

LSB INDUSTRIES INC
Form 10-K
February 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware 73-1015226
(State of or other Jurisdiction (I.R.S. Employer
Incorporation or Organization) Identification No.)

16 South Pennsylvania Avenue

Oklahoma City, Oklahoma 73107

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(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (405) 235-4546

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

	Name of Each Exchange
Title of Each Class	On Which Registered
Common Stock, Par Value \$.10	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2016, was approximately \$246 million. As a result, the Registrant is an accelerated filer as of December 31, 2016. For purposes of this computation, shares of the Registrant's common stock beneficially owned by each executive officer and director of the Registrant were deemed to be owned by affiliates of the Registrant as of June 30, 2016. Such determination should not be deemed an admission that such executive officers and directors of our common stock are, in fact,

affiliates of the Registrant or affiliates as of the date of this Form 10-K.

As of February 17, 2017, the Registrant had 28,405,883 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its annual meeting of stockholders will be filed with the Securities and Exchange Commission within 120 days after the end of its 2016 fiscal year, are incorporated by reference in Part III.

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PART III

(Items 10, 11, 12, 13, and 14)

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The information required by Part III, shall be incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A which involves the election of directors that we expect to be filed with the Securities and Exchange Commission not later than 120 days after the end of its 2016 fiscal year covered by this report.

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PART I

ITEM 1. BUSINESS

Our Company

All references to "LSB Industries," "LSB," "the Company," "we," "us," and "our" refer to LSB Industries, Inc. and its subsidiaries, except where the context makes clear that the reference is only to LSB Industries, Inc. itself and not its subsidiaries. Notes referenced throughout this document refer to consolidated financial statement footnote disclosures that are found in Item 8.

The Company was formed in 1968 as an Oklahoma corporation and became a Delaware corporation in 1977. We are a manufacturer and distributor of nitrogen fertilizer and other nitrogen products principally in North America. Our principal customers are cooperatives, independent fertilizer distributors, farmers and industrial users. Our principal nitrogen products are:

ammonia, fertilizer grade ammonium nitrate ("AN" and "HDAN"), urea ammonia nitrate ("UAN"), and AN solution for agricultural applications,

high purity and commercial grade ammonia, high purity AN, sulfuric acids, concentrated, blended and regular nitric acid, mixed nitrating acids, carbon dioxide, and diesel exhaust fluid for industrial applications, and

industrial grade AN ("LDAN") and 83% AN solution ("AN solution") for the mining industry.

We manufacture and distribute our products in four facilities: three owned facilities located in El Dorado, Arkansas (the "El Dorado Facility"), Cherokee, Alabama (the "Cherokee Facility"), and Pryor, Oklahoma (the "Pryor Facility"), and one facility we operate on behalf of Covestro AG ("Covestro") in Baytown, Texas (the "Baytown Facility").

The following table summarizes net sales information relating to our products:

	2016	2015	2014
Percentage of consolidated net sales:			
Agricultural products	44 %	48 %	46 %
Industrial acids and other chemical products	42 %	38 %	35 %
Mining products	12 %	11 %	14 %
Other products	2 %	3 %	5 %
	100 %	100 %	100 %

Prior to July 1, 2016, we manufactured and sold a range of heating, ventilation and air conditioning products and related services (the "Climate Control Business"). These products were primarily used in commercial, institutional and residential new building construction and renovations. On July 1, 2016, we sold the Climate Control Business for a total of \$364 million before customary adjustments set forth in the Stock Purchase Agreement, as detailed more fully in Item 7 of this report.

For information regarding revenues, operating profits or losses and total assets for the Company for the past three fiscal years, see the Consolidated Financial Statements included in this report.

Strategy

We pursue a strategy of balancing the sale of product as fertilizer into the agriculture markets at spot prices and developing industrial and mining customers that purchase substantial quantities of products, primarily under contractual obligations and/or pricing arrangements that provide for the pass through of raw material and other manufacturing costs. We believe that this product and market diversification strategy allows us to have consistent levels of production and helps mitigate the volatility risk inherent in the prices of our raw material feedstocks and/or the changes in demand for our products. For 2016, approximately 54% of our sales were to the industrial and mining markets and approximately 44% of our sales were to the agricultural markets, primarily at the market price at the time of sale.

