3.02 No Benefit to Third Parties. The terms and provisions of this Agreement shall be for the sole benefit of BABC and TERM LENDER and their respective successors and assigns, provided such assignment is not in violation of this Agreement, and no other person, firm, entity or corporation (including Borrowers) shall have any right, benefit, priority or interest under or because of this Agreement.

3.03 Independent Credit Investigation. Neither of the lenders nor any of their respective directors, officers, agents or employees shall be responsible to the other or to any other person, firm or corporation, for (i) Borrower's solvency, financial condition, or ability to repay the BABC Claim

or the TERM LENDER Claim; (ii) statements of Borrower, oral or written; (iii) the validity, sufficiency or enforceability of the BABC Claim, the TERM LENDER Claim, the BABC Loan Documents, or the TERM LENDER Loan Documents; or (iv) any liens or security interests granted by Borrower to the lenders in connection with such loan documents. Each lender has entered into its respective financing agreements with Borrower based upon its own independent investigation, and makes no warranty or representation to the other lender nor does it rely upon any representation of the other lender with respect to matters identified or referred to in this paragraph.

3.04 Limitation on Liability of Lenders to Each Other. Except as provided in this Agreement, neither of BABC or TERM LENDER shall have any liability to the other.

3.05 Amendments to this Agreement. All modifications or amendments of this Agreement must be in writing and duly executed by an authorized officer of each party to be binding and enforceable.

3.06 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of BABC and TERM LENDER, provided such assignment is not in violation of the provisions of this Agreement. BABC consents to the assignment or replacement of the term loan made to Debtor by TERM LENDER by a replacement lender provided BABC has received from such assignee or replacement lender a written acknowledgment stating that it has received a copy of this agreement and agrees to be bound by the terms hereof. BABC agrees to enter into and execute an Intercreditor Agreement containing substantially the same terms and conditions as this Agreement, with any lender who succeeds TERM LENDER in providing a term loan to Debtor secured by the TERM LENDER Collateral, or any part thereof.

3.07 Governing Law. This Agreement shall be governed as to validity, interpretation, enforcement and effect by the laws of the State of Oklahoma.

3.08 Termination. This Agreement shall terminate upon the earlier to occur of (i) the written termination agreement executed by both TERM LENDER and BABC, or (ii) the payment in full of the TERM LENDER Claim or the BABC Claim.

3.09 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be a single instrument.

IN WITNESS WHEREOF, BABC and TERM LENDER have executed this Agreement as of the day and year first above written.

JOHN HANCOCK MUTUAL LIFE
INSURANCE COMPANY

By:
Name:
Title:

JOHN HANCOCK VARIABLE LIFE
INSURANCE COMPANY

By:
Name:
Title:

JOHN HANCOCK LIFE INSURANCE
COMPANY OF AMERICA

By:
Name:
Title:

NYNEX MASTER PENSION TRUST

By: Mellon Bank, N.A., as Trustee

By:
Name:
Title:

THE LONG-TERM INVESTMENT TRUST

By: Mellon Bank, N.A., as Trustee

By:
Name:
Title:

SIGNATURE 1A (CAYMAN), LTD.
By: John Hancock Mutual Life Insurance
Company, Portfolio Adviser

By:
Name:
Title:

By:
Name:
Title:

ACKNOWLEDGMENT

EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, SLURRY EXPLOSIVES CORPORATION, an Oklahoma corporation, and NORTHWEST FINANCIAL CORPORATION, an Oklahoma corporation (collectively, the "Borrower"), intending to be legally bound hereby, each acknowledges and agrees to the terms and provisions of the foregoing Intercreditor Agreement (the "Intercreditor Agreement") by and between BANKAMERICA BUSINESS CREDIT, INC. ("BABC") and JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY, JOHN HANCOCK LIFE INSURANCE COMPANY OF AMERICA, NYNEX MASTER PENSION TRUST, THE LONG-TERM INVESTMENT TRUST and SIGNATURE 1A (CAYMAN), LTD. (collectively, the "TERM LENDER") (including, without limitation, the terms of Section 2.05 of this Agreement). By executing this Acknowledgment, the Borrower agrees to be bound by the provisions of the Intercreditor Agreement, as those provisions relate to the relative rights of TERM LENDER and BABC as between such lenders; provided, however, that nothing in the Intercreditor Agreement shall amend, modify, change or supersede the respective terms of the TERM LENDER Loan Documents or the BABC Loan Documents (or any other document to which the undersigned may be a party) as between the parties and the Borrower. The Borrower further agrees that the terms of the Intercreditor Agreement shall not give the Borrower any substantive rights with respect to either TERM LENDER or BABC. If either BABC or TERM LENDER shall enforce its rights or remedies in violation of the terms of the Intercreditor Agreement, the Borrower agrees that it shall not use such violations as a defense to the enforcement by either party of its rights under the BABC Loan Documents or the TERM LENDER Loan Documents or assert such violation as a counterclaim or basis for set-off or recoupment against either lender, provided that the Borrower may assert as a defense against either lender the payment and performance of the Borrower of its obligations to such lender.

