

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended June 30, 1994

OR

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

For The transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-7677

LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter

DELAWARE

73-1015226

State or other jurisdiction of  
incorporation or organization

I.R.S. Employer  
Identification No.

16 South Pennsylvania, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES x NO

The number of shares outstanding of the Registrant's voting Common Stock, as  
of August 8, 1994 is 13,543,901 shares excluding 1,074,235 shares held as  
treasury stock.

PART I

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc.  
at June 30, 1994, the condensed consolidated statements of income for the six  
month and three month periods ended June 30, 1994 and 1993 and the  
consolidated statements of cash flows for the six month periods ended June 30,  
1994 and 1993 have been subjected to a review, in accordance with standards  
established by the American Institute of Certified Public Accountants, by  
Ernst & Young LLP, independent auditors, whose report with respect thereto  
appears elsewhere in this Form 10-Q. The financial statements mentioned above  
are unaudited and reflect all adjustments, consisting primarily of adjustments  
of a normal recurring nature, which are, in the opinion of management,  
necessary for a fair presentation of the interim periods. The results of  
operations for the six months and three months ended June 30, 1994 are not  
necessarily indicative of the results to be expected for the full year. The  
condensed consolidated balance sheet at December 31, 1993, was derived from  
audited financial statements as of that date.

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at June 30, 1994 is unaudited)

(Dollars in thousands)

ASSETS	June 30, 1994	December 31, 1993
		(Note 1)
Current assets:		
Cash	\$ 5,588	\$ 2,781
Trade accounts receivable, net of allowance	57,202	49,533
Inventories:		
Finished goods	29,939	26,940
Work in process	7,145	9,643
Raw materials	10,039	11,801
Total inventory	47,123	48,384
Supplies and prepaid items	6,843	5,459
Total current assets	116,756	106,157
Property, plant and equipment, at cost	123,632	113,795
Accumulated depreciation	(56,601)	(53,269)
Property, plant and equipment, net	67,031	60,526
Loans receivable, secured by real estate	16,896	13,968
Other assets	14,277	15,387
	\$ 214,960	\$ 196,038
	=====	=====

(Continued on following page)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Continued)  
(Information at June 30, 1994 is unaudited)  
(Dollars in thousands)

LIABILITIES, PREFERRED AND COMMON STOCKS AND OTHER STOCKHOLDERS' EQUITY	June 30, 1994	December 31, 1993
		(Note 1)
Current liabilities:		
Drafts payable	\$ 1,836	\$ 1,220
Accounts payable	30,508	22,645
Accrued liabilities	7,361	6,752
Current portion of long-term debt	9,396	9,763
Total current liabilities	49,101	40,380
Long-term debt	64,871	20,508
Net liabilities of Financial Services Business sold in 1994 (Notes 1 and 2)	-	60,124
Contingencies (Note 7)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,619 shares issued and outstanding (1,637 in 1993)	154	155
Non-redeemable preferred stock, common stock and other stockholders' equity (Note 6):		
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 and outstanding	46,000	46,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,615,276 shares issued (14,514,056 in 1993)	1,462	1,451

Capital in excess of par value	37,355	37,120
Retained earnings (deficit)	19,873	(7,541)
	<u>106,690</u>	<u>79,030</u>
Less common treasury stock, 1,060,085 shares (840,085 in 1993), at cost	5,856	4,159
	<u>100,834</u>	<u>74,871</u>
	<u>\$ 214,960</u>	<u>\$ 196,038</u>
	=====	=====

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
Six Months Ended June 30, 1994 and 1993  
(Dollars in thousands, except per share amounts)

	1994	1993
	<u>          </u>	<u>          </u>
		(Note 1)
Revenues:		
Net sales	\$ 132,265	\$ 120,466
Other income - net	1,831	2,343
	<u>134,096</u>	<u>122,809</u>
Costs and expenses:		
Cost of sales	102,677	89,113
Selling, general and administrative expense	22,596	19,353
Interest expense	3,393	4,170
Provision for environmental matter (Note 7)	400	-
Settlement of dispute	-	1,767
	<u>129,066</u>	<u>114,403</u>
Income from continuing operations before provision for income taxes	5,030	8,406
Provision for income taxes	355	637
	<u>4,675</u>	<u>7,769</u>
Income from discontinued operations, net of income taxes (Notes 1 and 2)	584	646
Gain on sale of discontinued operations (Note 2)	24,200	-
Net income	<u>\$ 29,459</u>	<u>\$ 8,415</u>
	=====	=====
Net income applicable to common stock (Note 4)	<u>\$ 27,827</u>	<u>\$ 7,988</u>
	=====	=====
Average common shares outstanding (Note 4):		
Primary	14,386,371	12,365,204
Fully diluted	17,035,037	15,685,412
Earnings per common share (Note 4):		
Primary:		
Income from continuing operations	\$ .21	\$ .59
	=====	=====
Net income	\$ 1.93	\$ .65
	=====	=====
Fully diluted:		
Income from continuing operations	\$ .21	\$ .50
	=====	=====
Net income	\$ 1.69	\$ .54
	=====	=====

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
Three Months Ended June 30, 1994 and 1993  
(Dollars in thousands, except per share amounts)

	1994	1993
		(Note 1)
Revenues:		
Net sales	\$ 68,414	\$ 67,869
Other income - net	1,330	1,547
	<u>69,744</u>	<u>69,416</u>
Costs and expenses:		
Cost of sales	53,184	49,802
Selling, general and administrative expense	11,428	9,734
Interest expense	1,712	1,987
Provision for environmental matter (Note 7)	400	-
Settlement of dispute	-	1,767
	<u>66,724</u>	<u>63,290</u>
Income from continuing operations before provision for income taxes	3,020	6,126
Provision for income taxes	203	512
	<u>2,817</u>	<u>5,614</u>
Income from discontinued operations, net of income taxes (Notes 1 and 2)	238	144
Gain on sale of discontinued operations (Note 2)	24,200	-
Net income	<u>\$ 27,255</u> =====	<u>\$ 5,758</u> =====
Net income applicable to common stock (Note 4)	<u>\$ 26,447</u> =====	<u>\$ 5,408</u> =====
Average common shares outstanding (Note 4):		
Primary	14,359,161	14,381,918
Fully diluted	18,985,827	16,584,949
Earnings per common share (Note 4):		
Primary:		
Income from continuing operations	\$ .14 =====	\$ .37 =====
Net income	<u>\$ 1.84</u> =====	<u>\$ .38</u> =====
Fully diluted:		
Income from continuing operations	\$ .14 =====	\$ .34 =====
Net income	<u>\$ 1.44</u> =====	<u>\$ .35</u> =====

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
Six Months Ended June 30, 1994 and 1993  
(Dollars in thousands)

	1994	1993
		(Note 1)
Cash flows from continuing operations:		
Income from continuing operations	\$ 4,675	\$ 7,769
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	3,332	2,767
Other	489	432
Provision for possible losses:		
Trade accounts receivable	519	(115)
Environmental matter	400	-
Settlement of dispute	-	1,767
Gain of sales of assets	(519)	(1,381)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(8,188)	(11,634)
Inventories	1,261	5,756

Supplies and prepaid items	(1,384)	(2,166)
Other assets	(2,009)	(548)
Accounts payable	7,862	7,202
Accrued liabilities	209	(4,594)

Net cash provided by continuing operations	6,647	5,255
--	-------	-------

Cash flows from investing activities of continuing operations:

Capital expenditures	(7,993)	(3,235)
Purchase of loans receivable	(2,930)	-
Sale of real estate properties	1,331	3,342

Net cash provided (used) by investing activities	(9,592)	107
--	---------	-----

(Continued on following page)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(CONTINUED)  
(Unaudited)  
Six Months Ended June 30, 1994 and 1993  
(Dollars in thousands)

	1994	1993
		(Note 1)
Cash flows from financing activities of continuing operations:		
Payments on long-term and other debt	\$(6,012)	\$(7,240)
Long-term and other borrowings	2,700	-
Net change in revolving loans	45,465	(7,335)
Net decrease in receivables sold to discontinued operations	(31,844)	(11,228)
Net change in drafts payable	616	(1,089)
Dividends paid (Note 6):		
Preferred stocks	(1,631)	(302)
Common stock	(414)	(387)
Purchases of treasury stock (Note 6)	(1,697)	-
Net proceeds from issuance of stock (Note 6):		
Common	244	2,230
Preferred	-	44,071
	-----	-----
Net cash provided by financing activities of continuing operations	7,427	18,720
	-----	-----
Net increase in cash from continuing operations	4,482	24,082
Net decrease in cash from discontinued operations	(1,675)	(5,761)
	-----	-----
Net increase in cash from all activities	2,807	18,321
Cash at beginning of period	2,781	1,115
	-----	-----
Cash at end of period	\$ 5,588	\$ 19,436
	=====	=====

(See accompanying notes)

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
Six Months Ended June 30, 1994, and 1993

Note 1: The accompanying financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries at June 30, 1994. The accounts of its financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank") which was sold on May 25, 1994 (see Note 2 below), have been reclassified as discontinued operations at December 31, 1993. Additionally, the condensed consolidated statements of income for the six month and three month periods ended June 30, 1993, have been restated to present the

operations of Equity Bank as income from discontinued operations. The assets and liabilities of the Company's financial services subsidiary, classified as discontinued at December 31, 1993, are as follows:

	December 31, 1993
Assets:	(In thousands)
Cash and cash equivalents	\$ 8,906
Loans and mortgage backed securities, net	359,303
Other securities	7,806
Property and equipment, net	5,144
Excess of purchase price over net assets acquired, net	17,041
Other assets	3,273
	<u>401,473</u>
Liabilities:	
Deposits	332,511
Securities sold under agreement to repurchase	38,721
Federal Home Loan Bank advances	87,650
Accrued liabilities	2,715
	<u>461,597</u>
Net liabilities	<u>\$ 60,124</u> =====

Note 2: On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994, (the Acquisition Agreement) the Company sold its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser"). The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank. All regulatory and shareholder approvals necessary to complete the sale of Equity Bank were obtained prior to the closing of this transaction.

Under the Acquisition Agreement, the Company acquired from Equity Bank, prior to closing, certain subsidiaries of Equity Bank (Retained Corporations) that own the real and personal property and other assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying value of the assets contributed of approximately \$67.4 million. At the time of closing of the sale of Equity Bank, the Company was required under the Acquisition Agreement to acquire: (A) the loan and mortgage on and an option to purchase Equity Tower located in Oklahoma City, Oklahoma (Equity Tower Loan), which Equity Bank previously classified as an in-substance foreclosure on its books, for an amount equal to Equity Bank's carrying value of approximately \$13.9 million; (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure for an amount equal to Equity Bank's carrying value of approximately \$3.6 million (the Equity Tower Loan and other real estate owned are collectively called the Retained Assets), and; (C) the outstanding accounts receivable sold to Equity Bank by the Company and its subsidiaries under various purchase agreements, dated March 8, 1988 (the Receivables) of \$6.9 million. In addition, the Company acquired certain other loans for \$2.7 million previously owned by Equity Bank.

The Company used the proceeds of the sale of Equity Bank, together with borrowings under its credit facilities, to purchase the Retained Corporations for approximately \$67.4 million, the Retained Assets for approximately \$17.5 million, certain other loans for approximately \$2.7 million and to repurchase its accounts receivable previously financed by Equity Bank for approximately \$6.9 million.

