

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 September 30, 1997

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 I.R.S. Employer Identification

incorporation or organization 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  No

The number of shares outstanding of the Registrant's voting Common Stock, as of November 11, 1997 is 12,791,086 shares excluding 2,222,390 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 September 30, 1997, the condensed consolidated statements of operations for the nine month and three month periods ended September 30, 1997 and 1996 and the consolidated statements of cash flows for the nine month periods ended September 30, 1997 and 1996 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 the Form 10-Q. The financial statements mentioned above are unaudited and reflect all 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 nine months and three months ended September 30, 1997 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1996, was derived from audited financial statements as of that date.

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at September 30, 1997 is unaudited)  
(Dollars in thousands)

	September 30, 1997	December 31, 1996
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,482	\$ 1,620
Trade accounts receivable, net of allowance	55,915	50,791
Inventories:		
Finished goods	33,048	36,304
Work in process	8,582	12,084
Raw materials	23,812	19,594
	-----	-----
Total inventories	65,442	67,982
Supplies and prepaid items	7,933	7,217
	-----	-----
Total current assets	131,772	127,610
Property, plant and equipment, net	118,319	103,143
Investments and other assets:		
Loans receivable, secured by real estate	684	15,010
Other assets, net of allowance	17,372	15,521
	-----	-----
	18,056	30,531
	-----	-----
	\$ 268,147	\$ 261,284
	=====	=====

(Continued on following page)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Continued)  
(Information at September 30, 1997 is unaudited)  
(Dollars in thousands)

	September 30, 1997	December 31, 1996
	-----	-----
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Drafts payable	\$ 409	\$ 536
Accounts payable	35,180	41,796
Accrued liabilities	12,952	12,780
Current portion of long-term debt	16,321	13,007
	-----	-----
Total current liabilities	64,862	68,119
Long-term debt	141,881	119,277
Contingencies (Note 4)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,539 shares issued and outstanding	146	146
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, 15,013,476 shares issued (14,868,476 in 1996)	1,501	1,489
Capital in excess of par value	38,228	37,843
Accumulated deficit	(14,269)	(2,706)
	-----	-----
	73,460	84,626
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 2,222,390 shares (1,907,120 in 1996)	12,002	10,684
	-----	-----
Total stockholders equity	61,258	73,742
	-----	-----
	\$ 268,147	\$ 261,284

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
Nine Months Ended September 30, 1997 and 1996  
(Dollars in thousands, except per share amounts)

	1997	1996
Revenues:		
Net sales	\$ 239,037	\$ 235,298
Other income	5,192	3,909
	244,229	239,207
Costs and expenses:		
Cost of sales	194,195	189,729
Selling, general and administrative	48,215	41,587
Interest	10,382	9,081
	252,792	240,397
Loss before provision for income taxes	(8,562)	(1,190)
Provision for income taxes	188	187
Net loss	\$ (8,750)	\$ (1,377)
Net loss applicable to common stock (Note 3)	\$ (11,176)	\$ (3,803)
Average common shares outstanding (Note 3):		
Primary	12,988,040	13,056,160
Fully diluted	12,989,373	13,279,716
Loss per common share (Note 3):		
Primary	\$ (.86)	\$ (.29)
Fully diluted	\$ (.86)	\$ (.29)

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
Three Months Ended September 30, 1997 and 1996  
(Dollars in thousands, except per share amounts)

	1997	1996
Revenues:		
Net sales	\$ 76,536	\$ 75,923
Other income	1,391	918
	77,927	76,841
Costs and expenses:		
Cost of sales	61,995	62,394
Selling, general and administrative	16,662	14,500
Interest	3,986	3,117
	82,643	80,011
Loss before provision for income taxes	(4,716)	(3,170)
Provision for income taxes	63	48
Net loss	\$ (4,779)	\$ (3,218)
Net loss applicable to common stock (Note 3)	\$ (5,582)	\$ (4,021)
Average common shares outstanding (Note 3):		
Primary	12,831,620	12,908,541
Fully diluted	12,831,620	12,908,541
Loss per common share (Note 3):		
Primary	\$ (.44)	\$ (.31)
Fully diluted	\$ (.44)	\$ (.31)

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
Nine Months Ended September 30, 1997 and 1996  
(Dollars in thousands)

	1997	1996
Cash flows from operations:		
Net loss	\$(8,750)	\$ (1,377)
Adjustments to reconcile net loss to cash flows provided (used) by operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	7,809	6,908
Other	888	930
Provision for possible losses on receivables and other assets	1,394	1,377
Loss (gain) on sale of assets	282	(846)
Recapture of prior period provisions for loss on loans receivable secured by real estate	(1,383)	-
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(6,254)	(13,519)
Inventories	2,540	2,820
Supplies and prepaid items	(672)	(1,446)
Accounts payable	(6,616)	12,559
Accrued liabilities	(166)	955
Net cash provided (used) by operations	(10,928)	8,361
Cash flows from investing activities:		
Capital expenditures	(7,141)	(14,411)
Principal payments on notes receivable	263	410
Proceeds from sales of equipment and real estate properties	87	445
Proceeds from sale of investment securities	-	1,444
Increase in other assets	(3,101)	(1,842)
Net cash used in investing activities	(9,892)	(13,954)
Cash flows from financing activities:		
Payments on long-term and other debt	(26,290)	(11,818)
Long-term and other borrowings	54,451	19,647
Net change in revolving debt	(2,618)	2,901
Net change in drafts payable	(127)	328
Dividends paid (Note 3):		
Preferred stocks	(2,424)	(2,426)
Common stock	(389)	(389)
Purchases of treasury stock (Note 3)	(1,112)	(148)
Net proceeds from issuance of common stock	191	149
Net cash provided by financing activities	21,682	8,244
Net increase in cash	862	2,651
Cash and cash equivalents at beginning of period	1,620	1,420
Cash and cash equivalents at end of period	\$ 2,482	\$ 4,071

(See accompanying notes)

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
Nine Months Ended September 30, 1997 and 1996

Note 1: At December 31, 1996, the Company had net operating loss ( NOL ) carry forwards for tax purposes of approximately \$40 million (approximately \$7 million alternative minimum tax NOLs). Such amounts of regular tax NOLs expire beginning in 1999. The Company also has investment tax credit carry forwards of approximately \$356,000 which begin expiring in 1997.

The Company s provision for income taxes for the nine months ended September 30, 1997 of \$188,000 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, if any, 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, if any, and the assumed conversion of dilutive convertible securities outstanding, if any, after appropriate adjustment for interest and related income tax effects on convertible notes payable.

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

In February 1997, the Financial Accounting Standards Board issued statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating earnings per share, the Company's review of its earnings per share calculation indicates that the impact of Statement No. 128 on both primary and fully diluted earnings per share for the periods presented herein is not material.

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
Nine Months Ended September 30, 1997, and 1996

Note 3: The table below provides detail of activity in the Stockholders equity accounts for the nine months ended September 30, 1997:

	Common Shares -----	Stock Par Value -----	Non- redeemable Preferred -----	Capital in excess of par Value -----	Accumulated Deficit -----	Treasury Stock- Common -----	Treasury Stock- Preferred -----	Total -----
(In thousands)								
Balance at December 31, 1996	14,888	\$1,489	\$48,000	\$37,843	\$(2,706)	\$(10,684)	\$(200)	\$73,742
Net loss					(8,750)			(8,750)
Exercise of stock options:								
Cash received	61	6		185				191
Stock tendered and added to treasury at market value	64	6		200		(206)		
Dividends declared:								
Common Stock (\$.03 per share)					(389)			(389)
Series B 12% preferred stock (\$9.00 per share)					(180)			(180)
Redeemable preferred stock (\$10.00 per share)					(16)			(16)
Series 2 preferred stock (\$2.44 per share)					(2,228)			(2,228)
Purchase of treasury stock						(1,112)		(1,112)
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at September 30, 1997	(1) 15,013 =====	\$ 1,501 =====	\$ 48,000 =====	\$ 38,228 =====	\$(14,269) =====	\$(12,002) =====	\$( 200) =====	\$ 61,258 =====

(1)  
Includes 2,222,390 shares of the Company's Common Stock held in treasury. Excluding the 2,222,390 shares held in treasury, the outstanding shares of the Company's Common Stock at September 30, 1997 were 12,791,086.

Note 4: Commitments and Contingencies

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

A. Administrative Proceedings

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, if any, is unknown. No provision for any liability which may result has been made in the accompanying financial statements.

The Company submitted to the State of Arkansas a Groundwater Monitoring Work Plan for its El Dorado, Arkansas plant (the El Dorado Facility), which was approved by the State of Arkansas. Pursuant to the Groundwater Monitoring Work Plan, the Company has performed phase I and II groundwater investigations, and submitted a risk assessment report to the State of Arkansas. The risk assessment report is currently being reviewed by the State of Arkansas.

