FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended March 31, 1996

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 May 1, 1996 is 12,908,487 shares excluding 1,849,469 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 March 31, 1996, the condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 1996 and 1995 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 three months ended March 31, 1996 are not necessarily indicative of the

results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1995, was derived from audited financial statements as of that date.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at March 31, 1996 is unaudited)
(Dollars in thousands)

ASSETS	March 31, 1996	December 31, 1995
Current assets:		
Cash and cash equivalents	$ 539	$ 1,420
Trade accounts receivable, net of allowance	52,095	43,975
Inventories:		
Finished goods	39,545	38,796
Work in process	12,150	12,247
Raw materials	15,186	15,222
Total inventory	66,881	66,265
Supplies and prepaid items	7,127	5,684
Total current assets	126,642	117,344
Property, plant and equipment, net	86,276	86,270
Investments and other assets:		
Loans receivable, secured by real estate	15,613	15,657
Other assets, net of allowance	17,194	18,905
	$ 245,725	$ 238,176

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Continued)
(Information at March 31, 1996 is unaudited)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1996	December 31, 1995
Current liabilities:		
Drafts payable	$ 216	$ 424
Accounts payable	34,133	28,508
Accrued liabilities	10,092	9,239
Current portion of long-term debt	14,086	14,925
Total current liabilities	58,527	53,096
Long-term debt	106,831	103,355
Contingencies (Note 4)		
Redeemable, noncumulative convertible preferred stock, $100 par value; 1,552 shares issued and outstanding (1,566 in 1995)	147	149
Stockholders' equity (Note 3):		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 920,000 shares issued	46,000	46,000

Common stock, $.10 par value; 75,000,000 shares authorized, 14,757,956 shares issued (14,757,416 in 1995)	1,476	1,476
Capital in excess of par value	37,569	37,567
Retained Earnings	3,797	5,148
	90,842	92,191
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 1,848,469 shares (1,845,969 in 1995)	10,422	10,415
Total stockholders' equity	80,220	81,576
	$ 245,725	$ 238,176

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended March 31, 1996 and 1995
(Dollars in thousands, except per share amounts)

	1996	1995
Revenues:		
Net sales	$ 69,495	$ 65,269
Other income	1,411	662
	70,906	65,931
Costs and expenses:		
Cost of sales	54,688	49,127
Selling, general and administrative	13,718	12,869
Interest	2,969	2,388
	71,375	64,384
Income (loss) before provision for income taxes	(469)	1,547
Provision for income taxes	62	99
Net income (loss)	$ (531)	$ 1,448
Net income (loss) applicable to common stock (Note 2)	$ (1,350)	$ 629
Average common shares outstanding (Note 2):		
Primary	12,911,387	13,552,256
Fully diluted	12,911,387	13,573,199
Earnings per common share (Note 2):		
Primary	$ (.10)	$ .05
Fully diluted	$ (.10)	$ .05

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended March 31, 1996 and 1995
(Dollars in thousands)

	1996	1995
Cash flows from operations:		
Net income (loss)	$ (531)	$ 1,448
Adjustments to reconcile net income (loss) to cash flows used by operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	2,307	1,667
Other	307	256
Provision for possible losses on receivables and other assets	539	180
Gain on sale of assets	(659)	(105)

Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(7,958)	(7,061)
Inventories	(616)	(8,625)
Supplies and prepaid items	(1,444)	(669)
Accounts payable	5,625	4,046
Accrued liabilities	853	878
Net cash used by operations	(1,577)	(7,985)
Cash flows from investing activities:		
Capital expenditures	(2,173)	(4,563)
Principal payments on notes receivable	44	542
Proceeds from sales of equipment and real estate properties	15	456
Proceeds from sale of investment securities	1,444	-
Increase in other assets	(96)	(1,472)
Net cash used in investing activities	(766)	(5,037)
Cash flows from financing activities:		
Payments on long-term and other debt	(2,290)	(666)
Long-term and other borrowings	-	3,662
Net change in revolving debt	4,787	13,779
Net change in drafts payable	(208)	(920)
Dividends paid on preferred stocks (Note 3)	(820)	(816)
Purchases of treasury stock (Note 3)	(7)	(93)
Net cash provided by financing activities	1,462	14,946
Net increase (decrease) in cash	(881)	1,924
Cash and cash equivalents at beginning of period	1,420	2,610
Cash and cash equivalents at end of period	$ 539	$ 4,534

(See accompanying notes)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three Months Ended March 31, 1996 and 1995

Note 1: At March 31, 1996, the Company had net operating loss ("NOL") carryforwards for tax purposes of approximately $43 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately $568,000, which begin expiring in 1996.