EL DORADO CHEMICAL COMPAMY

By:
Name:
Title:

SLURRY EXPLOSIVES CORPORATION

By:
Name:
Title:

NORTHWEST FINANCIAL CORPORATION

By:
Name:
Title:

THIRD AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of April 1, 1996, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, and that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995 (as so amended, the "Agreement");

WHEREAS, Lender and Borrower desire to further amend the Agreement as hereinafter set forth;

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

ARTICLE I

Definitions

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

ARTICLE II

Amendments

Section 2.01. Amendment to Definition of "Maximum Revolving Credit Line". The definition of "Maximum Revolving Credit Line" contained in Section 1.1 of the Agreement is hereby amended in its entirety to read as follows:

"Maximum Revolving Credit Line" means, for the period beginning April 1, 1996 and ending June 30, 1996, Seventy-Five Million Dollars (\$75,000,000) less the Gross Availability Reductions, and for the period beginning July 1, 1996 and continuing thereafter, Sixty-Five Million Dollars (\$65,000,000) less the Gross Availability Reductions."

ARTICLE III

Ratifications, Representations and Warranties

Section 3.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02 Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Conditions Precedent

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) the Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral,

and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

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

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02 Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09 Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplement hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

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

"BORROWER"

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: /s/ Michael Jasaitis
Name: Michael J. Jasaitis
Title: V.P.

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Third Amendment to Loan and Security Agreement dated as of April 1, 1996, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the "Cross-Collateralization Agreement") dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of April 1, 1996

UNIVERSAL TECH CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

LSB CHEMICAL CORP.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a/ LSB Bearing Corp.)

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

INTERNATIONAL BEARING, INC.

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

LSB EXTRUSION CO.

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

ROTEX CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

TRIBONETICS CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

SUMMIT MACHINE TOOL SYSTEMS, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

HERCULES ENERGY MFG. CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

MOREY MACHINERY MANUFACTURING
CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

CHP CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

KOAX CORP.

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

APR CORPORATION

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Third Amendment to Loan and Security Agreement dated as of April 1, 1996, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the "Cross-Collateralization Agreement") dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of April 1, 1996.

INTERNATIONAL ENVIRONMENTAL
CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

L&S BEARING CO.

By: /s/ David R. Goss
Name: David R. Goss
Title: V.P.

CLIMATE MASTER, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

SUMMIT MACHINE TOOL MANUFACTURING
CORP.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: V.P.

FOURTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of July 1, 1996, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, and (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996 (as so amended, the "Agreement");

WHEREAS, El Dorado Chemical Company ("EDC") and Slurry Explosive Corporation ("Slurry"), who are Affiliates of Borrower and are part of the LSB Borrowing Group, as defined in the Agreement, have requested that Lender make a term loan to EDC and Slurry of even date herewith in principle amount of \$10,000,000 (the "Term Loan") the terms of which are set forth in that certain Term Note dated of even date herewith executed by EDC and Slurry and payable to the order of Lender (the "Term Note");

WHEREAS, Lender has agreed to make the Term Loan and to thereby extend the total credit facility available to the LSB Borrowing Group to \$75,000,000, until such time as the Term Loan has been repaid in full, whereupon the total credit facility will once again be limited to the Maximum Revolving Credit Line;

WHEREAS, EDC intends to enter into a leasing/financing transaction with Security Pacific Leasing Corporation ("SPLC") on or before August 15, 1996 (the "SPLC Transaction") whereby SPLC will make certain periodic advances to EDC and Slurry, the first such advance to be in the amount of \$12,000,000 (the "Initial SPLC Advance"); and

WHEREAS, the Initial SPLC Advance will be used in part to repay in full the Term Loan;

WHEREAS, Lender and Borrower desire to further amend the Agreement as hereinafter set forth;

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

ARTICLE I

Definitions

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

Section 1.02. New Definitions. The following new definitions are hereby added to the Agreement:

"Fourth Amendment Date" means July 1, 1996.

"Initial SPLC Advance" means the first advance in the amount of \$12,000,000 under the SPLC Transaction.

"Maximum Credit Facility" means the Maximum Revolving Credit Line plus the Term Loan.

"SPLC Transaction" means the leasing/financing transaction to be entered into by and between EDC and Security Pacific Leasing Corporation on or before August 15, 1996.

"Term Loan" means the Term Loan made by Lender to EDC and Slurry of even date herewith in the principal amount of \$10,000,000.

"Term Note" means that certain Term Note dated of even date herewith executed by EDC and Slurry in the principal amount of \$10,000,000 and payable to the order of Lender.

Section 1.03. Amended Definition. The definition of Maximum Revolving Credit Line is hereby amended to read as follows:

"Maximum Revolving Credit Line" means Sixty-Five Million Dollars (\$65,000,000) less the Gross Availability Reductions; provided, however, that following the making of the Initial SPLC Advance, Maximum Revolving Credit Line shall mean Sixty-Three Million Dollars (\$63,000,000) less the Gross Availability Reductions."

ARTICLE II

Amendments

Section 2.01. Amendment to Article 2. Article 2 of the Agreement is hereby amended by adding a new Section 2.4 which reads as follows:

"2.4. Term Loan. The Lender has, of even date herewith, made available

to EDC and Slurry a Term Loan in the principal amount of \$10,000,000, the terms and conditions of which are set forth in the Term Note."

Section 2.02. Amendment to Section 3.1(a). Section 3.1(a) of the Agreement is hereby amended by adding a new subsection (iii) which reads as follows:

"(iii) The Term Loan shall bear interest at the Reference Rate plus three percent (3%)."

Section 2.03. Amendment to Section 9.15. Section 9.15 of the Agreement is hereby amended to read in its entirety as follows:

"9.15. Capital Expenditures. Borrower shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by the LSB Borrowing Group during the following periods would exceed the following amounts: Fiscal Year ending December 31, 1996: \$9,000,000; Fiscal Year ending December 31, 1997 and each Fiscal Year thereafter: \$6,000,000."