On February 12, 1996, the Company entered into a Consent Administrative Agreement (Administrative Agreement) with the State of Arkansas to resolve certain compliance issues associated with nitric acid concentrators at the El Dorado Facility. Pursuant to the Administrative Agreement the Company installed additional pollution control equipment to address the compliance issues. The Company was assessed and paid \$50,000 in civil penalties associated with the Administrative Agreement. In the summer of 1996 and then on January 28, 1997, the Company executed amendments to the Administrative Agreement (Amended Agreements). The Amended Agreements imposed a \$150,000 civil penalty as well as a payment

of \$50,000 to fund certain environmental projects, which penalty and additional sum have been paid. Since the 1997 amendment, the Company's Chemical Business has been assessed stipulated penalties of approximately \$55,000 by the Arkansas Department of Pollution Control and Ecology ("ADPC&E") for violations of certain provisions of the 1997 Amendment. The Chemical Business believes that the El Dorado Plant has made progress in controlling certain off-site emissions; however, such off-site emissions have occurred and continue to occur from time to time, which could result in the assessment of additional penalties against the Chemical Business by the ADPC&E for violation of the 1997 amendment.

## B. Legal Proceedings

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

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

The Company's insurance carriers have been notified of these matters. The Company and the Chemical Business maintain an Environmental Impairment Insurance Policy ("EIL Insurance") that provides coverage to the Company and the Chemical Business for certain discharges, dispersals, releases, or escapes of certain contaminants and pollutants into or upon land, the atmosphere or any water course or body of water from the Site, which has caused bodily injury, property damage or contamination to others or to other property not on the Site. The EIL Insurance provide limits of liability for each loss up to \$10.0 million and a similar \$10.0 million limit for all losses due to bodily injury or property damage, except \$5.0 million for all remediation expenses, with the maximum limit of liability for all claims under the EIL Insurance not to exceed \$10.0 million for each loss or remediation expense and \$10.0 million for all losses and remediation expenses. The EIL Insurance also provides a retention of the first \$500,000 per loss or remediation expense that is to be paid by the Company. The Company's Chemical Business has spent an amount in excess of \$500,000 in legal, expert and other costs in connection with the toxic tort and citizen lawsuits described in the following paragraph which the Company expensed and has made a claim against its EIL Insurance for reimbursement of the legal, expert and other costs paid by the Chemical Business in excess of \$500,000 and to pay such legal, expert and other costs on an on-going basis. In September 1997, the Company and the EIL Insurance Carrier agreed that the EIL Insurance Carrier will reimburse the Chemical Business for certain expenses in excess of retention, and pay such future fees and expenses, subject to a reservation of rights relating to the citizens' suit.

A civil cause of action has been filed against the Company's Chemical Business and five (5) other unrelated commercial explosives manufacturers alleging that the defendants allegedly violated certain federal and state antitrust laws in connection with alleged price fixing of certain explosive products. The plaintiffs are suing for an unspecified amount of damages, which, pursuant to statute, plaintiffs are requesting be trebled, together with costs. Based on the information presently available to the Company, the Company does not believe that the Chemical Business conspired with any party, including but not limited to the five (5) other defendants, to fix prices in connection with the sale of commercial explosives. Discovery has only recently commenced in this matter. The Chemical Business intends to vigorously defend itself in this matter.

The Company's Chemical Business has been added as a defendant in a separate lawsuit pending in Missouri. This lawsuit alleges a national conspiracy, as well as a regional conspiracy, directed against explosive customers in Missouri and seeks unspecified damages. The Company's Chemical Business has been included in this lawsuit because it sold products to customers in Missouri during a time in which other defendants have admitted to participating in an antitrust conspiracy, and because it has been sued in the preceding described lawsuit. Based on the information presently available to the Company, the Company does not believe that the Chemical Business conspired with any party, to fix prices in connection with the sale of commercial explosives. The Chemical Business intends to vigorously defend itself in this matter.

For several years, certain members of the explosives industry have been the focus of a grand jury investigation being supervised by the U.S.

Department of Justice("DOJ") in connection with criminal antitrust allegations involving price fixing. Certain explosives companies, other than the Company, including all the Company's major competitors, and individuals employed by certain of those competitors, were indicted and have pled guilty to antitrust violations. The guilty pleas have resulted in nearly \$40 million in criminal fines. In connection with the grand jury investigation, the Company's Chemical Business received and has complied with two document subpoenas, certain of the Company's Chemical Business' employees have been interviewed by the DOJ under grants of immunity from prosecution, and certain of the Company's Chemical Business employees have testified under subpoena before the grand jury under grants of immunity in connection with the investigation. The Company believes that it has cooperated fully with the government's investigation. Recently, the Company has been informed by an official of the DOJ that it is not currently a target of the above investigation or of any grand jury investigating criminal antitrust activity in the explosives or ammonium nitrate industries.

During the third quarter of 1997, a subsidiary of the Company was served with a lawsuit in which approximately 27 plaintiffs have sued approximately 13 defendants, including a subsidiary of the Company alleging personal injury and property damage for undifferentiated compensatory and punitive damages of approximately \$7,000,000. Specifically, the plaintiffs assert blast damage claims, nuisance (road dust from coal trucks) and personal injury claims (exposure to toxic materials in blasting materials) on behalf of residents living near the Heartland Coal Company ("Heartland") strip mine in Lincoln County, West Virginia. Heartland employed the subsidiary to provide blasting materials and personnel to load and shoot holes drilled by employees of Heartland. Down hole blasting services were provided by the subsidiary at Heartland's premises from approximately August 1991, until approximately August 1994. Subsequent to August 1994, the subsidiary supplied blasting materials to the reclamation contractor at Heartland's mine. In connection with the subsidiary's activities at Heartland, the subsidiary has entered into a contractual indemnity to Heartland to indemnify Heartland under certain conditions for acts or actions taken by the subsidiary for which the subsidiary failed to take, and Heartland is alleging that the subsidiary is liable thereunder for Heartland's defense costs and any losses to or damages sustained by, the plaintiffs in this lawsuit. Discovery has only recently begun in this matter, and the Company intends to vigorously defend itself in 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 not presently probable of material loss, are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts that unfavorable disposition would not have a material effect on the financial position of the Company, but could have a material impact to the net income (loss) of a particular quarter or year, if resolved unfavorably.

#### Debt Guarantee

The Company has guaranteed approximately \$2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company, in exchange for a 25.6% ownership interest, to which no value has been assigned as of September 30, 1997. The Company has advanced the aviation company \$341,000 as of September 30, 1997 and is accruing losses of the aviation company based on its ownership percentage. As a result, the Company has recorded losses of \$1,778,500 (\$562,500 in the first nine months of 1997, and \$525,000 and \$590,000 in the years ended December 31, 1996 and 1995, respectively) related to the debt guarantee. The debt guarantee relates to a \$2 million term note and up to \$600,000 of a \$2 million revolving credit facility. The \$2 million term note requires interest only payments through September 1998; thereafter; it requires monthly principal payments of \$11,111 plus interest beginning in October 1998 until it matures on August 8, 1999, at which time all outstanding principal and unpaid interest are due. In the event of a default of this note, the Company would be required to assume payments on the note with the term extended until August 2004. The \$2 million revolving credit facility, on which a subsidiary of the Company has guaranteed up to \$600,000 of indebtedness, had a balance of approximately \$1.3 million as of September 30, 1997.

#### Nitric Acid Project

In June 1997, two wholly owned subsidiaries of the Company, El Dorado Chemical Company ("EDC"), and El Dorado Nitrogen Company ("EDNC"), entered into a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, EDNC will act as an agent to construct, and upon completion of construction, will operate a nitric acid plant (the "EDNC Baytown Plant") at Bayer's Baytown, Texas chemical facility. EDC has guaranteed the performance of EDNC's obligations under the Bayer Agreement. Under the terms of the Bayer Agreement, EDNC is to lease the EDNC Baytown Plant pursuant to an operating lease from an unrelated third party with an initial lease term of ten years from the date on which the EDNC Baytown Plant becomes fully operational. Upon expiration of the initial ten-year term from the date the EDNC Baytown Plant becomes operational, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer Agreement may opt against renewal. Under the terms of the Bayer Agreement, Bayer has agreed to purchase from EDNC their required amount of nitric acid used or to be used by Bayer at

its Baytown, Texas facility for ten years from the date on which EDNC Baytown Plant becomes fully operational. The Bayer Agreement provides that Bayer will make certain net monthly payments to EDNC which will be sufficient for EDNC to recover all of its costs plus a profit. It is anticipated that construction of the EDNC Baytown Plant will cost approximately \$60 million and will be completed by late 1998. Construction financing of the EDNC Baytown Plant is to be provided by an unaffiliated lender. Neither the Company nor EDC has guaranteed any of the lending obligations for the EDNC Baytown Plant.

#### 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 September 30, 1997 Condensed Consolidated Financial Statements.

