

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

GNI GROUP INC /DE/

CIK: **355269** | IRS No.: **760232338** | State of Incorpor.: **DE** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **000-10735** | Film No.: **96663990**
SIC: **2810** Industrial inorganic chemicals

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DEER PARK TX 77536
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORTS UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended SEPTEMBER 30, 1996

Commission file number 0-10735

THE GNI GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

76-0232338

(State or other jurisdiction of
incorporation or organization)

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

2525 BATTLEGROUND ROAD, DEER PARK, TEXAS

77536

(Address of principal executive offices)

(Zip Code)

(713) 930-0350

(Registrant's telephone number, including area code)

(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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
----- -----

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No
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APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the registrant's common stock, \$.01 par value per share, as of November 1, 1996 was 6,569,025.

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THE GNI GROUP, INC.

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

THE GNI GROUP, INC.	September 30, 1996	June 30, 1996
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and time deposits	\$ 447,156	\$ 1,122,941
Accounts receivable, less allowance of approximately \$138,000 for 9/30/96 and \$142,000 for 6/30/96	6,323,321	6,508,680
Inventory	771,126	661,233
Deferred tax asset - current	298,356	400,701
Prepaid expenses and other assets	1,560,947	969,762
TOTAL CURRENT ASSETS	9,400,906	9,663,317
PROPERTY, PLANT AND EQUIPMENT	44,535,517	43,829,344
Less accumulated depreciation	(12,714,397)	(11,682,703)
NET PROPERTY, PLANT AND EQUIPMENT	31,821,120	32,146,641
Intangibles	20,896,225	3,938,751
Restricted time deposits	1,594,990	1,495,681
Deferred tax asset	110,635	222,309
Other assets	1,312,969	1,611,519
TOTAL ASSETS	\$ 65,136,845	\$ 49,078,218

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 3,757,885	\$ 3,887,395
Accrued liabilities	3,263,612	2,599,503
Federal income taxes payable	376,437	549,256

Notes payable	531,450	--
Current portion of long-term debt	2,495,652	2,620,652
TOTAL CURRENT LIABILITIES	10,425,036	9,656,806
Accrued liability	4,257,772	518,804
Long-term debt, less current portion	27,119,565	16,568,478
STOCKHOLDERS' EQUITY:		
Non-redeemable convertible preferred stock, \$.01 par value. Authorized 1,000,000 shares; issued 0 shares.	--	--
Common stock, \$.01 par value. Authorized 20,000,000 shares; issued 6,609,209 shares at 9/30/96 and 6,605,876 at 6/30/96	66,092	66,059
Additional paid-in capital	19,264,347	19,251,048
Retained earnings	4,051,039	3,064,029
Less cost of treasury stock (40,184 shares)	(47,006)	(47,006)
TOTAL STOCKHOLDERS' EQUITY	23,334,472	22,334,130
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 65,136,845	\$ 49,078,218

</TABLE>

Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE: The Balance Sheet at September 30, 1996 is unaudited. The Balance Sheet at June 30, 1996 has been derived from the audited financial statements at that date.

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

THE GNI GROUP, INC.	Three Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
REVENUES	\$ 9,959,627	\$ 9,461,639
COST AND EXPENSES:		
Cost of services	5,701,841	5,602,683
Selling, general and administrative	1,116,594	1,129,456
Depreciation and amortization	1,235,668	1,194,155
TOTAL COST AND EXPENSES	8,054,103	7,926,294
OPERATING INCOME	1,905,524	1,535,345
Interest income	22,433	18,708
Interest expense	370,973	343,738
Other income (expense)	(3,772)	21,759
INCOME BEFORE TAX	1,553,212	1,232,074
Income tax	566,200	446,510
NET INCOME	\$ 987,012	\$ 785,564
NET INCOME PER COMMON SHARE	\$.15	\$.12
SHARES USED TO CALCULATE EARNINGS PER SHARE	6,752,098	6,824,313

</TABLE>

Notes to Consolidated Financial Statements are an integral part of these statements.

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 CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THE GNI GROUP, INC.	Three Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
NET INCOME	\$ 987,012	\$ 785,564
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization	1,235,668	1,194,155
Deferred taxes	214,019	92,789
Gain on sale of assets	(7,683)	(21,305)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	185,359	(1,047,382)
Decrease (increase) in inventory	(109,893)	50,997
Increase in prepaid expenses and other	(591,186)	(944,767)
Increase in other assets	(139,831)	(40,657)
Increase (decrease) in accounts payable	(129,511)	876,680
Increase (decrease) in accrued liabilities	(296,923)	529,398
Decrease in federal income taxes payable	(172,819)	(178,529)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,174,212	1,296,943
Cash flows from investing activities:		
Increase in restricted time deposits	(99,309)	(100,583)
Payment of cash in connection with EMPAK transaction	(12,000,000)	--
Proceeds from sale of assets	15,700	24,317
Purchases of fixed assets	(737,264)	(2,052,494)
NET CASH USED IN INVESTING ACTIVITIES	(12,820,873)	(2,128,760)
Cash flows from financing activities:		
Cash proceeds from notes payable	852,144	933,095
Net cash from exercise of stock options	13,332	--
Net proceeds from revolving line	--	250,000
Proceeds from issuance of long-term debt	12,000,000	--
Principal payments of long-term debt and notes payable	(1,894,600)	(861,530)
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,970,876	321,565
NET DECREASE IN CASH AND CASH EQUIVALENTS	(675,785)	(510,252)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,122,941	852,370
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 447,156	\$ 342,118

</TABLE>

Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE GNI GROUP, INC. September 30, 1996

SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions are eliminated.

The Consolidated Balance Sheet as of September 30, 1996 and the related Statements of Operations and Cash Flows for the three month periods ended September 30, 1996 and 1995 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal, recurring items. Interim results are not necessarily indicative of results for a full year. The financial statements and Notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's Annual Financial Statements and Notes.

Statement of Cash Flows

For purposes of reporting cash flows, cash and time deposits include cash on hand and certificates of deposit.

Earnings Per Share

The average number of common and common equivalent shares includes the weighted average number of common shares outstanding, shares issuable assuming conversion of the non-redeemable convertible preferred stock and shares issuable pursuant to the assumed exercise of stock options (by application of the treasury stock method). Primary and fully diluted earnings per share are equivalent due to the insignificance of other dilutive securities.

EMPAK Agreement

On September 30, 1996, the Company participated in a consolidation with EMPAK Inc. ("EMPAK"), whereby EMPAK exited the third-party commercial waste management business and agreed to assist in the transfer of EMPAK's third-party commercial waste management customers to the Company. EMPAK will continue to use its facility in Deer Park, Texas for the disposal of its own waste and the waste of its affiliates and customers of its related businesses. The Company paid EMPAK the sum of \$12,000,000 at closing. Additionally, the Company has agreed to pay EMPAK \$1,200,000 per year for five years in exchange for the use of EMPAK's deepwell for five years in case of a force majeure at the Company's facilities, thus allowing the Company to mitigate any business disruption that may occur should one of its deepwells have operational or mechanical difficulties.

Income Taxes

The provision for income taxes related to continuing operations in the consolidated statements of operations is summarized below (unaudited):

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	Three Months Ended September 30, 1996	
<S>	<C>	
Provision:		
Federal-Current	\$	302,181
Federal-Deferred		214,019
State		50,000

Total	\$	566,200

The significant components of deferred income tax expense for the three months ended September 30, 1996 are as follows:

Deferred tax expense (exclusive of the effect of the component listed below)	\$	214,019
Increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets		--

Total deferred tax provision \$ 214,019

The tax effects of temporary timing differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 1996 are presented below:

Deferred tax assets:		
Amounts deductible when paid	\$	702,158
Accounts receivable, principally due to allowance for doubtful accounts		50,971
Compensated balances, principally due to accrual for financial reporting purposes		67,196
Alternative minimum tax credit carryforward		1,331,418
Total deferred tax assets	\$	2,151,743
Less valuation allowance		(20,000)
Net deferred tax assets	\$	2,131,743
Deferred tax liabilities:		
Facility and equipment, principally due to differences in depreciation and capitalized interest	\$	1,722,752
Other		--
Total deferred tax liabilities	\$	1,722,752
Net deferred tax asset	\$	408,991

</TABLE>

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

RESULTS OF OPERATIONS-
FISCAL 1997 FIRST QUARTER COMPARED WITH FISCAL 1996 FIRST QUARTER

Revenues. Revenues for the first quarter of fiscal 1997 were \$9,959,627 as compared to \$9,461,639 for the comparable period of fiscal 1996, an increase of \$497,988, or 5.3%. This increase in revenues was primarily attributable to an increase in revenues from the Company's chemical manufacturing and processing subsidiary, GNI Chemicals Corporation ("GNIC"), of approximately \$621,000, or 14.4%, as compared to the first quarter of fiscal 1996. The Company's GNIC revenues were approximately \$4,945,000 as compared to \$4,324,000 for the fiscal 1996 period. This increase is a result of an increase in specialty chemical sales offset by a decrease in chemical manufacturing and processing revenues. Specialty chemical sales benefitted from the Company's acquisition of E.I. du Pont de Nemours & Company's ("DuPont") refined acetonitrile ("ACE") business, which was completed in the second quarter of fiscal 1996, and therefore did not contribute to GNIC's revenues during the first quarter of fiscal 1996. GNIC's manufacturing and processing revenues were moderately lower than the comparable fiscal 1996 period due primarily to the long-term planning for the assimilation of ACE production into GNIC's facility, beginning full-time on January 1, 1997. This involved, among other things, a redefinition of market and production strategies, including the selection of customer projects. For example, GNIC elected to run a trial campaign of ACE in the GNIC plant during the first quarter of fiscal 1997. As a result, the capacity utilized by this trial was not available to generate revenues from normal, third-party business. Revenues from the Company's treatment and disposal subsidiaries decreased by approximately \$240,000, or 5.8%, from the fiscal 1996 first quarter compared to the fiscal 1997 first quarter. Volumes at the Company's deepwells were negatively impacted by the lack of rainfall in the region during the fiscal 1997 period. The Company's transportation revenues increased by approximately \$118,000, or 12.2%, from the fiscal 1996 first quarter compared to the fiscal 1997 first quarter.

Cost of Services. Cost of services decreased as a percent of revenues from 59.2% during the first quarter of fiscal 1996 to 57.2% for the first quarter of fiscal 1997. In absolute dollar terms, cost of services increased by approximately \$100,000 in support of approximately \$500,000 of additional revenues.

Selling, General and Administrative Expenses. Selling, general and

administrative ("SG&A") expenses as a percent of revenues were 11.9% and 11.2%, respectively, for the first quarter of fiscal 1996 and fiscal 1997. In absolute dollars, SG&A expenses were approximately the same.

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Depreciation and Amortization. Depreciation and Amortization ("D&A") expenses decreased as a percent of revenues, from 12.6% in the first quarter of fiscal 1996 to 12.4% in the first quarter of fiscal 1997. D&A expenses for the first quarter of fiscal 1997 increased by only 3.5% in absolute dollar terms compared to the first quarter of fiscal 1996 due primarily to two offsetting factors: (i) the increased level of D&A expense resulting from capital improvements to its facilities during fiscal 1996 and an acquisition made by the Company in the second quarter of fiscal 1996; and (ii) the decreased level of D&A expense resulting from the Company's adoption of FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" as of January 1, 1996.