Under the Acquisition Agreement, the Company made certain representations and warranties. The Company also agreed under the Stock Purchase Agreement to indemnify the Purchaser and its wholly-owned subsidiary, Bank IV Oklahoma, National Association ("Bank IV"), against, among other things, (i) losses that may be sustained by them due to breach of any representations or warranties made by the Company in the Stock Purchase Agreement or failure by the Company to fulfill any agreement made by the Company in the Stock Purchase Agreement, provided losses by Fourth and Bank IV exceed \$1 million in the aggregate, net of income tax effect, and such liability by the Company shall not exceed \$25 million. The Company has further agreed to indemnify the Purchaser and Bank IV against certain liabilities which are not subject to the \$1 million deductible and the \$25 million maximum liability, including, but not limited to, environmental matters relating to the real estate contributed to Equity Bank at the time that the Company acquired Equity Bank. The representations and warranties made by the Company under the Agreement survive the closing of the sale of Equity Bank for a period of two (2) years, except certain tax-related representations and warranties which have a three (3) year survival period. In addition, there are no time limits (other than as provided by law) in connection with the indemnifications provided by the Company relating to certain environmental matters, a certain pending lawsuit, and a certain "frozen" 401-K Plan.

Note 3: At June 30, 1994, the Company has net operating loss ("NOL")

carryforwards for tax purposes of approximately \$35 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$600,000, which expire beginning in 1994.

The Company's provision for income taxes for the six months ended June 30, 1994 of \$.4 million are for current state income taxes and federal alternative minimum tax.

Note 4: Primary earnings per common share are based on 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 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 after appropriate adjustment for interest and related income tax effects on convertible notes payable.

Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends, including undeclared or unpaid dividends, if cumulative.

Note 5: On July 6, 1992, a subsidiary of the Company signed an agreement to supply a foreign customer with equipment, technology and technical assistance to manufacture certain types of automotive products. The contract provided for a total price of \$56 million with \$12 million to be retained by the customer, as the subsidiary's equity participation, which represented a minority interest in the customer. Of the balance of the contract price of \$44 million, \$13.9 million has been billed and collected by the Company. The remaining \$30.1 million is to be collected in 38 equal quarterly installments beginning December 31, 1994 of \$791,000, plus interest at a rate of 7.5% per annum.

During the last quarter of 1993, the Company's subsidiary exchanged its rights to the equity interest in the customer with a foreign nonaffiliated company ("Purchaser of the Interest") for \$12 million in notes. The Company has been advised that the customer has agreed to repurchase from the Purchaser of the Interest up to \$6 million of such equity interest over a six-year period, with payment to the Purchaser of the Interest to be either in cash or bearing products. The notes issued to the subsidiary for its rights to the equity interest in the customer will only be payable when, as and if the Purchaser of the Interest collects from the customer for such equity interest, and the method of payment to the subsidiary will be either cash or bearing products, in the same manner as received by the Purchaser of the Interest from the customer. During the three months ended June 30, 1994, the Company received approximately \$250,000 in bearing products as partial payment on such notes. Due to the Company's inability to determine what payments, if any, it will receive on such notes, the Company will continue to carry such notes at a nominal amount.

The Company's subsidiary has agreed to make its best effort to purchase approximately \$14.5 million of bearing products each year for ten years commencing in the customer's first year of operations, which is anticipated to be in 1994. However, the subsidiary is not required to purchase more product from the customer in any one year than the quantity of tapered bearing products the subsidiary is able to sell in its market. The customer has also agreed to repurchase over six years, up to \$6 million of the subsidiary's former equity participation in the customer. In the event that the customer is unable to repurchase such equity participation, and therefore the Company's subsidiary is unable to collect such amount from the Purchaser of the Interest the parties may renegotiate and modify the agreement for the Company's subsidiary to purchase products from the customer.

Revenues, costs and profits related to the contract are being recognized in two separate phases. The first phase involves the purchase, modification, development and delivery of the machinery, tooling, designs and other technical information and services. Sales to be recognized during this phase are limited to the expected collections under the contract during this phase. Sales and costs during the first phase are being recognized using the percentage of completion method of accounting based on the ratio of total costs incurred, excluding the cost of purchased machinery, to estimated total costs, excluding the cost of purchased machinery. The cumulative effect of future revisions in the contract terms or total cost estimates will be reflected in the period in which changes become known.

The second phase of the contract includes payments by the customer under the financing terms set forth above and purchases of bearing products by the Company's subsidiary from the customer. Contract revenues will be recognized as the Company performs its obligation to purchase products from the customer, which timing generally coincides with the timing that amounts are to be collected from the customer. Interest will be recognized as the amounts are collected from the customer.

Note 6: The table below provides detail of activity in the Stockholders' Equity accounts for the six months ended June 30, 1994:

Common Stock	Non-	Capital	Retained	Treasury
<u>Par</u>	redeemable Preferred	in excess of par	Earnings	

	Shares	Value	Stock	Value	(Deficit)	Stock	Total
	(In thousands)						
Balance at December 31, 1993	14,514	\$1,451	\$48,000	\$37,120	\$(7,541)	\$(4,159)	\$74,871
Net Income	-	-	-	-	29,459	-	29,459
Conversion of 18 shares of redeemable preferred stock to common stock	1	-	-	1	-	-	1
Exercise of stock options for cash	100	11	-	234	-	-	245
Dividends declared:							
Series B 12% preferred stock (\$6.00 per share)	-	-	-	-	(120)	-	(120)
Redeemable preferred stock (\$10.00 per share)	-	-	-	-	(16)	-	(16)
Common Stock (\$.03 per share)	-	-	-	-	(414)	-	(414)
Series 2 preferred stock (\$1.62 per share)	-	-	-	-	(1,495)	-	(1,495)
Purchase of treasury stock	-	-	-	-	-	(1,697)	(1,697)
		(1)					
Balance at June 30, 1994	14,615	\$1,462	\$48,000	\$37,355	\$ 19,873	\$(5,856)	\$100,834
	=====	=====	=====	=====	=====	=====	=====

(1)

Includes 1,060,085 shares of the Company's Common Stock held in treasury. Excluding the 1,060,085 shares held in treasury, the outstanding shares of the Company's Common Stock at June 30, 1994 were 13,555,191.

Note 7: 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. In a settlement offer that was rejected by the Company, the Environmental Protection Agency ("EPA") did indicate that the Company was eligible for settlement as a de minimis party. 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 primary manufacturing facility of the Company's Chemical Business, located in El Dorado, Arkansas, (the "Site") has been placed in the EPA's tracking system ("System") of sites which are known or suspected to be a site of a release of contaminated waste. Inclusion in the EPA's tracking system does not represent a determination of liability or a finding that any response action is necessary. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment. The Company has been advised that there have occurred certain releases of contaminants at the Site. In addition, as a result of certain releases of contaminants at the Site, the Company's subsidiary will be subject to enforcement action, which will include certain civil penalties. On July 18, 1994, the Company's subsidiary received from the State of Arkansas a report of multimedia inspection of the Site (the "Report"). The Report contains findings of violations of certain environmental laws and requests the Company's subsidiary to conduct further investigations to better determine the compliance status of and releases at the Site. The Company's subsidiary has been advised that the State of Arkansas is currently preparing an administrative consent agreement to outline specific activities necessary to bring the Site into compliance and to remediate identified releases. While the Company is at this time unable to determine the ultimate cost of compliance with the expected administrative consent agreement, the Company has determined the subsidiary's cost to be at least \$400,000, therefore the Company has included a provision for environmental costs of \$400,000 in the results of operations for the six (6) month and three (3) month periods ended June 30, 1994. Based on information presently available, the Company does not believe, as of the date of this report, that compliance with the administrative consent agreement, or the assessment of penalties, or the facility being placed in the System, should have a material adverse effect on the Company, the Company's subsidiary or the Company's financial condition, however, there are no assurances to that effect.
- C. A subsidiary of the Company was named in April 1989 as a third party defendant in a lawsuit alleging defects in fan coil units installed in a commercial building. The amount of damages sought by the owner against the general contractor and the subsidiary's customer are substantial. The subsidiary's customer alleges that to the extent defects exist in the fan coil units, it is entitled to recovery from the subsidiary. The Company's subsidiary generally denies their customer's allegations and



that any failures in the fan coil units were a result of improper design by the customer, improper installation or other causes beyond the subsidiary's control. The subsidiary has in turn filed claims against the suppliers of certain materials used to manufacture the fan coil units to the extent any failures in the fan coil units were caused by such materials. Discovery in these proceedings is continuing. The Company believes it is probable that it will receive insurance proceeds in the event of an unfavorable outcome.

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 or results of operations of the Company.

#### 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 June 30, 1994 Condensed Consolidated Financial Statements. This discussion and analysis is intended to provide information about the Company's continuing operations. Accordingly, it contains only limited discussions of the Company's Financial Services Business, sold in 1994, which has been reported as a discontinued operation in the Company's Condensed Consolidated Financial Statements at June 30, 1994. See "Liquidity and Capital Resources" of this "Management's Discussion and Analysis", and Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion of the sale of Equity Bank.

#### OVERVIEW

The Company is a diversified holding company which is engaged, through its subsidiaries, in the Chemical Business, the Environmental Control Business, the Automotive Products Business and the Industrial Products Business.

Information about the Company's continuing operations in different industry segments for the six months and three months ended June 30, 1994 and 1993 is detailed below.

	Six Months		Three Months	
	1994	1993	1994	1993
	_____	_____	_____	_____
	(In thousands) (Unaudited)			
Sales:				
Chemical	\$ 72,723	\$ 63,003	\$ 41,771	\$ 38,563
Environmental Control	35,250	33,565	14,998	16,193
Automotive Products	17,600	14,706	9,036	8,555
Industrial Products	6,692	9,192	2,609	4,558
	<u>\$132,265</u>	<u>\$120,466</u>	<u>\$ 68,414</u>	<u>\$ 67,869</u>
	=====	=====	=====	=====
Gross profit:				
Chemical	\$ 15,175	\$ 16,490	\$ 9,087	\$ 10,782
Environmental Control	8,781	7,426	3,394	3,277
Automotive Products	4,302	4,987	2,290	2,833
Industrial Products	1,330	2,450	459	1,175
	<u>\$ 29,588</u>	<u>\$ 31,353</u>	<u>\$ 15,230</u>	<u>\$ 18,067</u>
	=====	=====	=====	=====
Operating profit (loss):				
Chemical	\$ 8,566	\$ 11,944	\$ 5,677	\$ 8,474
Environmental Control	2,329	2,117	236	787
Automotive Products	(125)	1,777	(10)	960
Industrial Products	(703)	665	(486)	435
Other	1,183	1,623	729	1,175
	<u>11,250</u>	<u>18,126</u>	<u>6,146</u>	<u>11,831</u>
General corporate expenses	(2,827)	(5,550)	(1,414)	(3,718)
Interest expense	(3,393)	(4,170)	(1,712)	(1,987)
	<u>Income from continuing operations before provision for income taxes</u>	<u>Income from continuing operations before provision for income taxes</u>	<u>Income from continuing operations before provision for income taxes</u>	<u>Income from continuing operations before provision for income taxes</u>
	\$ 5,030	\$ 8,406	\$ 3,020	\$ 6,126
	=====	=====	=====	=====

#### RESULTS OF OPERATIONS

Six months ended June 30, 1994 vs. Six months ended June 30, 1993.