#### OVERVIEW

The Company is pursuing a strategy of concentrating on businesses and product lines in niche markets where the Company can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of inventory on which it is not realizing an acceptable return nor does it have the potential to do so.

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

In addition, the Company is liquidating certain slow moving inventory in the Industrial Products Business in the ordinary course of business. The Company presently intends to limit the Industrial Products Business to lines of machine tools which the Company believes will result in an acceptable return on capital employed.

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

Information about the Company's continuing operations in different industry segments for the nine months and three month ended September 30, 1997 and 1996 is detailed below.

	Nine Months		Three Months	
	1997	1996	1997	1996
	----	----	----	----
	(In thousands)			
	(Unaudited)			
Net Sales:				
Chemical	\$ 122,853	\$ 129,132	\$32,658	\$39,014
Climate Control	77,526	66,368	29,704	24,856
Automotive Products	27,245	28,849	10,208	8,111
Industrial Products	11,413	10,949	3,966	3,942
	\$ 239,037	\$ 235,298	\$ 76,536	\$ 75,923
	=====	=====	=====	=====
Gross profit:				
Chemical	\$ 16,388	\$ 21,318	\$ 3,605	\$ 5,202
Climate Control	22,469	16,809	8,786	6,554
Automotive Products	3,311	5,029	1,085	1,024
Industrial Products	2,674	2,413	1,064	749
	\$ 44,842	\$ 45,569	\$ 14,540	\$ 13,529
	=====	=====	=====	=====
Operating profit (loss):				
Chemical	\$ 5,288	\$ 11,421	\$ 554	\$ 1,596
Climate Control	7,721	4,259	3,330	1,958
Automotive Products	(4,447)	(1,998)	(1,559)	(1,308)
Industrial Products	(880)	(1,668)	(170)	(623)
	7,682	12,014	2,155	1,623
General corporate expenses	(5,862)	(4,123)	(2,886)	(1,676)
Interest expense	(10,382)	(9,081)	(3,986)	(3,117)
	-----	-----	-----	-----
Loss before provision for income taxes	\$ (8,562)	\$ (1,190)	\$ (4,717)	\$ (3,170)
	=====	=====	=====	=====



Gross profit by industry segment represents net sales less cost of sales. Operating profit (loss) 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) for the first nine months declined from \$12.0 million in 1996 to \$7.7 million in 1997, while sales increased approximately 2.0%. The decline in operating profit, coupled with increases in general corporate expenses, primarily legal fees, and interest expense, resulted in a loss before income taxes for the first nine months of 1997 of approximately \$8.6 million.

#### Chemical Business

Beginning in 1994, the results of operation of the Chemical Business have been adversely impacted by the high costs of anhydrous ammonia. From its most recent cyclical low in 1986 through 1993, the average Gulf Coast price (the Spot Price) of anhydrous ammonia was approximately \$100 per ton. During 1994 and in each of the years since, a tightness in supply developed which resulted in an increase in the Spot Price of anhydrous ammonia to an average of approximately \$195 per ton. The Company believes that the tightness in supply of anhydrous ammonia that emerged in 1994 was a result of increased industrial usage as the U.S. economy grew, a net consolidation of the domestic capacity and a disruption in supply coming from the former Soviet Union. Although prices for anhydrous ammonia vary considerably from month to month, the annual average price has remained high for each of the last three years. The Company currently purchases approximately 220,000 tons of anhydrous ammonia per year under two contracts, both effective as of January 1, 1997. The Company's purchase price of anhydrous ammonia under these contracts can be higher or lower than the Spot Price of anhydrous ammonia. The higher prices have been partially passed on to customers; however, the entire cost increase could not be offset resulting in lower gross profit margins during each of the periods since the increase. The Company believes there is approximately 2 million tons of additional capacity being constructed in the western hemisphere scheduled for completion in 1998 and 1999. The company believes this additional capacity may contribute to a decline in the market price of anhydrous ammonia.

During 1994, the Company undertook construction of a concentrated nitric acid plant at its El Dorado Facility (the "DSN" Plant). The DSN Plant began operations in 1995, but due to certain mechanical and design problems, production of concentrated nitric acid since start-up has been limited. The limitations on production resulted in significant fixed costs being expended as period costs during the fourth quarter of 1996, and the first nine months of 1997, rather than being absorbed as cost of product being produced and sold. In addition, significant amounts were expended for engineering, consulting, and other costs to bring the DSN Plant up to the stated capacity. During the annual maintenance turnaround in September 1997, management implemented corrective actions which it believes will now allow the DSN Plant to operate at its stated capacity and to fully absorb the costs and produce a quality product. In early October 1997, the DSN Plant was restarted and is currently operating at its stated capacity of 285 tons per day (assuming 338 days of annual production).

After the initial start up of the DSN Plant, certain residents of El Dorado, Arkansas and the ADPC&E (as defined) alleged that the El Dorado Facility's air emissions were in violation of its existing permit requirements. As a result, the Chemical Business entered into certain agreements with the ADPC&E, including, in 1995, an administrative order which has since been amended, and which imposed certain requirements on, and assessed penalties against, the Company. See Note 4 of Notes to Condensed Consolidated Financial Statements. In addition, certain lawsuits were filed by plaintiffs living in the El Dorado, Arkansas, community. See Note 4 of Notes to Condensed Consolidated Financial Statement. In order to address the ADPC&E's concerns, and to defend itself in these lawsuits, significant expenditures were made for consultants, lawyers, and other related fees and expenses, as well as for significant capital improvements to the air emission control equipment at the El Dorado Facility. A substantial portion of the litigation-related costs are not expected to reoccur. Furthermore, although these expenses were absorbed by the Company as they were incurred, the Company's EIL Insurance (as defined) has agreed to reimburse the Company for the majority of its past legal fees and expenses relating to the pending litigation, less the amount of the retention under the EIL Insurance, and to pay such future fees and expenses which may be incurred, subject to a reservation of rights regarding one of the lawsuits. See Note 4 of Notes to Condensed Consolidated Financial Statements.

A subsidiary of the Company entered into an agreement with Bayer Corporation whereby the Company's subsidiaries would act as agent to construct a nitric acid plant located within Bayer's Baytown, Texas chemical plant complex. This plant, when constructed, will be operated by the Company's subsidiary and will supply nitric acid for Bayer's polyurethane units under a long-term supply contract. Management estimates that, after the initial startup phase of operations at the plant, at full production capacity based on terms of the Bayer Agreement and on current market conditions, the plant should generate approximately \$50 million in annual revenues. Construction is scheduled to be completed by the end of 1998. See Note 4 of Notes to Condensed Consolidated Financial Statements.

#### Climate Control

The Climate Control Business two principal product lines are manufactured and sold through two operating subsidiaries: International Environmental

Corporation ( IEC ), which manufactures and markets hydronic fan coil units, and Climate Master, Inc., ( CM ), which manufactures and markets water source heat pumps, geothermal water source heat pumps, and packaged terminal air conditioners.

Due to significant changes in the market for its products, CM implemented a strategy of diversification. Several new markets were targeted, and new products were introduced. CM entered the original equipment manufacturer ( OEM ) business, introduced a new line of packaged terminal air conditioners and new rooftop water source heat pumps, entered the shared energy savings market (which primarily sells highly efficient water source heat pumps to retrofit large government installations), and emphasized and expanded the residential geothermal water source heat pump business. In addition, a new management team was recruited, and CM's operations were reorganized.

These actions were implemented over the last two years and have begun to improve operating performance for 1997. As indicated in the above table, the Climate Control Business reported improved sales (an increase of 16.8%) and improved operating profit for the first nine months of 1997 over that of the first nine months of 1996, primarily as a result of CM's increased sales of its heat pump products.

#### Automotive and Industrial Products Businesses

During the first nine months of 1997 the Automotive and Industrial Products Businesses recorded combined sales of \$38.7 million and reported an operating loss (as defined above) of \$5.3 million, as compared to combined sales of \$39.8 million and an operating loss of \$3.7 million for the first nine months of 1996, as a result of (i) lower sales, (ii) decreased absorption of manufacturing costs due to lower production volume, and (iii) increased selling, general and administrative expenses related to new advertising programs and employment of new key management personnel in the Automotive Products Business. As a result of the inventory reduction program implemented in 1995, inventories of these businesses decreased approximately \$1.8 million during the nine months ended September 30, 1997.

#### RESULTS OF OPERATIONS

Nine months ended September 30, 1997 vs. Nine months ended September 30, 1996

##### Revenues

Total revenues for the nine months ended September 30, 1997 and 1996 were \$244.2 million and \$239.2 million, respectively (an increase of \$5.0 million). Sales increased \$3.7 million. Other income increased \$1.3 million. In February 1997, the Company exercised its option to acquire an office building in Oklahoma City, Oklahoma (the "Tower"), by foreclosing against the balance owed the Company under a note receivable. As part of this transaction, the Company recaptured \$1.4 million of prior period provisions for potential losses on loans receivable secured by the Tower. Additionally, in 1997, the Company has recognized \$2.2 million of rental income from the Tower as compared to \$1.6 million of net rental receipts in 1996. These amounts are included in other income in 1997.