Net Interest Expense. Net interest expense increased in the fiscal 1997 first quarter as compared with the fiscal 1996 first quarter. This increase was primarily attributable to higher principal balances on the Company's indebtedness during the fiscal 1997 period, associated with an acquisition by the Company in November 1995.

Net Income. The Company recorded net income of \$987,012, or \$.15 per share, for the first quarter of fiscal 1997 compared to net income of \$785,564, or \$.12 per share, for the first quarter of fiscal 1996.

Inflation did not have a material impact on the Company's revenues or income for either the first quarter of fiscal 1997 or fiscal 1996. Further, it is not expected that inflation will have a material impact during the upcoming quarters for either the Company's revenues or income.

LIQUIDITY AND CAPITAL RESOURCES

The Company continuously evaluates opportunities for growth and development. Management expects that future revenue growth will be dependent upon a corresponding increase in the fixed assets of and working capital used by the Company. Historically, the Company has financed its growth through funds generated from operations, borrowings under various credit arrangements with a commercial bank, and the private placements of shares of Common Stock and Series A Preferred Stock. Management believes that the Company's existing cash balances, funds generated from operations, and borrowings under available credit arrangements will be sufficient to meet the Company's current capital requirements. In order to finance the future growth and development of the Company, the Company will require, and from time to time evaluates, alternative sources of additional capital.

Effective as of June 30, 1993, the Company amended and restated its credit agreement ("Credit Agreement") with a commercial bank to provide for the addition of an \$8,000,000 advancing equipment line of credit ("Equipment Line"). The Credit Agreement includes a \$6,621,520 term loan ("Term Loan") and a \$4,000,000 revolving credit line ("Revolver"). The credit facility is collateralized by substantially all of the assets of the Company and its subsidiaries, including the stock of its subsidiaries.

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The Credit Agreement restricts the Company from incurring additional indebtedness, prohibits the Company from making any changes to its capital structure or dividend payments without prior approval of the bank, requires the maintenance of minimum working capital, minimum tangible net worth, and maximum debt-to-tangible net worth and debt coverage ratios, and contains other provisions and restrictive covenants that management believes are customary.

The Equipment Line has been utilized to fund capital expenditures of the Company. Effective as of October 31, 1994, the Equipment Line bears an interest rate of either 0.25% above the bank's prime rate of interest or 2.75% above LIBOR, at the Company's election. The Equipment Line had a two year advancing period through October 31, 1995. As provided for in the Credit

Agreement, on October 31, 1994 funds advanced over the previous 12 months converted to a four-year term loan. Upon its conversion to a term loan, quarterly principal payments of \$250,000 plus interest are required, with a balloon at maturity. At the time of conversion and thereafter, the Company has the option to fix the interest rate. As of September 30, 1996, the unpaid principal balance outstanding on the Equipment Line was \$6,000,000.

The Term Loan represents borrowings that were originally used by the Company to finance the construction of the Company's GNIC facility, which was completed in the first quarter of fiscal 1991. The Term Loan bears interest at a fixed rate of 8.44%, matures December 1, 1998 and requires quarterly principal payments of \$173,913. The unpaid principal balance of the Term Loan totalled \$1,565,217 at September 30, 1996.

Effective as of March 3, 1995, the bank and the Company amended the Credit Agreement to provide an additional \$2,000,000 in term debt ("Acquisition Line") that was used for the acquisition of Chemical Waste Management, Inc.'s ("CWM") waste treatment, storage and disposal facility located in Corpus Christi, Texas. The Acquisition Line has a five-year maturity and bears an interest rate of either 0.25% above the bank's prime rate of interest or 2.75% above LIBOR, at the Company's election. Quarterly principal payments of \$200,000 plus interest were required for the first year, then quarterly payments of \$75,000 plus interest are required until maturity. As of September 30, 1996, the unpaid principal balance outstanding on the Acquisition Line was \$1,050,000.

In connection with the acquisition of its Corpus Christi, Texas facility, CWM took back a note in the principal amount of \$2,000,000 as part of the consideration ("CWM Note"). The CWM Note has a maturity of five years and bears interest at the rate of 10% per year. The first year of the CWM Note was interest-only; thereafter, quarterly principal payments of \$125,000 plus accrued interest are required until maturity. As of September 30, 1996, the unpaid principal balance outstanding on the CWM Note was \$1,625,000.

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Effective as of November 3, 1995, the bank and the Company amended the Credit Agreement (i) to extend the maturity date of the Revolver to October 31, 1997 and (ii) to increase the total commitment amount of the Revolver from \$4,000,000 to \$10,000,000. The Revolver is used by the Company for working capital and other general corporate purposes. From November 3, 1995 until September 23, 1996, the amount drawn under the Revolver could not exceed a borrowing base limitation equal to the sum of (a) 80% of the Company's consolidated accounts receivable plus (b) the lesser of 50% of the Company's product inventory, or \$500,000; plus (c) the flat amount of \$3,250,000 until April 30, 1996 when such amount was reduced by \$200,000 per quarter, and then would have been reduced to \$0 beginning December 31, 1996 and thereafter. However, effective as of September 23, 1996, the bank and the Company again amended the Credit Agreement (i) to decrease the total commitment amount of the Revolver from \$10,000,000 to \$7,000,000; (ii) to remove the flat amount concept, item (c) above, from the borrowing base limitation calculation, and (iii) to provide for a \$15,000,000 term loan more fully described in the following paragraph. The maturity date of the Revolver remained unchanged. Effective as of October 31, 1994, advances under the Revolver bear interest at either the bank's prime rate of interest or 2.75% above LIBOR, at the Company's election. As of September 30, 1996, the Company has an unpaid principal balance outstanding on the Revolver of \$4,375,000.

Effective as of September 23, 1996, the bank and the Company amended the Credit Agreement to provide an additional term note in the amount of \$15,000,000 ("Bridge Loan"). The Bridge Loan was used by the Company (i) to fund the \$12,000,000 EMPAK transaction that closed on September 30, 1996; and (ii) to transfer the flat amount of \$3,000,000, referred to in item (c) above, from the Revolver's borrowing base calculation. The Bridge Loan bears interest at the bank's prime rate of interest. As of September 30, 1996, the Company has an unpaid principal balance outstanding on the Bridge Loan of \$15,000,000.

For the first quarter of fiscal 1997 and fiscal 1996, net cash provided by operations was approximately \$1,174,000 and \$1,297,000, respectively. The significant differences in the components that comprise net cash provided by operations were: (i) a slight decrease in accounts receivable in the fiscal 1997 period compared with an increase in the fiscal 1996 period, (ii) a slight decrease in accounts payable for the first quarter of fiscal 1997 compared with an increase in the fiscal 1996 period, and (iii) a decrease in accrued liabilities during the first quarter of fiscal 1997 compared with an increase

in the fiscal 1996 period. Accounts receivable increased during the first quarter of fiscal 1996 primarily as a result of an increase in the number of days of revenue represented by the level of accounts receivable during that period, as compared with the first quarter of fiscal 1997 when the level of accounts receivable remained nearly unchanged. The increase in accounts payable during the fiscal 1996 period was primarily a result of the increase in the level of capital expenditures made by the Company during the period. The increase in accrued liabilities during the first quarter of fiscal 1996 was associated with increases in the Company's accruals for group medical expenses and deepwell workover expenses.

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During the first quarter of fiscal 1997 and fiscal 1996, the Company's capital expenditures were \$737,000 and \$2,052,000, respectively. Capital expenditures for fixed assets for the first quarter of both fiscal 1997 and fiscal 1996 were primarily related to general improvements to the Company's GNIC and treatment and disposal facilities.

Cash balances decreased approximately \$676,000 during the first quarter of fiscal 1997, primarily as a result of the Company's capital expenditures made during the period. During the first quarter of fiscal 1997, Prepaid expenses and other current assets increased by approximately \$591,000 and Notes payable increased by approximately \$531,000, each primarily as a result of the renewal of the Company's various annual insurance coverages during the first quarter of fiscal 1997. Primarily as a result of the EMPAK transaction, during the fiscal 1997 period, (i) Intangibles increased by approximately \$16,957,000, (ii) Accrued liabilities increased by approximately \$664,000, (iii) Accrued liabilities, long-term increased by approximately \$3,739,000, and (iv) Long-term debt, less current portion increased by approximately \$10,551,000.

DIVIDEND POLICY

The Company does not pay any cash dividends on its common stock and does not have any plans to do so in the future. The Company intends to continue a policy of retaining income for use in its business.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

- Exhibit 10.1 Seventh Amendment to Credit Agreement effective as of September 23, 1996 by and between the Company and NationsBank of Texas, N.A.
- Exhibit 10.2 Deepwell Access Agreement dated as of September 30, 1996 by and between EMPAK Inc. and Disposal Systems, Inc., a subsidiary of the Company.
- Exhibit 10.3 Assistance Agreement dated as of September 30, 1996 among Pakhoed Corporation, EMPAK Inc. and Disposal Systems, Inc., a subsidiary of the Company.
- Exhibit 27 Financial Data Schedule

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GNI GROUP, INC.

Date: November 13, 1996

 /s/Carl V Rush, Jr.

 Carl V Rush, Jr.
 President and CEO

Date: November 13, 1996

 /s/Donna L. Ratliff

 Donna L. Ratliff
 Treasurer
 (Principal Accounting Officer)

INDEX TO EXHIBITS

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- Exhibit 10.3 Assistance Agreement dated as of September 30, 1996 among Pakhoed Corporation, EMPAK Inc. and Disposal Systems, Inc., a subsidiary of the Company.
- Exhibit 27 Financial Data Schedule

SEVENTH AMENDMENT TO CREDIT AGREEMENT

THIS SEVENTH AMENDMENT TO CREDIT AGREEMENT is made and entered into effective as of this 23rd day of September, 1996 (this "Amendment") among THE GNI GROUP, INC., a Delaware corporation ("GNI"), DISPOSAL SYSTEMS, INC., a Delaware corporation ("DSI"), RESOURCE TRANSPORTATION SERVICES, INC., a Delaware corporation ("RTS"), GNI CHEMICALS CORPORATION, a Delaware corporation ("GNIC") and DISPOSAL SYSTEMS OF CORPUS CHRISTI, INC., a Delaware corporation ("Corpus") (GNI, RTS, GNIC, DSI and Corpus being, collectively, the "Loan Parties"), the address for each for purposes hereof being 2525 Battleground Road, P.O. Box 220, Deer Park, Texas 77536-0220 and NATIONSBANK OF TEXAS, N.A., a national banking association (the "Lender"), formerly known as NCNB TEXAS NATIONAL BANK, the address for purposes hereof being 700 Louisiana, P.O. Box 2518, Houston, Texas 77252-2518.