The strategy of developing industrial and mining customers is to moderate the risk inherent in the agricultural markets where spot sales prices of our agricultural products may not have a correlation to the natural gas feedstock costs but rather reflect market conditions for like and competing nitrogen sources. This volatility of sales pricing in our agricultural products can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal agricultural sales volume to operate our manufacturing facilities at optimum levels can preclude us from balancing production and storage capabilities. Looking forward, we are pursuing profitable growth. Our strategy calls for continued emphasis on the agricultural sector, while remaining committed to further developing industrial customers who assume the volatility risk associated with the raw material costs and mitigate the effects of seasonality in the agricultural sector.

Our strategy also includes evaluating investment in expansion projects, along with reliability and efficiency improvement projects, that we believe will generate the best returns for our stockholders taking into consideration the risk and return on investment. This strategy motivated our decision to build the ammonia plant at the El Dorado Facility and to construct a new nitric acid plant and concentrator at the El Dorado Facility. All three projects have been completed. We believe that we will benefit from these projects through reduced feedstock costs, expanded capacity, improved efficiency and enhanced product mix flexibility.

Key Initiatives for 2017

We believe our future results of operations and financial condition will depend significantly on our ability to successfully implement the following key initiatives:

Improving the on-stream rates of our chemical plants. We have made and continue to make: (1) upgrades to the operations teams at our chemical facilities; (2) investments of capital to enhance the reliability of each of our plants at each facility in order to reduce unplanned outages, unplanned downtimes, and the frequency of planned Turnarounds; and (3) continued efforts to focus on safety and efficiency throughout our entire operations.

Broadening the distribution of our AN and Nitric Acid products. Given the reduction in our LDAN sales from the declining use of coal, we have expanded our overall sales of HDAN through a number of marketing initiatives that have broadened our addressable market. Those initiatives have included, storing and distributing HDAN at our Pryor and Cherokee Facilities and selling to new markets and customers out of those facilities. In addition, through our marketing efforts, we are working on expanding our market for our nitric acid products to parts of the Western U.S. and Canada.

Reducing and controlling our cost structure. In 2016, we put in place SG&A expense reductions of approximately \$6 million per year that we will realize beginning in 2017. In addition, beginning in 2017 we have reduced plant costs at each manufacturing facility by approximately \$6 million. We continue to review our overall costs and believe that we will be able to further reduce costs during 2017.

Selling non-core assets. In 2016, we identified assets that are no longer necessary in the operations of our business. Those assets include our working interest in the natural gas properties in the Marcellus Shale, our engineered products business, certain pieces of equipment and certain real estate. In the fourth quarter of 2016, we sold a portion of this equipment for approximately \$5 million and are in the process of selling certain other non-core assets, which we believe could generate an additional approximately \$15 million to \$20 million of net cash proceeds (net of any debt outstanding against these assets).

- Evaluate strategic initiatives for our business. We have initiated a process to explore and evaluate potential strategic alternatives for our business, which may include a sale, a merger with another party, or another strategic transaction involving some or all of our assets. We have retained Morgan Stanley & Co. LLC as our financial advisor to assist with this process.

We may not successfully implement any or all of these initiatives. Even if we successfully implement the initiatives, they may not achieve the beneficial results that we expect or desire.

Market Conditions

As discussed in more detail under “Key Industry Factors” of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) contained in Item 7 of this report, agricultural fertilizer demand is a significant driver of our sales volumes. This demand is influenced by the number of acres planted of crops, principally corn, that require fertilizer to grow and to enhance yield. Corn prices affect the number of acres of corn planted in a given year, and the number of acres planted will influence nitrogen fertilizer consumption, likely affecting ammonia, UAN and urea prices. Weather also has an effect on fertilizer application and consumption.

The 2016 corn crop produced 15.1 billion bushels with an average yield of 174.6 bushels per acre, increases of approximately 11% and 4% respectively compared to 2015. This increase in production and yield has increased 2016 ending stocks of corn to record levels. However, current estimates call for a reduction in 2017 corn acres planted of approximately 3 million acres to between 90 to 91 million acres. We believe that combined with the United States (“U.S.”) continuing to be a net exporter of corn in 2017, should reduce the stocks-to-use ratios and have a positive impact on the price of corn. As a result, the fundamentals are positive for nitrogen fertilizers that are necessary to grow and enhance the yield per acre for most major crops.