##### Net Sales

Consolidated net sales included in total revenues for the nine months ended September 30, 1997 were \$239.0 million, compared to \$235.3 million for the first nine months of 1996, an increase of \$3.7 million. This increase in sales resulted principally from increased sales in the Climate Control Business of \$11.2 million, primarily due to increased sales of CM's heat pump products, partially offset by decreased sales in the Chemical Business of \$6.3 million primarily due to reduced sales of the Company's wholly-owned Australian subsidiary, Total Energy Systems, Ltd. ("TES") due to expiration of certain customer contracts.

##### Gross Profit

Gross profit decreased \$.7 million and was 18.8% as a percent of net sales for the first nine months of 1997, compared to 19.4% for the first nine months of 1996. The decrease in the gross profit as a percentage of net sales was due primarily to (i) higher production costs in the Chemical Business due to the effect of higher prices of anhydrous ammonia and unabsorbed overhead costs caused by excessive downtime related to modifications made to resolve problems associated with mechanical failures and the cost of environmental matters at the Chemical Business' primary manufacturing plant, partially offset by a reduction in cost of sales of \$2.1 million through recapture of manufacturing variances of the Chemical Business in the form of business interruption insurance settlements, and (ii) decreased absorption of costs due to lower production volumes in the Automotive Products Business; partially offset by (iii) increased absorption of costs due to higher production volumes and focus on sales of more profitable product lines in the Climate Control Business.

##### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 20.2% and 17.7% in the nine month periods ended September 30, 1997 and 1996, respectively. Approximately \$1.5 million of the \$6.6 million increase is due to the operations of the Tower in 1997 as discussed elsewhere in this report. The remaining increase is primarily the result of increased bad debt provisions, increased professional fees related to environmental matters in the Chemical Business and decreased sales volume without a

corresponding decrease in SG&A in the Automotive Products Business and TES.

#### Interest Expense

Interest expense for the Company, before deducting capitalized interest, was approximately \$11.5 million during the nine months ended September 30, 1997 compared to approximately \$9.1 million during the nine months ended September 30, 1996. The 1997 increase of \$2.4 million before the effect of capitalization primarily resulted from increased borrowings to fund capital expenditures in the Chemical Business. During the first nine months of 1997 the Company capitalized approximately \$1.1 million of interest expense in connection with the construction of a concentrated nitric acid plant.

#### Income Before Taxes

The Company had a loss before income taxes of \$8.6 million in the first nine months of 1997 compared to a loss before income taxes of \$1.2 million in the nine months ended September 30, 1996. The decreased profitability was primarily due to the factors discussed above.

#### 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 nine month periods ended September 30, 1997 and September 30, 1996 are for current state income taxes and federal alternative minimum taxes.

Three months ended September 30, 1997 vs. Three months ended September 30, 1996.

#### Revenues

Total revenues for the three months ended September 30, 1997 and 1996 were \$77.9 million and \$76.8 million, respectively (an increase of \$1.1 million). Sales increased \$.6 million. Other income increased \$.5 million primarily due to rental income from the Tower of \$.8 million in 1997 as compared to \$.4 million of net rental receipts in 1996.

#### Net Sales

Consolidated net sales included in total revenues for the three months ended September 30, 1997 were \$76.5 million, compared to \$75.9 million for the third quarter of 1996, an increase of \$.6 million. This increase in sales resulted principally from (i) increased sales in the Climate Control Business of \$4.8 million, primarily due to increased sales of CM's heat pump products, and (ii) increased sales in the Automotive Products Business of \$2.1 million, offset by (iii) decreased sales in the Chemical Business of \$6.4 million primarily due to unfavorable weather and market conditions in 1997 for agricultural products in the Chemical Business market area and lower sales of \$3.3 million at TES due to expiration of certain customer contracts.

#### Gross Profit

Gross profit increased \$1.0 million and was 19.0% as a percent of net sales for the third quarter of 1997, compared to 17.8% as a percent of net sales for the third quarter of 1996. The improvement in the gross profit percentage was due primarily to (i) higher prices and increased absorption of costs due to higher production volumes in the Climate Control Business, and (ii) improved profit margins on sales of machine tools in the Industrial Products Business; offset by (iii) lower margins due to product mix in the Automotive Products Business, and (iv) higher production costs in the Chemical Business due to the effect of higher cost of anhydrous ammonia which the Chemical Business could not fully pass along to customers and downtime experienced at the El Dorado Facility due to mechanical problems, partially offset by an \$800,000 insurance settlement.

#### Selling, General and Administrative Expense

SG&A expenses as a percent of net sales were 21.8% and 19.1% in the three month periods ended September 30, 1997 and 1996, respectively. Approximately \$.7 million of this increase is due to the operations of the Tower in 1997 as discussed elsewhere in this report. The remaining increase is primarily the result of increased professional fees related to litigation matters as discussed in Note 4 of Notes to Condensed Consolidated Financial Statements compounded by lower sales in the Chemical Business.

#### Interest Expense

Interest expense for the Company was approximately \$4.0 million during the three months ended September 30, 1997 compared to approximately \$3.1 million during the three months ended September 30, 1996. This increase resulted primarily from higher average balances of borrowed funds to fund capital expenditures in the Chemical Business.

#### Income Before Taxes

The Company had a loss before income taxes of \$4.7 million in the third quarter of 1997 compared to a loss before income taxes of \$3.2 million in the three months ended September 30, 1996. The decreased profitability of \$1.5

million was primarily due to the 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 month periods ended September 30, 1997 and September 30, 1996 are for current state income taxes and federal alternative minimum taxes.

#### Liquidity and Capital Resources

##### Cash Flow From Operations

The Company's primary cash needs historically have been for operating expenses, working capital and capital expenditures. The Company has financed its cash requirements primarily through internally generated cash flow and borrowings under its debt facilities.

Cash flows from operations before changes in working capital items were \$.2 million and \$7.0 million for the nine months ended September 30, 1997 and 1996, respectively. During the nine months ended September 30, 1997, net cash flows used in operating activities were \$10.9 million while the nine months ended September 30, 1996 provided net cash flows of \$8.4 million. This reduction in cash flows provided from operations of \$19.3 million resulted primarily from lower earnings of \$7.4 million and an increase in working capital of \$12.5 million. The increase in working capital is due primarily to a net decrease in account payable primarily due to use of proceeds from the \$50 million long-term financing discussed elsewhere in this report.

##### Cash Flow From Investing And Financing Activities

Cash used by investing activities included \$7.1 million in capital expenditures (primarily in the Chemical Business) and increased other assets of \$3.1 million due primarily to (i) a \$1.0 million advance to a French manufacturer of HVAC equipment as discussed further under "Joint Ventures and Options to Purchase", and (ii) \$.8 million of deposits made in connection with an interest rate hedge contract related to the agreement with Bayer. See Note 4 of Notes to Condensed Consolidated Financial Statements. Net cash provided by financing activities included (i) term borrowings of \$54.5 million, including proceeds from the new \$50 million financing discussed under "Sources of Funds", (ii) payments on term debt of \$26.3 million, including \$19.1 million in prepayments of debt with proceeds from the new \$50 million financing, (iii) decreases in revolving debt of \$2.6 million, (iv) dividends of \$2.8 million, and (v) treasury stock purchases of \$1.1 million.

During the first nine months of 1997, the Company paid the following aggregate dividends: (1) \$9.00 per share on each of the 20,000 outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (2) \$2.44 per share on each outstanding share of its \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; (3) \$.03 per share on each outstanding share of its Common Stock; and (4) \$10.00 per share on each of the 1,539 outstanding shares of its Redeemable Preferred Stock.

##### Sources of Funds

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

On February 13, 1997 the Company's wholly-owned subsidiaries, El Dorado Chemical Company, Slurry Explosive Corporation, and Northwest Financial Corporation. (collectively "Borrowers") completed a \$50 million long-term financing agreement ("Financing") with an institutional lender. The Financing is secured by a first mortgage lien on the Chemical Business' property, plant, and equipment located in El Dorado, Arkansas and owned by the Borrowers, except rolling stock and excluding the DSN Plant which is security under a separate loan agreement. The \$50.0 million Financing consists of \$25.0 million of fixed rate notes bearing interest at 10.57% per annum and \$25.0 million of floating rate notes bearing interest at LIBOR plus 4.2% (initially 9.76%). Repayment of the notes is due in quarterly installments of \$833,332 plus interest commencing on July 1, 1997 through April 2004 at which time the balance is due. The Financing requires the Borrowers to maintain certain financial ratios and contains other financial covenants, including the ratio of funded debt to total capitalization, current ratio, and fixed charge coverage ratio, in addition to net worth and working capital requirements. As of the date of this report, the Borrowers are in compliance with all financial covenants required by the loan agreement related to the Financing. The Financing also contains certain restrictions on transactions with affiliates. The Financing limits the amount of dividends or distributions by the Borrowers to an amount equal to payments for federal income taxes determined as if the Borrowers filed returns on a separate company basis and dividends up to 50% of the Borrowers' prior year net income. The annual interest on the \$49.2 million in outstanding debt under the Financing at September 30, 1997, at the rates then in effect, would approximate \$5.1 million.