W I T N E S S E T H

WHEREAS, GNI, DSI, RTS, GNIC and the Lender entered into that certain Credit Agreement dated as of June 30, 1993 as amended by Amendment No. 1 dated as of March 15, 1994, Second Amendment to Credit Agreement dated as of August 31, 1994, and Third Amendment to Credit Agreement dated as of December 31, 1994, and the Loan Parties and the Lender entered into that certain Fourth Amendment to Credit Agreement dated as of March 3, 1995, that certain Fifth Amendment to Credit Agreement dated as of March 31, 1995 and that certain Sixth Amendment to Credit Agreement dated as of November 3, 1995 (collectively, the "Credit Agreement"), pursuant to which the Lender agreed to make certain loans and issue letters of credit to the Loan Parties; and

WHEREAS, the Loan Parties have requested that, in addition to amendments of the Credit Agreement, the Lender make an additional loan under a new facility to GNI to refinance certain indebtedness under the Credit Agreement and to finance the consolidation of certain waste disposal businesses of EMPAK Inc.; and

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements herein expressed, the Loan Parties and the Lender now agree to amend the Credit Agreement as follows:

1. All capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

2. The definitions of "Agreement", "Applicable Margin", "EBIT", "Facility B Borrowing Base", "Facility B Commitment", "Loan Parties", "Loans" and "Notes" in Section 1.02 of the Credit Agreement are hereby amended in their entirety to hereafter read as follows:

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"Agreement" shall mean this Credit Agreement and all exhibits and schedules hereto, as amended by Amendment No. 1 dated as of March 15, 1994, the Second Amendment to Credit Agreement dated as of August 31, 1994, the Third Amendment to Credit Agreement dated December 31, 1994, the Fourth Amendment dated as of March 3, 1995, the Fifth Amendment dated as of March 31, 1995, the Sixth Amendment dated as of November 3, 1995, and the Seventh Amendment dated as of September 23, 1996, as the same may from time to time be amended or supplemented.

"Applicable Margin" shall mean (a) 0% per annum with respect to Prime Rate Loans and (b) 2.75% per annum with respect to Eurodollar Loans.

"EBIT" shall mean, for any period, the sum of consolidated net income of GNI and its Subsidiaries for such period plus (i) interest expense, (ii) taxes and (iii) charges taken during the period ended June 30, 1996 on adoption of FASB No. 121 in an amount not to exceed \$6,750,000 to the extent deducted from the calculation of consolidated net income in such period.

"Facility B Borrowing Base" shall mean, at the time of a Borrowing Base Determination, an amount equal to the sum of (a) 80% of the aggregate amount of all Eligible Accounts Receivable after contra and cross netting such Eligible Accounts Receivable against accounts payable and Inventory due to account debtors in respect of exchanges, advances, or otherwise and further reducing the result of such computation by the aggregate amount of the Borrowing Base, if any, attributable to any Accounts Receivable which (i) have been collected, charged-off or otherwise compromised since the date of the most recent previous Borrowing Base Determination, (ii) may have declined materially in value because of a Material Adverse Effect or other event or (iii) for any reason are not subject to a valid and perfected first priority Lien in favor of the Lender and (b) the lesser of (i) \$1,000,000 or (ii) 50% of the aggregate value (being, as to each item of Eligible Inventory, the lower of cost or market value as of the relevant date) of Eligible Inventory.

"Facility B Commitment" shall mean the aggregate amount of \$7,000,000, less reductions pursuant to Section 5.03.

"Loan Parties" shall mean GNI, RTS, GNIC, DSI and Corpus.

"Loans" shall mean the Loans provided for by Articles II, IV and IV(A) and Article IV(B).

"Notes" shall mean, collectively, Note A, the Term Note, Note B, Note C and Note D.

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3. Section 1.02 of the Credit Agreement is further amended by adding the following definitions where appropriate:

"Consolidation Documents" shall mean that certain Assistance Agreement, Deepwell Access Agreement, and all such agreements dated as of September 23, 1996 representing the Consolidation.

"Consolidation" shall mean the consolidation of certain businesses of EMPAK into DSI as evidenced by the Consolidation Documents.

"Corpus" shall mean Disposal Systems of Corpus Christi, Inc. or Newco.

"EBIDA" shall mean, for any period, the sum of consolidated net income of GNI and its Subsidiaries for such period plus the following expenses or charges to the extent deducted from the calculation of consolidated net income in such period: interest, depreciation, depletion and amortization.

"EBITDA" shall mean, for any period, the sum of consolidated net income of GNI and its Subsidiaries for such period plus the following expenses or charges to the extent deducted from the calculation of consolidated net income in such period: interest, taxes, depreciation, depletion and amortization.

"EMPAK" shall mean EMPAK Inc.

"EMPAK Contracts" shall mean the EMPAK's contracts assigned to DSI pursuant to the Consolidation Documents.

"Facility D" shall mean the credit extended to GNI by the Lender pursuant to Article IV(B).

"GNIC" shall mean GNI Chemicals Corporation or CRP.

"Maintenance Capital Expenditures" shall mean all expenditures, including, without limitation, capitalized interest for any fixed assets or improvements, or for replacements, substitutions or additions thereto, which have a useful life of more than one year but excluding all expenditures for Acquisitions and separately financed projects.

"Note D" shall mean that certain promissory note dated of even date with the Seventh Amendment in the face amount of \$15,000,000 executed by GNI, payable to the order of the Lender, in substantially the form attached to the Seventh Amendment as Exhibit A, together with all deferrals, renewals, extensions, or rearrangements thereof.

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"Seventh Amendment" shall mean the Seventh Amendment to Credit Agreement dated as of September 23, 1996 among the Loan Parties and the Lender.

"Subordinated Debt" shall mean Indebtedness permitted by Section 9.01(h).

"Total Senior Funded Debt" shall mean total interest bearing Indebtedness, specifically excluding current accounts and taxes payable, accrued liabilities, deferred income taxes and Subordinated Debt.

4. Section 1.02 of the Credit Agreement is further amended by deleting the definition of "Aceto Product Line Value."

5. From and after the effective date of this Amendment GNI shall have no right to borrow any Eurodollar Loan or to continue any outstanding Eurodollar Loan beyond its existing Interest Period or to convert a Prime Rate Loan to a Eurodollar Loan. Any outstanding Eurodollar Loan may remain outstanding until the last day of the Interest Period therefor, at which time such Eurodollar Loan will be converted to a Prime Rate Loan.

6. The Credit Agreement is hereby amended by adding the following new Article IV(B):

"ARTICLE IV(B)

TERMS OF FACILITY D

"Section 4B.01 Facility D. The Lender agrees, subject to the terms and conditions of the Seventh Amendment, to make a Loan to GNI in the principal amount of \$15,000,000. Such Loan shall be made by way of a single borrowing made on the effective date of the Seventh Amendment. The Loan made by the Lender under Facility D shall be evidenced by Note D. The proceeds of the Loan under Facility D shall be used as follows: (i) \$3,000,000 as a principal prepayment of the Loan outstanding under Facility B and (ii) the remaining proceeds shall be paid by GNI to DSI in connection with the Consolidation.

Section 4B.02 Interest on Facility D Note. GNI will pay to the Lender interest on the unpaid principal amount of the Loan under Facility D made by the Lender for the period commencing on the date of such Loan to but excluding the date such Loan shall be paid in full, at the Prime Rate (as in effect from time to time) plus the Applicable Margin, but in no event to exceed the Highest Lawful Rate. Interest on Prime Rate Loans shall be payable quarterly on the Quarterly Dates commencing on October 1, 1996 and at the maturity of Note D.

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Section 4B.03 Repayment of Note D. The principal balance of Note D shall be due and payable on December 31, 1996 in the amount necessary to pay in full the then outstanding principal balance of Note D."

7. Section 5.06(a) of the Credit Agreement is hereby amended by deleting the first sentence thereof, and the following is substituted therefor:

"GNI may voluntarily prepay the Prime Rate Loans upon not less than one Business Day's prior notice to the Lender, which notice shall specify the prepayment date (which shall be a Business Day) and the amount of the prepayment (which shall be not less than \$500,000 for Facility A, \$100,000 for Facility B, \$100,000 for Facility C or \$500,000 for Facility D or the remaining principal balance outstanding on the applicable Note, if less) and shall be irrevocable and effective only upon receipt by the Lender, provided that interest on the principal prepaid, accrued to the prepayment date, shall be paid on the prepayment date."

8. Article VII of the Credit Agreement is hereby amended by adding the following new Section 7.21:

"Section 7.21 Consolidation.

(a) Each Loan Party has the full power and authority under its certificate or articles of incorporation, its bylaws and the laws of the state of its incorporation to execute, deliver and perform its obligations under any agreements, instruments, documents and certificates executed in connection with the Consolidation (collectively, the "Consolidation Documents") to which it is a party and all corporate action requisite for the execution, delivery and performance by it of the Consolidation Documents to which it is a party has been duly and effectively taken.

(b) The execution, delivery and performance by each Loan Party of each Consolidation Document to which it is a party does not and will not (i) violate any provision of either (A) its certificate or articles of incorporation and bylaws or (B) in any material respect, any material contract, agreement, instrument or Governmental Requirement to which it is subject to except as disclosed to the Lender in writing or (ii) result in the creation of or imposition of any Lien upon any of its Property, other than those permitted by the Credit Agreement.

(c) The execution, delivery and performance by each Loan Party of any Consolidation Document to which it is a party do not require the consent or approval of any other Person, including any Governmental Authority, except for such consents or approvals that have been obtained or where the failure to obtain

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such consent or approval would not have a Material Adverse Effect or except as disclosed to the Lender.

(d) Except as disclosed to the Lender, there are no legal or arbitral proceedings by or before any governmental or regulatory authority or agency, now pending or threatened against the Consolidation, any Consolidation Document or against any of Property involved in the Consolidation.

(e) The copies of the Consolidation Documents previously delivered by GNI to the Lender are complete and accurate copies thereof and have not been amended or modified in any manner. The Consolidation Documents have been duly authorized, executed and delivered by the other parties thereto. The Consolidation Documents are valid, binding and enforceable against the parties thereto except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and general principles of equity. DSI has the right to grant a Lien and has granted a Lien on the EMPAK Contracts pursuant to the Security Instruments and the Lenders may enforce their remedies contained in the Security Instruments against such EMPAK Contracts. No party to a Consolidation Document is in default thereunder. All of the conditions for closing set forth in the Consolidation Documents have been waived or satisfied."

9. Section 8.22 of the Credit Agreement is hereby deleted in its entirety, and the following is substituted therefor:

"Section 8.22 Ratio of Total Liabilities to Net Worth. Maintain, at all times, a ratio on a consolidated basis for GNI and its

Subsidiaries of (a) total liabilities (as determined in accordance with GAAP) minus Subordinated Debt to (b) net worth (as determined in accordance with GAAP) plus Subordinated Debt of no greater than 2.0 to 1.0; provided, however, that commencing on December 31, 1996, and thereafter, such ratio shall be no greater than 1.0 to 1.0."

10. Section 8.23 of the Credit Agreement is hereby deleted in its entirety, and the following is substituted therefor:

"Section 8.23 Net Worth. Maintain, at all times, on a consolidated basis for GNI and its Subsidiaries, net worth (as determined in accordance with GAAP) plus Subordinated Debt equal to no less than \$23,000,000, provided, however, that commencing on December 31, 1996, and thereafter, such minimum shall be raised to \$43,000,000; provided also that such minimum amount required shall be increased quarterly, on a cumulative basis, the first such increase to occur on December 31, 1996 and as of the last day of each calendar quarter thereafter, by (x) an aggregate amount equal to 80% of positive income, if any, from operations of GNI and all Subsidiaries on a consolidated basis, after provision for federal income tax, for the three-month period ending on such date, and (y) an aggregate

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amount equal to 100% of the net proceeds from the issuance, in a public or private transaction, of any Subordinated Debt or shares of capital stock of any of the Loan Parties for the three-month period ending on such date, other than the issuance of any such capital stock to one or more of the Loan Parties or the issuance of Subordinated Debt up to \$20,000,000 prior to December 31, 1996."