The Company s provision for income taxes for the three months ended March 31, 1996 of $62,000 is for current state income taxes and federal alternative minimum tax.

Note 2: Primary earnings per common share are based upon the weighted average number of common shares and dilutive common equivalent shares outstanding during each period, after giving appropriate effect to preferred stock dividends.

Fully diluted earnings 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 3: The table below provides detail of activity in the Stockholders' equity accounts for the three months ended March 31, 1996:

	Common Stock		Non-redeemable Preferred	Capital in excess of par	Retained	Treasury Stock-	Treasury Stock Prefer-
		Par					

	Shares	Value	Stock	Value	Earnings	Common	red	Total
				(In thousands)				
Balance at December 31, 1995	14,757	$ 1,476	$ 48,000	$ 37,567	$ 5,148	$(10,415)	$ (200)	$81,576
Net loss					(531)			(531)
Conversion of 13.5 shares of redeemable preferred stock to common stock	1			2				2
Dividends declared:								
Series B 12% preferred stock ($3.00 per share)					(60)			(60)
Redeemable preferred stock ($10.00 per share)					(16)			(16)
Series 2 preferred stock ($.81 per share)					(744)			(744)
Purchase of treasury stock						(7)		(7)
Balance at March 31, 1996	(1) 14,758	$1 ,476	$ 48,000	$ 37,569	$ 3,797	$(10,422)	$ (200)	$80,220

(1) Includes 1,848,469 shares of the Company's Common Stock held in treasury. Excluding the 1,848,469 shares held in treasury, the outstanding shares of the Company's Common Stock at March 31, 1996 were 12,909,487.

Note 4: Following is a summary of certain legal actions involving the Company:

A. In 1987, the U.S. Government notified one of the Company's subsidiaries, along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. No legal action has yet been filed. The amount of the company's cost associated with the clean-up of the site is unknown due to continuing changes in (i) the estimated total cost of clean-up of the site and (ii) the percentage of the total waste which was alleged to have been contributed to the site by the Company, accordingly, no provision for any liability which may result has been made in the accompanying financial statements. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

B. The State of Arkansas performed a preliminary assessment and advised the Company that there has occurred certain releases of contaminants at the Company's Chemical Business' primary manufacturing facility located in El Dorado, Arkansas. On July 18, 1994, the Company received a report from the State of Arkansas which contained findings of violations of certain environmental law and requested the Company to conduct further investigations to better determine the compliance status of the Company and releases of contaminants at the site. On May 2, 1995, the Company signed a Consent Administrative Agreement ("Agreement") with the State of Arkansas. The Agreement provides for the Company to remediate and close a certain landfill, monitor groundwater for certain contaminants and, depending on the results of the monitoring program, to submit a remediation plan, upgrade certain equipment to reduce wastewater effluent, and pay a civil penalty of $25,000.

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

On February 12, 1996, the Company entered into another Consent Administrative Agreement ("Agreement") to resolve certain compliance issues associated with nitric acid concentrations. The Company is currently investigating the feasibility of several options for installing additional pollution control equipment to reduce opacity and constituent emissions which impact opacity. The Company has been assessed a $50,000 civil penalty associated with the Agreement; however, the Company is planning to undertake one or more supplemental environmental projects in lieu of the penalty.

The Company recorded a provision for environmental costs of $450,000 in 1994 and, as of March 31, 1996, the Company continues to have

approximately $286,000 accrued for these environmental matters which the Company believes approximates the remaining costs to be incurred related thereto. Based on information presently available, the Company does not believe that compliance with these agreements should have a material adverse effect on the Company or the Company's financial condition.