Section 2.04. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1996	\$78,000,000(1)	\$76,400,000	\$77,400,000	\$77,400,000
Fiscal Year Ending December 31, 1997	\$77,400,000	\$78,400,000	\$79,400,000	\$80,400,000

Each Fiscal Quarter during each Fiscal Year ending thereafter: \$80,400,000(1)

(1) This number is to be reduced by the amount of any purchase of treasury stock by LSB pursuant to Section 9.14 of the Loan and Security Agreement between LSB and the Lender and by the purchase of Treasury Stock in the amount of \$885,000 in October and November, 1994."

Section 2.05. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

"9.17 Debt Ratio. The ratio of Debt of the LSB Borrowing Group (excluding all loans to any Borrower Subsidiary from the Lender) to Adjusted Tangible Net Worth will not be greater than the following ratios at the end of each of the Fiscal Quarters during the following Fiscal Years:

A. If the SPLC Transaction has not yet taken place or has taken place and EDC and Slurry have received \$12,000,000 as a result:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1996		.95 to 1	.95 to 1	.90 to 1
Fiscal Year Ending December 31, 1997	.90 to 1	.90 to 1	.90 to 1	.90 to 1
Each Fiscal Quarter during each Fiscal Year ending thereafter:			.90 to 1."	

B. If the SPLC Transaction has taken place and EDC and Slurry have received \$45,000,000 as a result:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1996		.95 to 1	1.40 to 1	1.35 to 1
Fiscal Year Ending December 31, 1997	1.35 to 1	1.35 to 1	1.35 to 1	1.35 to 1
Each Fiscal Quarter during each Fiscal Year ending thereafter:			1.35 to 1."	

Ratifications, Representations, and Warranties

Section 3.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Conditions Precedent

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) that Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) Term Note. The Term Note executed by EDC and Slurry in the original principal amount of \$10,000,000 payable to the order of Lender;

(iii) Guaranty. Continuing Guaranty with Security Agreement executed by Northwest Financial Corporation in favor of Lender guaranteeing all Loans under the Agreement and granting to Lender a security interest in Northwest Financial Corporation's equipment and the products and proceeds thereof;

(iv) Deed of Trust. A Deed of Trust dated of even date herewith executed by Northwest Financial Corporation and granting to Lender a lien on certain real property located in Union County, Arkansas.

(v) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(vi) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

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

(c) Borrower and the other Borrower Subsidiaries shall have collectively paid to Lender on the Fourth Amendment Date an amendment fee of \$100,000.

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usuary or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

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

"BORROWER"

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: /s/ Michael J. Jasaitis

Name: Michael J. Jasaitis
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the "Cross-Collateralization Agreement") dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of July 1, 1996.

INTERNATIONAL ENVIRONMENTAL
CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CLIMATE MASTER, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

SUMMIT MACHINE TOOL
MANUFACTURING CORP.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996 between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the "Cross-Collateralization Agreement") dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of July 1, 1996.

UNIVERSAL TECH CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a/ LSB Bearing Corp.)

INTERNATIONAL BEARINGS, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

LSB EXTRUSIONS CO.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

ROTEX CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby

Title: Vice President

TRIBONETICS CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

SUMMIT MACHINE TOOL SYSTEMS, INC.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

HERCULES ENERGY MFG. CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

MOREY MACHINERY MANUFACTURING CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CHP CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

KOAX CORP.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

APR CORPORATION

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

AGREEMENT FOR PURCHASE AND SALE
OF ANHYDROUS AMMONIA

THIS AGREEMENT ("Agreement") is made this 1st day of January, 1997, by and between Farmland Industries, Inc. (hereinafter "Seller"), a Kansas corporation, with its principal place of business in Kansas City, Missouri, and El Dorado Chemical Company (hereinafter "Buyer"), an Oklahoma corporation, with its principal place of business in El Dorado, Arkansas.

WITNESSETH

WHEREAS, Seller represents that it has the right to sell certain quantities of anhydrous ammonia as hereinafter defined ("Product"); and

WHEREAS, Seller desires to sell and Buyer wishes to purchase the quantities of Product herein stipulated upon the conditions, covenants, and agreements contained herein;

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, Seller and Buyer agree as follows:

1. Quantity: Seller shall deliver to Buyer at El Dorado, Arkansas a volume of Product of not less than seventy five thousand (75,000) tons and not more than one hundred forty thousand (140,000) tons, during each contract year, commencing January 1, 1997.

A: Purchased Product. Of the quantities set forth in Paragraph 1 above, Seller shall sell, transfer and convey to Buyer, f.o.b. Pollock, Louisiana and Buyer shall purchase and accept from Seller a volume of not less than seventy five thousand (75,000) tons of Product during each contract year commencing January 1, 1997.

B: Tolloed Product. Of the quantities set forth in Paragraph 1 above, forty five thousand (45,000) tons shall be tollod into ammonium nitrate by Buyer for Seller at Seller's option pursuant to a Tolling agreement to be entered into between the parties and shall not be considered as a sale to Buyer hereunder.

C. Additional Product. In the event Seller elects not to toll all or a portion of the 45,000 tons of Product, Buyer shall have the right to purchase all or a part of the Product not tollod at a price as set forth in Paragraph 5 herein, f.o.b. Pollock, Louisiana.

In addition, and subject to the force majeure provisions of paragraph 17 herein, in the event that Buyer does not purchase any volumes of Product for two (2) consecutive calendar quarters, or does not purchase a minimum of seventy five thousand (75,000) tons of Product during any contract year, Farmland shall have the right to immediately terminate this Agreement in its entirety, with no further obligations of any type whatsoever on the part of either Seller or Buyer, except that (a) Buyer shall make timely payment for any volumes of Product shipped by Seller prior to such termination; and (b) Buyer shall make payment for all penalties provided for herein.