11. Section 8.24 of the Credit Agreement is hereby deleted in its entirety, and the following is substituted therefor:

"Section 8.24 Interest Coverage Ratio. Maintain, as of the close of each calendar quarter for the twelve-month period ending on such date, a ratio of EBIT for such twelve-month period to interest expense, including capitalized interest, if any, made for such twelve-month period of no less than 2.75 to 1.0."

12. Section 8.25 of the Credit Agreement is hereby deleted in its entirety, and the following is substituted therefor:

"Section 8.25 Fixed Charge Coverage Ratio. Beginning as of December 31, 1996, maintain, as of the close of each calendar quarter for the twelve-month period ending on such date, a ratio of (a) EBIDA

less Maintenance Capital Expenditures to (b) the sum of current maturities of long term Indebtedness and interest expense for such twelve-month period of no less than 1.25 to 1.0. For the purposes of this Section 8.25, prior to June 30, 1997, the calculation of EBIDA, Maintenance Capital Expenditures, and interest shall be annualized as follows: for the six-month period ending December 31, 1996, such amounts shall be multiplied times two, and for the nine-month period ending March 31, 1997, such amounts shall be multiplied by 1 1/3."

13. Section 8.28 of the Credit Agreement is hereby deleted in its entirety, and the following is substituted therefor:

"Section 8.28 Cash Flow Leverage Ratio. Beginning as of December 31, 1996, maintain, as of the close of each calendar quarter for the twelve-month period ending on such date, a ratio of Total Senior Funded Debt to EBITDA no greater than 1.5 to 1.0. For the purposes of this Section 8.28, prior to June 30, 1997, the calculation of EBITDA shall be annualized as follows: for the six-month period ending December 31, 1996, such amounts shall be multiplied times two, and for nine-month period ending March 31, 1997, such amounts shall be multiplied by 1 1/3. "

14. Article 8 of the Credit Agreement is hereby amended by adding a new section thereto:

"Section 8.29 Monthly Financial Statements. As to GNI only, deliver to the Lender, on or before the 30th day after the end of each calendar month, the

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unaudited consolidated Financial Statements of GNI and the other Loan Parties as at the end of the calendar month preceding that in which such Financial Statements are delivered and from the beginning of the relevant fiscal year to the end of such period, as applicable, such statements to be certified by a Responsible Officer of GNI as prepared in accordance with GAAP, consistently applied, and as a fair presentation of the condition of the relevant entity subject to changes resulting from year-end audit adjustments."

15. Section 9.01 of the Credit Agreement is hereby amended by adding the following clauses (g) and (h) before the end of the sentence:

"(g) any obligation of DSI to pay access fees to EMPAK pursuant to the terms of the Deepwell Access Agreement not to exceed \$1,200,000 per year; provided that such payment obligation is unsecured and paid only

as provided for in the Deepwell Access Agreement not to be amended, extended or otherwise modified and (h) Indebtedness of GNI not to exceed \$20,000,000 to be issued in a public or private placement of subordinated notes; provided that proceeds of such Indebtedness are used to prepay in full the principal outstanding under Note D and that such Indebtedness is subordinated to the Obligations on terms satisfactory to the Lender and its counsel.

16. Section 9.11 of the Credit Agreement is hereby amended by adding the following clauses (i) and (j):

"(i) loans or advances by GNI to DSI of \$12,000,000 of the proceeds of the Loan under Facility D and (j) investment of such \$12,000,000 to complete the Consolidation.

17. Waivers.

17.1 Financial Covenants. The Lender agrees that the Loan Parties shall not be deemed to be in default under the Credit Agreement under Sections 8.23, 8.24, 8.25, 8.28 thereof, solely by reason of the fact that the Loan Parties failed to meet such requirements at any time on or before September 23, 1996.

17.2 Extent of Waiver. The foregoing waiver shall not be deemed to be a waiver by the Lender of any other covenant, condition or obligation on the part of the Loan Parties under the Credit Agreement or any other Security Instrument except as set forth in Section 17.1 of this Amendment. In addition, the foregoing waiver shall in no respect evidence any commitment by the Lender to grant any future waivers of any covenant, condition or obligation on the part of the Loan Parties under the Credit Agreement or any other Security Instrument. Any further waivers must be specifically agreed to in writing in accordance with Section 11.10 of the Credit Agreement.

18. Concurrently with the execution of this Amendment, GNI will pay to the Lender a facility fee of \$30,000, with subsequent monthly facility fees equal to \$60,000 per month payable on the 12th day of each month thereafter; provided that on the earlier of (i) the date the

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Facility D Note is paid in full or December 31, 1996, GNI will pay to the Lender a fee equal to the positive difference, if any, between \$200,000 and the facility fees previously paid to the Lender for Facility D including the fees above and the \$30,000 facility fee paid on September 5, 1996.

19. This Amendment shall become binding on the Lender when, and only

when, the Lender shall have received each of the following in form and substance satisfactory to the Lender or its counsel:

(a) counterparts of this Amendment executed by the Loan Parties and the Lender, and Note B and Note D executed and issued by GNI;

(b) the \$30,000 facility fee referred to in paragraph 17 above;

(c) copies of all amendments to the Articles of Incorporation and bylaws of each of the Loan Parties subsequent to March 3, 1995, accompanied by a certificate, issued by the secretary or an assistant secretary of the relevant Loan Party to the effect that each such copy is correct and complete and such copies, taken as a whole for each Loan Party, constitute all amendments, modifications, or restatements of the Articles of Incorporation and bylaws of such Loan Party since March 3, 1995;

(d) certificates of incumbency and signatures of all officers of each Loan Party who will be authorized to execute the Loan Documents on behalf of such Loan Party executed by the secretary or an assistant secretary of the relevant Loan Party;

(e) copies of corporate resolutions approving this Amendment and authorizing the transactions contemplated herein, duly adopted by the board of directors of each Loan Party, accompanied by certificates of the secretary or an assistant secretary of the relevant Loan Party to the effect that such copies are true and correct copies of resolutions duly adopted at a meeting or by unanimous consent of the board of directors of the relevant Loan Party, and that such resolutions constitute all the resolutions adopted with respect to such transactions have not been amended, modified or revoked in any respect, and are in full force and effect;

(f) the following Security Instruments creating, evidencing, perfecting, and otherwise establishing the Liens in favor of the Lender, in and to the Collateral:

(i) Third Amendment to Amended and Restated Security Agreement (Pledge) from GNI, as debtor;

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(ii) Fifth Amendment to Second Lien Deed of Trust by and between DSI and the Lender;

(iii) Seventh Amendment to First Lien Deed of Trust by and between DSI and the Lender;

(iv) Ninth Amendment to Deed of Trust (With Security Agreement and Assignment of Rents and Leases) by and between DSI and the Lender; and

(v) First Amendment to Third Lien Deed of Trust (With Security Agreement and Assignment of Rents and Leases) by and between Corpus and the Lender;

(g) Second Amendments to Guaranty Agreements from DSI, RTS and GNIC and First Amendment to Guaranty Agreement from Corpus;

(h) an opinion of Bracewell & Patterson, L.L.P. as legal counsel to the Loan Parties;

(i) a legal opinion or other satisfactory evidence from GNI's counsel that the Hart-Scott-Rodino Act was considered and filing thereunder is not deemed appropriate;

(j) a summary of all insurance coverage together with a schedule of any increases or changes proposed to be made thereto;

(k) a Nothing Further Certificate covering the Mortgaged Property from Charter Title Company;

(l) a Nothing Further Certificate covering the Mortgaged Property from First American Title Insurance Company; and

(m) such other agreements, documents, instruments, opinions, certificates, waivers, consents, and evidence as the Lender may reasonably request.

20. The obligation of the Lender to fund Note D shall become binding on the Lender when, and only when, the Lender shall have received each of the following in form and substance satisfactory to the Lender or its counsel:

(a) the Consolidation shall take place concurrently with the funding of Note D;

(b) an opinion of Buck, Keenan & Owens, L.L.P., as legal counsel to GNI and DSI;

(c) copies of corporate resolutions of EMPAK approving the Consolidation Documents and authorizing the transactions contemplated therein;

(d) executed copies of all Consolidation Documents, including without limitation, an agreement of EMPAK not to compete for at least seven (7) years; and

(e) such other agreements, documents, instruments, opinions, certificates, waivers, consents, and evidence as the Lender may reasonably request.

21. The parties hereto hereby acknowledge and agree that, except as specifically supplemented and amended, changed or modified hereby, the Credit Agreement shall remain in full force and effect in accordance with its terms. Each Loan Party hereby confirms and ratifies its liability under its respective Security Instrument in all respects to which it is a party. Each Security Instrument shall remain enforceable against each Loan Party which is a party thereto in accordance with its terms and shall secure all of the Obligations, including without limitation, the Obligations under Note D.

22. The Loan Parties hereby reaffirm that as of the date of this Amendment, the representations and warranties contained in the Loan Documents are true and correct on the date hereof as though made on and as of the date of this Amendment.

23. The Loan Parties represent and warrant that (a) the execution, delivery and performance of this Amendment are within the corporate power and authority of the Loan Parties and have been duly authorized by appropriate proceedings, (b) the Liens under the Security Instruments are valid and subsisting and secure the Loan Parties' obligations under the Loan Documents as amended hereby, and (c) this Amendment constitutes a legal, valid, and binding obligation of the Loan Parties enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and general principles of equity.

24. This Amendment shall be construed in accordance with and governed by the laws of the United States of America and the State of Texas.

25. THE CREDIT AGREEMENT, THIS AMENDMENT, THE WAIVER, THE NOTES, THE GUARANTY AGREEMENTS, THE LETTER OF CREDIT AGREEMENTS, THE SECURITY INSTRUMENTS AND THE OTHER WRITTEN DOCUMENTS REFERRED TO IN THE CREDIT AGREEMENT OR EXECUTED IN CONNECTION WITH OR AS SECURITY FOR THE NOTES REPRESENT, COLLECTIVELY, THE FINAL AGREEMENT AMONG THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN OR ORAL AGREEMENTS AMONG THE PARTIES.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed effective as of the date first above written.

LOAN PARTIES:

THE GNI GROUP, INC.

By:

Name: Titus H. Harris, III
Title: Chief Financial Officer

DISPOSAL SYSTEMS, INC.

By:

Name: Titus H. Harris, III
Title: Vice President

RESOURCE TRANSPORTATION SERVICES, INC.

By:

Name: Titus H. Harris, III
Title: Vice President

GNI CHEMICALS CORPORATION

By:

Name: Titus H. Harris, III
Title: Vice President

DISPOSAL SYSTEMS OF CORPUS CHRISTI, INC.

By:

Name: Titus H. Harris, III
Title: Vice President

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LENDER:

NATIONSBANK OF TEXAS, N.A.

By:

Name: William T. Griffin, Jr.
Title: Vice President

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Exhibit "A"

NOTE D

\$15,000,000.00

September 23, 1996

FOR VALUE RECEIVED, THE GNI GROUP, INC., a Delaware corporation ("GNI"), hereby promises to pay to the order of NATIONSBANK OF TEXAS, N.A. (the "Lender"), at its principal offices at 700 Louisiana, Houston, Texas 77252-2518 the principal sum of FIFTEEN MILLION AND NO/100 DOLLARS (\$15,000,000.00) in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest, at such office, in like money and funds, at the rates per annum and on the dates provided in the Credit Agreement.