In our industrial markets, our sales volumes are typically driven by changes in general economic conditions, energy prices, and our contractual arrangements with certain large customers. Our mining products are generally sold into the coal, metals and mineral mining and aggregates markets with the majority of those sales being sold into the coal markets. As such, U.S. annual coal production will drive sale volumes of our mining products and over the past several years, U.S. coal production has been negatively impacted by low natural gas prices among other things. The U.S. Energy Information Administration (“EIA”) reported, that annual coal production

for 2016 was estimated to be down 17% from 2015. However, they are estimating annual coal production to increase 7% for 2017 and remain stable into 2018 which should provide better market conditions for the sales of our mining products. In addition, the metals and mineral mining markets have been and continue to be negatively impacted by commodity price decreases which have curtailed their activity and negatively impacted our sales into that market.

Natural gas is the basic feedstock for the production of ammonia and therefore natural gas prices have a significant impact on the production cost of our ammonia. Given the current relatively low price of natural gas in North America and the expectation that pricing of natural gas will remain relatively low for the foreseeable future, North American ammonia producers are the low-cost producers of ammonia that is consumed in North America and the expectation is that will continue.

That low cost of production led to a number of new announced brownfield and greenfield nitrogen expansion projects in the U.S. Many of those projects have now been cancelled or put on hold. However, a number of the announced expansion projects have either been completed and begun production or are under construction and will go into production during 2017. These expansion projects are expected to increase ammonia production in the U.S. by approximately 5 million tons annually in addition to expansion of other upgraded nitrogen products. This additional domestic ammonia and other upgraded product production is expected to replace product that is currently being imported into North America. However, the amount and timing of new nitrogen production could have a negative effect on selling prices of nitrogen based products in 2017.

Agricultural Products

We produce UAN, HDAN, and ammonia, all of which are nitrogen-based fertilizers. Farmers and ranchers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. Our agricultural markets include a high concentration of pastureland and row crops, which favor our products. We sell these agricultural products to farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the U.S. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. During the past few years, we have been successful in expanding outside our traditional markets by delivering to distributors on the Tennessee and Ohio rivers by barge, and by delivering to certain Western States by rail.

Our agricultural business establishes long-term relationships with wholesale agricultural distributors and retailers and also sells directly to agricultural end-users through our network of 11 wholesale and retail distribution centers. In addition, we have an agreement with a third-party purchaser (Coffeyville Resources Nitrogen Fertilizers, LLC, "CVR"), to market and sell a portion of our UAN. Demand for sales under this agreement is based on the expected needs of the purchaser's customers. The agreement provides the exclusive right (but not the obligation) to purchase, at market prices, substantially all of the UAN produced at the Pryor Facility in excess of the needs of the Pryor Facility or its affiliates up to 30,000 tons per year. The term of the agreement runs through June 2019 with annual renewal options, but may be terminated earlier by either party pursuant to the terms of the agreement. See our discussion above concerning broadening the distribution of our AN products under "Key Initiatives for 2017".

We sell most of our agricultural products at the current spot market price in effect at the time of shipment, although we periodically enter into forward sales commitments for some of these products. Sales of our industrial and mining products are generally made to customers pursuant to sales contracts or pricing arrangements on terms that include the cost of raw material feedstock as a pass-through component in the sales price. These contractual sales stabilize the effect of commodity cost changes and fluctuations in demand for these products due to the cyclicity of the end markets.

Industrial Acids and Other Chemical Products

We manufacture and sell industrial acids and other chemical products primarily to the polyurethane, paper, fibers, emission control, and electronics industries. In addition, we produce and sell blended and regular nitric acid and industrial and high purity ammonia for many specialty applications, including the reduction of air emissions from power plants. In addition, in November 2015, one of our subsidiaries, El Dorado Chemical Company (“EDC”) and Koch Fertilizer entered into an ammonia purchase and sale agreement under which Koch Fertilizer agreed to purchase, with minimum purchase requirements, the ammonia that is in excess of EDC’s internal needs as the result of the El Dorado expansion project completed in the second quarter of 2016. We began selling ammonia under this agreement during June 2016.

We operate the Baytown Facility on behalf of Covestro and we believe it is one of the newest, largest and most technologically advanced nitric acid manufacturing units in the U.S. The majority of the Baytown Facility’s production is sold to Covestro pursuant to a long-term contract (the “Covestro Agreement”). This agreement: (a) allows us to pass-through most of the costs of producing the nitric acid that Covestro purchases, including the cost of ammonia; (b) to receive management fees for managing the operations and marketing nitric acid at the Baytown Facility and; (c) to receive a portion of any carbon credits that are sold. The term of this agreement runs until June 2021 with options for renewal.