C. The Company has been advised that one or more persons in the vicinity of the primary manufacturing facility of the Company's chemical business has retained legal counsel to bring a tort action against the chemical business claiming that certain of their alleged health issues were caused by air emissions from the manufacturing facility. The Company is unaware of the exact nature of these claims or the amount of damages that the claimants will allege as a result of such alleged injuries. The Company's insurance carrier has been notified of this matter.

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

DEBT GUARNATEE

The Company has guaranteed approximately $2.6 million of indebtedness of a start-up aviation company in exchange for a minority ownership interest, to which no value has been assigned as of March 31, 1996. The Company is, however, accruing losses of the aviation company based on its ownership percentage and, as a result, the Company has recorded losses of $225,000 in 1996 ($590,000 in the year ended December 31, 1995 subsequent to March 31, 1995) related to the debt guarantee. The debt guarantee relates to two note instruments, both of which require interest only payments through September 1996. One note, on which a subsidiary of the Company has guaranteed up to $600,000 of indebtedness, matures September 28, 1996. The other note, on which the Company has guaranteed up to $2 million, requires monthly principal payments of $11,111 plus interest beginning in October 1996 until it matures on August 8, 1999, at which time all outstanding principal and unpaid interest are due. In the event of default of this note, the Company is required to assume payments on the note with the term extended until August 2004.

The aviation company expects to complete the Federal Aviation Authority certification process by mid-1997, at which time commercial production development may begin. It is expected that the aviation company will require additional external funding during such period, the source of which has not yet been determined. If the aviation company is not successful in completing the certification process, obtaining additional external funding or selling a significant interest in the business to third parties, the Company is likely to become responsible for repayment of the $2.6 million indebtedness guarantee.

OTHER

In 1995, in connection with the Company's purchase of fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"), the Company guaranteed the bonding company's exposure under the payment and performance bonds on the Project, which is approximately $17.9 million. As of March 31, 1996, the Project was approximately 45% complete and the Company expects it to be completed on schedule in 1996, Inasmuch as the Project is presently performing (and is expected to perform in future periods), no demand has been made on the Company's guarantee.

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 March 31, 1996 Condensed Consolidated Financial Statements.

OVERVIEW

The Company is going through a transition from a highly diversified company to a more focused company with the intent to focus on its two primary business units, the Chemical Business and the Environmental Control Business.

In September 1995 the Company announced that it would reduce its investment in, or take other actions regarding, the Automotive and Industrial

Products Businesses. The intent is to decrease the investment in these Businesses and redeploy the cash into the Chemical and Environmental Control Business which are perceived by management to have strategic advantages and better historical returns on invested capital. The Company continues to explore its alternatives to accomplish these goals, but as of now, no formal plans have been adopted, however, the Company intends to reduce the Industrial Products Business by liquidating its inventory in the ordinary course of business to a size where the Company's investment in this business is not significant, and thereafter, limiting this business to the purchase and sale of a limited number of lines of machine tools which the Company believes are profitable.

Information about the Company's continuing operations in different industry segments for the three months ended March 31, 1996 and 1995 is detailed below.

	Three Months Ended March 31, 1996	1995
	(In thousands) (Unaudited)	
Sales:		
Chemical	$ 36,520	$ 31,939
Environmental Control	18,995	21,622
Automotive Products	10,956	7,879
Industrial Products	3,024	3,829
	$ 69,495	$ 65,269
Gross profit:		
Chemical	$ 6,800	$ 6,246
Environmental Control	4,699	6,685
Automotive Products	2,450	2,087
Industrial Products	858	1,124
	$ 14,807	$ 16,142
Operating profit (loss):		
Chemical	$ 3,545	$ 2,927
Environmental Control	721	2,976
Automotive Products	139	48
Industrial Products	(497)	(350)
	3,908	5,601
General corporate expenses	(1,408)	(1,666)
Interest expense	(2,969)	(2,388)
Income (loss) before provision for income taxes	$ (469)	$ 1,547

Gross profit by industry segment represents net sales less cost of sales. Operating profit by industry segment represents revenues less operating expenses before deducting general corporate expenses, interest expense and income taxes. As indicated in the above table the operating profit (as defined) declined from $5.6 million in 1995 to $3.9 million in 1996, while sales increased approximately 6%. The decline in operating profit, coupled with an increase in interest expense, resulted in a loss from continuing operations before income taxes for 1996 of $.5 million. This decline in operating profit is primarily due to lower earnings in the Environmental Control Business as a result of lower production volumes and cost absorption in the Business' heat pump products operation in 1996 as compared to 1995 production volumes and cost absorption which were higher than normal due to a certain governmental project.