2. Maximum/Minimum Quarterly Quantity: Seller shall not be required to deliver more than thirty-five thousand (35,000) tons of Product in any one (1) calendar quarter and no more than fourteen thousand (14,000) tons in any one month. Seller understands and agrees that Buyer may, at any time, desire to receive more than thirty-five thousand (35,000) tons of Product in any one calendar quarter and more than fourteen thousand (14,000) tons in any one month. With mutual agreement, these maximums may be waived in any one calendar quarter or any one month. However, no more than thirteen thousand five hundred (13,500) tons may be used for tolling in any one calendar quarter. During the term of this Agreement, Seller shall supply each quarter the amount of Product forecasted for purchase by Buyer. In the event Buyer does not purchase and accept during any calendar quarter at least fifty percent (50%) of the number of tons of Product manufactured in accordance with Buyer's forecast, Seller shall have the right to invoice Buyer and Buyer shall pay the contract price for all such tons not purchased and accepted. Any Product paid for and not taken in any quarter shall be taken in the next succeeding quarter or quarters during which supply is available as determined by Seller.

3. Forecast of Buyer's Purchases: During the term of this Agreement, Buyer shall provide a written forecast quarterly by month, for purchases for each quarter of the contract year. Buyer shall make this quarterly forecast and deliver it to Seller on or before the 15th day of the month preceding the quarter.

4. Term: This Agreement shall commence at 12:01 a.m., Central Standard Time, January 1, 1997, and shall continue until 11:59 p.m., Central Standard Time, December 31, 1998, unless terminated earlier in accordance with the provisions hereof.

5. Price:

(a) The parties to this Agreement have intentionally left the purchase price to be paid by Buyer open for periodic determinations, pursuant to the contract pricing formula contained herein. It is the intention of the parties that there be a binding agreement for the date of the signing of this Agreement, even if the price is not determined at that time since a contract pricing formula is contained herein.

(b) The contract price per ton of Product, for each calendar month during the term of this Agreement, shall be calculated as follows:

(1) On or before the first day of each calendar

month during the term of this Agreement, Seller shall calculate on a million British Thermal Unit basis (hereinafter, MMBTU), its nominated weight average, laid in to the plant (Pollock, Louisiana) cost of natural gas, for such calendar month; plus a nominal fee of two cents (\$.02) per MMBTU for the procurement and expense incurred in gas negotiation and purchase. Such cost shall exclude gains or losses pursuant to Paragraph 5(d) herein;

(2) The natural gas price per MMBTU, as calculated in 5(b)(1) above, shall be multiplied by thirty-four (34);

(3) To the results of 5(b)(2) shall be added an amount of thirty dollars (\$30.00);

(4) The results in 5(b)(3) shall be multiplied by 1.075.

The total amount in 5(b)(4) shall be denominated herein as the "Base Price".

If at any time during the term of the Agreement the "Gulf Coast Ammonia Price" (defined hereinafter) is below the "Base Price", the sale/purchase price per ton of Product hereunder shall be "Gulf Coast Ammonia Price".

If at any time during the term of this Agreement the "Gulf Coast Ammonia Price" (defined hereunder) exceeds the "Base Price", the sale/purchase price per ton of Product hereunder shall be calculated as follows:

- i. The "Base Price" shall be noted;
- ii. The "Gulf Coast Ammonia Price" (defined hereunder) shall be noted;
- iii. From 5(b)(4)ii shall be subtracted 5(b)(4)i;
- iv. Sixty-five percent (65%) of 5(b)(4)iii shall be noted;
- v. The f.o.b. sale/purchase price at any time during the term of this Agreement when the "Gulf Coast Ammonia Price" exceeds the "Base Price" shall be an amount equal to 5(b)(4)i added to 5(b)(4)iv.

The "Gulf Coast Ammonia Price" for each month during the term of this Agreement shall be calculated as follows:

The weekly Green Markets for the calendar month shall be noted;

The Green Markets lowpoint price average in such issues for Product f.o.b. United States Gulf Coast, less one dollar (\$1.00), shall be the "Gulf Coast Ammonia Price". All prices hereunder shall be f.o.b. Pollock, Louisiana plant of Seller. Freight charges to Buyer's destination shall be added to invoices as a separate line item.

(c) All Product for shipments to Buyer's El Dorado, Arkansas location shall be delivered to Buyer via Koch Pipeline unless such pipeline becomes unavailable due to mechanical failure of the pipeline. In the event the Koch Pipeline is unavailable for that reason, Product shall be shipped by rail cars and each party hereto shall use its best efforts to minimize the cost of shipment by rail car. In the event Product is shipped by rail car, the purchase price for Product shall be adjusted to reflect the actual cost of such transportation.

(d) Gains or losses resulting from Seller's activities in the natural gas Futures market shall not be incorporated into the gas cost calculations irrespective of whether delivery is taken by Farmland in any Futures transaction.

6. Verification of Pollock, LA Natural Gas Prices: Buyer shall have the right, at any time during the term of this Agreement, to request Seller to provide documentation to a mutually acceptable audit firm to verify that excess charges for natural gas have not been made.

7. Delivery/Freight:

(a) Pipeline - As shipper of record Seller shall invoice Buyer for all actual Koch Pipeline tariff charges plus a ten cent (\$.10) per short ton meter fee for tons transported by pipeline to Buyer's El Dorado, Arkansas facility. Seller will credit Buyer for all shrink refunds allowed Seller by the Koch Pipeline on tons transported to El Dorado during the term of the Agreement.