The date, interest rate and each payment made on account of the principal hereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note D, endorsed by the Lender on the schedules attached hereto or any continuation thereof.

This Note D is one of the Notes referred to in the Credit

Agreement dated as of June 30, 1993 among GNI, Disposal Systems, Inc., Resource Transportation Services, Inc., GNI Chemicals Corporation, Disposal Systems of Corpus Christi, Inc., and Lender, as amended by Amendment No. 1 dated as of March 15, 1994, Second Amendment to Credit Agreement dated as of August 31, 1994, Third Amendment to Credit Agreement dated as of December 31, 1994, Fourth Amendment dated as of March 3, 1995, Fifth Amendment to Credit Agreement dated as of March 31, 1995, Sixth Amendment to Credit Agreement dated as of November 3, 1995 and Seventh Amendment to Credit Agreement dated as of September 23, 1996 (such Credit Agreement, as amended and as the same may from time to time be further amended, the "Credit Agreement"), and evidences Loans made by the Lender thereunder. Capitalized terms used in this Note D have the respective meanings assigned to them in the Credit Agreement.

This Note D is issued pursuant to the Credit Agreement and is entitled to the benefits provided for in the Credit Agreement and the Security Instruments. The Credit Agreement provides for the acceleration of the maturity of this Note D upon the occurrence of certain events and for prepayments of Loans upon the terms and conditions specified therein.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

THE GNI GROUP, INC.

By:

Titus H. Harris, III
Chief Financial Officer

DEEPWELL ACCESS AGREEMENT

This Deepwell Access Agreement ("Agreement") dated as of September 30, 1996 is between EMPAK Inc. ("EMPAK"), a Texas corporation and Disposal Systems, Inc., a Delaware corporation ("DSI").

WHEREAS, pursuant to that certain Assistance Agreement among EMPAK, Pakhoed Corporation ("Pakhoed"), a Delaware corporation, and DSI of even date herewith ("Assistance Agreement"), EMPAK agreed to provide certain deepwell waste disposal services to DSI on a backup basis in the event of interruption in the operation of DSI's deepwell waste disposal facilities; and

WHEREAS, EMPAK and DSI desire to enter into this Agreement to establish the terms and conditions upon which such services shall be provided.

NOW THEREFORE, in consideration of the mutual promises set forth herein and other valuable consideration, the sufficiency of which is hereby acknowledged, EMPAK and DSI agree as follows:

1. Definitions. Certain capitalized terms used herein shall have the following meanings unless the context otherwise requires:

- (i) Acceptance Criteria means:
 - (a) Receipt by EMPAK in Proper Form of a description of each Waste Material for which disposal is sought in sufficient detail (together with other analytical data and profiling conducted by DSI) to enable EMPAK to determine whether such Waste Material may be accepted at the EMPAK Deepwell in compliance with the EMPAK Permit, its waste analysis plan, or any of its operating procedures;
 - (b) Receipt by EMPAK in Proper Form of a description of any special handling instructions or indicia of special health and/or safety considerations in sufficient detail such that such Waste Material may be accepted for disposal at the EMPAK Deepwell in compliance with the EMPAK Permit, its waste analysis plan, or any operating procedures;
 - (c) Receipt by EMPAK in Proper Form of a description of any special considerations necessary for the transportation, storage, handling, offloading, or

containerization (including, without limitation texture, consistency and compatibility) of any Waste Material in

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sufficient detail that EMPAK can conclude that such Waste Material may be accepted for disposal at the EMPAK Deepwell in compliance with the EMPAK Permit without the incurrence of any additional expenditure or modification of the EMPAK Deepwell, EMPAK Permit, facility, its waste analysis plan, or any operating procedures;

- (d) Receipt by EMPAK in Proper Form of records of the DSI customer at issue for each waste stream at issue in sufficient detail to enable EMPAK to determine the tolerances of compounds within each waste stream and the likelihood that the Waste Material at issue is within the customer's existing profile.
- (e) Receipt by EMPAK in Proper Form of documentation sufficient to allow EMPAK to conclude that acceptance of the Waste Material at issue will not or will potentially not violate any term or condition of the EMPAK Permit either based upon acceptance of the Waste Materials proposed to be accepted from DSI or collectively taking into account ongoing operations at the Companies' business facility located at 2759 Battleground Road, Deer Park, Texas;
- (f) Adequate storage as to both spacial requirements and compatibility exists at the EMPAK Deepwell facility to accommodate the Waste Material proposed for disposal;
- (g) Receipt by EMPAK of documentation in Proper Form establishing:
 - (i) An Interruption Event has occurred;
 - (ii) The DSI customer(s) at issue have been advised of the utilization of an alternate facility and any revised timing for disposal;
 - (iii) The Waste Materials at issue have been re-manifested in accordance with all Environmental Laws or the current manifest denotes the EMPAK Deepwell as an

appropriately listed alternate disposal facility.

- (iv) Any approval process and/or laboratory upon which DSI or a customer of DSI has relied and complies with the EMPAK Permit, its operating procedures and waste analysis plan;

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- (iv) All other aspects of treatment, storage, management, handling, and recordkeeping of any party involved with such Waste Materials complies in all respects with the EMPAK Permit, Environmental Laws, and any operating procedure of EMPAK; and

- (h) Receipt by EMPAK in Proper Form of any other documentation or analyses reasonably required for EMPAK to conclude that the acceptance of any such Waste Materials at issue will not result in liability under Environmental Laws or a violation of the EMPAK Permit, its waste analysis plan or any of its operating procedures.

(ii) Companies means collectively EMPAK and Pakhoed.

(iii) DSI Deepwells means the three deepwell facilities and any ancillary structures, devices, equipment, or facilities reasonably required or necessary for its operation to be in compliance with applicable Environmental Laws, maintained by DSI at 2525 Battleground Road, Deer Park, Texas, and 6901 Greenwood Drive, Corpus Christi, Texas, and permitted under permit Nos. WDW-169, WDW-249, and WDW-70 issued by the TNRCC.

(iv) DSI Permit means collectively permit nos. WDW-169 and WDW-249, as well as any permit application, registration, permit, permit by rule, exemption or any other authorization necessary for the DSI Deepwells to operate in compliance with applicable laws, including without limitation, Environmental Laws.

(v) EMPAK Deepwell means the deepwell facility and any ancillary structures, devices, equipment, or facilities reasonably required or necessary for its operation to be in compliance with applicable Environmental Laws, maintained by EMPAK at 2759 Battleground Road, Deer Park, Texas, and permitted under permit No. WDW-157 issued by the TNRCC.

(vi) EMPAK Permit means permit No. WDW-157 in effect as of the effective date hereof as well as any permit application, registration, permit, permit by rule, exemption, or any other authorization necessary for the EMPAK Deepwell to operate in compliance with applicable laws, including without limitation, Environmental Laws.

(vii) Environmental Laws means any and all laws, rules, regulations, ordinances, orders or guidance documents now or hereafter in effect of any federal, state or local executive, administrative decision relating thereto or common law that relate to (i) wetlands or other protected land or wildlife species; (ii) noise; (iii) radioactive materials (including naturally occurring radioactive materials); (iv) explosives; (v) pollution, contamination, preservation, protection, remediation, removal, or clean-up of the air, surface water, ground water, soil or wetlands; (vi) solid, gaseous or liquid waste generation, handling, discharge, release, recycling reclamation, threatened release, treatment, storage, disposal or transportation; (vii) exposure or

persons or property to hazardous substances or wastes and the effects thereof; (viii) injury to, death of or threat to the safety or health of employees and any other persons; (ix) the manufacture, processing, distribution in commerce, use, treatment, storage, disposal or remediation of hazardous substances; (x) destruction, contamination of, or the release onto any property (whether real or personal) directly or indirectly connected with hazardous substances; (xi) the implementation of spill prevention and/or disaster plans relating to hazardous substances or wastes; (xii) community right-to-know and other disclosure laws or (xiii) maintaining, disclosing or reporting information to governmental authorities under any Environmental Law.

(viii) Force Majeure Event means in the reasonable judgment of EMPAK the occurrence of any condition exceeding 96 hours in duration in which the EMPAK Deepwell shall be both unable to accept and store (at one of the Companies' storage or transfer facilities) or is materially impaired from both accepting injection of Waste Material and legally storing (at one of the Companies' transfer or storage facilities) any Waste Materials prior to disposal, which it is currently authorized to accept pursuant to the EMPAK Permit in commercial quantities by reason of (i) fire, explosion, flood, storm, earthquake, tidal wave, war, insurrection, civil disorder, military operations, national emergency, strike, or other labor dispute; (ii) the order, requisition, request, recommendation, requirement of any governmental agency; (iii) the revocation, cancellation, modification, suspension or receipt of a notice of proposed violation, of any regulatory permit (in whole or in part), including without limitation the EMPAK Permit, or any variance or authorization necessary for operation of the EMPAK Deepwell in accordance with Environmental

Laws; (iv) any safety concerns regarding the EMPAK Deepwell or mechanical malfunction (including interruption of power sources) of pumps or other injection equipment, hole blockage or collapse, casing leakage or rupture or other mechanical condition or failure disabling the EMPAK Deepwell or causing safety concerns should the EMPAK Deepwell continue to be operated absent corrective action; (v) civil or administrative suit or injunctions; or (vi) any interruption or delay due to any cause beyond EMPAK's control, similar or dissimilar to the causes enumerated above.

(ix) Interruption Event means in the reasonable judgment of DSI the occurrence of any condition exceeding 96 hours in duration pursuant to which all DSI Deepwells shall be unable to accept injection of Waste Material which either is authorized to accept pursuant to the DSI Permit in commercial quantities by reason of (i) fire, explosion, flood, storm, earthquake, tidal wave, war, insurrection, civil disorder, military operations or national emergency, (ii) any mechanical malfunction (including interruption of power sources) of pumps or other injection equipment, hole blockage or collapse, casing leakage or rupture or other mechanical condition or failure disabling the DSI Deepwells, or (iii) any interruption due to any cause not attributable in whole or in part to DSI's negligence or willful acts, but beyond DSI's control, similar or dissimilar to the causes enumerated above. In no event shall an Interruption Event be deemed to exist if (a) one of the DSI Deepwells remains active and is legally able to accept injection of Waste Material or (b) any DSI Permit shall be revoked for any reason.

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(x) Ongoing Deepwell Costs means:

(a) for each calendar year (or portion thereof) during the term of this Agreement, the aggregate of all costs, expenses and liabilities of every kind or nature paid or incurred by EMPAK in connection with owning, maintaining, and operating the EMPAK Deepwell facility and the EMPAK Permit including, without limitation, Taxes, Insurance Premiums, the costs of providing or performing the following: maintaining, cleaning, and repairing the EMPAK Deepwell; inspecting the EMPAK Deepwell and preparing and maintaining all legally required records or records that a prudent business operator would keep, lighting the EMPAK Deepwell facility (including replacement of bulbs and ballasts and repair of light standards); supplying water, electricity, gas, security, laboratory, sewer disposals or other services to the EMPAK Deepwell;

providing signage; providing traffic control; constructing, repairing and maintaining any on-site or off-site utilities necessary or appropriate for its operation; wages, salaries, and benefits of personnel performing or providing services to the EMPAK Deepwell including without limitation legal, consulting, expert, and engineering fees; providing and maintaining any planting and landscaping; providing security services; maintenance of equipment associated with the EMPAK Deepwell and the EMPAK Permit, including laboratory equipment; the costs of providing insurance, financial responsibility/assurance, including liability, pollution, casualty and extended coverage and including payments by EMPAK of the deductible therefrom and costs incurred by them in obtaining payments of insurance proceeds; costs and expenses of inspecting and depreciation of equipment used in the operation and maintenance of the EMPAK Deepwell and the EMPAK Permit; plus all other costs and expenses of every kind or nature paid or incurred by EMPAK relative to maintaining, managing, operating, owning, permitting and equipping the EMPAK Deepwell.