The Company and certain of its subsidiaries are parties to a working capital line of credit evidenced by six separate loan agreements ("Agreements"), as amended 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 \$65.0 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Agreements provide for interest at the reference rate as defined (which approximates the national prime rate) plus 1.5%, or the Eurodollar rate plus 3.875%. At September 30, 1997 the effective interest rate was 10%. The annual interest on the outstanding debt under the Revolver at September 30, 1997 at the rates then in effect would approximate \$5.3 million. At September 30, 1997, additional amounts that the Company could have borrowed under the Agreements, based on eligible collateral, were approximately \$5.0 million. Borrowings under the Revolver outstanding at September 30, 1997, were \$52.7 million. The Revolver has a scheduled termination date of October 1, 1998, and as of September 30, 1997, the Company was not in compliance with its financial covenants relating to tangible net worth and debt-to-worth. The Lender has waived such defaults as of September 30, 1997 and has reset the Company's tangible net worth and debt-to worth financial covenants through the termination date.

In addition to the Agreements discussed above, the Company had the following term loans in place as of September 30, 1997:

- (1) 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. These loan agreements are for a \$16.5 million term loan (the "DSN Permanent Loan"), which was used to construct, equip, re-erect, and refurbish the DSN Plant being placed into service by the Chemical Business at its El Dorado, Arkansas facility; a loan for approximately \$1.2 million to purchase additional railcars to support the DSN Plant (the "Railcar Loan"); and a loan for approximately \$1.1 million to finance the construction of a mixed acid plant (the "Mixed Acid Plant") in North Carolina (the "Mixed Acid Loan"). At September 30, 1997, DSN had outstanding borrowings of \$12.3 million under the DSN Permanent Loan, \$.8 million under the Mixed Acid Loan, and \$.9 million under the Railcar Loan. The loans have repayment schedules of eighty-four (84) consecutive monthly installments of principal and interest. The interest rate on each of the loans is fixed and range from 8.15% to 8.86%. Annual interest, for the three notes as a whole, at September 30, 1997 at the agreed to interest rates would approximate \$1.2 million. The loans are secured by the various DSN and Mixed Acid Plant property and equipment, and all railcars purchased under the Railcar Loan. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. At September 30, 1997, the Company was not in compliance with its financial covenant related to tangible net worth. The Financing Company has waived such default as of September 30, 1997 and has reset the Company's financial covenants through December 31, 1998.
- (2) As of September 30, 1997, a subsidiary of the Company, Prime Financial Corporation ("Prime"), was a party to a loan agreement ("Loan Agreement") with a national bank ("Bank") relating to real property and an office building located in Oklahoma City, Oklahoma (the Tower). The Loan Agreement, as modified, requires interest per annum at a rate equal to three quarters of one percent (.75%) above the prime rate in effect from day to day as published in the Wall Street Journal. The outstanding principal balance of the Loan Agreement was \$12.7 million at September 30, 1997 and is payable in sixty (60) monthly payments of principal and interest.

In February 1997, the Company exercised its option to purchase the Tower, which option was granted to the Company in connection with the Loan Agreement, by paying approximately \$140,000 for the exercise price under the purchase option and related costs and foreclosing against the balance owed the Company under a note receivable. Accordingly \$14.0 million of carrying value was transferred to property, plant and equipment.

Prime currently has a commitment from a bank to refinance the Loan Agreement. The commitment provides for a loan to Prime of \$19.5 million payable over sixty months at an interest rate equal to LIBOR plus 1.75%. Such loan would be secured by a first mortgage on the Tower, and Prime's obligations under the loan and mortgage would be guaranteed by the Company. Completion of the proposed refinancing is subject to, among other things, the negotiation of a definitive loan agreement. There are no assurances that Prime will be able to complete the proposed refinancing.

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 Climate Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by cash flow generated by the Company and the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be satisfied by scheduled reductions in the inventories of the Automotive Products Business. In the remaining three months of 1997, the Company has planned capital expenditures of approximately \$1.5 million, primarily in the Chemical Business.

As previously disclosed, SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company, including, but not limited to, Barry H. Golsen, son

of Jack E. Golsen and Vice Chairman of the Board of the Company, proposed to the Company that SBL is willing to infuse into the Company \$3 million of new equity. Under such proposal, SBL proposed that the Company issue to SBL for such \$3 million three million (3,000,000) shares of a newly created series of preferred stock, with (i) each share of preferred stock having one (1) vote and voting with the Common Stock of the Company as a single class and bearing a dividend rate of 10% per annum, with such dividends being cumulative, (ii) such preferred stock to be convertible into Common Stock of the Company held by the Company as treasury shares at a conversion rate to be negotiated, and (iii) the preferred stock containing such other terms, rights and preferences as are standard in such series of preferred stock.

The Board of Directors established a special committee of the Board ("Committee") consisting of four (4) outside and independent directors. The Committee was given full power and authority to evaluate the proposal for the Company, negotiate the terms and provisions of such transaction, if any, retain legal, financial and other advisors to assist the Committee in performance of its duties, and, if such preferred is to be issued, to fix and establish the terms thereof and authorize the issuance of such preferred on terms approved by the Committee. The Committee is currently in the process of evaluating the proposal; however, as of the date of this report, the committee has not made any recommendations to the Board of Directors. There are no assurances that this transaction will be completed, or, if completed, that the terms of such transaction will be as set forth in the proposal by SBL.

On October 17, 1997, Prime borrowed from SBL the principal amount of \$3 million (the "Prime Loan") payable on demand, with interest payable monthly in arrears at a variable interest rate equal to the Wall Street Journal Prime Rate plus 2% per annum. The purpose of the loan is to assist the Company by providing additional liquidity. The Company has guaranteed the Prime Loan. It is anticipated that the Prime Loan will be repaid before the proposal by SBL is completed, if completed.

Management believes that its presently anticipated 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. The above sentence, and certain statements contained in the preceding paragraphs under Sources of Funds are forward-looking statements that involve 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 reduce inventories, inability to collect a material amount of receivables, required capital expenditures in excess of those presently anticipated, or the Company is unable to finance such capital expenditures on terms acceptable to the Company, 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. Although the Company has planned capital expenditures, there are no material irrevocable commitments to such at the date of this report. The commitment to act a agent for an unrelated third party to build the nitric acid plant discussed in Note 4 to Notes to Condensed Financial Statements is to be financed by an unaffiliated lender.

#### Foreign Subsidiary Financing

The Company's wholly-owned Australian subsidiary, TES, has a revolving credit working capital facility (the TES Revolving Facility) with Bank of New Zealand, Australia of approximately AUS\$8.5 million (approximately US\$6.1 million). The TES Revolving Facility allows for borrowings based on specific percentages of qualified eligible assets. Based on the effective exchange rate at September 30, 1997, approximately US\$5.5 million (AUS\$7.7 million approximately) was borrowed at September 30, 1997. Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from LSB and certain subsidiaries of TES. The interest rate on this debt is dependent upon the borrowing option elected by TES and had a weighted average rate of 8.1% at September 30, 1997. TES is in technical non-compliance with a certain financial covenant contained in the loan agreement involving the TES Revolving Facility. However, this covenant was not met at the time of closing of this loan and the Bank of New Zealand has continued to extend credit under the Facility. The outstanding borrowing under the TES Revolving Facility at September 30, 1997 has been classified as due within one year in the accompanying Condensed Consolidated Financial Statements.

The Company is in negotiations with Bank of New Zealand to amend the TES Revolving Facility to allow for borrowings up to an aggregate of AUS\$11 million (approximately US\$7.9 million). This AUS\$11 million will be broken down into three parts: (a) AUS\$6 million revolving working capital facility; (b) AUS\$4.5 million long-term debt facility; and (c) AUS\$0.5 million leasing facility. There are no assurances that such increase will be implemented.

#### Joint Ventures and Options to Purchase

Prior to 1997, the Company, through a subsidiary, loaned \$2.9 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Climate Control Business in the USA. Under the loan agreement, the Company has the option to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. During the first nine months of 1997 the Company advanced an additional \$1 million to the French manufacturer bringing the total of the loan at September 30, 1997 to \$3.8 million. As of the date of this report, the decision has not been made to exercise such option and the \$3.8 million loan, net of a \$1.5 million valuation reserve, is carried on the books as a note receivable in

other assets.