Revenues

Total revenues for the six months ended June 30, 1994 and 1993 were \$134.1 million and \$122.8 million, respectively (an increase of \$ 11.3 million). Interest and other income included in total revenues was \$1.8 million in 1994, compared to \$2.3 million for 1993. This decrease of \$0.5 million resulted primarily from insurance claim proceeds recorded in the first quarter of 1993. Consolidated net sales included in total revenues for the three months ended June 30, 1994 were \$132.3 million, compared to \$120.5 million for the first six months of 1993, an increase of \$11.8 million. This increase in sales resulted principally from; (i) increased sales in the Chemical Business of \$9.7 million, primarily due to favorable weather conditions for seasonal fertilizer sales, higher price of ammonia being partially passed through to customers, the acquisition of Total Energy Systems Limited ("TES") in July, 1993, and higher sales of Universal Tech Corporation ("UTC"), offset by reduced sales by Slurry Explosives Corporation ("Slurry") due to unfavorable weather conditions in some of their market areas; (ii) increased sales in the Environmental Control Business of \$1.7 million, primarily due to an expanded customer base in 1994 and the continued recovery from the effects of a strike that took place in 1992 at the fan coil manufacturing plant of this business; (iii) increased sales in the Automotive Products Business of \$2.9 million due to an expanded customer base in 1994, and (iv) decreased sales in the Industrial Products Business of \$2.5 million, primarily due to decreased sales to a foreign customer (see Note 5 to Notes to Condensed Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

#### Gross Profit

Gross profit was 22.4% for the first six months of 1994, compared to 26.0% for the first six months of 1993. The decline in the gross profit percentage was due primarily to (i) revisions to the estimates to complete the foreign sales contract which caused the percentage of completion calculation to yield a lower gross profit percentage in the first six months of 1994 than was calculated for the first six months of 1993; and (ii) higher cost of the primary raw material (ammonia) in the Chemical Business. During the first six months of 1994 the average cost of ammonia was approximately 31.6% higher than the average cost of ammonia during the first six months of 1993. This higher cost was not fully passed on to customers in the form of price increases. These factors were offset in part by gross profit improvement after recovery from the effects of a strike in 1992 at the fan coil manufacturing plant of the Environmental Control Business that were still being experienced in the first six months of 1993.

#### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 17.1% in the six months ended June 30, 1994 and 16.1% in the first six months of 1993. As sales increased, normal SG&A expenses increased proportionally. Increases in SG&A which were not proportional to increases in sales resulted from increased commissions of \$400,000 by UTC as a result of UTC's increased revenues in 1994 versus 1993 (\$1.6 million increase); expenses of companies acquired since June 30, 1993 of approximately \$1.1 million (Total Energy Systems - July 1993 - \$600,000 and International Bearings, Inc. - December, 1993 - \$500,000); expenses of the heat pump segment of the Environmental Control Business related to the acquisition of the O.E.M. contract with a large multinational company; and, the low provision for bad debt expenses in 1993 in the Environmental Control Business compared to the provision in 1994 resulting in a variance between the periods of approximately \$750,000.

#### Interest Expense

Interest expense for the Company was approximately \$3.4 million during the six months ended June 30, 1994 compared to approximately \$4.2 million during the six months ended June 30, 1993. The decrease primarily resulted from lower average balances of borrowed funds.

#### Income From Continuing Operations Before Taxes

The Company had income from continuing operations before income taxes of \$5.0 million in the first six months of 1994 compared to \$8.4 million in the six months ended June 30, 1993. The decreased profitability of \$3.4 million was primarily due to lower gross profit margins realized on sales in the Chemical Division and on the foreign sales contract as previously discussed. Also contributing to this decline is the \$0.4 million provision for environmental matter discussed in Note 7 of Notes to Condensed Consolidated Financial Statements.

#### Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the six months ended June 30, 1994 and the six months ended June 30, 1993 are for current state income taxes and federal alternative minimum taxes.

#### Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business excluding income and expenses of the

Retained Corporations and the Retained Assets as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements. Income from discontinued operations, net of expenses, was \$.6 million in the first six months of 1994 compared to \$.6 million in the first six months of 1993.

#### Gain From Sale of Discontinued Operations

As more fully discussed in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company realized a gain of \$24.2 million from the sale on May 25, 1994 of its wholly-owned subsidiary Equity Bank, which gain is included in the company's results of operations for the six months ended June 30, 1994.

#### RESULTS OF OPERATIONS

Three months ended June 30, 1994 vs. Three months ended June 30, 1993.

#### Revenues

Total revenues for the three months ended June 30, 1994 and 1993 were \$69.7 million and \$69.4 million, respectively (an increase of \$.3 million). Interest and other income included in total revenues was \$1.3 million in 1994, compared to \$1.5 million for 1993. Consolidated net sales included in total revenues for the three months ended June 30, 1994 were \$68.4 million, compared to \$67.9 million for the three months ended June 30 1993, an increase of \$.5 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of \$3.2 million, primarily due to the higher price of ammonia being partially passed through to customers, the acquisition of Total Energy Systems Limited ("TES") in July, 1993, and higher sales of Universal Tech Corporation ("UTC"); (ii) decreased sales in the Environmental Control Business of \$1.2 million, primarily due to soft market conditions in 1994 and production inefficiencies at the fan coil manufacturing plant; (iii) increased sales in the Automotive Products Business of \$.5 million due to an expanded customer base in 1994, and (iv) decreased sales in the Industrial Products Business of \$2.0 million, primarily due to decreased sales to a foreign customer (see Note 5 to Notes to Condensed Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

#### Gross Profit

Gross profit was 22.3% for the second quarter of 1994, compared to 26.6% for the second quarter of 1993. The decline in the gross profit percentage was due primarily to (i) decreased sales in 1994 to a foreign customer in the Industrial Products Business; and (ii) higher cost of the primary raw material (ammonia) in the Chemical Business. During the second quarter of 1994 the average cost of ammonia was approximately 58.1% higher than the average cost of ammonia during the second quarter of 1993. This higher cost was not fully passed on to customers in the form of price increases. These factors were offset in part by gross profit improvement after recovery from the effects of a strike in 1992 at the fan coil manufacturing plant of the Environmental Control Business that were still being experienced in the second quarter of 1993.

#### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 16.7% in the three months ended June 30, 1994 and 14.3% in the three months ended June, 1993. As sales increased, normal SG&A expenses increased proportionally. Other increases in SG&A for the three months ended June 30, 1994 as compared to the three months ended June 30, 1993 which did not change proportionately as discussed above in the comparison of variances in SG&A expenses for the six months ended June 30, 1994 compared to the six months ended June 30, 1993 were approximately the same.

#### Interest Expense

Interest expense for the Company was approximately \$1.7 million during the six months ended June 30, 1994 compared to approximately \$2.0 million during the six months ended June 30, 1993. The decrease primarily resulted from lower average balances of borrowed funds.

#### Income From Continuing Operations Before Taxes

The Company had income from continuing operations before income taxes of \$3.0 million in the second quarter of 1994 compared to \$6.1 million in the second quarter of 1993. The decreased profitability of \$3.1 million was primarily due to lower gross profit margins realized on sales in the Chemical Division and on the foreign sales contract as previously discussed. Also contributing to this decline is the \$.4 million provision for environmental matter discussed in Note 7 of Notes to Condensed Consolidated Financial Statements.

#### Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the six months ended June 30, 1994 and the six months ended June 30, 1993

are for current state income taxes and federal alternative minimum taxes.

#### Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business excluding income and expenses of the Retained Corporations and the Retained Assets as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements. Income from discontinued operations, net of expenses, was \$.2 million in the second quarter of 1994 compared to \$.1 million in the second quarter of 1993.

#### Gain From Sale of Discontinued Operations

As more fully discussed in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company realized a gain of \$24.2 million from the sale on May 25, 1994 of its wholly-owned subsidiary Equity Bank, which gain is included in the company's results of operations for the three months ended June 30, 1994.

#### LIQUIDITY AND CAPITAL RESOURCES

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.

Sale of Equity Bank - As previously discussed, the Company and Fourth Financial Corporation ("Fourth Financial") entered into the Acquisition Agreement, whereby the Company agreed to sell Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial. Pursuant to the Acquisition Agreement, Fourth Financial acquired all of the outstanding shares of capital stock of Equity Bank on May 25, 1994. Under the Acquisition Agreement, the Company acquired from Equity Bank prior to the completion of the sale of Equity Bank certain subsidiaries of Equity Bank ("Retained Corporations") that owned the assets contributed by the Company to Equity Bank at the time of the acquisition of Equity Bank by the Company for Equity Bank's carrying values of such Retained Corporations. At the time of the acquisition of the Retained Corporations such carrying value was approximately \$67.4 million. At the time of the closing of the sale of Equity Bank, a subsidiary of the Company acquired the Equity Tower Loan and other real estate owned by Equity Bank that were acquired by Equity Bank through foreclosure ("OREO"), which have collectively been previously defined as the "Retained Assets". The Retained Assets were acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank, which was approximately \$17.5 million. In addition, the Company acquired (i) certain loans owned by Equity Bank at book value or \$1.00 in the case of loans that had been charged off ("Other Loans") and (ii) certain other loans at Equity Bank's carrying value of \$4.6 million less a discount of \$1.9 million.

The Purchase Price paid by Fourth Financial for Equity Bank was approximately \$91.3 million, and was subject to determination and adjustment in accordance with the Acquisition Agreement. Of the approximately \$91.3 million, the Company used approximately \$67.4 million to repay certain indebtedness the Company incurred to finance the purchase from Equity Bank of the Retained Corporations. In addition, the Company used approximately \$17.5 million to purchase the Retained Assets. The Company was further required under the Acquisition Agreement to purchase from Equity Bank at the closing of the proposed sale the outstanding amount of Receivables (approximately \$7.0 million). The Company used approximately \$3 million of borrowings from the Bank IV Line of Credit discussed elsewhere in this Liquidity and Capital resources section to purchase the balance of such Receivables and \$2.7 million of discounted loans (as discussed above) from Equity Bank. The Company has subsequently obtained seven year term financing to replace the temporary financing of the approximate \$2.7 million in discounted loans it purchased from Equity Bank.

The sale of Equity Bank pursuant to the Acquisition Agreement resulted in a pre-tax gain for financial reporting purposes for the Company of approximately \$24.2 million, based upon the Purchase Price of approximately \$91.3 million. The Company's tax basis in Equity Bank was higher than its basis for financial reporting purposes. Under current federal income tax laws, the consummation of the Acquisition Agreement and the sale of Equity Bank did not have any federal income tax consequences to either the Company or to the shareholders of the Company.

Sources of funds - As a result of the sale of Equity Bank, the capitalization of the Company improved considerably. Stockholders' equity is approximately \$100 million at June 30, 1994. The Company is also negotiating to restructure its debt. The plan is to consolidate the current working capital requirements of the Company and its subsidiaries into one loan agreement instead of the three agreements that currently exist and are described below. At the present time three banks and/or asset based lenders are making proposals for an asset based working capital revolver ("New Revolver") in an amount of approximately \$75 million. The facility being proposed will include substantially all accounts receivable and inventory of the Company and its subsidiaries except foreign subsidiaries as collateral for loans.

Management expects to complete negotiations and have the New Revolver in place by the end of the third quarter of 1994. Management is asking for advance rates of 85% for receivables and 60% for inventories other than work in process. If the New Revolver is agreed to, along the terms presently being

negotiated, the borrowing availability under the line should be adequate to finance the current working capital requirements of the Company and its subsidiaries.