- (b) The phrase "Taxes," as used herein, shall mean all taxes, assessments, impositions, levies, charges, excises, fees, licenses and other sums (whether now existing or hereafter arising, whether foreseen or unforeseen and whether under the present system of real estate taxation or some other system), levied, assessed, charged or imposed by any governmental authority or other taxing authority or which accrue on the land (comprising the EMPAK Deepwell or operations conducted on it) for each calendar year (or

portion thereof) during the term of this Agreement associated with the EMPAK Permit and any Waste Materials handling fees. In no event shall the phrase "Taxes" be deemed to include any of EMPAK's income taxes.

- (c) The phrase "Insurance Premiums" shall mean the

total annual insurance premiums and costs associated with financial responsibility/financial assurance which accrue on all insurance, which, from time to time, may be carried by EMPAK with respect to the EMPAK Deepwell during any applicable calendar year (or portion thereof) occurring during the term of this Agreement together with any deductible therefrom paid by EMPAK and all costs related to realizing upon the proceeds of any such insurance.

(xi) Proper Form means in form and substance acceptable to EMPAK in its reasonable judgment.

(xii) Proportionate Share means an amount equal to the product obtained by multiplying (a) the number of whole days Waste Materials for which disposal is sought by DSI are either stored or disposed at the EMPAK Deepwell or any of the Companies' storage or transfer facilities by (b) 1/365.

(xiii) Related Documents means this Agreement, the Assistance Agreement, between the Companies and DSI, the Assignment and Assumption Agreement, between the Companies and DSI each dated concurrently with this Agreement, and any other document, instrument, or agreement relating thereto.

(xiv) TNRCC means the Texas Natural Resource Conservation Commission and any successor organization to it.

(xv) Waste Material means hazardous and non-hazardous waste in containerized or bulk quantities.

2. Access Fees. Subject to adjustment only pursuant to Paragraph 5, in consideration of EMPAK's agreement to provide the limited access to the EMPAK Deepwell as provided in this Agreement, DSI shall pay to EMPAK access fees in the amount of \$1,200,000 cash per year during the term of this Agreement, payable in equal semi-annual installments throughout the term of this Agreement beginning on the date six (6) months after the date hereof.

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3. Term. The term of this Agreement shall commence on the date hereof and continue until September _____, 2001.

4. Disposal Upon Occurrence of Interruption Event. Upon the occurrence of an Interruption Event at any time during the term of this Agreement, DSI shall give prompt written notice ("Access Notice") thereof to EMPAK specifying the following: (i) the nature of the Interruption Event,

described in reasonable detail; (ii) the time (no less than seven (7) business days after EMPAK's receipt of the Access Notice) at which the delivery of the Waste Material to EMPAK will commence; and (iii) the kind, chemical composition, and approximate quantities of Waste Material to be delivered, described in reasonable detail. Promptly upon receipt of an Access Notice, the appropriate operational and technical personnel of EMPAK and DSI shall confer regarding the quantities, flow rates, and timing of deliveries and other logistical matters. DSI shall be responsible for arranging all tank truck and other transport, paying all freight, insurance and other costs thereof, and bearing all risk of loss and other liability associated therewith, in connection with the delivery of the Waste Material to the EMPAK Deepwell. Subject to the terms and conditions of Paragraph 6, hereof, upon transport and delivery of such Waste Material to the EMPAK Deepwell, EMPAK shall take custody and control thereof and dispose of the same in the EMPAK Deepwell in accordance with the facility's standard operating procedures. The disposal of the Waste Material by EMPAK at the request of DSI pursuant to this Agreement shall be without charge to DSI other than the Access Fees provided in Paragraph 2 above, its Proportionate Share pursuant to Paragraph 9 above, and DSI's payment of expenses described in Paragraph 8 above. Promptly upon the cessation of the Interruption Event, DSI shall cease deliveries of Waste Material to the EMPAK Deepwell until such time as any subsequent Access Notice is duly issued pursuant to this Paragraph 4. DSI shall use commercially reasonable and continuous efforts to cure any Interruption Event as soon as possible.

5. Availability of EMPAK Deepwell.

(i) During the term of this Agreement, EMPAK shall use commercially reasonable efforts to keep the EMPAK Deepwell capable of injecting Waste Material which it is currently authorized to accept for disposal under the EMPAK Permit; provided however, EMPAK shall not be required to accept any Waste Material that does not meet the Acceptance Criteria for the EMPAK Deepwell or for which procedures outlined in Paragraph 6 have not been followed. Subject to the existence of a Force Majeure Event, in the event that any condition shall exist that would result in EMPAK's inability to dispose of or accept for storage (at one of the Companies' storage or transfer facilities) Waste Material at the EMPAK Deepwell (the acceptance and disposal of which would not result in violation of the EMPAK Permit) within legally permissible time periods under Environmental Laws, and such condition exists for more than ninety (90) days, the semi-annual access fees next payable by DSI to EMPAK shall be reduced by an amount equal to the product obtained by multiplying (a) the number of whole days during which such unexcused condition exists beyond 90 days by (b) \$3,287.67. EMPAK shall give DSI prompt notice of the commencement and cessation of any such condition. Any reduction in the semi-annual access fees

required pursuant to this Paragraph 5(i) shall have no effect on any succeeding access payments due and owing EMPAK by DSI.

(ii) A Force Majeure Event shall suspend EMPAK's performance for the duration of the condition giving rise to the Force Majeure Event, but shall not result in any reduction in the Access Fees payable by DSI pursuant to Paragraph 2 above.

6. Procedure for Acceptance of Waste Materials. Subject to the terms and conditions of Paragraph 7, in no event shall EMPAK be obligated to accept any Waste Material for disposal at the EMPAK Deepwell originally intended for disposal at a DSI Deepwell unless and until the following conditions are satisfied:

(i) All Acceptance Criteria shall have been satisfied at least five (5) days prior to delivery of such Waste Materials to the EMPAK Deepwell or other storage/transfer facility authorized by EMPAK;

(ii) An Interruption Event shall have occurred;

(iii) EMPAK shall be satisfied in its reasonable discretion as to the nature, source, and composition of such Waste Material and have had a reasonable opportunity, not to exceed five (5) days, to (a) review all records associated with the generation, management and transportation of such Waste Material including any analytical data, and profiling of such conducted at or in connection with the DSI Facility and (b) conduct independent analyses and profiling of the Waste Materials as is reasonably necessary for EMPAK to conclude that such materials may be accepted at the EMPAK Deepwell in accordance with the EMPAK Permit and will not result in a violation or potential violation of the EMPAK Permit; and

(iv) EMPAK shall have received from DSI a signed statement in the form attached as Exhibit A pertaining to each shipment of Waste Materials and/or waste stream.

(v) Subject to the terms and conditions of the EMPAK Permit, EMPAK's waste analysis plan and operating procedures, the total volume of Waste Materials for which DSI has requested disposal does not exceed one hundred twenty (120) million gallons annually, on a prorated basis.

7. Rejection of Waste Materials. Notwithstanding anything to the contrary in this Agreement, EMPAK shall have the right in its sole and absolute discretion to decline the acceptance of any Waste Materials which in its reasonable judgment could or is reasonably likely to be or lead to potential allegations of or notices of violation relating to a violation of Environmental Laws, or a claim of liability under Environmental Laws including without limitation those pertaining to nuisance associated with air emissions, or personal injury by third parties.

8. Allocation of Ongoing Expenditures.

In the event DSI seeks to dispose or store Waste Material at the EMPAK Deepwell or any other EMPAK storage or transfer facility under this Agreement, then EMPAK and DSI agree that costs associated with the ongoing operation of the EMPAK Deepwell will be allocated as follows:

a. DSI shall bear all cost and expense as reasonably determined by EMPAK for additional personnel in addition to EMPAK's then standard number of personnel at the EMPAK Deepwell to handle and dispose of Waste Materials. Such costs may be attributable to temporary personnel or individuals employed by EMPAK that are not typically assigned to the EMPAK Deepwell.

b. DSI shall bear its Proportionate Share of all cost, expense, and liability associated with any (i) capital expenditures necessary to maintain the EMPAK Deepwell and EMPAK Permit and (ii) all other, capital costs, and other costs and expenses associated with maintaining and assuring that the EMPAK Deepwell is in compliance with all applicable Environmental Laws during the term of this Agreement.

c. Except where attributable to the gross negligence or willful misconduct by EMPAK or Pakhoed, DSI shall bear its Proportionate Share of all costs, expenses, and liability associated with any fines or penalties attributable in whole or in part to any activities occurring in, at, or around the EMPAK Deepwell or under the EMPAK Permit.

d. DSI shall pay its Proportionate Share of EMPAK's Ongoing Deepwell Costs.

9. Payment of DSI's Proportionate Share. Within ninety (90) days after the end of each calendar year during which Waste Materials are disposed at the EMPAK Deepwell or stored at any EMPAK facility during the term hereof EMPAK shall furnish to DSI a statement ("Statement") in reasonable detail setting forth the computation of the actual Taxes, maintenance costs, Insurance Premiums and other Ongoing Deepwell Costs for the preceding year (the "Actual Costs"). In no event shall EMPAK's failure to timely provide the Statement impair or otherwise operate to modify DSI's obligation to pay its Proportionate Share. DSI shall pay to EMPAK a sum of money equal to its Proportionate Share of the Ongoing Deepwell Costs within thirty (30) days after its receipt of the Statement. These obligations shall survive the expiration or termination of this Agreement.

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10. Events of Default.

- a. If any of the following events occur, EMPAK shall have the right to unilaterally suspend its performance under this Agreement upon written notification to DSI and DSI's failure to cure within thirty (30) for nonmonetary defaults and fifteen (15) days for those defaults that can be cured by a liquidated sum of money:
- (i) Failure by DSI to make timely any payment to EMPAK or Pakhoed due hereunder.
 - (ii) Failure by DSI to materially perform any covenant (other than payment obligations), it is obligated to perform under this Agreement.
 - (iii) Any statement, representation, or warranty made by DSI under this Agreement shall be materially false or misleading;
 - (iv) Any investigation shall be commenced of which DSI has actual knowledge pertaining to Waste Materials or waste streams that have been accepted for disposal at a DSI Deepwell and for which DSI seeks or has sought the services of EMPAK under this Agreement pursuant to which DSI or any customer of DSI whose Waste Materials have been disposed or scheduled to be disposed at the EMPAK Deepwell are (a) accused of criminal violations under applicable Environmental Laws; or (b) alleged to be arranging for disposal of Waste Materials that are not of the nature as documented by DSI or its customer.
- b. Upon the occurrence of any Event of Default under this Agreement EMPAK may at its sole option pursue any one or more of the following remedies without any notice or demand and without limiting the generality of the foregoing DSI hereby specifically waives notice and demand for the failure of any obligation it may have hereunder and waives any and all notice or demand requirements imposed by any applicable law:
- (i) Suspend its performance under this Agreement whereupon EMPAK may (a) seek to recover any damages

available to it at law or in equity and (b) exercise any and all other remedies available to EMPAK under this Agreement, or at law, or in equity.