(b) Rail - Freight charges on rail shipments shall be invoiced to Buyer at either (i) the then current railroad tariff rate, or (ii) a negotiated contract freight rate as agreed by the parties. Seller may invoice Buyer and Buyer shall pay Seller tank car demurrage at a daily rate of Fifty Dollars (\$50) per car per day for each day commencing with the eight day after constructive placement of the car at Buyer's destination. Such rail shipments shall be priced at the time of the order by Seller.

8. Invoices and Payment: Seller shall deliver invoices to Buyer as soon after the end of each calendar month as is reasonably possible. Buyer shall make payment to Seller for each month's purchases, on or before the fifteenth (15th) day of the following month. Payment shall be made by wire transfer to such bank or banks as Seller shall designate. If at any time during the term of this Agreement, Buyer becomes delinquent in payment or in Seller's reasonable judgment there has occurred a material adverse change in

the financial condition of Buyer which could reasonably be expected to impair Buyer's ability to carry out its financial obligations to Seller, Seller shall have the sole and exclusive right to require the Buyer to open an irrevocable letter of credit for the benefit of Farmland Industries, Inc., at a bank or banks, acceptable to Farmland Industries, Inc. for an amount not to exceed the result of multiplying twenty-two thousand (22,000) tons by the contract price per ton of Product in the most recently completed calendar month.

9. Default and Nonpayment: Default in payment, or failure to perform any of the terms and conditions of this Agreement, shall constitute a default by either party to this Agreement. In the event that either party (i) defaults in making payment provided for herein when due or (ii) defaults in the performance of any other material obligation provided for herein and, if such default is susceptible of cure, fails to cure any such default of a material obligation within 30 days of receipt of written notice from the non-defaulting party thereof, the non-defaulting party shall have the right, by giving written notice to the defaulting party, to immediately terminate this Agreement

On the occurrence of a default by either party, the non-defaulting party shall have the option to terminate this Agreement without liability of any kind as to future shipments; to alter credit terms provided to Buyer; to stop any Product in transit; to treat any default as substantially impairing the value of the whole Agreement, and hence a breach thereof. If Buyer does not pay any invoice on its due date, then all outstanding invoices of Seller to Buyer under this or any other agreement shall become immediately due and payable, and Seller may assess a finance charge of one and five-tenths percent (1.5%) per month, or the maximum legal rate if less, on remittances not received by their due date. On the occurrence of a default by either party, the defaulting party shall be liable to the non-defaulting party for all costs, losses, and expenses incurred by such non-defaulting party by reason thereof, including reasonable attorneys' fees.

10. Product Specifications: "Product", where used in this Agreement, means Product solution of commercial grade, having ammonia (NH₃) content of not less than ninety-nine and five tenths percent (99.5%), having water content of not more than five-tenths percent (0.5%), and having oil content of not more than five (5) parts per million. Product tendered to any pipeline shall meet or exceed such pipeline's Product quality specifications for Product shipped therein. Seller shall be nominated as shipper of record on those volumes of Product sold pursuant to this Agreement and shipped via Koch Pipeline.

11. Determination of Weights: "Ton", where used in this Agreement, means two thousand pounds (2,000 lbs.) avoirdupois, as measured by Koch Pipeline meter tickets if delivery is made by pipeline, by bills of lading if delivery is made by rail or truck.

12. Manufacture and Delivery; Seller specifically reserves the right to manufacture at, or exchange to, and to deliver from, any origin, all of the Product transferred to the location scheduled and agreed to quarterly pursuant to this Agreement.

13. Disclaimer of Warranties: There are no warranties which extend beyond the description of the face hereof, and SELLER MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, WHETHER OF MERCHANTABILITY OR FITNESS FOR ANY PURPOSE OR AGAINST INFRINGEMENT OR OTHERWISE. Buyer assumes all risk and liability for the use of the Product purchased, whether used singly or in combination with other substances and for loss, damage, or injury to persons, or property of Buyer or others arising out of the use or possession of the Product; Buyer agrees to indemnify Seller from loss (including cost of defense) in connection with claims arising from use or possession of the Product.

14. Claims by Buyer or Seller; Notices by Seller or Buyer of claims as to Product delivered, or for the nondelivery thereof, shall be made within thirty (30) days after delivery, or the date fixed for delivery, as the case may be, and failure to give such notice shall constitute a waiver by Seller or Buyer of all claims in respect thereto. Buyer's sole claim for loss or damage arising from nondelivery of Product hereunder shall be the difference between the price for the Product specified in this Agreement, and the average price of such Product then charged by major suppliers of Product at the point of shipment specified in this Agreement, duly adjusted for freight charges. In no event shall any claims of any kind be greater than, nor shall Seller in any event be liable for, any amount in excess of the purchase price of the Product in respect of which claim is made. SELLER SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, ARISING FROM SELLER'S PERFORMANCE OR BREACH OF THIS AGREEMENT AND/OR USE OR POSSESSION OF THE PRODUCT, OR FOR LOSS OF PROFIT FROM RESALE OF PRODUCT. No suit or legal proceeding arising upon this Agreement shall be maintainable against Seller or Buyer unless commenced or made within one (1) year after passing of title to Product, or delivery of or failure to deliver Product hereunder.

15. Conflicting Terms: Notwithstanding any provision herein to the contrary, no term in Seller's or Buyer's purchase order, acknowledgment form or other document which conflicts with the terms hereof or increases Seller's or Buyer's obligations hereunder, shall be binding on either party unless accepted in writing by both parties hereunder.