RESULTS OF OPERATIONS

Three months ended March 31, 1996 vs. Three months ended March 31, 1995.

REVENUES

Total revenues for the three months ended March 31, 1996 and 1995 were $70.9 million and $65.9 million, respectively (an increase of $5.0 million). Sales increased $4.2 million. Other income increased $.8 million due primarily to a gain on the sale of securities that had been held as an investment.

NET SALES

Consolidated net sales included in total revenues for the three months ended March 31, 1996 were $69.5 million, compared to $65.3 million for the

first three months of 1995, an increase of $4.2 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $4.6 million, primarily due to higher sales of agricultural products and increased business volume of Total Energy Systems, the Company's subsidiary located in Australia ("TES"), (ii) increased sales in the Automotive Products Business of $3.1 due primarily to the acquisition of New Alloy Company on June 1, 1995, a manufacturer and distributor of automotive U-joint products, offset by (iii) decreased sales in the Environmental Control Business of $2.6 million primarily due to heat pump sales in the first quarter of 1995 to a customer which was retrofitting certain of the air-conditioning and heating systems on a U.S. military base, and (iv) decreased machine tool sales in the Industrial Products Business of $.8 million.

GROSS PROFIT

Gross profit was 21.3% for the first three months of 1996, compared to 24.7% for the first three months of 1995. The decrease in the gross profit percentage was due primarily to (i) decreased absorption of costs due to lower production volumes in the Environmental Control Business, and (ii) higher production costs in the Chemical Business due to the effect of natural gas curtailments by suppliers during unseasonably cold weather.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 19.7% in the three month periods ended March 31, 1996 and 1995. As sales increased, SG&A expenses increased proportionately.

INTEREST EXPENSE

Interest expense was approximately $3.0 million during the three months ended March 31, 1996 compared to approximately $2.7 million during the three months ended March 31, 1995 before capitalization of approximately $.3 million in connection with the construction of a concentrated nitric acid plant by the Chemical Business. The increase primarily resulted from higher average balances of borrowed funds.

INCOME (LOSS) BEFORE TAXES

The Company had a loss before income taxes of $.5 million in the first quarter of 1996 compared to income before income taxes of $1.5 million in the three months ended March 31, 1995. The decreased profitability of $2.0 million was primarily due to the decline in gross profit and increases in SG&A and interest expense as previously discussed.

PROVISION FOR INCOME TAXES

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 1 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the three months ended March 31, 1996 and the three months ended March 31, 1995 are for current state income taxes and federal alternative minimum taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow From Operations

For the quarter ended March 31, 1996, the net loss of $.5 million included (i) noncash charges for depreciation and amortization of $2.6 million, and (ii) noncash provisions for possible losses on accounts and notes receivable and debt guarantee totalling $.5 million, resulting in positive cash flow of $2.6 million. This positive cash flow was absorbed by increases in accounts receivable, inventory, supplies, and prepaid items, which increases were partially offset by increases in accounts payable and accrued liabilities, resulting in a net cash usage of approximately $1.6 million from operating activities.

The increase in accounts receivable from December 31, 1995 to March 31, 1996 was due primarily to seasonal sales increases in the Chemical Business and increased sales in the Automotive and Industrial Products Businesses over the fourth quarter of 1995. These increases were partially offset by accounts receivable reductions in the Environmental Control Business due to timing of collections. The increase in inventories was due to seasonality from December 31, 1995 to March 31, 1996 in the Chemical Business and increased inventories of the Chemical Business's Australian subsidiary due to an expanded customer base. These increases were partially offset by a reduction of excess inventory in the Automotive Products Business. The increase in supplies and prepaid items is primarily due to an increase in manufacturing supplies in the Chemical Business. The increase in accounts payable and accrued liabilities from December 31, 1995 to March 31, 1996 is due primarily to seasonality in the Chemical Business and increased accounts payable of the Chemical

Business's Australian subsidiary due to increased business activity from higher sales and increased inventories.

CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES

For the quarter ended March 31, 1996, the cash flow from investing and financing activities resulted in a positive cash flow of approximately $.7 million after increased borrowings against the Company's working capital revolver of $4.8 million and collecting approximately $1.4 million in proceeds from the sale of certain investment securities.

Those investment and financing activities requiring cash included: capital expenditures, $2.2 million; payments on long-term debt, $2.3 million; and, payment of preferred stock dividends, $.8 million. Capital expenditures included expenditures of the Chemical Business for the completion of the construction of a concentrated nitric acid plant in El Dorado, Arkansas which was began in 1994. The balance of capital expenditures were for normal additions in the Chemical, Environmental Control, and Automotive Products Businesses.

During the first quarter of 1996, the Company declared and paid the following aggregate dividends: (1) $12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (2) $.81 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; and (3) $10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock. The Company expects to continue the payment of an annual cash dividend on its common stock equal to $.06 per share, payable $.03 per share on January 1 and July 1, in the future in accordance with the policy adopted by the Board of Directors and the cash dividends on the Company's outstanding series of preferred stock pursuant to the terms inherent to such preferred stocks.

SOURCE OF FUNDS

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

The Company and certain of its subsidiaries are parties to a . working capital line of credit evidenced by six separate loan agreements ("Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory and proprietary rights of the Company and the subsidiaries that are parties to the Agreements and the stock of certain of the subsidiaries that are borrowers under the Agreements. The Agreements provide for revolving credit facilities ("Revolver") for total direct borrowings up to $65 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. During 1995, an amendment to the Agreements was obtained whereby the Company's borrowing ability was temporarily increased (the "overadvance") $5 million in excess of the amount calculated based on the collateral, not to exceed $75 million. Starting on April 30, 1996, available borrowings under the overadvance decrease by $750,000 per week until the overadvance is eliminated. The line increase expires on June 30, 1996, however the Company has requested that the line limit be permanently increased to $75 million. The Agreements provide for interest at the reference rate as defined (which approximates the national prime rate) plus 1%, or the Eurodollar rate plus 3.375%. At March 31, 1996 the effective interest rate was 9.25%. The initial term of the Agreements is through December 31, 1997, and is renewable thereafter for successive thirteen month terms. The Lender or the Company may terminate the Agreements at the end of the initial term or at the end of any renewal term without penalty, except that the Company may terminate the Agreements after the second anniversary of the Agreements without penalty. At March 31, 1996, borrowings under the Revolver exceeded the availability based on eligible collateral by $1.3 million, not including the overadvance discussed above. Borrowings under the Revolver outstanding at March 31, 1996, were $64 million. The Agreements require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. In November 1995 the Company renegotiated reductions in the tangible net worth covenants for the period December 31, 1995 through December 31, 1997 and simultaneous therewith agreed to an increase in the interest rate it pays the Lender of one-half percent (.5%). The tangible net worth covenants were reset to $78 million at December 31, 1995 escalating quarterly to $84 million at December 31, 1997. At March 31, 1996, the Company is in compliance with all financial covenents under the Agreements, except for the tangible net worth covenant. A waiver of this covenant has been obtained from the lender. The annual interest on the outstanding debt under the Revolver at March 31, 1996 at the rate then in effect would be approximately $5.9 million.

In addition to the Agreements discussed above, the Company has the following term loans in place:

(1) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corporation (collectively "Chemical"), which substantially comprise the Company's Chemical Business, 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"). The balance of the Term Loan at March 31, 1996 was $10.7 million. Annual principal payments on the Term Loan are $5.1 million in 1996 and a final payment of $5.6 million on March 31, 1997. The Loan Agreement also provides for a revolving credit facility which provides for a maximum available credit line of approximately $3.7 million at March 31, 1996. The availability under this facility reduces by $1.8 million in 1996 with the remainder due in March 1997. Annual interest at the agreed to interest rates, if calculated on the aggregate $14.4 million outstanding balance at March 31, 1996, would be approximately $1.7 million. The Term Loan is secured by substantially all of the assets of Chemical not otherwise pledged under the credit facility previously discussed 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, is .65:1 or below.