In 1995, a subsidiary of the Company invested approximately \$2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project had been awarded a contract to retrofit residential housing units at a US Army base which it completed during 1996. The completed contract was for installation of energy-efficient equipment (including air conditioning and heating equipment), which would reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent (77%) of all energy and maintenance savings during the twenty (20) year contract term. The Project spent approximately \$17.5 million to retrofit the residential housing units at the US Army base. The Project received a loan from a lender to finance approximately \$14.0 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project.

During 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company"), which owns the remaining fifty percent (50%) equity interest in the Project discussed above, 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 and annual \$100,000 payments for yearly extensions of the stock option thereafter for up to three (3) years. Through September 30, 1997 the Company has made option payments aggregating \$1.2 million and has loaned the Optioned Company approximately \$1,241,000. The Company has recorded reserves of \$710,000 against the loans and investments. 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. As of the date of this report, no decision to exercise this option has been reached by the Company.

#### Debt Guarantee

As disclosed in Note 4 of the Notes to Condensed Consolidated Financial Statements the Company and one of its subsidiaries have guaranteed approximately \$2.6 million of indebtedness of a start up aviation company in exchange for an ownership interest. The debt guarantee relates to two note instruments. One note for which the subsidiary had guaranteed up to \$600,000 had a balance of approximately \$1.3 million as of September 30, 1997. The other note in the amount of \$2.0 million requires monthly principal payments of \$11,111 plus interest beginning in October 1998 through August 8, 1999, at which time all outstanding principal and accrued interest are due. In the event of default of the \$2.0 million note, the Company is required to assume payments on the note with the term extended until August 2004. Both notes are current as to principal and interest.

During 1996 and 1997, the aviation company received cash infusions of \$5.0 million from an unrelated third party investor for a 41.6% ownership interest in the aviation company. During 1997, the investor exercised an option to purchase additional stock of the aviation company in exchange for \$4.0 million in scheduled payments. At the date of this report, \$2.2 million of payments under this option have been received. As yet, no additional shares of stock have been issued pursuant to the option exercise.

#### Availability of Company's Loss Carryovers

The Company anticipates that its cash flow in future years will benefit from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years; however, such benefit will be limited by the Company's reduced NOL for alternative minimum tax purposes which is approximately \$7.0 million at December 31, 1996. As of December 31, 1996, the Company had available NOL carryovers of approximately \$40.0 million based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1996. These NOL carryovers will expire beginning in the year 1999.

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

#### Contingencies

As discussed in 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. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome. The preceding sentence is a forward looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, among other factors, the following:

the EIL Insurance does not provide coverage to the Company and the Chemical Business for any material claims made by the claimants, the claimants alleged damages are not covered by the EIL Policy which a court may find the Company and/or the Chemical Business liable for, such as punitive damages or penalties, a court finds the Company and/or the Chemical Business liable for damages to such claimants for a material amount in excess of the limits of coverage of the EIL Insurance or a court finds the Chemical Business liable for a material amount of damages in the antitrust lawsuits pending against the Chemical Business in a manner not presently anticipated by the Company.

#### 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 September 30, 1997, and the related condensed consolidated statements of operations for the nine-month and three-month periods ended September 30, 1997 and 1996 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1997 and 1996. 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 review, 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, 1996 and the related consolidated statements of operations, stockholders equity and cash flows for the year then ended (not presented herein); and in our report dated March 7, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Oklahoma City, Oklahoma  
November 18, 1997

/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, 1996, which Item 3 is incorporated by reference herein.

##### Item 2. Changes in Securities

Not applicable.

##### Item 3. Defaults upon Senior Securities

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:

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

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



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

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

11.1 Statement Re: Computation of Per Share Earnings.

15.1 Letter Re: Unaudited Interim Financial Information.

27.1 Financial Data Schedule.

(B) Reports on Form 8-K. The Company has filed reports on Form 8-K since July 31, 1997, as follows:

(i) A current report on Form 8-K (Item 5. Other Events ), Date of Report (Date of earliest event reported): October 17, 1997, reporting a \$3 million loan made by SBL Corporation, a corporation owned by the wife and children of the Chairman and President of the Company, to a subsidiary of the Company;

(ii) A current report on Form 8-K (Item 5. Other Events ), Date of Report (Date of earliest event reported): November 4, 1997, reporting a press release pursuant to Rule 135c promulgated under the Securities Act of 1933, as amended, in connection with a private placement debt offering by a subsidiary of the Company.

#### 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 19th day of November, 1997.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby  
-----  
Tony M. Shelby,  
Vice President of Finance  
(Principal Financial Officer)

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

NINTH AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT

THIS NINTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of June 30, 1997, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, (v) that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, (vi) that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997, (vii) that certain Seventh Amendment to Loan and Security Agreement dated as of April 11, 1997, and (viii) that certain Eighth Amendment to Loan and Security Agreement dated as of May 19, 1997 (as so amended, the "Agreement");

WHEREAS, under the Seventh Amendment Lender agreed to arrange for certain Swap Transactions to be provided by Bank to each member of the LSB Borrowing Group, with appropriate Availability Reserves to be established accordingly; and

WHEREAS, El Dorado Chemical Company ("EDC"), which is a member of the LSB Borrowing Group, has a wholly-owned Subsidiary, El Dorado Nitrogen Company ("EDNC"); and

WHEREAS, EDNC has agreed to construct a nitric acid production facility in Baytown, Texas that will be subject to a lease from Security Pacific Leasing Corporation through a trustee to EDNC; and

WHEREAS, EDNC shall pay Security Pacific Leasing Corporation's trustee approximately \$60,000,000 in lease payments (the "Lease Price") over a period of time commencing in September, 1998, and EDC wishes to lock-in on an interest rate with respect to \$50,000,000 of the Lease Price by means of the Swap Transactions; and

WHEREAS, Lender, EDC, and each member of the LSB Borrowing Group, including Borrower, have agreed that only EDC will enter into Swap Transactions directly with Bank, for which Lender will agree to indemnify Bank, but each member of the LSB Borrowing Group, including Borrower, has agreed to indemnify Lender for any liability that Lender owes to Bank resulting from the Swap Transactions; and

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

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

ARTICLE I

Definitions

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

Section 1.02. Amendment to Definition of Availability Reductions. The definition of "Availability Reductions" is hereby amended by deleting in its entirety subsection (vi).

All other subsections of the definition remain unchanged.

Section 1.03. Amendment to Definition of Obligations. The definition of "Obligations" is amended in its entirety to read as follows:

"Obligations" means all present and future loans, advances, liabilities, obligations, covenants, duties, and Debts owing by Borrower to Lender arising under this Agreement or any other Loan Document, whether or not evidenced by any note, or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, loan, guaranty, indemnification (including any indemnity to Bank by Lender in connection with the Swap Transactions or otherwise), whether direct or indirect (including, without limitation, those acquired by assignment from others relating to the SWAP Transactions, and any participation by Lender in Borrower's debts owing to others relating to the SWAP Transactions), absolute or contingent, due or to become due, primary or secondary, as principal or guarantor, and including, without limitation, all interest, charges, expenses, fees, attorneys' fees, filing fees and any other sums chargeable to Borrower or either of them, hereunder or under another Loan Document, or under any other agreement or instrument with Lender relating to the SWAP Transactions. "Obligations" includes, without limitation, (a) all debts, liabilities, and obligations now or hereafter owing from Borrower, to Lender under or in connection with the

Letters of Credit and the Letter of Credit Agreement, and (b) all debts, liabilities, and obligations now or hereafter owing from Borrower to the Lender arising from or related to Swap Transactions."

Section 1.04. Amendment to Definition of Swap Transactions. The definition of "Swap Transactions" is amended in its entirety to read as follows:

"Swap Transactions" means interest rate swaps, treasury locks, and all other forward rate agreements entered into by the Bank for the account of or otherwise for the benefit of EDC.

Section 1.05. New Definition. The following definition is hereby added to Article I of the Agreement:

" EDC means El Dorado Chemical Company, an Oklahoma corporation and a member of the LSB Borrowing Group."

## ARTICLE II

### Amendments

Section 2.01. Amendment to Section 2.5 of Article 2. Section 2.5 of Article 2 of the Agreement is hereby amended to read as follows:

"2.5. Swap Transactions. EDC may request and the Lender may, in its sole and absolute discretion, arrange for EDC to obtain Swap Transactions from the Bank in amounts to be agreed to between EDC and Bank. Borrower agrees to indemnify and hold the Lender harmless from any and all obligations now or hereafter owing by the Lender to the Bank arising from or related to such Swap Transactions pursuant to the indemnity referred to in clause (c) below. EDC agrees to pay the Bank all amounts owing to the Bank pursuant to the Swap Transactions. In the event EDC shall not have paid to the Bank such amounts, the Lender shall pay the Bank and such amounts when paid by the Lender shall constitute a Revolving Loan of EDC which shall be deemed to have been requested by EDC. EDC acknowledges and agrees that the obtaining of Swap Transactions from the Bank (a) is in the sole and absolute discretion of the Bank, (b) is subject to all rules and regulations of the Bank, and (c) is due to the Bank relying on the indemnity of the Lender to the Bank by Borrower with respect to the obligations of EDC to the Bank in connection with the Swap Transactions."