Present lines of credit prior to the New Revolver being negotiated are:

- (1) As a result of the sale of Equity Bank, the Company's accounts receivable financing previously provided by Equity Bank had to be replaced. Fourth Financial through its Oklahoma banking subsidiary has provided a \$35 million Line of Credit to finance such receivables "Line of Credit". The Line of Credit provides for advance rates of 80% of accounts receivable and is for a short term, allowing time for a more comprehensive line of credit to be negotiated as discussed above. The outstanding borrowings at June 30, 1994 were \$25.6 million and the availability for additional borrowings was \$4.4 million.
- (2) The Company and its subsidiaries (other than the Chemical Business) are parties to a credit agreement ("Agreement"), with an unrelated lender ("Lender"), collateralized by certain inventory and certain other assets of the Company and its subsidiaries (including the capital stock of International Environmental Corporation) other than the assets and capital stock of the Chemical Business. The Credit Agreement provides for a revolving credit facility ("Revolver") for direct borrowing up to \$8 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory. This Agreement expires on August 31, 1994, but the Company believes the Agreement can be extended at that time. At June 30, 1994, the availability based on eligible collateral approximated the credit line. Borrowings (including letters of credit) under the Revolver outstanding at June 30, 1994, were \$7.4 million. The Revolver requires reductions of principal equal to reductions as they occur in the underlying inventory times the advance rate.
- (3) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corp., which comprise the majority of the Company's Chemical Business ("Chemical"), are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended, provides for a seven year term loan of \$28.5 million ("Term Loan"), and a \$10 million asset based revolving credit facility ("Revolving Facility"). The balance of the Term Loan at June 30, 1994 was \$21.4 million. Annual principal payments on the Term Loan are \$7 million due in June, 1995; \$7 million due in June 1996 and a final payment of \$7.4 million due in March 1997. Borrowings under the Revolving Facility are available up to the lesser of \$10 million or the borrowing base. The borrowing base is determined by deducting 100% of Chemical's accounts receivable financed by Fourth Financial from the maximum borrowing availability as defined in the Revolving Facility. At June 30, 1994 the borrowing base of \$9.5 million was fully borrowed. The accounts receivable and inventory securing the revolving facility will be released when and if the revolving facility is paid off and the Company and its subsidiaries enter into the New Revolver discussed above. The Revolving Facility requires reductions of principal equal to reductions as they occur in the underlying accounts receivable and inventory times the applicable advance rate, assuming that the outstanding balance under the Revolving Credit Facility is less than the then maximum line availability based on eligible collateral. Borrowings under the Revolving Facility are required to be reduced to zero for forty-five (45) consecutive days annually. Annual interest at the agreed to interest rates, if calculated on the \$30.9 million outstanding balance at June 30, 1994 would be approximately \$3.3 million. The Term Loan and Revolving Facility are secured by substantially all of the assets and capital stock of Chemical. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; and (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, remains .65:1 or below.

#### Cash Flows

-----

Net cash provided by continuing operating activities in the first six months of 1994, after adjustment for non-cash expenses of \$4.2 million, was \$6.6 million. The net cash provided by continuing operating activities included the following changes in assets and liabilities: (i) accounts receivable increased \$8.2 million; (ii) accounts payable and accrued liabilities increased \$8.1 million; (iii) inventory decreased \$1.3 million; and, (iv) supplies and prepaid items and other assets increased \$3.4 million. The increase in accounts receivable is due to higher sales in the Chemical, and Automotive Products Businesses, and the higher cost of ammonia as discussed elsewhere herein offset by decreased accounts receivable in the Environmental Control Business due to lower sales in the second quarter of 1994. The increase in accounts payable and accrued liabilities was due primarily to increased business activity in the Chemical, and Automotive Products Businesses. The reduction in inventory was due to seasonality in the

Chemical Business and lower inventory levels being maintained in the Environmental Control Business, offset by increased inventory in the Automotive Products Business due to purchases made to take advantage of favorable prices from certain vendors. The increase in supplies and prepaid items and other assets is primarily due to prepayments for insurance premiums, supplies, and other items in the Chemical Business, in addition to increased investment securities and an increase in costs and earnings in excess of billings on the foreign sales contract. Financing activities in the first six months of 1994 included net borrowings of \$42.8 million used to offset reductions in accounts receivable sold of \$31.8 million resulting from termination of the accounts receivable financing arrangement with Equity Bank, in addition to dividend payments of \$2.0 million and treasury stock purchases of \$1.7 million. Cash flows from investing activities included capital expenditures for property, plant and equipment in the Chemical Business of \$6.4 million related to relocation of an additional nitric acid plant acquired in 1993 in addition to normal capital improvements, and capital expenditures of \$1.1 million in the Environmental Control Business primarily for acquisition of certain equipment to support the manufacturing processes of this business. Cash flows from investing activities also included the purchase of certain loans receivable for \$2.9 million and proceeds from the sale of real estate properties of \$1.3 million.

Future cash requirements include working capital requirements for anticipated sales increases in the Environmental Control Business, the Chemical Business and the Automotive Products Business, and funding for future capital expenditures, primarily in the Chemical Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the Line of Credit. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Environmental Control and Automotive Products Businesses.

During November 1993, the Company's Chemical Business acquired an additional concentrated nitric acid plant and related assets from a location in Illinois. The plant is being installed at the existing manufacturing plant site located in El Dorado, Arkansas. The Company anticipates that the total amount to be expended to acquire, move and install the plant and assets will be approximately \$15 million including \$2 million for new nitric acid railcars used to deliver the product to the customers. The Company expects to obtain financing secured by such assets, however there are no assurances that such financing will be obtained. At June 30, 1994, the Company had incurred and paid approximately \$5.6 million of the estimated \$15.0 million. The Company expects the plant and asset installation to be complete and operational in early 1995.

Management believes that cash flows from operations and other sources, including the New Revolver that the Company is presently negotiating will be adequate to meet its presently anticipated capital expenditure, working capital, debt service and dividend requirements. The Company currently has no material commitment for capital expenditures, other than those related to Chemical's acquisition of the additional concentrated nitric acid plant as discussed above.

In 1993, the Company's Board of Directors adopted a policy as to the payment of annual cash dividends of \$.06 per share on its outstanding Common Stock, subject to termination or change by the Board of Directors at any time. The Board of Directors declared a cash dividend of \$.03 per share on the Company's outstanding shares of Common Stock, which was paid January 1, 1994, to the stockholders of record as of the close of business on December 15, 1993. On May 23, 1994 the Company's Board of Directors declared a \$.03 per share cash dividend on the Company's outstanding shares of Common Stock, which was paid July 1, 1994, to stockholders of record as of the close of business on June 15, 1994.

On November 11, 1993 the Company's Board of Directors declared a \$12.00 a share annual cash dividend on each outstanding share of its Series B 12% Cumulative Convertible Preferred Stock, \$100 par value, payable January 1, 1994 to stockholders of record on December 1, 1993, which is the annual dividend on this series of preferred stock for 1994. This dividend is being recognized in the Company's financial statements throughout the year as \$3.00 a share in each fiscal quarter. On February 10, 1994 the Company's Board of Directors declared a (i) \$.81 a share quarterly cash dividend on each outstanding share of its Series 2 \$3.25 Convertible Exchangeable Class C Preferred Stock, paid March 15, 1994 to shareholders of record on March 1, 1994, and (ii) \$10.00 a share annual cash dividend on each outstanding share of its Convertible Noncumulative Preferred Stock (\$100 par), paid April 1, 1994 to stockholders of record on March 15, 1994. On May 23, 1994, the Company's Board of Directors declared a \$.81 per share quarterly cash dividends on each outstanding share of its Series 2 \$3.25 convertible exchangeable Class C Preferred Stock, paid June 15, 1994 to shareholders of record on June 1, 1994.

Foreign Sales Contract - A subsidiary of the Company entered into an agreement with a foreign company ("Buyer") to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products. The agreement provided for a total contract amount of approximately \$56 million, with \$12 million of the contract amount to be retained by the Buyer as the Company's subsidiary's equity participation in the Buyer, which represented a minority interest. During 1993 the Company's subsidiary exchanged its equity interest in the Buyer to a foreign nonaffiliated company for \$12 million in notes. Through the date of this

report, the Company's subsidiary has received \$13.9 million from the buyer under the agreement. During 1993, the Company and the foreign customer agreed to a revised payment schedule which deferred the beginning of payments under the contract from June 30, 1993 to one \$791,000 principal payment on November 1, 1993, one principal payment of \$791,000 on March 31, 1994, one principal payment of \$791,000 on December 31, 1994 and quarterly, thereafter, until the contract is paid in full

The customer made the March 31, 1994 payment on April 20, 1994 and the Company expects that after the customer becomes operational, they will make future payments as they become due. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Business Acquisitions - In March, 1994, a subsidiary of the Company advanced to Deepwater Iodides, Inc. ("Deepwater"), a specialty chemical company, \$450,000 on a demand basis. In connection with the loan, Deepwater and the Company entered into an agreement in principle for the Company to purchase from Deepwater an amount of stock of Deepwater equal to eighty percent of the outstanding shares of Deepwater for approximately \$4 million. Having performed due diligence, the Company has determined as of August 18, 1994 not to proceed with the acquisition of the stock of Deepwater on the basis originally proposed.

On July 27, 1994 the Company through a subsidiary loaned \$1.4 million to a French manufacturer of HVAC equipment. The agreements provide, among other things, that at the Company's option this loan can be converted from a loan into 80% of the outstanding stock of the French company on or after September 1, 1994. At this time the decision has not been made to exercise such option and the \$1.4 million is carried on the books as a note receivable.

Additionally, the Company is performing due diligence on some other small companies that might result in acquisitions in 1994 or 1995. Any such acquisitions consummated will require additional financing which the Company believes can be obtained.

Settlement of Litigation - In 1994, the Company settled its litigation with one of its insurers for \$3.6 million, which was paid to the Company on March 11, 1994. Such amounts were accrued in the fourth quarter of 1993 to the extent that costs and expenses had been previously incurred.

Letters of Intent with Foreign Customers - During the second and third quarters of 1993, a subsidiary of the Company signed two separate letters of intent to supply separate customers, one in the former Soviet Union and one in Poland, with equipment to manufacture environmental control products. Upon completion, the agreements are expected to include the sale of licenses, designs, tooling, machinery, equipment, technical information, proprietary know how, and technical services. The total sales price for the two contracts is expected to be approximately \$98 million. The agreements are also expected to include a provision that, in lieu of cash, the Company will accept payment in kind of anhydrous ammonia from the foreign customers at the foreign customers' option. The projects are subject to completion of two separate definitive agreements between each of the foreign customers and the Company's subsidiary. There are no assurances that definitive contracts with either of these two customers will be finalized.

Availability of Company's Loss Carryovers - The Company anticipates that its cash flow in future years will benefit to some extent 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. As of June 30, 1994, the Company, had available NOL carryovers of approximately \$35 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1992, and on the Company's estimates for 1993. These NOL carryovers will expire beginning in the year 1999.

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.

ERNST & YOUNG LLP

1700 Liberty Tower  
100 North Broadway  
Oklahoma City, OK 73102  
Phone: 405 278 6800  
Fax: 405 278 6823

Independent Accountants' Review Report

Board of Directors  
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB

Industries, Inc. and subsidiaries as of June 30, 1994, the related condensed consolidated statements of income for the six month and three month periods ended June 30, 1994 and 1993 and the condensed consolidated statements of cash flow for the six month periods ended June 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1993, and the related consolidated statements of income, non-redeemable preferred stock, common stock and other stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 15, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

August 10, 1994

/s/ ERNST & YOUNG LLP

PART II  
OTHER INFORMATION

Item 1. Legal Proceedings.