16. Waiver: Any waiver by Seller or Buyer of any term, provision, or condition of this Agreement, or of any default hereunder in any one or more instances shall not be deemed to be a further or continuing waiver of such term, provision or condition, or of any subsequent default hereunder.

17. Force Majeure: Neither party will be liable for failure to perform or for delay in performing this Agreement where such failure or delay is occasioned by acts of any government compliance with law or government

regulations, acts of God, war, riots insurrections, civil commotion or disturbances, fire, flood, or accident or by any other cause or circumstances whether of like or difference character, beyond the control of the party affected thereby, herein referred to as "Events of Force Majeure". Failure to obtain a supply of Product by Seller from a third party supplier shall not be an Event of Force Majeure that can be exercised by Seller. The party asserting that an Event Of Force Majeure has occurred shall send the other party notice thereof by cable or telex no later than three (3) days after the beginning of such claimed event setting forth a description of the Event Of Force Majeure, an estimate of its effect upon the party's ability to perform its obligations under this Agreement and the duration thereof. The notice shall be supplemented by such other information or documentation as the party receiving the notice may reasonably request. As soon as possible after the cessation of any Event Of Force Majeure, the party which asserted such event shall give the other party notice of any threatened or impending Event Of Forced Majeure. If an Event Of Force Majeure affecting Seller's or Buyer's performance by the party affected (the "affected party") shall be excused during the continuation of the Event of Force Majeure and the other party elects to (a) reduce the quantity of Product specified in this Agreement by the amount which cannot be delivered or received and/or (b) reschedule deliveries on a commercially reasonable basis for delivery during the remainder of the applicable contract Year.

"In the Event Of Force Majeure affecting Seller, Seller shall allocate its available Product to Buyer in the same proportion as the quantity delivered to Buyer's El Dorado Arkansas facility hereunder during the twelve (12) months preceding the event Of Force Majeure is to the total quantity of all Product sold or sued by Seller during such twelve (12) month period". (Provided, however, the total Product Buyer received shall not exceed the quantities in Article 2). In the event Seller has not given written notice of cessation of force majeure, and such Event Of Force Majeure prevents deliveries of Product for more than thirty (30) consecutive days, Buyer shall have the right to terminate this Agreement.

18. Acquisition of Plant: In the event that El Dorado Chemical Company or affiliated company having a common parent acquires more than fifty percent (50%) interest in and to a plant or company that produces or has the capacity to produce Product, Buyer may upon twelve (12) months' written notice to Seller, terminate this Contract and thereafter have no further responsibility to accept or pay for any quantity of Product hereunder.

19. Commission/Broker Fees: Seller and Buyer represent that they are dealing with each other, that neither is the agent of the other, and that no broker or agent has been involved either directly or indirectly, in consummating this Agreement and the sale of Product hereunder. SELLER AGREES TO INDEMNIFY, PROTECT AND SAVE BUYER HARMLESS from the claims of any person or entity for commissions or finder's fees or similar fees in connection with the transaction set forth herein where the claimant alleges that his or its contact with this transaction is traceable to Seller. BUYER AGREES TO INDEMNIFY, PROTECT, AND SAVE SELLER HARMLESS from the claims of any person or entity for commissions or finder's fees or similar fees in connection with the transaction set forth herein where the claimant alleges that his or its contact with the transaction is traceable to Buyer.

20. Taxes: Any and all taxes of any type whatsoever levied, prior to passage of title against Product transferred pursuant to this Agreement shall be paid by Seller promptly as required by law. Any and all taxes of any type whatsoever levied against the Product at or upon, or subsequent to, passage of title shall be paid by Buyer promptly as required by law. Title to and risk of loss of the Product shall pass to the Buyer as the Product progressively passes into tank cars, and/or pipeline. Notwithstanding any provision to the contrary in this Agreement, with regard to sales/purchases of Product pursuant to this Agreement, Buyer shall pay any and all taxes or charges that are due and owing under the federal Superfund (Comprehensive Environmental Response, Compensation and Liability Act of 1986) statutes, or regulations promulgated thereunder, as amended. Notwithstanding any provision to the contrary in this Agreement with regard to sales/purchases of Product pursuant to this Agreement, Buyer shall pay any and all taxes and charges that may become in the future due and owing because of the future enactment of any state law or regulation establishing a state tax or fee of any kind whatsoever on the manufacturing and/or sale of Product or any constituent part thereof. All taxes hereunder are in addition to those prices described herein.

21. Notices: No notice, actual or constructive, shall be effective against any party unless it is (a) in writing; (b) signed by the party giving the notice; and (c) sent by register mail, postage prepaid, or personally served on the party intended to receive said notice.

The address to be used on a mailed notice for each party shall be as follows:

To Seller: Farmland Industries, Inc.
3315 N. Oak Trafficway
P.O. Box 7305, Dept. 314
Kansas City, Missouri 64116
Facsimile: 816/459-5913

To Buyer: El Dorado Chemical Company
P.O. Box 231
El Dorado, Arkansas 71731
Facsimile: 501/863-1426
Attn: Warren Jones

El Dorado Chemical Co.
16 S. Pennsylvania
Oklahoma City, OK 73007
Facsimile: 405/235-5067

Attn: James Wewers
David Shear

22. Alternate Dispute Resolution: In the event of any controversy arising out of or relating to this Contract, or any breach thereof, the parties agree to submit the dispute for resolution to a senior executive of both parties. Such executives shall meet within thirty (30) days of written request of either party.