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- (ii) It is expressly understood and agreed that EMPAK shall to the full extent permitted by applicable law, have no obligation and DSI hereby releases EMPAK from any obligation, to mitigate damages.

11. Independent Knowledge Obtained.

DSI acknowledges and agrees that the Companies have made no representation, warranty, or agreement as to the nature or volume of Waste Materials that may be accepted at the EMPAK Deepwell at any given time. Moreover, the Companies have made no representation, warranty, or agreement concerning the time period within which Waste Materials proposed for disposal by DSI may be processed at the EMPAK Deepwell. DSI agrees (i) that it has made its own independent judgment as to whether the EMPAK Deepwell may accept waste from DSI for disposal; (ii) that it has reviewed the EMPAK Permit, EMPAK Deepwell facility records, and any necessary federal, state, or local laws, rules, or agency files necessary to determine the economic viability of the utilization of the EMPAK Deepwell for a back-up disposal facility; and (iii) that other factors over which the Companies have no control may determine whether Waste Materials may be disposed at the EMPAK Deepwell.

12. Indemnity. DSI hereby agrees unconditionally, absolutely and irrevocably to indemnify, defend and hold harmless each of the Companies from and against any loss, cost, expense, liability, or claim which at any time or from time to time may be claimed, suffered or occurred in connection with any violation or alleged violation of Environmental Law by any governmental authority or any other person, or claim for personal injury, the breach of any representation or warranty of DSI set forth herein or the failure of DSI to perform any obligation herein required to be performed by DSI. DSI expressly agrees to indemnify the Companies for any claim, demand, cause of action, suit, lost cost damage, punitive damage, fine, penalty, expense, liability, strict liability, criminal liability, judgment, governmental or private investigation relating to compliance with requirements of Environmental Laws, personal injury suit or property damage whether threatened, sought, brought, or imposed that is related to or seeks to recover costs, damages, expenses, or fees, arising or occurring in whole or in part, after the execution of this Agreement and during any Interruption Event at which time any Waste Materials are treated, stored or disposed at the EMPAK Deepwell facility or any other storage or transfer facility of the Companies as a result of an Interruption Event.

EFFECT OF NEGLIGENCE. DSI SHALL INDEMNIFY THE COMPANIES REGARDLESS OF WHETHER THE ACT, OMISSION, FACT, CIRCUMSTANCES OR CONDITIONS GIVING RISE TO SUCH INDEMNIFICATION WERE CAUSED IN WHOLE OR IN PART BY EITHER COMPANY'S SIMPLE (BUT NOT GROSS) NEGLIGENCE.

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13. Notices. Any notice, request or other communication given pursuant to this Agreement shall be given in the manner provided in the Assistance Agreement; provided, however, that any Access Notice shall be delivered by hand delivery.

14. Miscellaneous.

(i) This Agreement is not assignable by any party without the prior written consent of the other.

(ii) This Agreement sets forth the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements or undertakings, oral or written, with respect to the subject matter hereof.

(iii) No amendment, modification or waiver of all or part of this Agreement shall be of any force or effect unless in writing and signed by authorized representatives of the parties hereto.

(iv) This Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

(v) The captions in this Agreement are for convenience of reference only and shall be given no effect in the construction hereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective representatives thereunto duly authorized as of the date first set forth above.

EMPAK Inc.

By:

Jean S. Warren,
Senior Vice President

Disposal Systems, Inc.

By:

Carl V Rush, Jr.,
President and Chief Executive Officer

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Pakhoed Corporation joins herein solely to evidence its consent to the terms of this Agreement to the extent necessary under any applicable law.

Pakhoed Corporation

By:

Jean S. Warren,
Senior Vice President

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GUARANTY

In consideration of the transactions contemplated by the foregoing Deepwell Access Agreement (which the Board of Directors of The GNI Group, Inc., has determined may reasonably be expected to benefit, directly or indirectly, The GNI Group, Inc.), The GNI Group, Inc., hereby absolutely, unconditionally and irrevocably guarantees the full and timely payment by Disposal Systems, Inc., of all access fees due and owing pursuant to Section 2 thereof. On any default by Disposal Systems, Inc. in the payment of such fees, EMPAK, Inc. may, at its option, proceed directly and at once against The GNI Group, Inc. to enforce its obligations under this unconditional guaranty, without the necessity of proceeding or taking any action against Disposal Systems, Inc. The amendment or any other change to the Deepwell Access Agreement or any party's waiver or failure to enforce any provision of it shall have no effect on the GNI Group, Inc.'s obligation hereunder which shall remain absolute.

By:

Carl V Rush, Jr.
President and Chief Executive Officer

EXHIBIT A

COUNTY OF HARRIS)
)
STATE OF TEXAS)

AFFIDAVIT

BEFORE ME, the undersigned notary public, personally appeared _____ who, after being by me duly sworn, did depose and state the following under oath:

My name is _____, and I am the _____ of Disposal Systems, Inc. ("DSI"). I have personal knowledge of the facts concerning hazardous and solid waste materials managed by DSI at its deepwell facilities. With regard to the waste streams described on the attachment to this Affidavit, I am aware of no fact or circumstance which could render any record retained by DSI or furnished to EMPAK Inc. in connection with such waste stream false or misleading in any regard. Moreover, I have no knowledge of any tampering with the waste streams at issue nor do I have any reason to believe that the waste stream is not from the source or of the nature or characteristic identified by the generator prior to its acceptance for disposal by DSI. Moreover, I am aware of no civil, criminal, or administrative investigation into the affairs of the generator of the specific waste materials.

Further Affiant sayeth not.

SUBSCRIBED AND SWORN TO BEFORE ME, on the ____ day of _____,

1996, to certify which witness my hand and official seal.

NOTARY PUBLIC IN AND FOR
THE STATE OF TEXAS

ASSISTANCE AGREEMENT

This Assistance Agreement dated as of September 30, 1996 ("Agreement") is among Pakhoed Corporation, a Delaware corporation ("Pakhoed"), EMPAK Inc., a Texas corporation and wholly-owned subsidiary of Pakhoed ("EMPAK"), (Pakhoed and EMPAK being hereinafter together referred to as the "Companies"), and Disposal Systems, Inc., a Delaware corporation ("DSI").

WHEREAS, EMPAK has been previously engaged in the business of deepwell disposal of commercial third-party hazardous and non-hazardous waste in containerized and bulk quantities and ancillary services incidental to such deepwell disposal services (hereinafter referred to as the "Business"), which term expressly excludes the Companies' wastewater treatment and railcar cleaning businesses, as well as all activities relating to Self-Generated Waste (as defined below); and

WHEREAS, EMPAK desires to discontinue its engagement in the Business; and

WHEREAS, DSI desires to procure the assistance of the Companies on the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the payments, mutual covenants, representations and warranties set forth herein and other valuable consideration, the sufficiency of which is hereby acknowledged, the parties agree as follows.

1. Cash Payment. Contemporaneously with the execution and delivery of this Agreement, DSI has paid to EMPAK the sum of Twelve Million Dollars (\$12,000,000) cash by wire transfer of immediately available funds to the account heretofore designated by EMPAK and receipt thereof in the designated account has been confirmed.

2. Deepwell Access Agreement. Contemporaneously with the execution and delivery of this Agreement, EMPAK and DSI have executed and delivered a Deepwell Access Agreement of even date herewith (the "Deepwell Access Agreement") whereby EMPAK has agreed to provide DSI access to EMPAK's deepwell disposal facility (Permit No. WDW-157) (hereinafter referred to as the "EMPAK Facility") for the period and on the terms and conditions set forth in the Deepwell Access Agreement.

3. Withdrawal Covenant. In consideration of the payment referred to in Section 1 and the other transactions contemplated hereby, the Companies jointly and severally covenant and agree that they shall not, for a period of

seven years from the date of this Agreement, directly or indirectly (including but not limited to acting alone or through any of their respective subsidiaries, as a member

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of a partnership or a joint venture, or as an investor in any corporation or other entity, or otherwise), within the United States of America, conduct, engage or participate in (i) the Business or (ii) the ownership or operation of a solid waste landfill, waste incineration facility or cement kiln.

Notwithstanding any other provision set forth in this Agreement, the operations and businesses restricted by the preceding sentence shall not include, and the Companies shall at all times be permitted to engage in the following activities (whether at the EMPAK Facility or any other location):

(i) render such waste disposal services as may be required or permitted pursuant to the Deepwell Access Agreement, and

(ii) dispose of Self-Generated Waste.

For the purposes of this Agreement, "Self-Generated Waste" means all hazardous and non-hazardous waste either generated or arranged for disposal by the Companies or their customers in connection with or incidental to the businesses of the Companies and/or their affiliates that are not restricted by this Section 3 of the Agreement (regardless of whether the Companies are the sole "generators" under applicable environmental laws and regardless of whether such waste is generated or arranged for disposal at the EMPAK Facility or at any other location), including but not limited to wastes related to or generated in connection with tank, tankbottom, sanitary greasetrap, truck and railcar cleaning, wastewater treatment, materials recovery, drum disposal, and/or ship washing and deballasting and other similar or related activities now or hereinafter conducted by the Companies.

The Companies and DSI hereby declare their desire and intent that, if the foregoing covenant is found to be unreasonably broad or unenforceable in an action, suit or proceeding before any state or federal court, such court shall narrow the scope or duration of such covenant or otherwise reform it so that it may be enforced to the fullest extent permitted by law as so reformed. Moreover, the Companies and DSI hereby stipulate that a violation of the foregoing covenant would cause irreparable injury to DSI for which it would have no adequate remedy at law and, in the event of such violation, DSI shall be entitled to (i) preliminary and other injunctive relief without necessity of complying with any requirement as to the posting of a bond or other security (the Companies hereby waiving any such requirement), and (ii) any other remedies to which DSI may be entitled at law or in equity.

In the event of a default by DSI of any payment obligation under the Deepwell Access Agreement and the failure to cure the same within fifteen (15) days after receiving written notice of such default, the Companies shall be released from all obligations in this Section 3 and shall not be restricted in any manner regarding the conduct of the Business.

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4. Representations and Warranties of the Companies. As a material inducement to DSI to enter into this Agreement and consummate the transactions contemplated hereby, the Companies represent and warrant as follows:

(i) EMPAK is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to enter into this Agreement and the Deepwell Access Agreement and to carry out the transactions contemplated hereby and thereby. Pakhoed is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby.

(ii) The execution and delivery of this Agreement and the Deepwell Access Agreement and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of the Companies, and such instruments evidence the valid and binding obligations of the Companies enforceable against each in accordance with their respective terms.

(iii) The Companies have not employed or retained any broker or finder or paid or agreed to pay any commission or finder's fee on account of this Agreement or the transactions contemplated hereby.