Since the 1940's, the the primary manufacturing facility of the Company's Chemical Business, located in El Dorado, Arkansas, (the "Site") has been a manufacturing facility for ammonium nitrate compounds, and until 1969, was a manufacturing facility for ammonia. In 1955, the Site was acquired by Monsanto Company ("Monsanto"), and in June, 1983, Monsanto sold the Site to El Dorado Chemical Company ("EDC"). EDC was acquired by the Company in 1984. Under the agreement with Monsanto, Monsanto agreed to indemnify EDC for any claim which is suffered, incurred or arises due solely out of Monsanto's disposal of chemical or chemical byproducts prior to acquisition of the Site by EDC from Monsanto or the use by Monsanto of any substance prior to the date EDC acquired the Site from Monsanto which is subsequently determined to be deleterious or dangerous to the public's health, safety or welfare. Under the agreement with Monsanto, the indemnification is not assignable to a party to which EDC transfers the Site without the prior written consent of Monsanto, except to any company 100% of the voting stock of which is owned or controlled directly or indirectly by EDC. Although EDC has operated the Site since acquisition from Monsanto in 1983, in 1988, EDC transferred ownership of the Site to the Company, which in turn transferred title to a subsidiary of the Company. All of the outstanding stock of EDC and such subsidiary are, directly or indirectly, wholly owned by the Company. Although no consent was obtained from Monsanto when EDC transferred ownership of the Site to its affiliated company to assign the Monsanto indemnification, if such a consent was required under the agreement with Monsanto, the Monsanto indemnification remains applicable to EDC. Recently, the Company's Chemical Business was advised that the Site had been placed in the Environmental Protection Agency's ("EPA") data based tracking system (the "System"). The System maintains an inventory of sites in the United States where it is known or suspected that a release of hazardous waste has occurred. Notwithstanding inclusion in the System, EPA regulations recognize that such does not represent a determination of liability or a finding that any response action will be necessary. Over 36,000 sites in the United States are presently listed in the System. If a site is placed in the System, EPA regulations required that the government or its agent perform a preliminary assessment of the site. If the preliminary assessment determines that there has been a release, or that there is suspected to have occurred a release, at the site of certain types of contamination, the EPA will perform a site investigation. Pursuant to such regulations, the State of Arkansas performed such preliminary assessment for the EPA. The preliminary assessment report prepared by the State of Arkansas, dated September 30, 1992, regarding the Site states, in part that a release of certain types of contaminants is suspected to have occurred at the Site. It is anticipated that the EPA will, at some future date, perform a site inspection at the Site, which inspection will usually involve the gathering of additional data including environmental sampling of the Site. After conducting the site inspection, the regulations provide that the EPA may determine that: (i) the Site does not warrant further involvement in the evaluation process, or (ii) that further study of the Site is warranted to determine what appropriate action is to be taken in response to a release, if any, of contaminants at the Site or whether such release, if any, justifies the Site being placed on the National Priorities List. Being placed in the System will generally be the first step in the EPA's determination as to



whether a site will be placed on the National Priorities List. After the EPA completes its site inspection and evaluates other information, the EPA will then assess a site using the Hazard Ranking System to ascertain whether a site poses a sufficient risk to human health or the environment to be proposed for the National Priorities List. There are approximately 1,200 sites in the United States presently listed on the National Priorities List. The Company has been advised that there have occurred certain releases of contaminants at the Site. However, the Company does not believe that such releases should warrant the Site being placed on the National Priorities List, but there are no assurances to that effect. As a result of certain releases of contaminants at the Site, the Company's subsidiary will be subject to enforcement action, which will include certain civil penalties. On July 18, 1994, the Company's subsidiary received from the State of Arkansas a report of multimedia inspection of the Site (the "Report"). The Report contains findings of violations of certain environmental laws and requests the Company's subsidiary to conduct further investigations to better determine the compliance status and the extent of releases at the Site. The Company's subsidiary has been advised that the State of Arkansas is currently preparing an administrative consent agreement to outline specific activities necessary to bring the Site into compliance and to remediate identified releases. While the Company is at this time unable to determine the ultimate cost of compliance with the expected administrative consent agreement, the Company has determined the subsidiary's cost to be at least \$400,000; therefore, the Company has included a provision for environmental costs of \$400,000 in the results of operations for the six (6) month and three (3) month periods ended June 30, 1994. Based on information presently available, the Company does not believe, as of the date of this report, that compliance with the administrative consent agreement, or the assessment of penalties, or having the facility placed in the System should have a material adverse effect on the Company, the Company's subsidiary or the Company's financial condition; however, there are no assurances to that effect.

Item 6. Exhibits and Reports on Form 8K

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

4.01 Seventeenth Amendment to Loan Agreement, dated May 25, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.02 Eighteenth Amendment to Loan Agreement, dated May 20, 1994 among Congress, the Company, and certain subsidiaries of the Company.

4.03 Nineteenth Amendment to Loan Agreement, dated June 29, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.04 Modification Agreement dated June 23, 1994 to agreement between Prime Financial Corporation, the Company and Bank IV, N.A.

11.1 Statement Re: Computation of Earnings Per Share.

15.1 Letter Re: Unaudited Interim Financial Information.

- (b) Reports on Form 8K. During the quarter ended June 30, 1994, the Company filed one (1) report on Form 8-K, dated June 10, 1994, reporting in Item 2 thereof in connection with the Company's sale of Equity Bank for Savings, F.A., which comprised the Company's Financial Services Business. As part of such form 8-K, the Company filed a pro forma unaudited condensed consolidated balance sheet at March 31, 1994, a proforma unaudited condensed consolidated statement of income for the year ended December 31, 1993, a proforma unaudited condensed consolidated statement of income for the three months ended March 31, 1994, and March 31, 1993, and (iv) notes to such pro forma unaudited condensed consolidated financial statements, with such being presented to give effect to the sale of Equity Bank.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf on this 18th day of August, 1994.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby  
Tony M. Shelby, Sr. Vice President  
(Chief Financial Officer)

By: /s/ Jimmie D. Jones  
Jimmie D. Jones, Vice President



## PRIMARY EARNINGS PER SHARE COMPUTATION

	1994 quarter ended	
	March 31	June 30
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	13,673,971	13,659,691
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	360	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	6,833	24,846
Purchases of treasury stock; calculated on weighted average basis	(20,000)	(29,176)
	<u>13,661,164</u>	<u>13,655,361</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)	934,807	877,794
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(247,510)	(238,754)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760
	<u>752,417</u>	<u>703,800</u>
	<u>14,413,581</u>	<u>14,359,161</u>
	=====	=====
Earnings for primary earnings per share:		
Net earnings	\$ 2,203,665	\$27,254,968
Dividends on cumulative preferred stocks	(76,145)	(60,000)
Dividends on convertible, exchangeable Class C preferred Stock (6.5% annually)	(747,500)	(747,500)
	<u>\$ 1,380,020</u>	<u>\$26,447,468</u>
	=====	=====
Earnings applicable to common stock	\$ 1,380,020	\$26,447,468
	=====	=====
Earnings per share	\$ .10	\$1.84
	=====	=====

## PRIMARY EARNINGS PER SHARE COMPUTATION

Six months  
ended  
June 30, 1994

---

Net earnings applicable to common Stock \$27,827,488  
=====

Weighted average number of common and common equivalent shares (average of two quarters above)

14,386,371  
=====

Earnings per share

\$1.93  
=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 3 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

1993 quarter ended

	<u>March 31</u>	<u>June 30</u>
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	7,393,674	12,706,305
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	1,070	100
Common shares issued on conversion of convertible preferred stock; calculated on weighted average basis	1,304,070	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	19,500	114,951
Sale of stock; calculated on weighted average basis	5,843	-
	<u>8,724,157</u>	<u>12,821,356</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)	2,069,776	1,940,325
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(513,253)	(446,403)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640
	<u>1,624,333</u>	<u>1,560,562</u>
	<u>10,348,490</u>	<u>14,381,918</u>
	=====	=====
Earnings for primary earnings per share:		
Net earnings	\$ 2,657,133	\$ 5,758,100
Dividends on cumulative preferred stocks	77,220	60,000
Dividends on convertible, exchangeable Class C preferred stock (6.5% annually)	-	290,183
	<u>\$ 2,579,913</u>	<u>\$ 5,407,917</u>
	=====	=====
Earnings applicable to common stock	\$ 2,579,913	\$ 5,407,917
	=====	=====
Earnings per share	\$ .25	\$ .38
	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 4 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

Six months  
ended  
June 30, 1993

Net earnings applicable to common stock	\$ 7,987,830 =====
Weighted average number of common and common equivalent shares (average of two quarters above)	12,365,204 =====
Earnings per share	\$.65 =====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 5 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1994 quarter ended

	March 31	June 30
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	13,661,164	13,655,361
Shares issuable upon exercise of options and warrants	934,807	877,794
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(247,510)	(238,754)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760
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	666,666	666,666
Series 2	-	3,956,000
	<u>15,084,247</u> =====	<u>18,985,827</u> =====
Earnings for fully diluted earnings per share:		
Net earnings	2,203,665	27,254,968
Interest on convertible note	180	180
Dividends on cumulative preferred stocks	(747,500)	-
Earnings applicable to common stock	<u>1,456,345</u> =====	<u>27,255,148</u> =====
Earning per share	.10 ===	1.44 =====

Six months  
ended  
June 30, 1994

Net earnings applicable to common stock	\$28,711,493 =====
Weighted average number of common and common equivalent shares (average of two quarters above)	17,035,037 =====
Earnings per share	\$ 1.69 =====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1993 quarter ended

	March 31	June 30
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	8,724,157	12,821,356
Shares issuable upon exercise of options and warrants	2,069,776	1,940,325
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(495,004)	(408,527)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640
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	666,666	666,666
Series 1, net of shares held in treasury	3,748,470	-
Series 2	-	1,494,489
	<u>14,785,875</u>	<u>16,584,949</u>
	=====	=====
Earnings for fully diluted earnings per share:		
Net earnings	\$ 2,657,133	\$ 5,758,100
Interest on convertible note	180	180
Earnings applicable to common stock	<u>\$ 2,657,313</u>	<u>\$ 5,758,280</u>
	=====	=====
Earnings per share	\$.18	\$.35
	=====	=====

Six months  
ended  
June 30, 1993

Net earnings applicable to common stock	\$ 8,415,593
	=====
Weighted average number of common and common equivalent shares (average of two quarters above)	15,685,412
	=====
Earnings per share	\$.54
	=====

10q\tq694x11.wpe

1700 Liberty Tower  
100 North Broadway  
Oklahoma City, OK 73102  
Phone: 405 278 6800  
Fax: 405 278 6823

August 10, 1994

The Board of Directors  
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) of LSB Industries, Inc. for the registration of 2,850,000 shares of its common stock of our report dated August 10, 1994 relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which are included in its Form 10-Q for the quarter ended June 30, 1994.

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

Very truly yours,

Ernst & Young LLP

10q\tq694x15.wpe

May 25, 1994

Congress Financial Corporation  
and Congress Financial  
Corporation (Central)  
1133 Avenue of the Americas  
New York, New York 10036

Re: Modification to Seventeenth  
Amendment to Loan Agreement

Ladies and Gentleman:

LSB Industries, Inc. ("LSB") and those certain subsidiaries of LSB identified on the execution page hereof (LSB and such subsidiaries being hereinafter collectively referred to as the "LSB Companies") have requested that Congress Financial Corporation and Congress Financial Corporation (Central) (collectively, "Congress") agreed to and accept the following modifications to the Seventeenth Amendment to Loan Agreement dated March 30, 1994 ("Seventeenth Amendment") and Congress is willing to agree to such request. Terms used herein will have the meanings set forth in the Seventeenth Amendment.

1. The Introductory Paragraph of the Seventeenth Amendment is amended by deleting subsection (b) in its entirety and by inserting the following in lieu thereof:

(b) the guaranteeing by LSB of loans made to Prime by Bank IV Oklahoma, N.A. ("Bank IV") in connection with the financing of: (i) Accounts purchased by Prime from one or more of the LSB Companies; and/or (ii) up to \$5,000,000 of loans purchased from Equity Bank for Savings, F.A. and/or Bank IV in connection with the sale of Equity Bank to Fourth Financial Corporation.

2. Section 2.4 of the Seventeenth Amendment is deleted in its entirety and the following is inserted in lieu thereof:

2.4 Congress hereby consents to LSB's unconditionally guaranteeing to Bank IV the repayment of any loan or loans (including associated fees and expenses) made to Prime by Bank IV in connection with the financing of: (i) Accounts purchased from the LSB Companies in accordance herewith; and/or (ii) up to \$5,000,000 of loans purchased from Equity Bank and/or Bank IV in connection with the sale of Equity Bank to Fourth Financial Corporation.

3. Continued Validity. Except as expressly set forth herein, the Seventeenth Amendment and other Loan Documents will continue in full force and effect.

4. Reliance. Bank IV may rely on this letter.

5. Counterpart Execution. This Agreement may be executed in counterparts, each of which will be deemed an original document, but all of which will constitute a single document.