In the event the parties are unable to resolve the controversy through such meeting, the dispute shall be submitted to binding arbitration in accordance with the rules of the Missouri Arbitration Act. V.A.M.S. 435 et. Seq. (or Uniform Arbitration Act). Such arbitration shall be initiated by either party by notifying the other party in writing and requesting a panel of five (5) arbitrators from the American Arbitration Association. Alternate strikes shall be made to the panel commencing with the party requesting the arbitration until one name remains. Such individual shall be the arbitrator for the controversy. The party requesting the arbitration shall notify the arbitrator who shall hold a hearing(s) within sixty (60) days of the notice. The arbitrator shall render a decision within twenty (20) days after the conclusion of the hearing(s). Judgement upon the award rendered by the Arbitrator may be entered in any court having jurisdiction thereof.

23. Confidentiality. The parties agree to maintain as confidential the terms of this Agreement and not to divulge such terms to any third party without the written consent of the other.

24. Miscellaneous. This Agreement expresses the whole agreement of the parties. There are no promises, conditions, or obligations, other than those enumerated herein. This Agreement shall supersede all previous or contemporaneous communications, representations, or agreement, verbal or written, between or among the parties. No usage of trade or prior course of dealing or performance between Buyer and Seller shall be deemed to modify the terms of this Agreement. This Agreement shall not be modified except in writing signed by the party to be charged. Headings are for reference only, and do not affect the meaning of any paragraph.

This Agreement shall not be assigned by either party without the prior written consent of the other party except that either party may assign its interest under this Agreement to a successor to all or any substantial portion (more than 50%) of its business or assets, or to any parents, subsidiary, or affiliated company having a common parent. Any purported assignment of this Agreement or any part thereof, except as set forth above, shall be void.

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

This Agreement shall be governed in all respects, including, but not limited to, interpretation and performance by the law of the State of Kansas. Remedies herein reserved are cumulative and in addition to any other or further remedies Seller or Buyer may have at law or in equity.

No termination of this Agreement shall affect the rights or obligations theretofore accrued.

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

FARMLAND INDUSTRIES, INC.
(Seller)

EL DORADO CHEMICAL COMPANY
(Buyer)

By: /s/Robert W. Honse

By: James L. Wewers

Title: Exec. V.P. & Chief
Operating officer
Ag Input Business

Title: President

Date: 3/20/97

Date: 3/20/97

KOCH

Koch Nitrogen Company December 31, 1996

El Dorado Chemical Co.	Sale	12133
Attn: Jim Wewers	Effective Date	01/01/97
Box 231	Customer Reference #	
El Dorado, AR 71731		

WE HEREBY ACKNOWLEDGE THIS AGREEMENT MADE BETWEEN Koch Nitrogen Company AND EL DORADO CHEMICAL CO.

PRODUCT: Ammonia

ORIGIN	FOB	SHIPMENT MODE
Sterlincgon LA - KNC	El Dorado, AR - El Dorado	Pipeline

QUANTITY	PRICE
27,000.00 tons	See Remarks

DELIVERY TIME: 01/01/97 through 03/31/97

TERMS: Net 15 days

REMARKS: Price = Green Markets NOLA low monthly average + pipeline tariff. Upon management approval by 3-31-97 of a 3 yr NH3 supply agreement between El Dorado Chemical and Koch, Koch to rebate to El Dorado Chemical the difference between NOLA low and the lower of NOLA low less 3% or price agreed to in 3 yr supply contract on tons delivered per this contract. Volume - Jan. 8000 tons, Feb. 5000 tons, Mar. 14000 tons.

We appreciate your business!

All the terms and conditions of the Koch Nitrogen Company (Seller) General Terms and Conditions of Sale are hereby incorporated into and made part of this contract as essential term and conditions. These terms of sale are accepted by buyer, if not otherwise accepted, by buyer's purchase or taking delivery of product from Seller. Acceptance is expressly limited to these terms and conditions without any alteration or addition thereto, notwithstanding the use of any other acknowledgement or acceptance by buyer.

ACCEPTED _____ 19____ KOCH NITROGEN COMPANY

EL DORADO CHEMICAL CO. by /s/ L.P. Snodgrass

/S/ James L. Wewers, President L.P. "Bud" Snodgrass

PRIMARY EARNINGS PER SHARE COMPUTATION

	1996 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	12,911,447	12,909,487	12,908,487	12,961,356
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	270	-	260	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	-	12,527	13,261
Purchases of treasury stock; calculated on weighted average basis	(330)	(978)	(12,734)	(457)
	<u>12,911,387</u>	<u>12,908,509</u>	<u>12,908,540</u>	<u>12,974,160</u>
Common Stock equivalents:				
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	-	737,640	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	-	(359,676)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	62,080	-	-
	<u>-</u>	<u>440,044</u>	<u>-</u>	<u>-</u>
	<u>12,911,387</u>	<u>13,348,553</u>	<u>12,908,540</u>	<u>12,974,160</u>
Earnings (loss) for primary earnings (loss) per share:				
Net earnings (loss)	\$ (531,218)	\$ 2,371,797	\$(3,217,649)	\$(2,467,854)
Dividends on cumulative convertible preferred stocks:				
Series B	(75,520)	(60,000)	(60,000)	(60,000)
Series 2 Class C	(743,438)	(743,438)	(743,438)	(743,438)
Earnings (loss) applicable to common stock	<u>\$(1,350,176)</u>	<u>\$ 1,568,359</u>	<u>\$(4,021,087)</u>	<u>\$(3,271,292)</u>
Earnings (loss) per share	<u>\$(.10)</u>	<u>\$.12</u>	<u>\$(.31)</u>	<u>\$(.25)</u>

LSB INDUSTRIES, INC.