Our industrial business competes based upon service, price and location of production and distribution sites, product quality and performance and provides inventory management as part of the value-added services offered to certain customers. See our discussion above concerning broadening the distribution of our Nitric Acid products under “Key Initiatives for 2017”.

Mining Products

Our mining products are LDAN and AN solution. We sell LDAN and AN solution directly to explosive distributors, mining companies and aggregate companies who sell into the coal mining, metals mining and construction industries. We have signed long-term contracts with customers that provide for the sale of LDAN of approximately 70,000 tons per year under various natural gas-cost-plus-a-fixed-dollar-amount pricing arrangements.

Dependence on Limited Number of Customers

As discussed in various risk factors under Item 1A, historically, we have relied on a limited number of customers. Information relating to our significant customers for each of the last three years appears in Note 1 to Consolidated Financial Statements included in this report.

Raw Materials

The products we manufacture are primarily derived from natural gas and ammonia. These raw material feedstocks are commodities and subject to price fluctuations.

Natural gas is the primary raw material for producing ammonia, UAN and other products at our El Dorado, Cherokee and Pryor Facilities. When operating at optimum on-stream rates, the El Dorado Facility would purchase approximately 15.5 million MMBtus to produce approximately 450,000 tons of ammonia; the Cherokee Facility would purchase approximately 6 million MMBtus of natural gas per year in order to produce approximately 180,000 tons of ammonia; and the Pryor Facility would purchase approximately 7 million MMBtus of natural gas to produce approximately 235,000 tons of ammonia.

The chemical facilities' natural gas feedstock requirements are generally purchased at spot market price. Periodically, we enter into volume purchase commitments and/or futures/forward contracts to lock in the cost of certain of the expected natural gas requirements. As of December 31, 2016, we had volume purchase commitments with a fixed cost for natural gas of approximately 2.4 million MMBtus at an average cost of \$3.20 per MMBtu. These commitments are for firm purchases during the first quarter of 2017 and represent approximately 41% of our total exposed natural gas usage required for that period. In January 2017, we increased our volume purchase commitments with a fixed cost for natural gas to approximately 3.4 million MMBtus at an average cost of \$3.28 per MMBtu. With the additional commitments, which now extend through June 2017, we have approximately 53% of our total exposed natural gas usage requirements at an average price of \$3.28 for the first quarter of 2017 and 20% of our total exposed natural gas usage requirements at an average price of \$3.35 for the second quarter of 2017.

The Baytown Facility normally purchases approximately 135,000 tons of ammonia per year. However, under our long-term contract for that facility, we pass through the full cost of the ammonia leaving us with no exposure to ammonia price fluctuations.

See further discussion relating to the outlook for our business under "Key Industry Factors" in our MD&A contained in this report.

Seasonality

We believe fertilizer products sold to the agricultural industry are seasonal while sales into the industrial and mining sectors generally are not. The selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, we typically

increase our inventory of fertilizer products prior to the beginning of each planting season in order to meet the demand for our products. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Regulatory Matters

We are subject to extensive federal, state and local environmental laws, rules and regulations as discussed under "Environmental, Health and Safety Matters" of this Item 1 and various risk factors under Item 1A.

Competition

We operate in a highly competitive market with many other larger chemical companies, such as Agrium Inc., CF Industries Holdings, Inc., Chemtrade Logistics Inc., CVR Partners, LP, OCI Partners LP, Dyno Nobel, The Gavilon Group, Helm AG, Koch Industries, Norfalco, Potash Corporation of Saskatchewan, Praxair, Inc., Quad Chemical Corporation, Trammo Inc. and Yara International (some of whom are our customers), many of whom have greater financial and other resources than we do. We believe that competition within the markets we serve is primarily based upon service, price, location of production and distribution sites, and product quality and performance.

Additional Foreign and Domestic Operations and Export Sales

For each of the last three years, all of our net sales and long-lived assets relate to domestic operations. In addition, net sales to non-U.S. customers were minimal.

Employees

As of December 31, 2016, we employed 610 persons, 195 of whom are represented by unions under agreements that expire in July of 2018 through November of 2019.