LSB INDUSTRIES, INC.  
L & S BEARING CO.  
TRIBONETICS CORPORATION  
LSB EXTRUSION CO.  
ROTEX CORPORATION  
SUMMIT MACHINE TOOL  
MANUFACTURING CORP.  
HERCULES ENERGY MFG.  
CORPORATION  
LSB FINANCIAL CORP.  
LSB LEASING CORP.  
LSB IMPORT CORP.  
LSB BEARING CORP.  
SUMMIT MACHINE TOOL  
SYSTEMS, INC.  
LSB EUROPA LIMITED  
BOWERDEAN LIMITED  
LSB INTERNATIONAL LIMITED  
INTERNATIONAL ENVIRONMENTAL  
CORPORATION  
CHP CORPORATION  
CLIMATE MASTER, INC.



KOAX CORP.  
APR CORPORATION  
CLIMATEX, INC.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

(the "LSB Companies")

CONSENTED AND AGREED TO:  
PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

("Prime")

CONSENTED AND AGREED TO:  
CONGRESS FINANCIAL CORPORATION  
AND CONGRESS FINANCIAL  
CORPORATION (CENTRAL)

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date Executed: \_\_\_\_\_

("Congress")

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

("Bank IV")

tq694x41.wpe

May 20, 1994

Congress Financial Corporation  
and Congress Financial  
Corporation (Central)  
1133 Avenue of the Americas  
New York, New York 10036

Re: Eighteenth Amendment to Loan  
Agreement  
-----

Ladies and Gentleman:

LSB Industries, Inc. ("LSB") and its subsidiary, Prime Financial Corporation ("Prime"), have entered into a Stock Purchase Agreement, dated as of February 9, 1994 ("Purchase Agreement"), with Fourth Financial Corporation ("Fourth Financial") to sell to Fourth Financial all of the issued and outstanding stock of Equity Bank for Savings, F.A. ("Equity Bank"). Under the terms of such Purchase Agreement, LSB or Prime is to purchase from Equity Bank all of the outstanding stock (collectively, the "Stock") of the following subsidiaries of Equity Bank: Northwest Financial Corporation, Northwest Energy Enterprises, Inc., and Northwest Capital Corporation (individually called "Retained Corporation" and collectively called "Retained Corporations"), which are the subsidiaries of Equity Bank which own or have a substantial interest in partnerships that own the assets previously contributed by LSB to Equity Bank or one or more of the Retained Corporations, not later than the business day immediately preceding the effective date of the purchase of Equity Bank by Fourth Financial under the Purchase Agreement. The price to be paid for the Retained Corporations is based on the aggregate book value of the Retained Corporations on the books of Equity Bank as of the date of such purchase. Prime, which is not a Borrower or Guarantor under the Loan Documents (as defined below), will purchase the Retained Corporations, and, in connection therewith, will borrow from Fourth Financial Corporation (the "Lender") the amount necessary to purchase the Retained Corporations from Equity Bank, which is anticipated to be approximately \$67.4 million (the "Loan"). LSB will be required to unconditionally guarantee the obligations of Prime in connection with the Loan (the "LSB Guaranty"). The Stock of the Retained Corporations and the proceeds of the Loan will be held by Bank IV Oklahoma, N.A. ("Bank IV"), as escrow agent, pursuant to the terms of an Escrow and Security Agreement, dated May \_\_, 1994, until the consummation of the Purchase Agreement ("Escrow Agreement"). The Loan will be repaid as soon as possible after the close of the sale of Equity Bank to Fourth Financial using a portion of the proceeds of the Purchase Price (as defined in the Purchase Agreement). Prime's obligations as the borrower of the Loan and LSB's performance of the LSB Guaranty will be secured only by each of Prime's and LSB's interests in and to (a) the Purchase Agreement, (b) the Escrow Agreement (including the proceeds of the Loan), and (c) the proceeds of the foregoing (collectively, the "Collateral").

LSB and those certain subsidiaries of LSB identified on the execution page hereof (LSB and such subsidiaries being hereinafter collectively referred to as the "LSB Companies") have requested that Congress Financial Corporation and Congress Financial Corporation (Central) (collectively, "Congress") (a) modify the Loan Documents or give its consent thereunder in order to permit the execution by LSB of the LSB Guaranty; (b) subordinate in favor of Lender any and all security interests in and to any portion of the Collateral, and (c) to the extent required under the Loan Documents, consent to the grants of LSB and Prime of a security interest in and to any interest that LSB or Prime may have in the Collateral to secure repayment of the Loan and the performance by Prime of its obligations relating to the Loan and performance by LSB of its obligations under the LSB Guaranty. Congress is willing to agree to such request, subject to the following terms:

1. Loan Documents. As used herein, the term "Loan Documents" will be deemed to refer to the following documents:
  - 1.1 Loan Agreement dated March 29, 1984 (the "Loan Agreement"), among Congress as the lender and those LSB Companies named therein as the borrowers and guarantors;

- 1.2 Seventeen Amendments to the Loan Agreement variously dated (the "Amendments") among those LSB Companies named therein, Congress and certain other parties; and
- 1.3 The other "Financing Agreements", as defined in the Loan Agreement, including, without implied limitation, the General Security Agreement dated March 29, 1984.

2. Loan Documents Modification. Notwithstanding anything contained in the Loan Documents to the contrary, the LSB Companies and Congress hereby agree as follows:

- 2.1 Congress hereby consents to LSB's unconditionally guaranteeing to the Lender the repayment by Prime of the Loan (including interest thereon and associated fees and expenses in connection therewith) and performance by Prime of its obligations under the documents relating to the Loan (the "LSB Guaranty");
- 2.2 Any security interest of Congress in and to any and all of the Collateral is hereby subordinated in priority to the security interest in such Collateral of the Lender, to the extent of the Loan and LSB Guaranty secured thereby;
- 2.3 Until the Loan is paid in full, the LSB Companies and Prime, jointly and severally covenant and warrant to Congress that none of the Collateral will be used to pay any of the obligations of the LSB Companies to Congress, nor used to purchase, or be commingled with, property of the LSB Companies in which Congress has a security interest;
- 2.4 To the extent such consent is required under the Loan Documents, Congress hereby consents to LSB and Prime pledging and granting a security interest in their interest, if any, in and to the Collateral to the Lender to secure the repayment by Prime of the Loan and performance by Prime of its obligations relating to the Loan and performance by LSB of its obligations under the LSB Guaranty; and
- 2.5 The Loan Documents are hereby deemed amended as necessary to conform to the provisions set forth herein and in the event of a conflict between the terms of the Loan Documents and this agreement, this agreement will control.

3. Other Matters. Congress has no claim or rights to or security interest or lien in, and, notwithstanding anything to the contrary contained in the Loan Documents, Prime shall not be bound by any contractual provisions contained in the Loan Documents restricting, Prime's rights to own, use, transfer, sell, pledge, encumber, or otherwise dispose of in any manner consistent with applicable law and the rights of third parties, the (i) Purchase Price received by Prime, (ii) proceeds of the Loan, whether held by Prime or by Bank IV, as the escrow agent, under the Escrow Agreement, or (iii) the Stock of the Retained Corporations acquired by Prime, whether held by Prime or Bank IV, as the escrow agent, under the Escrow Agreement.

4. Continued Validity. Except as expressly set forth herein, the Loan Documents will continue in full force and effect.

5. Reliance. The Lender may rely on Sections 2 and 3 of this letter.

6. Counterpart Execution. This Agreement may be executed in counterparts, each of which will be deemed an original document, but all of which will constitute a single document.

LSB INDUSTRIES, INC.  
L & S BEARING CO.  
TRIBONETICS CORPORATION  
LSB EXTRUSION CO.  
ROTEX CORPORATION  
SUMMIT MACHINE TOOL  
MANUFACTURING CORP.  
HERCULES ENERGY MFG.  
CORPORATION  
LSB FINANCIAL CORP.  
LSB LEASING CORP.  
LSB IMPORT CORP.  
LSB BEARING CORP.  
SUMMIT MACHINE TOOL  
SYSTEMS, INC.  
LSB EUROPA LIMITED

BOWERDEAN LIMITED  
LSB INTERNATIONAL LIMITED  
INTERNATIONAL ENVIRONMENTAL  
CORPORATION  
CHP CORPORATION  
CLIMATE MASTER, INC.  
KOAX CORP.  
APR CORPORATION  
CLIMATEX, INC.

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

(the "LSB Companies")

[Signatures continued on next page]

[Signatures continued from previous page]

CONSENTED AND AGREED TO:  
CONGRESS FINANCIAL CORPORATION  
AND CONGRESS FINANCIAL  
CORPORATION (CENTRAL)

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date Executed: \_\_\_\_\_

("Congress")

NINETEENTH AMENDMENT TO LOAN AGREEMENT  
-----

June 29, 1994

Congress Financial Corporation and  
Congress Financial Corporation (Central)  
1133 Avenue of the Americas  
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement, dated March 29, 1984, as heretofore amended, modified, or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement, dated August 16, 1985, that certain Second Amendment to Loan Agreement, dated April 3, 1986, that certain Third Amendment to Loan Agreement, dated October 26, 1986, that certain Fourth Amendment to Loan Agreement, dated December 17, 1986, that certain Fifth Amendment to Loan Agreement, dated March 7, 1988, that certain Sixth Amendment to Loan Agreement, dated March 31, 1989, that certain Seventh Amendment to Loan Agreement, dated May 18, 1990, that certain Eighth Amendment to Loan Agreement, dated May 1, 1991, that certain Ninth Amendment to Loan Agreement, dated February 25, 1992, that certain Tenth Amendment to Loan Agreement, dated March 31, 1992, that certain Eleventh Amendment to Loan Agreement, dated December 10, 1992, that certain Twelfth Amendment to Loan Agreement, dated April 23, 1993, that certain Thirteenth Amendment to Loan Agreement, dated June 24, 1993, that certain Fourteenth Amendment to Loan Agreement, dated September 23, 1993, that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993 that certain Sixteenth Amendment to Loan Agreement, dated January 25, 1994, that certain Seventeenth Amendment to Loan Agreement, dated March 30, 1994 (the "Seventeenth Amendment"), that certain Eighteenth Amendment to Loan Agreement, dated May 20, 1994 (the "Eighteenth Amendment") and that certain Modification to Seventeenth Amendment to Loan Agreement, dated May 25, 1994 (the "Modification Agreement") hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively, "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors") and Prime Financial Corp. (as to the Seventeenth Amendment, the Eighteenth Amendment and the Modification Amendment) and Bank IV Oklahoma, N.A. (as to the Seventeenth Amendment and the Modification Agreement).

Borrower and Guarantors have requested an extension of the termination date of their existing arrangements with Congress and an extension of the Selling Period and Congress is willing, subject to the terms and conditions set forth herein, to so extend such termination date of the existing financing arrangements with Borrowers and Guarantors and such Selling Period as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term of Financing Arrangements. The date "June 30, 1994" in Section 9.1 of the Accounts Agreement, as heretofore amended, is hereby deleted and replaced with the date "August 31, 1994".

II. Term of Selling Period. The date "June 30, 1994" in Section 2.1 of the Seventeenth Amendment is hereby deleted and replaced with the date "August 31, 1994".

III. Delivery of Cash Collateral Upon Termination. In addition to all of Congress' other rights and remedies available to it upon the effective date of termination or non-renewal of the Loan Agreement and the other Financing Agreements, upon the effective date of such termination or non-renewal, Borrower shall (a) pay to Congress, in full, all outstanding and unpaid Obligations and (b) furnish cash collateral to Congress in an amount equal to (i) 115% of the face amount of all contingent Obligations consisting of all letters of credit, banker's acceptances, purchase guaranties and other financial accommodations (collectively, "Credits") issued and outstanding on the effective date of such termination or non-renewal plus (ii) an amount Congress determines is reasonably necessary to secure Congress from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment (collectively, "Uncollected Payments"). Such amounts shall be remitted to Congress by wire transfer in federal funds to such bank account of Congress, as Congress may, in its discretion,

designate in writing to Borrower for such purpose. Congress shall be entitled to hold such cash collateral delivered to Congress with respect to each of the Credits until forty-five (45) days after the expiration date of each Credit, and for a period of forty-five (45) days following termination or non-renewal as to such contingent Obligations in respect of Uncollected Payments. Congress may apply the cash collateral to any such contingent Obligations which may become due by virtue of drawings or claims made pursuant to the Credits or for claims made against Congress in connection with the Uncollected Payments and shall release any remaining cash collateral to LSB upon the expiration of the applicable forty-five (45) day period referred to in this paragraph.