## ARTICLE III

### Ratifications, Representations and Warranties

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

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

## ARTICLE IV

### Conditions Precedent

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

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

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

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

(iii) Other Documents. Borrower shall have executed and delivered such other

documents and instruments as well as required record searches as Lender may require.

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

## ARTICLE V

### Miscellaneous

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

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

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

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

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

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

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

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

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

waived.

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

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

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

"BORROWER"

LSB INDUSTRIES, INC.

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

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

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

#### CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Ninth Amendment to Loan and Security Agreement dated as of June 30, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of June 30, 1997.

CLIMATE MASTER, INC.  
SUMMIT MACHINE TOOL  
MANUFACTURING CORP.  
INTERNATIONAL ENVIRONMENTAL  
CORPORATION  
L & S BEARING CO.

By: \_\_\_\_\_  
Tony M. Shelby, Vice President acting on  
behalf of each of the above

#### CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Ninth Amendment to Loan and Security Agreement dated as of June 30, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of June 30, 1997.

UNIVERSAL TECH CORPORATION  
LSB CHEMICAL CORP.  
L&S AUTOMOTIVE PRODUCTS CO.

(f/k/a LSB Bearing Corp.)  
INTERNATIONAL BEARINGS, INC.  
LSB EXTRUSION CO.  
ROTEX CORPORATION  
TRIBONETICS CORPORATION  
SUMMIT MACHINE TOOL SYSTEMS, INC.  
HERCULES ENERGY MFG. CORPORATION  
MOREY MACHINERY MANUFACTURING  
CORPORATION  
CHP CORPORATION  
KOAX CORP.  
APR CORPORATION

By: \_\_\_\_\_  
Tony M. Shelby, Vice President acting on  
behalf of each of the above

#### CONSENTS AND REAFFIRMATIONS

El Dorado Nitrogen Company hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Ninth Amendment to Loan and Security Agreement dated as of June 30, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (as amended, the "Guaranty") dated as of February 13, 1997, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty remains in full force and effect and the Guaranty is hereby ratified and confirmed.

Dated as of June 30, 1997.

EL DORADO NITROGEN COMPANY

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

TENTH AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT

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

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, (v) that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, (vi) that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997, (vii) that certain Seventh Amendment to Loan and Security Agreement dated as of April 11, 1997, (viii) that certain Eighth Amendment to Loan and Security Agreement dated as of May 19, 1997, and (ix) that certain Ninth Amendment to Loan and Security Agreement dated as of June 30, 1997 (as so amended, the "Agreement");

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

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

ARTICLE I

Definitions

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

ARTICLE II

Amendments

Section 2.01. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1997	\$ 64,500,000	\$ 61,000,000	\$57,400,000	\$ 57,100,000
Fiscal Year Ending December 31, 1998	\$ 54,000,000	\$ 55,200,000	\$80,400,000	\$ 80,400,000

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

Section 2.02. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1997	2.39 to 1	2.39 to 1	2.52 to 1	2.49 to 1
Fiscal Year Ending December 31, 1998	2.72 to 1	2.66 to 1	2.39 to 1	2.39 to 1

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

Section 2.03. Amendment to Section 12. The first sentence of Section 12 is hereby amended to read as follows:

"The initial term of this Agreement shall be from the Closing Date until July 1, 1998 (the "Termination Date")."

All other provisions of Section 12 remain unchanged.

### ARTICLE III

#### Ratifications, Representations and Warranties

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

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

### ARTICLE IV

#### Conditions Precedent

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

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

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

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

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

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

### ARTICLE V

#### Miscellaneous

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

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

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



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

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

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

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

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

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

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

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

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

"BORROWER"

LSB INDUSTRIES, INC.

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

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

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

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Tenth Amendment to Loan and Security Agreement dated as of September \_\_, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of September \_\_, 1997.

CLIMATE MASTER, INC.  
SUMMIT MACHINE TOOL  
MANUFACTURING CORP.  
INTERNATIONAL ENVIRONMENTAL  
CORPORATION  
L & S BEARING CO.

By: \_\_\_\_\_  
Tony M. Shelby, Vice President  
acting on behalf of each of the  
above

CONSENTS AND REAFFIRMATIONS

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

Dated as of September \_\_, 1997.

UNIVERSAL TECH CORPORATION  
LSB CHEMICAL CORP.  
L&S AUTOMOTIVE PRODUCTS CO.  
(f/k/a LSB Bearing Corp.)  
INTERNATIONAL BEARINGS, INC.  
LSB EXTRUSION CO.  
ROTEX CORPORATION  
TRIBONETICS CORPORATION  
SUMMIT MACHINE TOOL SYSTEMS, INC.  
HERCULES ENERGY MFG. CORPORATION  
MOREY MACHINERY MANUFACTURING  
CORPORATION  
CHP CORPORATION  
KOAX CORP.  
APR CORPORATION

By: \_\_\_\_\_  
Tony M. Shelby, Vice President  
acting on behalf of each of the  
above

CONSENTS AND REAFFIRMATIONS

El Dorado Nitrogen Company hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Tenth Amendment to Loan and Security Agreement dated as of September \_\_, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (as amended, the "Guaranty") dated as of February 13, 1997, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the

Guaranty remains in full force and effect and the Guaranty is hereby ratified and confirmed.

Dated as of September \_\_, 1997.

EL DORADO NITROGEN COMPANY

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

ELEVENTH AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT

EXHIBIT 4.3

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

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, (v) that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, (vi) that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997, (vii) that certain Seventh Amendment to Loan and Security Agreement dated as of April 11, 1997, (viii) that certain Eighth Amendment to Loan and Security Agreement dated as of May 19, 1997, (ix) that certain Ninth Amendment to Loan and Security Agreement dated as of June 30, 1997, and (x) that certain Tenth Amendment to Loan and Security Agreement dated as of September 10, 1997 (as so amended, the "Agreement");

WHEREAS, two Events of Default have occurred under the Agreement;

WHEREAS, the Borrower desires that the Lender waive the Events of Default and amend the Agreement in certain respects; and

WHEREAS, Borrower has also requested an increase in the Total Credit Facility to \$65,000,000 and additional amendments to the Agreement as hereinafter set forth;

WHEREAS, the Lender is willing to waive the Events of Default, to increase the Total Credit Facility, and to amend the Agreement subject to the terms and conditions contained herein;

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

ARTICLE I

Definitions

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

ARTICLE II

Amendments

Section 2.01. Amendment to Definition of "Maximum Revolving Credit Line". The definition of "Maximum Revolving Credit Line" contained in Section 1.1 of the Agreement is hereby amended in its entirety to read as follows:

"Maximum Revolving Credit Line" means Sixty-Five Million Dollars (\$65,000,000) less the Gross Availability Reductions."

Section 2.02. Amendment to Section 9.16. Section 9.16 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the

Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1997				\$ 50,300,000
Fiscal Year Ending December 31, 1998	\$ 48,100,000	\$ 49,200,000	\$49,000,000	\$ 48,200,000

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

Section 2.03. Amendment to Section 9.17. Section 9.17 of the Agreement is hereby amended to read in its entirety as follows:

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

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1997				2.96 to 1
Fiscal Year Ending December 31, 1998	3.28 to 1	3.15 to 1	3.00 to 1	3.08 to 1
Each Fiscal Quarter during each Fiscal Year ending thereafter:	2.39 to 1."			

Section 2.04. Amendment to Section 12. The first sentence of Section 12 is hereby amended to read as follows:

"The initial term of this Agreement shall be from the Closing Date until October 1, 1998 (the "Termination Date")."

All other provisions of Section 12 remain unchanged.

### ARTICLE III

#### Waivers

Section 3.01. Waiver of Events of Default.

(a) The Lender hereby waives the following Events of Default: (i) the LSB Borrowing Group's Adjusted Tangible Net Worth for the Fiscal Quarter ending September 30, 1997 was less than \$57,400,000, in breach of Section 9.16 of the Loan Agreement; and (ii) the LSB Borrowing Group's Debt Ratio for the Fiscal Quarter ending September 30, 1997 was greater than 2.52 to 1.0, in breach of Section 9.17 of the Loan Agreement.

(b) The foregoing waiver is only applicable to and shall only be effective to the extent described above. The waiver is limited to the facts and circumstances referred to herein and shall not operate as (i) a waiver of or consent to non-compliance with any other section or provision of the Loan Agreement, (ii) a waiver of any right, power, or remedy of the Lender under the Loan Agreement (except as provided herein), or (iii) a waiver of any other Event of Default or Event which may exist under the Loan Agreement.