Exhibit 11.1

PRIMARY EARNINGS PER SHARE COMPUTATION

Page 2 of 6

	Year ended December 31, 1996
Net earnings applicable to common stock	<u>\$ (7,074,196)</u>
Weighted average number of common and common equivalent shares (average of four quarters above)	<u>13,035,660</u>
Earnings per share	<u>\$(.54)</u>

LSB INDUSTRIES, INC.

Exhibit 11.1

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

Page 3 of 6

	1996 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	12,911,387	12,908,509	12,908,540	12,974,160
Shares issuable upon exercise of options and warrants	-	737,640	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	-	(359,676)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	62,080	-	-
Common shares issuable upon conversion of convertible note payable	-	4,000	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	-	666,666	-	-
Series 2	-	-	-	-
	<u>12,911,387</u>	<u>14,019,219</u>	<u>12,908,540</u>	<u>12,974,160</u>
Earnings (loss) for fully diluted earnings (loss) per share:				
Net earnings (loss)	\$ (531,218)	\$2,371,797	\$(3,217,649)	\$(2,467,854)
Dividends on cumulative convertible preferred stocks:				
Series B	(75,520)	-	(60,000)	(60,000)
Series 2 Class C	(743,438)	(743,438)	(743,438)	(743,438)
Earnings (loss) applicable to common Stock	<u>\$(1,350,176)</u>	<u>\$1,628,359</u>	<u>\$(4,021,087)</u>	<u>\$(3,271,292)</u>
Earnings (loss) per share	<u>\$(.10)</u>	<u>\$.12</u>	<u>\$(.31)</u>	<u>\$(.25)</u>

Year ended
December 31, 1996

Net earnings applicable to common stock	\$(7,074,196)
Weighted average number of common and common equivalent shares	<u>13,035,660</u>
loss per share	<u>\$(.54)</u>

LSB INDUSTRIES, INC.
PRIMARY EARNINGS PER SHARE COMPUTATION

Exhibit 11.1
Page 4 of 6

	1995 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	13,060,566	13,045,912	12,941,097	12,935,117
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	180	-	10	440
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	96,692	3,326	-
Purchases of treasury stock; calculated on weighted average basis	(13,950)	(146,176)	(3,826)	(18,536)
	<u>13,046,796</u>	<u>12,996,428</u>	<u>12,940,607</u>	<u>12,917,021</u>
Common Stock equivalents:				

Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	823,140	817,448	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(317,680)	(393,498)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	63,520	-	-
	505,460	487,470	-	-
	13,552,256	13,483,898	12,940,607	12,917,021
	=====	=====	=====	=====
Earnings (loss) for primary earnings (loss) per share:				
Net earnings (loss)	\$ 1,448,092	\$1,502,431	\$(1,800,236)	\$(4,881,860)
Dividends on cumulative preferred stocks	(75,880)	(60,000)	(60,000)	(60,000)
Dividends on Convertible, exchangeable Class C preferred stock (6.5% annually)	(743,437)	(743,437)	(743,437)	(743,437)
	-----	-----	-----	-----
Earnings (loss) applicable to common stock	\$ 628,775	\$ 698,994	\$(2,603,673)	\$(5,685,297)
	=====	=====	=====	=====
Earnings (loss) per share	\$.05	\$.05	\$(.20)	\$(.44)
	=====	=====	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1
Page 5 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

	Year ended December 31, 1995 -----
Net loss applicable to common stock	\$(6,961,201) =====
Weighted average number of common and common equivalent shares (average of four quarters above)	13,223,445 =====
Loss per share	\$(.53) =====

LSB INDUSTRIES, INC.

Exhibit 11.1
Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	----- 1995 quarter ended -----			
	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	13,046,796	12,996,428	12,940,607	12,917,021
Shares issuable upon exercise of options and warrants	823,140	817,448	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(300,737)	(380,135)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	63,520	-	-
Common shares issuable upon conversion of convertible note payable	4,000	4,000	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	-	-	-	-
Series 2	-	-	-	-
	-----	-----	-----	-----
	13,573,199	13,501,261	12,940,607	12,917,021
	=====	=====	=====	=====
Earnings (loss) for fully diluted				

earnings (loss) per share:				
Net earnings (loss)	\$ 1,448,092	\$ 1,502,431	\$(1,800,236)	\$(4,881,860)
Interest on convertible note	180	180	-	-
Dividends on cumulative convertible preferred stocks:				
Series B	(75,880)	(60,000)	(60,000)	(60,000)
Series 2 Class C	(743,437)	(743,437)	(743,437)	(743,437)
	-----	-----	-----	-----
Earnings (loss) applicable to common Stock	\$ 628,955	\$ 699,174	\$(2,603,673)	\$(5,685,297)
	=====	=====	=====	=====
Earnings (loss) per share	\$.05	\$.05	\$ (.20)	\$ (.44)
	=====	=====	=====	=====

Year ended
December 31, 1995

Net loss applicable to common stock	\$(6,960,841)
	=====
Weighted average number of common and common equivalent shares (average of four quarters above)	13,233,022
	=====
Loss per share	\$ (.53)
	=====

YEAR	
DEC-31-1996	
DEC-31-1996	1,620
	0
	50,791
	3,291
	67,982
	127,610
	178,050
	74,907
	261,284
68,119	
	119,277
146	
	48,000
	1,489
	24,253
261,284	
	307,160
	314,051
	250,388
	307,729
	0
	0
	10,017
	(3,695)
	150
(3,845)	
	0
	0
	0
	(3,845)
	(.54)
	(.54)