IV. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

V. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.  
L&S BEARING CO.  
ROTEX CORPORATION  
TRIBONETICS CORPORATION  
LSB EXTRUSION CO.  
INTERNATIONAL ENVIRONMENTAL CORPORATION  
CHP CORPORATION  
KOAX CORP.  
SUMMIT MACHINE TOOL MANUFACTURING CORP.  
HERCULES ENERGY MFG. CORPORATION  
CLIMATE MASTER, INC.  
APR CORPORATION  
CLIMATEX, INC.  
LSB FINANCIAL CORP.  
LSB LEASING CORP.  
LSB IMPORT CORP.  
LSB BEARING CORP.  
SUMMIT MACHINE TOOL SYSTEMS, INC.  
LSB EUROPA LIMITED  
BOWERDEAN LIMITED  
LSB INTERNATIONAL LIMITED

By: \_\_\_\_\_

Title: \_\_\_\_\_

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND  
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: \_\_\_\_\_

Title: \_\_\_\_\_

PRIME FINANCIAL CORP.

By: \_\_\_\_\_

Title: \_\_\_\_\_

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By: \_\_\_\_\_

Title: \_\_\_\_\_

10q-10k\cfc19a.wp

## MODIFICATION AGREEMENT

This Modification Agreement (hereinafter the "Agreement") is dated the 23rd day of June, 1994, and is entered into by and between PRIME FINANCIAL CORPORATION, an Oklahoma corporation (hereinafter the "Borrower"), whose mailing address is 16 South Pennsylvania, Oklahoma City, Oklahoma 73107, the location of Borrower's principal place of business and chief executive office as of the date hereof, LSB INDUSTRIES, INC., a Delaware corporation ("Guarantor"), whose address is 16 South Pennsylvania, Oklahoma City, Oklahoma 73107 and BANK IV OKLAHOMA, N.A., a national banking association (the "Lender"), whose address is 515 South Boulder (or P.O. Box 2360, 74101), Tulsa, Oklahoma 74103.

### RECITALS:

A. The parties have had a financing arrangement evidenced by that certain Loan Agreement dated March 30, 1994 (the "Original Loan Agreement"), along with the other documents and loan papers contemplated thereby, pursuant to which the Borrower is entitled to borrow up to a maximum sum of \$25,000,000.00 from the Lender under a revolving line of credit (the "Loan") for the purposes of purchasing accounts receivable from various "Account Sellers" (as that term is defined in the Original Loan Agreement).

B. The Guarantor guaranteed repayment of the Loan as evidenced by its certain Guaranty Agreement dated March 30, 1994 in favor of the Lender (the "Guaranty Agreement").

C. The Borrower now desires that the Lender increase the maximum amount of the Loan to \$35,000,000.00, to which the Lender has agreed, according to the terms and provisions of this Agreement.

D. Subject to the terms, conditions and provisions described herein, the parties now desire to extend, amend, modify, ratify and renew the Original Loan Agreement and the other documents and instruments contemplated thereby in the manner hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual agreements herein contained, the conditions, covenants, representations and warranties set forth herein, and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto mutually agree as follows:

1. Extended Modified and Renewed Promissory Note. Concurrently with the execution of this Agreement, Borrower shall execute its certain Extended, Modified and Renewed Promissory Note (the "New Note") in the face amount of \$35,000,000.00, the form of which is attached hereto as Exhibit "A" and which is incorporated herein by reference, payable to Lender, which note shall extend, modify, renew and replace the "Note" (as that term is defined in the Original Loan Agreement). All provisions in the Original Loan Agreement and related loan documents referring to the "Note" are hereby amended to mean the New Note. The Note shall be returned to the Borrower upon execution and delivery to the Lender of this Agreement and the New Note.

2. Ratification of Guaranty. Concurrently with the execution of this Agreement, Guarantor shall execute its certain Ratification of Guaranty Agreement (the "Ratification") in favor of the Lender, the form of which is attached hereto as Exhibit "B" and which is incorporated herein by reference.

3. "Loan Documents" and "Loan Agreement". The term "Loan Documents" as used in the Original Loan Agreement, as amended hereby, shall be interpreted to include this Agreement, the New Note, the Ratification and all of the other documents heretofore or hereafter creating, evidencing, securing and/or relating to the indebtedness and obligations of the Borrower to the Lender. The term "Loan Agreement" as may be used in any of the Loan Documents, including but not limited to this Agreement, shall be amended to mean the Original Loan Agreement, together with and as modified by this Agreement. The term "Indebtedness" as used in the Original Loan Agreement or any other Loan Documents shall be amended to include the New Note and the indebtedness represented thereby.

4. Loan. Paragraph 2.1 of the Original Loan Agreement is amended by replacing the reference therein of "\$25,000,000.00" with "\$35,000,000.00."

5. Borrowing Base. The reference to the Borrowing Base in Paragraph 2.6(b) shall hereafter be amended to mean \$35,000,000.00. The Borrowing Base and Compliance Certificate attached as Exhibit "A" to the Original Loan Agreement is hereby replaced with that Borrowing Base and Compliance Certificate attached hereto as Exhibit "C". The Revolving Credit Loan Request attached as Exhibit "C" to the Original Loan Agreement is hereby replaced with that Revolving Credit Loan Request attached hereto as Exhibit "D". All references in the Original Loan Agreement to \$25,000,000.00 are hereby changed to \$35,000,000.00.

6. Ratification of Security Interests. Borrower hereby ratifies,



confirms and reaffirms all security interests, liens and other encumbrances created under the Original Loan Agreement and all other Loan Documents as security for repayment of any and all of Borrower's Indebtedness to the Lender, including but not limited to the Indebtedness of Borrower to the Lender as evidenced by the New Note together with all renewals, extensions, modifications or changes in form thereof, and to secure Borrower's performance of any and all other Loan Documents, all of which shall continue in full force and effect and with the same priority as security for repayment and satisfaction of such Indebtedness and all extensions, modifications and renewals thereof.

7. Modification, Ratification, Representations and Warranties. The terms and provisions of the Original Loan Agreement and all other Loan Documents executed in connection therewith shall be deemed amended, modified, and changed throughout so as to reflect consistently the matters provided herein. As extended, amended, modified, renewed or changed consistent herewith, the terms and provisions of the Original Loan Agreement and all other Loan Documents (except for the Note) shall remain in full force and effect and the Borrower hereby ratifies, reaffirms and reasserts as of the date hereof all covenants, representations, warranties, agreements and statements contained therein. As amended consistent herewith, all the terms and provisions of the Guaranty Agreement shall remain in full force and effect and the Guarantor hereby ratifies, reaffirms and reasserts as of the date hereof all covenants, representations, warranties, agreements and statements contained therein.

8. Obligations Unaffected. Except as otherwise specified herein, the terms and conditions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of the Borrower and/or the Guarantor to the Lender pursuant to and as evidenced by the Loan Documents. As a material inducement to the Lender to execute and deliver this Agreement, Borrower and Guarantor hereby acknowledge that there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the obligations created or evidenced by the Loan Documents, including but not limited to the Note. In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of the other Loan Documents, the terms and conditions of this Agreement shall control.

-2-

9. Costs. The Borrower agrees to pay to the Lender on demand all reasonable out-of-pocket costs, fees and expenses (including without limitation reasonable attorneys' fees and legal expenses) incurred by the Lender in connection with the preparation, execution, delivery, filing, recording and administration of this Agreement or any enforcement thereof, including without limitation the Lenders reasonable attorneys' fees and expenses. The Borrower further agrees that all such fees and expenses shall be paid regardless of whether or not the transactions provided for in this Agreement are eventually closed and regardless of whether or not any sums are advanced to the Borrower by the Lender.

10. Separability. If any provision of this Agreement and the other Loan Documents is held invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the other provisions hereof, and this Agreement and the other Loan Documents shall be construed and enforced as if such provision had not been included herein.

11. Binding Effect. Except as otherwise expressly provided herein, this Agreement will remain in effect until all of Borrower's obligations to Lender under this Agreement have been fully discharged. This Agreement shall be binding upon Borrower and Guarantor and their successors and assigns and shall inure to the benefit of the Lender, its successors and assigns.

12. Headings. The headings used herein are for convenience and administrative purposes only and do not constitute substantive matters to be considered in construing the terms and provisions of this Agreement.

13. Proceedings; Opinion of Borrower's and Guarantor's Counsel. All corporate proceedings of the Borrower and the Guarantor shall be taken in connection with the transactions contemplated by the Loan Documents and shall be satisfactory in form and substance to the Lender and its counsel; the Lender shall have received certified copies of resolutions of the Board of Directors of the Borrower and the Guarantor as adopted, authorizing the execution and delivery of this Agreement, the New Note, the borrowings under this Agreement, the Ratification, and the ratification of the security interests and mortgage liens in, and assignment and pledge of, the Collateral pursuant to the "Security Instruments" (as defined in the Loan Agreement), to secure the payment of the Indebtedness; and the Lender shall have received an opinion of Borrower's and Guarantor's counsel pertaining to these matters and such other matters as shall be required by the Lender, in a form acceptable to the Lender and Lender's counsel.

14. Entirety. This Agreement and the other documents executed concurrently or in connection herewith or pursuant hereto, as they modify the Original Loan Agreement and the other Loan Documents, constitute the entire agreement between the parties hereto, and may not be changed orally but shall be changed or modified only in writing and signed by all of the parties hereto.

15. Governing Law; Miscellaneous. This Agreement and the other

Loan Documents, as amended and modified by this Agreement and the attachments hereto, have been executed, delivered and accepted pursuant to a lending transaction negotiated, consummated, and to be performed in Tulsa, Tulsa County, Oklahoma, and are intended to be a contract made under the laws of the State of Oklahoma and to be construed in accordance with the laws of said State. Nothing in this Agreement or any of the other Loan Documents is intended to constitute Lender as a joint venturer with Borrower or to constitute a partnership.

-3-

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

PRIME FINANCIAL  
CORPORATION, an Oklahoma  
corporation

By: Jack E. Golsen. \_\_\_\_\_ President

"BORROWER"

LSB INDUSTRIES, INC., a  
Delaware corporation

By: Jack E. Golsen, \_\_\_\_\_ President

"GUARANTOR"

BANK IV OKLAHOMA, N.A

By: Barry J. Woods  
Senior Vice President

"LENDER"

4

EXHIBIT "A"

EXTENDED, MODIFIED AND  
RENEWED PROMISSORY NOTE

%35,000,000.00

June .1994

1. FOR VALUE RECEIVED the undersigned PRIME FINANCIAL CORPORATION, an Oklahoma corporation, promises to pay to the order of BANK IV OKLAHOMA, N.A., a national banking association at its offices at 515 South Boulder, Tulsa, Oklahoma 74103 ("Payee") the principal amount of this Note or such amount thereof as shall be advanced and outstanding, together with interest on the unpaid balance of such amount at the rate hereinafter set forth. This Promissory Note is issued pursuant to that certain Loan Agreement dated March 30, 1994 as amended by the Modification Agreement of even date herewith (the Loan Agreement as amended by the Modification Agreement is hereinafter referred to as the "Agreement"), by and between Payee, as Lender, and Maker, as Borrower, and is subject to the provisions therein set forth. The obligations represented by this Note are secured by the Loan Documents described in the Agreement.