(2) The Company s wholly-owned subsidiary, DSN Corporation ("DSN") is a party to several loan agreements with a financing company (the "Financing Company") for three (3) projects which DSN substantially completed during 1995. These loan agreements are for a $16.5 million term loan (the "DSN Permanent Loan"), which was converted on June 1, 1995 from the original construction loan, and was used to construct, equip, re-erect, and refurbish a concentrated nitric acid plant (the "DSN Plant") placed into service by the Chemical Business at its El Dorado, Arkansas facility; a loan for approximately $1.2 million to purchase additional railcars to support the DSN Plant (the "Railcar Loan"); and a loan for approximately $1.1 million to finance the construction of a mixed acid plant (the "Mixed Acid Plant") in North Carolina (the "Mixed Acid Loan"). At March 31, 1996, DSN had outstanding borrowings of $15.3 million under the DSN Permanent Loan, $1.0 million under the Mixed Acid Loan, and $1.1 million under the Railcar Loan. The loans have repayment schedules of eighty-four (84) consecutive monthly installments of principal and interest. The interest rates on the loans range from 8.24% to 8.86% and are fixed rates based on the United States Treasury Security rate at the time of executing the note plus a specified percentage. Annual interest, for the three notes as a whole, at the agreed to interest rates would approximate $1.5 million. The loans are secured by the various DSN and Mixed Acid Plants property and equipment, and all railcars purchased under the railcar loan. The loan agreement requires the Company to maintain certain financial ratios, including tangible net worth requirements. As of the date of this report, the Company is in compliance with all financial covenants or if not in compliance, has obtained appropriate waivers from the Financing Company.

(3) A subsidiary of the Company ("Prime") entered into a loan agreement ("Agreement"), effective as of May 4, 1995, with Bank IV Oklahoma, N.A. ("Bank"). Pursuant to the Agreement, the Bank loaned $9 million to Prime, evidenced by a Promissory Note ("Note"). The Note bears interest per annum at a rate equal to one percent (1%) above the prime rate in effect from day to day as published in the Wall Street Journal. The outstanding principal balance of the Note is payable in sixty (60) monthly payments of principal and interest commencing on May 31, 1995. Payment of the Note is secured by a first and priority lien and security interest in and to Prime's right, title, and interest in the loan receivable relating to the real property and office building known as the Bank IV Tower located in Oklahoma City, Oklahoma (the "Tower"), the Management Agreement relating to the Tower, and the Option to Purchase Agreement covering the real property on which the Tower is located.

Future cash requirements include working capital requirements for anticipated sales increases in all Businesses, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases are expected to be provided by the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be met by scheduled

reductions in the inventories of the Automotive Products Business, which increased its inventories in 1995 beyond required levels. In 1996, the Company has planned capital expenditures of approximately $6.0 million, primarily in the Chemical and Environmental Control Businesses.

Management believes that cash flows from operations, the Company's revolving credit facilities, and other sources will be adequate to meet its presently anticipated capital expenditure, working capital, debt service and dividend requirements. This is a forward-looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, a material reduction in revenues, continuing to incur losses, inability to collect a material amount of receivables, required capital expenditures in excess of those presently anticipated, or other future events, not presently predictable, which individually or in the aggregate could impair the Company's ability to obtain funds to meet its requirements. The Company currently has no material commitment for capital expenditures, however, see discussion under "Recent Developments" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding negotiations to build two new plants; one to produce nitric acid and another to produce high density ammonium nitrate.