### ARTICLE IV

Ratifications, Representations and Warranties

Section 4.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 4.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

### ARTICLE V

Conditions Precedent

Section 5.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

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

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

date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral since September 30, 1997, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

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

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

## ARTICLE VI

### Miscellaneous

Section 6.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 6.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 6.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 6.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 6.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 6.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 6.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 6.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits, and forever

discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 6.10. Expenses of Lender. Borrower agrees to pay on demand (i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 6.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

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

"BORROWER"

LSB INDUSTRIES, INC.

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: \_\_\_\_\_  
Michael J. Jasaitis, Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Eleventh Amendment to Loan and Security Agreement dated as of October \_\_, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement ) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of October \_\_, 1997.

L&S BEARING CO.  
SUMMIT MACHINE TOOL MANUFACTURING  
CORP.  
INTERNATIONAL ENVIRONMENTAL  
CORPORATION  
CLIMATE MASTER, INC.

By: \_\_\_\_\_  
Tony M. Shelby, Vice President  
acting on behalf of each of  
the above

CONSENTS AND REAFFIRMATIONS

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

Dated as of October \_\_, 1997.

UNIVERSAL TECH CORPORATION  
LSB CHEMICAL CORP.  
L&S AUTOMOTIVE PRODUCTS CO. (f/k/a  
LSB Bearing Corp.)  
INTERNATIONAL BEARINGS, INC.  
LSB EXTRUSION CO.  
ROTEX CORPORATION  
TRIBONETICS CORPORATION  
SUMMIT MACHINE TOOL SYSTEMS, INC.  
HERCULES ENERGY MFG. CORPORATION  
MOREY MACHINERY MANUFACTURING  
CORPORATION  
CHP CORPORATION  
KOAX CORP.  
APR CORPORATION

By: \_\_\_\_\_  
Tony M. Shelby, Vice President  
acting on behalf of each of the  
above

CONSENTS AND REAFFIRMATIONS

El Dorado Nitrogen Company hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Eleventh Amendment to Loan and Security Agreement dated as of October \_\_, 1997, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (as amended, the "Guaranty") dated as of February 13, 1997, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty remains in full force and effect and the Guaranty is hereby ratified and confirmed.

Dated as of October \_\_, 1997.

EL DORADO NITROGEN COMPANY

By: \_\_\_\_\_  
Tony M. Shelby, Vice President



## PRIMARY EARNINGS PER SHARE COMPUTATION

	1997 quarter ended		
	March 31	June 30	Sept. 30
Shares for primary earnings per share:			
Weighted average shares:			
Common shares outstanding from beginning of period	12,975,356	12,931,856	12,934,081
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	-	-	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	13,440	35,198	-
Purchases of treasury stock; calculated on weighted average basis	(13,972)	(60,367)	(102,461)
	<u>12,974,824</u>	<u>12,906,687</u>	<u>12,831,620</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)	-	790,942	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	-	(539,953)	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	-	-
	-	250,989	-
	<u>12,974,824</u>	<u>13,157,676</u>	<u>12,831,620</u>
	=====	=====	=====
Earnings for primary earnings per share:			
Net earnings (loss)	\$(5,437,954)	\$1,466,628	\$(4,778,649)
Dividends on cumulative preferred stocks	(60,000)	(75,390)	(60,000)
Dividends on convertible, exchangeable Class C preferred Stock (6.5% annually)	(743,438)	(743,438)	(743,438)
	<u>-----</u>	<u>-----</u>	<u>-----</u>
Earnings (loss) applicable to common stock	<u>\$(6,241,392)</u>	<u>\$ 647,800</u>	<u>\$(5,582,087)</u>
Earnings (loss) per share	<u>\$ (.48)</u>	<u>\$ .05</u>	<u>\$ (.44)</u>
	=====	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1

## PRIMARY EARNINGS PER SHARE COMPUTATION

Page 2 of 6

	Nine months ended September 30, 1997
Net loss applicable to common Stock	\$(11,175,679)
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	12,988,040
	=====
Loss per share	\$ (.86)
	=====

LSB INDUSTRIES, INC.

Exhibit 11.1

## PRIMARY EARNINGS PER SHARE COMPUTATION

Page 3 of 6

	1996 quarter ended		
	March 31	June 30	Sept. 30
Shares for primary earnings per share:			
Weighted average shares:			
Common shares outstanding from beginning of period	12,911,447	12,909,487	12,908,487
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	270	-	260
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	-	12,527
Purchases of treasury stock; calculated on weighted average basis	(330)	(978)	(12,734)
	-----	-----	-----
	12,911,387	12,908,509	12,908,540
Common Stock equivalents:			
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	-	737,640	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	-	(359,676)	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	62,080	-
	-----	-----	-----
	-	440,044	-
	-----	-----	-----
	12,911,387	13,348,553	12,908,540
	=====	=====	=====
Earnings for primary earnings per share:			
Net earnings (loss)	\$ (531,218)	\$ 2,371,797	\$(3,217,649)
Dividends on cumulative preferred stocks	(75,520)	(60,000)	(60,000)
Dividends on convertible, exchangeable Class C preferred Stock (6.5% annually)	(743,438)	(743,438)	(743,438)
	-----	-----	-----
Earnings (loss) applicable to common stock	\$(1,350,176)	\$ 1,568,359	\$(4,021,087)
	=====	=====	=====
Earnings (loss) per share	\$ (.10)	\$ .12	\$ (.31)
	=====	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 4 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

Nine months  
ended  
September 30, 1996

Net loss applicable to common stock	\$ (3,802,904)
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	13,056,160
	=====
Loss per share	\$ (.29)
	=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 5 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1997 quarter ended

	March 31	June 30	Sept. 30
	-----	-----	-----
Shares for fully diluted earnings per share:			
Weighted average shares outstanding for primary earnings per share	12,974,824	12,906,687	12,831,620
Shares issuable upon exercise of options and warrants	-	790,942	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	-	(539,953)	-
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	-	-	-
Series 2	-	-	-
	-----	-----	-----
	12,974,824	13,161,676	12,831,620
	=====	=====	=====
Earnings for fully diluted earnings per share:			
Net earnings (loss)	\$(5,437,954)	\$1,466,628	\$(4,778,649)
Dividends on cumulative convertible preferred stocks:			
Series B	(60,000)	(75,390)	(60,000)
Series 2 Class C	(743,438)	(743,438)	(743,438)
	-----	-----	-----
Earnings (loss) applicable to common stock	\$(6,241,392)	\$ 647,800	\$(5,582,087)
	=====	=====	=====
Earnings (loss) per share	\$ (.48)	\$ .05	\$ (.44)
	=====	=====	=====

Nine months ended  
September 30, 1997

Net loss applicable to common stock	\$(11,175,679)
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	12,989,373
	=====
Loss per share	\$ (.86)
	=====

LSB INDUSTRIES, INC.

Exhibit 11.1

Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1996 quarter ended

	March 31	June 30	Sept. 30
Shares for fully diluted earnings per share:			
Weighted average shares outstanding for primary earnings per share	12,911,387	12,908,509	12,908,540
Shares issuable upon exercise of options and warrants	-	737,640	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	-	(359,676)	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	62,080	-
Common shares issuable upon conversion of convertible note payable	-	4,000	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:			
Series B	-	666,666	-
Series 2	-	-	-
	-----	-----	-----
	12,911,387	14,019,219	12,908,540
	=====	=====	=====
Earnings for fully diluted earnings			

per share:			
Net earnings (loss)	\$ (531,218)	\$2,371,797	\$(3,217,649)
Dividends on cumulative convertible Preferred stocks:			
Series B	(75,520)	-	(60,000)
Series 2 Class C	(743,438)	(743,438)	(743,438)
	-----	-----	-----
Earnings (loss) applicable to common stock	\$(1,350,176)	\$1,628,359	\$(4,021,087)
	=====	=====	=====
Earning (loss) per share	\$ (.10)	\$ .12	\$ (.31)
	=====	=====	=====

Nine months ended  
September 30, 1996  
-----

Net loss applicable to common stock	\$ (3,742,904)
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	13,279,715
	=====
Loss per share	\$ (.29)
	=====

Letter of Acknowledgment  
Re: Unaudited Financial Information

The Board of Directors  
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 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 November 18, 1997 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 September 30, 1997.

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.

/s/ Ernst & Young LLP

November 18, 1997  
Oklahoma City, Oklahoma

9-MOS

DEC-31-1997  
 SEP-30-1997  
                   2,482  
                   0  
                   55,915  
                   3,430  
                   65,442  
 131,772  
                   202,752  
                   84,433  
                   268,147  
 64,862  
                   141,881  
 146  
                   48,000  
                   1,501  
                   11,757  
 268,147  
                   239,037  
                   244,229  
                   194,195  
                   194,195  
                   0  
                   0  
 10,382  
                   (8,562)  
                   188  
 (8,750)  
                   0  
                   0  
                   0  
                   (8,750)  
                   (.86)  
                   (.86)