2. Principal Amount. THIRTY-FIVE MILLION DOLLARS (%35,000,000.00).

3. Payments. All accrued interest on the unpaid balance of this Note is due and payable on the first day of each calendar month, commencing July 1, 1994, and continuing on the first day of each month thereafter until the maturity date hereof, October 1, 1994, at which time all principal and accrued and unpaid interest shall be due and payable to Payee in full. Interest on this Note shall accrue from the date of the first advance under

this Note and any payment shall be applied first to the payment of interest then due and second to the reduction of unpaid principal.

4. Interest Rate. Interest shall accrue on the outstanding principal balance at one-fourth of one percent (1/4%) above the "Applicable Prime Rate". The term "Applicable Prime Rate" shall mean the annual rate of interest announced by the Wall Street Journal, New York, New York ("WSJ") from time to time as average of corporate loan rates quoted by a certain number of the nation's largest banks. The Applicable Prime Rate shall be adjusted daily as announced, calculated on the basis of a year of 360 days and a month of 30 days. Changes in the Applicable Prime Rate are effective, without notice, on the same day as the change in the Applicable Prime Rate as announced from time to time. The Applicable Prime Rate shall not necessarily be the Payee's "best" or lowest rate. Should WSJ fail to announce a prime rate, then the Applicable Prime Rate shall be the rate announced by Chase Manhattan Bank, N.A., from time to time as its prime rate. In any case where a payment or principal and/or interest on this Note, or any part thereof, is due on a day on which the Payee is not open for normal banking business, the undersigned shall be entitled to delay such payments until the next succeeding business day, but interest shall continue to accrue until the payment is in fact made.

5. Interest Rate After Maturity. Matured and unpaid principal, whether by acceleration or otherwise, shall bear interest at the "Default Rate" set forth in the Agreement.

6. Prepayment Penalties. This Note may be prepaid, in whole or in part, at any time, without premium or penalty.

7. Default. If any Event of Default occurs under the Agreement, as defined therein, the holder hereof may, without notice and without presentment or demand for payment, declare all of the unpaid balance hereof to be immediately due and payable. Such right of acceleration is cumulative and in addition to any other right or rights of acceleration under the Agreement and any other writing now or hereafter evidencing or securing payment of any of the indebtedness evidenced hereby.

8. Costs and Attorneys' Fees. If this Note is placed in the hands of an attorney for collection, or suit is brought on same, or the same is collected through bankruptcy or other judicial proceeding, or Payee is required to defend the priority of the security, then the undersigned shall pay all of Payee's reasonable costs and expenses, including but not limited to a reasonable amount as attorneys' fees.

9. Waivers. Maker and any party which may be or become liable for the payment of any sums of money payable on this Note (including any surety, endorser or guarantor) severally waive presentment and demand for payment, protest, notice of protest and nonpayment, and notice of the intention to accelerate, and agree that their liability on this Note shall not be affected by any renewal or extension in the time of payment hereof, by any indulgences or by any release or change in any security for the payment of this Note, regardless of the number of such renewals, extensions, indulgences, releases or changes.

10. Right of Offset. Any indebtedness due from holder hereof to the undersigned or any party hereto including, but without limitation, any deposits or credit balances due from holder, is pledged to secure payment of this Note and any other obligation to holder of the undersigned or any party hereto, and may at any time while the whole or any part of such obligation remains unpaid either before or after maturity hereof, be appropriated, held or applied toward the payment of this Note or any other obligation to holder of the undersigned or any party hereto.

11. Governing Law. This Note has been executed and delivered in Tulsa County, Oklahoma and shall be governed by and construed according to the laws of the State of Oklahoma

12. Renewal. This Extended, Modified and Renewed Promissory Note extends, modifies, renews and replaces (but does not extinguish the indebtedness represented by) that certain Promissory Note dated March 30, 1994 by Maker in favor of Payee in the principal amount of \$25,000,000.00.

PRIME FINANCIAL CORPORATION,  
an Oklahoma corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_ President

EXHIBIT "B"

RATIFICATION OF GUARANTY AGREEMENT

WHEREAS, on March 30, 1994, LSB INDUSTRIES, INC., a Delaware corporation ("Guarantor"), made, executed and delivered to BANK IV OKLAHOMA, N.A., a national banking association (the "Lender") its Guaranty Agreement (the "Guaranty Agreement") whereby the Guarantor unconditionally guaranteed repayment of all the "Guaranteed Indebtedness" (as defined in the Guaranty Agreement) to the Lender of PRIME FINANCIAL CORPORATION, an Oklahoma corporation ("Prime"), under that Loan Agreement dated March 30, 1994 (the "Loan Agreement") between Prime and the Lender; and

WHEREAS, the Loan Agreement established a revolving line of credit whereby Prime became entitled to borrow up to \$25,000,000.00 from the Lender, and

WHEREAS, Prime has requested that the Lender increase the amount available under the revolving line of credit to \$35,000,000.00; and

WHEREAS, the Lender has consented to such request in part upon the condition that the Guarantor agree to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the Recitals above and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor agrees as follows:

1. The Guarantor hereby consents to the amendments and modifications of the Loan Agreement contained in that Modification Agreement of even date herewith between the Lender, the Borrower and the Guarantor (the "Modification") and the amendments to the "Loan Documents" (as defined in the Modification) described in the Modification.

2. Guarantor hereby ratifies all of the terms and provisions of the Guaranty Agreement and all the terms and provisions of all other Loan Documents executed by Guarantor, and agrees that the "Guaranteed Indebtedness" under the Guaranty Agreement shall now include all indebtedness upon which the Borrower now or may hereafter, from time to time, become obligated to Lender under the Loan Agreement, as modified by the Modification, and specifically including, but not limited to, that certain Extended, Modified and Renewed Promissory Note of even date herewith in the principal amount of \$35,000,000.00 by Prime in favor of Lender.

DATED the \_\_\_\_ day of June, 1994.

LSB INDUSTRIES, INC., a Delaware Corporation

By: \_\_\_\_\_, \_\_\_\_\_ President

EXHIBIT "C"

BORROWING BASE AND COMPLIANCE CERTIFICATE

BANK IV Oklahoma, P. O. Box 2360, Tulsa, Oklahoma 74101

Pursuant to the terms and provisions of our Loan Agreement dated as of the 30th day of March, 1994, by and between PRIME FINANCIAL CORPORATION, an Oklahoma corporation (the "Borrower") and BANK IV OKLAHOMA, N.A., a national banking association (the "Lender"), as amended by that Modification Agreement dated June , 1994 between the Borrower and the Lender and others (as amended, hereinafter referred to as the "Loan Agreement"), Borrower hereby certifies as follows:

BORROWING BASE

Table with 6 rows: 1. Total Accounts Receivable \$\_\_\_\_\_, 2. Less: Non-Eligible Accounts \_\_\_\_\_, 3. Total Eligible Accounts per Section 2.7 of the Loan Agreement (Line 1 minus Line 2) \$\_\_\_\_\_, 4. Total Borrowing Base (The lesser of(i) Line 3 x 80% or (ii) %35,000,000.00) \_\_\_\_\_, 5. Less outstanding principal due -NOTE \_\_\_\_\_, 6. Available for advance (Line 4 less Line 5) \$\_\_\_\_\_

COMPLIANCE CERTIFICATE (NOT COMPREHENSIVE)

REPORTING

Quarterly Operating Statements	Enclosed _____ Last Furnished Dated _____ Next Due _____
Annual Audited Financial Statements	Enclosed _____ Last Furnished Dated _____ Next Due _____
Monthly Report of Accounts	Enclosed _____ Last Furnished Dated _____ Next Due _____

I

CERTIFICATION

All terms used herein shall have the same meaning as set forth in the Loan Agreement. Borrower hereby certifies (i) that the information contained herein is true and correct as of the date hereof; (ii) there has been no change in the financial condition of Borrower which significantly impairs the security of the Lender; (iii) that no Default has occurred or is occurring under the Loan Agreement or any of the other Loan Documents; (iv) all Eligible Accounts included within this Certificate as shown above comply with all terms and conditions of Article II of the Loan Agreement, in all respects; (v) attached hereto as Schedule "1" is a schedule of all Accounts which, since the date of the last Borrowing Base and Compliance Certificate submitted to the Lender, have become "Chargedback Receivables" pursuant to any Agreement for Purchase of Receivables between the Borrower and any Account Seller; (vi) attached hereto as Schedule "2" is a schedule of all cash receipts received since the last Borrowing Base Certificate attributable to Accounts subject to Lender's security interest, including customer number and name, date of Invoice, amount of payment received and Invoice number.

PRIME FINANCIAL CORPORATION, an  
Oklahoma corporation

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Exhibit "D"

REVOLVING CREDIT LOAN REQUEST

BANK IV Oklahoma, N.A. (the "Lender")  
P O. Box 2360  
Tulsa, Oklahoma 74101

Pursuant to the terms and provisions of our Loan Agreement dated as of the 30th day of March, 1994, by and between PRIME FINANCIAL CORPORATION (the "Borrower") and BANK IV OKLAHOMA, N.A. (the "Lender"), as amended by that Modification Agreement dated June \_\_\_\_, 1994 between the Borrower and the Lender and others (the Loan Agreement as amended by the Modification Agreement hereinafter collectively referred to as the "Loan Agreement"), Borrower hereby provides the following Borrowing Base to be used to present the amount of Borrower's requested advance under the Loan Agreement:

1	Total Accounts Receivable	\$ _____
2.	Less: Non-Eligible Accounts	_____
3.	Total Eligible Accounts per Section 2.7 of the Loan Agreement (Line 1 minus Line 2)	_____
4.	Total Borrowing Base (the Lesser of (i) Line 3 x 80% or (ii) %25,000,000.00)	_____
5.	Less outstanding principal due -NOTE	_____
6.	Available for advance (Line 4, less Line 5)	_____
7.	AMOUNT REQUESTED HEREBY	_____

All terms used herein shall have the same meaning as set forth in the Loan Agreement.

The undersigned certifies (i) that the information contained herein is true and correct as of the date hereof; (ii) that there has been no change in the financial condition of Borrower which significantly impairs the security of the Lender; and (iii) that no Default has occurred under the Loan Agreement or any of the other Loan Documents (as that term is defined in the Loan Agreement).

Attached hereto as Exhibit "A" is a schedule of all Eligible Accounts which form the basis for this Request, which includes for each such Eligible Account the name of the Account Debtor, the Invoice Date, the Due Date, the Invoice Number, the amount of the Account, and the name of the Account Seller from whom each Eligible Account was or is to be purchased The

undersigned certifies (i) that all such Eligible Accounts are now owned by Borrower or will be purchased from one or more of the Account Sellers, (ii) that the same schedule has been transmitted to Congress and its liens or security interests on all such Accounts, if any, will be released upon receipt of the proceeds of the advance requested hereby, (iii) that all Eligible Accounts contained in the attached schedule or included in the total Eligible Accounts hereunder (except those Accounts to be purchased with proceeds of the advance requested hereby, which are subject to the first lien of Congress or Household) are free and clear of any liens, claims or interests of any party except for the Lender, (iv) that the Lender has a first and prior and perfected lien and security interest in and to all such Accounts except those to be purchased with proceeds hereof which may currently be subject to first and prior liens in favor of Congress, and (v) that the Lender's security interest will be first and prior in and to such Accounts upon receipt by Congress and/or Household of the proceeds of the requested advance.

To the extent that any Account on the attached listing of Eligible Accounts was purchased from an Account Seller for whom the Lender has not received (i) a fully executed Agreement for Purchase of Receivables as contemplated by Sections 3.1(b) and 4.1(h) of the Loan Agreement, (ii) a fully executed acknowledgement as contemplated by Section 4.1(i) of the Loan Agreement and (iii) verification as contemplated by Section 4.1(j) of the Loan Agreement, such documents are attached hereto and submitted for approval of the Lender.

DATED this            day of            , 1994.

PRIME FINANCIAL CORPORATION, an  
Oklahoma corporation

By:  
Title:

tq694x44.wpe