(iv) The Disclosure Schedule delivered to DSI contemporaneously with the execution and delivery of this Agreement sets forth accurately, in all material respects, the gross revenues derived from the operation of the Business during each of the calendar years ended December 31, 1991, 1992, 1993, 1994, and 1995 and the six month period ended June, 1996.

(v) Neither the execution and delivery by EMPAK of this Agreement and the Deepwell Access Agreement, nor the performance of the obligations contemplated herein or therein will conflict with or result in any violation of or constitute a breach or default under the terms of the articles of incorporation or bylaws of EMPAK or any contract, mortgage, indenture or other agreement to which EMPAK is a party or by which EMPAK or any of EMPAK's assets or properties are bound or affected and which could reasonably be

expected to have a material adverse effect on EMPAK or its assets or properties, taken as a whole.

(vi) Neither the execution and delivery by Pakhoed of this Agreement, nor the performance of the obligations contemplated herein will conflict with or result in any violation of or constitute a breach or default under the terms of the certificate of incorporation or bylaws of Pakhoed or any contract, mortgage, indenture or other agreement to which Pakhoed is a party or by

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which Pakhoed or any of Pakhoed's assets or properties are bound or affected and which could reasonably be expected to have a material adverse effect on Pakhoed or its assets or properties, taken as a whole.

5. Representations and Warranties of DSI. As a material inducement to the Companies to enter into this Agreement and consummate the transactions contemplated hereby, DSI represents and warrants as follows:

(i) DSI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to enter into this Agreement and the Deepwell Access Agreement and to carry out the transactions contemplated hereby and thereby.

(ii) The execution and delivery of this Agreement and the Deepwell Access Agreement and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of DSI, and such instruments evidence the valid and binding obligations of DSI enforceable against it in accordance with their respective terms.

(iii) DSI has not employed or retained any broker or finder or paid or agreed to pay any commission or finder's fee on account of this Agreement or the transactions contemplated hereby.

(iv) Neither the execution and delivery by DSI of this Agreement and the Deepwell Access Agreement, nor the performance of the obligations contemplated herein or therein will conflict with or result in any violation of or constitute a breach or default under the terms of the articles of incorporation or bylaws of DSI or any contract, mortgage, indenture or other agreement to which DSI is a party or by which DSI or any of DSI's assets or properties are bound or affected and which could reasonably be expected to have a material adverse effect on DSI or its assets or properties, taken as a whole.

(v) All financial information regarding The GNI Group, Inc. ("GNI") contained in its Form 10-K for the period ended June 30, 1995, as updated in its Forms 10-Q for the periods ended September 30, 1995, December 31, 1995 and March 30, 1996 present fairly the financial position and results of operations of GNI as of and for the respective periods, and since March 30, 1996 there have been no developments or changes in such financial position or results of operations that, in the aggregate, could reasonably be expected to have a material adverse effect on the financial condition of GNI and its subsidiaries, taken as a whole. GNI and DSI have the financial ability and wherewithal separate and apart from the transactions contemplated in this Agreement to fully satisfy

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their respective obligations on a timely basis under this Agreement and the Deepwell Access Agreement.

6. Consultation and Access.

(i) The parties intend that the transition of the Business to DSI occur as soon as reasonably possible and, in furtherance thereof, EMPAK shall within five (5) business days of the date hereof, send notices of termination to all of its Business customers under contracts, such termination to be effective as soon as is permitted under the contract. In addition, for the period commencing at the execution and delivery of this Agreement and ending on the close of business on December 31, 1996 (the "Transition Period"), the Companies shall (x) make their managerial (including sales management) and technical personnel available to consult with DSI at DSI's reasonable request to assist DSI regarding the transfer of the Business and EMPAK's customer relationships incident to the Business (including but not limited to any Business customers with contracts for which termination has not yet become effective) and (y) provide access during normal business hours to DSI for the purpose of inspecting and copying (at DSI's expense) all books and records of the Companies pertaining solely to the Business or the operation thereof; provided, however, EMPAK shall not be required under this Section 6 to violate the provisions of any confidentiality agreement it may have with its customers, and in no event shall EMPAK be liable if any customer chooses not to use the services of DSI. Additionally, DSI shall bear all reasonable out-of-pocket expenses related to the travel of EMPAK personnel outside of the greater Houston metropolitan area if DSI has expressly requested such travel.

(ii) Notwithstanding the restrictions set forth in Section 3 above,

EMPAK shall be permitted (x) to complete the performance of any waste disposal contract for which termination has not yet become effective and (y) during the Transition Period, to dispose of waste for Business customers for which DSI is not an approved facility or for which DSI is unwilling or unable, by permit or by physical capability, to provide comparable waste disposal services.

(iii) The parties acknowledge that EMPAK will continue to have an ongoing relationship with many of its Business customers in connection with operations not included within the Business from which it has agreed to withdraw pursuant to this Agreement, and accordingly, EMPAK has an interest in ensuring that the Business customers of EMPAK continue to have access to waste disposal services. To that end, with respect to those Business customers for which DSI is not an approved facility or for which DSI is unwilling or unable, by permit or by physical capability, to provide comparable waste disposal services, EMPAK and DSI agree to work in good faith to ensure that such customers' waste disposal needs are served following the date hereof taking into consideration the intent of this Agreement and the

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possibility that the use of the EMPAK Facility is the only feasible alternative in the good faith reasonable opinion of EMPAK and DSI; provided, however, DSI shall have no liability to EMPAK should an EMPAK customer choose not to use the services of DSI and DSI shall not be obligated to modify its operations to serve such customers.

7. Indemnification.

(i) GNI and DSI, jointly and severally, agree to and shall defend, indemnify and hold harmless EMPAK and Pakhoed, and each of their officers, directors, shareholders, employees, agents, affiliates, successors and assigns (collectively, the "EMPAK Indemnified Persons") from and against, and shall reimburse the EMPAK Indemnified Persons for each and every loss, damage, liability, claim, award, judgement, penalty, reasonable attorneys fees, cost and expense ("Loss" or "Losses") incurred, imposed on or paid by, the EMPAK Indemnified Persons relating to, resulting from or arising out of, (x) any material inaccuracy in any representation or warranty of DSI under this Agreement, and (y) Losses resulting from a third-party claim arising out of the operation of the Business by GNI or DSI after the date hereof, including without limitation, any claim by any Business customer of EMPAK or any customer of GNI or DSI.

(ii) EMPAK and Pakhoed, jointly and severally, agree to and shall defend, indemnify and hold harmless GNI and DSI, and each of their officers, directors, shareholders, employees, agents, affiliates, successors and assigns (collectively, the "DSI Indemnified Persons") from and against, and shall reimburse the DSI Indemnified Persons for each and every loss, damage, liability, claim, award, judgement, penalty, reasonable attorneys fees, cost and expense ("Loss" or "Losses") incurred, imposed on or paid by, the DSI Indemnified Persons relating to, resulting from or arising out of any material inaccuracy in any representation or warranty of EMPAK under this Agreement.

(iii) For the purposes of this Section, "LOSSES" SHALL INCLUDE WITHOUT LIMITATION THOSE LOSSES ARISING OUT OF THE STRICT LIABILITY OR NEGLIGENCE OF ANY PARTY, INCLUDING THE INDEMNIFIED PERSONS, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, ACTIVE OR PASSIVE; PROVIDED, HOWEVER, THAT "LOSSES" SHALL BE LIMITED TO LOSSES RELATED SOLELY TO THE THIRD PARTY CLAIM, TOGETHER WITH LOSSES FROM OTHER INTERTWINED BUSINESS THAT THE INDEMNIFIED PERSON HAS WITH THE THIRD PARTY CLAIMANT; AND LOSSES SHALL NOT INCLUDE LOSSES FOR RELATED BUSINESS FROM OTHER NON-CLAIMANT CUSTOMERS OF THE INDEMNIFIED PERSON.

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(iv) In the event that any indemnified person receives written notice of the assertion of any Loss in respect of which indemnity may be sought hereunder ("Third Party Claim"), and such indemnified person intends to seek indemnity hereunder, such indemnified person shall provide the indemnifying party with notice of such Loss (provided, however, that the failure to provide such notice shall not relieve the indemnifying party of any of its obligations herein except to the extent the indemnifying party is materially prejudiced thereby), and such indemnifying party shall have the right to assume the defense or settlement of such Third Party Claim in respect of which indemnity hereunder is sought with counsel of its choosing; provided, however, that (a) the indemnified person shall at all times have the right, at its option and expense, to participate fully therein and, if such third party is a significant customer of the indemnified person, the indemnified person shall have the right to approve, such approval not to be unreasonably withheld, all material actions taken in such defense or settlement, (b) the indemnified person shall at all times have the right, at its option, at the indemnifying party's expense, to participate fully therein to the extent the indemnified person has defenses that are materially separate and different from the defenses of the indemnifying party, and (c) if the indemnifying party does not proceed diligently to defend the Third Party Claim within 30 days after the receipt of such notice, the

indemnified person shall have the right, but not the obligation, to undertake the defense of any such claim for the account of and at the risk of the indemnifying party and the indemnifying party shall be bound by any defense or settlement that the indemnified person may make as to such Third Party Claim. The indemnifying party shall not settle or compromise any such Third Party Claim without the indemnified person's prior written consent, unless the terms of such settlement or compromise releases the indemnified person from any and all liability with respect to such Third Party Claim.

8. Miscellaneous.

(i) This Agreement is not assignable by any party without the prior written consent of the other.

(ii) This Agreement sets forth the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements or undertakings, oral or written, with respect to the subject matter hereof.

(iii) No amendment, modification or waiver of all or part of this Agreement shall be of any force or effect unless in writing and signed by authorized representatives of the parties hereto.

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(iv) Any notice, request or other communication given pursuant to this Agreement shall be in writing and addressed to the other party at the address as set forth below, and any such notice, request or other communication shall be effective three days after depositing the same in the United States Mail, first class and postage prepaid, or if delivery is by hand delivery, then upon actual receipt:

If to the Companies or either of them:

2000 West Loop South, Suite 2200
Houston, Texas 77027-3597
Attn: Ms. Jean S. Warren,
Senior Vice President

If to DSI:

Disposal Systems, Inc.
P. O. Box 1914

2525 Battleground Road
Deer Park, Texas 77536
Attn: Mr. Richard M. Cochrane,
Vice President - Marketing

(v) This Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

(vi) The captions in this Agreement are for convenience of reference only and shall be given no effect in the construction hereof.

(vii) The representations and warranties set forth in Sections 4 and 5 of this Agreement and the indemnification covenants set forth in Section 7 of this Agreement shall survive for a period of eighteen (18) months after the date hereof, with the exception of the representation and warranty set forth in Section 5(v), which shall survive until all of DSI's payment obligations under the Deepwell Access Agreement have been fully satisfied.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective representatives thereunto duly authorized as of the date first set forth above.

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EMPAK Inc.

By:

Jean S. Warren
Senior Vice President

Disposal Systems, Inc.

By:

Carl V Rush, Jr.
President

AGREED, solely for the purpose of evidencing its joinder in the covenants set forth at Section 3 and the representations and warranties made by

it in Section 4 and its agreement to be bound thereby.

Pakhoed Corporation

By:

Jean S. Warren
Senior Vice President

AGREED, solely for the purpose of evidencing its joinder in the representations and warranties set forth in Section 5(v) and its agreement to be bound thereby.

The GNI Group, Inc.

By:

Carl V Rush, Jr.
President and Chief Executive
Officer

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