Environmental, Health and Safety Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (the “Environmental and Health Laws”). In particular, the manufacture, production and distribution of our products are activities that entail environmental and public health risks and impose obligations under the Environmental and Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. Certain Environmental and Health Laws impose strict liability as well as joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or facilities of third parties that received waste generated by our operations regardless of whether such contamination resulted from the conduct of others or from consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In connection with certain acquisitions, we could acquire, or be required to provide indemnification against, environmental liabilities that could expose us to material losses. In certain instances, citizen groups also have the ability to bring legal proceedings against us if we are not in compliance with environmental laws, or to challenge our ability to receive environmental permits that we need to operate. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety effects of our operations.

There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. Our insurance may not cover all environmental risks and costs or may not provide sufficient coverage if an environmental claim is made against us. The Environmental and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Historically, our subsidiaries have incurred significant expenditures in order to comply with the Environmental and Health Laws and are reasonably expected to do so in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our chemical facilities should we discontinue the operations of a facility.

Available Information

We file or furnish annual, quarterly and current reports and other documents with the SEC under the Securities Exchange Act of 1934 (as amended, the “Exchange Act”). The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0030. Also, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents we file with the SEC at www.sec.gov.

We also make available free of charge through our Internet website (www.lsbindustries.com) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition to the reports filed or furnished with the SEC, we publicly disclose material information from time to time in press releases, at annual meetings of stockholders, in publicly accessible conferences and investor presentations, and through our website. The information included in our website does not constitute part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We may not be able to generate sufficient cash to service our debt and may be required to take other actions to satisfy the obligations under our debt agreements or to redeem our preferred stock, which may not be successful.

Our ability to make scheduled payments on our debt obligations and on our redemption obligations for the Series E cumulative redeemable Class C preferred stock (“Series E Redeemable Preferred”) depends on our financial condition and operating performance, prevailing economic and competitive conditions, and certain financial, business and other factors, some of which may be beyond our control. We may not be able to maintain a level of cash flows sufficient to pay the principal and interest on our debt, including the

\$375 million principal amount of our Senior Secured Notes (the “Senior Secured Notes”), or if and when applicable, the outstanding amount of the Working Capital Revolver Loan or to pay the cumulative dividends and redemption payment on the Series E Redeemable Preferred should the holder choose to redeem it.

If cash flows and capital resources are insufficient to fund our debt, dividend or preferred stock redemption obligations, we could face substantial liquidity problems and will need to seek additional capital through the issuance of debt, the issuance of equity, asset sales or a combination of the foregoing. If we are unsuccessful, we will need to reduce or delay investments and capital expenditures, or to dispose of other assets or operations, seek additional capital, or restructure or refinance debt or redeemable equity. These alternative measures may not be successful, may not be completed on economically attractive terms, or may not be adequate for us to meet our debt or preferred stock redemption obligations when due. Additionally, our debt agreements and the operating agreements associated with our Series E Redeemable Preferred limit the use of the proceeds from many dispositions of assets or operations. As a result, we may not be permitted to use the proceeds from these dispositions to satisfy our debt or preferred stock redemption obligations.

Further, if we suffer or appear to suffer from a lack of available liquidity, the evaluation of our creditworthiness by counterparties and rating agencies and the willingness of third parties to do business with us could be materially and adversely affected. In particular, our credit ratings could be lowered, suspended or withdrawn entirely at any time by the rating agencies. Downgrades in our long-term debt ratings generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease and could trigger liquidity demands pursuant to the terms of contracts, leases or other agreements. Any future transactions by us, including the issuance of additional debt, the sale of any operating assets, or any other transaction to manage our liquidity, could result in temporary or permanent downgrades of our credit ratings.

We may pursue various transactions and initiatives to address our highly leveraged balance sheet and significant cash flow requirements.

If our existing financing sources are insufficient for our financing needs, or if we are unable to refinance debt and redemption obligations as they become due, we may be required to reduce or delay investments and capital expenditures, dispose of assets or operations, seek additional capital, restructure or refinance debt, or undertake a combination of some or all of these. Any transactions and initiatives that we may pursue may have significant adverse effects on our business, capital structure, ownership, liquidity, credit ratings and results of operations. These measures may not be successful, may not produce the desired outcome if completed, may not be completed on economically attractive terms, and may not be adequate for us to meet our debt or redemption obligations when due. This could ultimately adversely affect us, our debtholders, and our shareholders in a material manner.

Despite continuing investment to upgrade and replace equipment on an ongoing basis, the age of our chemical manufacturing facilities increases the risk for unplanned downtime, which may be significant.