FOREIGN SUBSIDIARY FINANCING

On March 7, 1995 the Company guaranteed a revolving credit working capital facility (the "Facility") between its wholly-owned Australian subsidiary Total Energy Systems, Ltd. ("TES") and Bank of New Zealand. The Facility allows for borrowings up to an aggregate of approximately U.S. $3.7 million based on specific percentages of qualified eligible assets (U.S. $1.8 million borrowed at March 31, 1996). Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from the Company. The interest rate on this debt is the Bank of New Zealand Corporate Base Lending Rate plus 0.5% (approximately 11.5% at March 31, 1996). The Facility is subject to renewal at the discretion of Bank of New Zealand based upon annual review. The next annual review is due on March 31, 1997. The Facility requires TES to maintain certain financial covenants. As of the date of this report, TES was in compliance with all required covenants. The outstanding borrowing under the facility at March 31, 1996 has been classified as due within one year in the accompanying condensed consolidated financial statements.

JOINT VENTURES AND OPTIONS TO PURCHASE

During 1994 the Company, through a subsidiary, loaned $2.1 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Environmental Control Business in the U.S.A. Under the loan agreement, the Company has the option to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the french manufacturer to secure its $2.1 million loan. During fiscal year 1995 and January, 1996 the Company advanced an additional $800,000 to the French manufacturer bringing the total of the loan to $2.9 million. At this time the decision has not been made to exercise such option and the $2.9 million loan, less a $1.9 million valuation reserve, is carried on the books as a note receivable in other assets.

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

A subsidiary of the Company invested approximately $2.8 million to purchase a fifty percent (50%) limited partnership interest in an energy conservation joint venture (the "Project"). As discussed above, the Company has an option to acquire 80% of the general partner and the owner of the other 50% of the Project. The Project has been awarded a contract to retrofit residential housing units at a U.S. Army base. The contract calls for installation of energy-efficient equipment (including air conditioning and heating equipment), which will reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent (77%) of all energy and maintenance savings during the twenty (20) year contract term. The Project estimates that the cost to retrofit the

residential housing units at the U.S. Army base will be approximately $18.8 million. The Project has received a loan from a lender to finance up to approximately $14 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project. The Company has guaranteed the bonding company's exposure under the payment and performance bonds on the Project, which is approximately $17.9 million.

DEBT GUARANTEE

As disclosed in Note 4 of the Notes to Condensed Consolidated Financial Statements a subsidiary of the Company has guaranteed approximately $2.6 million of indebtedness of a start up aviation company in exchange for an ownership interest. Both notes are current as to principal and interest. The Company has advanced approximately $150,000 to the aviation company while they seek additional capital. The Company has also purchased additional shares of stock in the aviation company during the first quarter of 1996 for approximately $165,000. This purchase increased the Company's ownership interest in the aviation company to approximately 42%. At this time the Company has not made a decision whether additional funds will be advanced. Any additional advances will depend on the evaluation of the prospects of the aviation company when it becomes evident that additional advances are required.

The aviation company is working toward certification with the Federal Aviation Authority by mid 1997. In the meantime the aviation Company has limited cash and is seeking an equity investor to fund the completion of the certification process and provide additional working capital of approximately $7.0 million in exchange for an ownership interest of the company. If the aviation company is unable to obtain such additional equity, then the Company will probably be required to perform under its guarantee.

RECENT DEVELOPMENTS

The Chemical Business has entered into detailed negotiations with Bayer Corporation ("Bayer") for the Chemical Business to build, own and operate a nitric acid plant located on property owned by Bayer to supply nitric acid on a long-term basis to a complex that Bayer is to construct in Baytown, Texas. The transaction with Bayer is subject to finalization of a definitive agreement. If the definitive agreement is finalized, the Company expects that the plant can be constructed and become operational within 24-30 months from the completion of such definitive agreement.

The Chemical Business has also entered into a letter of intent with Farmland Industries, Inc. ("Farmland") to negotiate a long-term purchase and sales agreement to supply a major portion of Farmland's annual requirements for high density ammonium nitrate. If the negotiations are successful, the Chemical Business will construct a new dedicated nitric acid plant at its El Dorado, Arkansas complex, of sufficient size, to provide the additional nitric acid needed to produce Farmland's requirements for ammonium nitrate. It is presently anticipated that the new nitric acid plant should be ready for production in 1998. The letter of intent with Farmland is subject to numerous conditions, including the negotiation and execution of definitive agreements.

If the contracts with Bayer and/or Farmland are consummated, the Company intends to obtain project financing to fund the construction of these projects.

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 March 31, 1996, the Company had available NOL carryovers of approximately $43 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1994, and on the Company's estimates for 1995 and 1996. These NOL carryovers will expire beginning in the year 1999.

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

CONTINGENCIES

As discussed in Note 4 of Notes to Condensed Consolidated Financial Statements, the Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Management does not anticipate that these claims will result in material adverse impacts on its liquidity. This is a forward-looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, costs of remediation and compliance exceeding those presently anticipated, additional sources of contamination being discovered, the federal or state governmental agencies having jurisdiction over these matters requiring substantially more equipment to reduce air emissions than presently anticipated or ordering the Company's Chemical Business to curtail or eliminate certain production activities at its El Dorado, Arkansas site not anticipated, the Chemical Business' Environmental Impairment Insurance policy ("EIL Policy") not providing coverage to the Company and the Chemical Business for any material claims made by claimants referred to in Note 4 or if a court finds the Company and/or the Chemical Business liable for damages to claimants referenced in Note 4 for damages for a material amount in excess of limits of coverage of the EIL Policy.

ERNST & YOUNG

2600 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 March 31, 1996, and the related condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 1996 and 1995. 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, 1995, and the related consolidated statements of operations , and stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 26, 1996, 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, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

April 19, 1996 /s/ ERNST & YOUNG LLP

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item

3 of its Form 10-K for the fiscal period ended December 31, 1995, which Item 3 is incorporated by reference herein.

During April, 1996, the Company was advised that the Chemical Business' El Dorado, Arkansas, facility was no longer listed in the Environmental Protection Agency's ("EPA") data-based tracking system as a CERCLIS site.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

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

11.1 Statement Re: Computation of Per Share Earnings.

15.1 Letter Re: Unaudited Interim Financial Information.

27.1 Financial Data Schedule

(B) Reports of Form 8-K. The Company did not file any reports on Form 8-K during the quarter ended March 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf on this 14th day of May, 1996

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

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

By: /s/ Jim D. Jones

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

PRIMARY EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31, 1996	1995
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	12,911,447	13,060,566
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	270	180
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	-
Purchases of treasury stock; calculated on weighted average basis	(330)	(13,950)
	12,911,387	13,046,796
Common Stock equivalents:		
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	-	823,140
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	-	(317,680)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	-
	-	505,460
	12,911,387	13,552,256
Earnings for primary earnings per share:		
Net earnings (loss)	$ (531,218)	$1,448,092
Dividends on cumulative preferred stocks	(75,520)	(75,880)
Dividends on convertible, exchangeable Class C preferred stock (6.5% annually)	(743,438)	(743,437)
Earnings (loss) applicable to common stock	$(1,350,176)	$ 628,775
Earnings (loss) per share	$(.10)	$.05

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31, 1996	1995
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	12,911,387	13,046,796
Shares issuable upon exercise of options and warrants	-	823,140
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	-	(300,737)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion		-
Common shares issuable upon conversion of convertible note payable	-	4,000
Common shares issuable upon conversion of convertible preferred stock, if		

dilutive, from date of issue:		
Series B	-	-
	12,911,387	13,573,199
Earnings for fully diluted earnings per share:		
Net earnings (loss)	$ (531,218)	$1,448,092
Dividends on cumulative convertible preferred stocks:		
Series B	(75,520)	(75,880)
Series 2 Class C	(743,438)	(743,437)
Earnings (loss) applicable to common stock	$(1,350,176	$ 628,955
Earnings (loss) per share	$(.10)	$.05

Exhibit 15.1

ERNST & YOUNG LLP
100 North Broadway
Oklahoma City, OK 73102
Phone: 405 278 6800
Fax: 405 278 6823
Fax: 405 278 6834

April 19, 1996

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) and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectus of our report dated April 19, 1996 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 March 31, 1996.

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,

/s/ Ernst & Young LLP

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LSB INDUSTRIES, INC.
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DEC-31-1996
MAR-31-1996
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52,095
2,341
66,881
126,642
155,043
68,767
245,725
58,527
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