Our business is comprised of operating units of various ages and levels of automated control. While we have continued to make significant annual capital improvements, potential age or control related issues have occurred in the past and may occur in the future, which could cause damage to the equipment and ancillary facilities. As a result, we have experienced and may continue to experience additional downtime at our chemical facilities in the future.

The equipment required for the manufacture of our products is specialized, and the time for replacement of such equipment can be lengthy, resulting in extended downtime in the affected unit. Although we use various reliability and inspection programs and maintain a significant inventory of spare equipment, which are intended to mitigate the extent of production losses, unplanned outages may still occur. As a result, these planned and unplanned downtime events at our chemical facilities have in the past and could in the future adversely affect our operating results, liquidity

and financial condition.

LSB is a holding company and depends, in large part, on receiving funds from its subsidiaries to fund our indebtedness.

Because LSB is a holding company and operations are conducted through its subsidiaries, LSB's ability to meet its obligations depends, in large part, on the operating performance and cash flows of its subsidiaries and the ability of its subsidiaries to make distributions and pay dividends to LSB.

Our substantial level of indebtedness, including dividend requirements relating to our preferred stock, could limit our financial and operating activities, and adversely affect our ability to incur additional debt to fund future needs.

We currently have a substantial amount of indebtedness and dividend requirements relating to our preferred stock. As a result, this level could, among other things:

- require us to dedicate a substantial portion of our cash flow to the payment of principal (primarily relating to 2019), interest and dividends, thereby reducing the funds available for operations and future business opportunities;
- make it more difficult for us to satisfy our obligations, including our repurchase obligations;

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limit our ability to borrow additional money if needed for other purposes, including working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes, on satisfactory terms or at all;

- limit our ability to adjust to changing economic, business and competitive conditions;

place us at a competitive disadvantage with competitors who may have less indebtedness or greater access to financing;

make us more vulnerable to an increase in interest rates, a downturn in our operating performance or a decline in general economic conditions; and

make us more susceptible to changes in credit ratings, which could affect our ability to obtain financing in the future and increase the cost of such financing.

Any of the foregoing could adversely affect our operating results, financial condition, and liquidity.

Our debt agreements and our preferred stock contain covenants and restrictions that limit flexibility in operating our businesses. A breach of these covenants or restrictions could result in an event of default under one or more of our debt agreements or contracts at different entities within our capital structure, including as a result of cross acceleration or default provisions.

Our debt agreements and our preferred stock contain various covenants and other restrictions that, among other things, limit flexibility in operating our businesses. A breach of any of these covenants or restrictions could result in a significant portion of our debt becoming due and payable or could result in significant contractual liability. Our ability to comply with certain of our covenants and restrictions can be affected by events beyond our control. These covenants and other restrictions limit our ability to, among other things:

incur additional debt or issue preferred shares;

pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments;

make investments;

sell or transfer assets;

create liens on assets to secure debt;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

enter into transactions with affiliates;

designate subsidiaries as unrestricted subsidiaries; and

repay, repurchase or modify certain subordinated and other material debt.

We have not paid dividends on our outstanding common stock in many years.

We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. Although our Board has not made a decision whether or not to pay dividends on our common stock in 2017, it is unlikely we will pay dividends on our common stock until we have repaid or refinanced our debt and our preferred stock. In addition, there are certain limitations contained in our loan and securities purchase agreements that may limit our ability to pay dividends on our outstanding common stock.

Future issuances or potential issuances of our common stock or preferred equity could adversely affect the price of our common stock and our ability to raise funds in new stock offerings and could dilute the percentage ownership or voting power of our common stockholders.

Future sales of substantial amounts of our common stock, preferred stock or equity-related securities in the public market, or the issuance of a substantial amount of our common stock as the result of the exercise of our outstanding warrants, the conversion of our outstanding convertible preferred stocks, or the perception that such sales or

conversions could occur, could adversely affect prevailing trading prices of our common stock and could dilute the value of common stock held by our existing stockholders. No prediction can be made as to the effect, if any, that future sales of common stock, preferred stock, or equity-related securities, exercises of our warrants or conversions of, our outstanding preferred stocks into shares of common stock, or the availability of shares of common stock for future sale will have on the trading price of our common stock. Such future sales, exercises, or conversions could also significantly reduce the percentage ownership and voting power of our existing common stockholders.

Deterioration of global market and economic conditions could have a material adverse effect on our business, financial condition, results of operations and cash flow.

A slowdown of, or persistent weakness in, economic activity caused by a deterioration of global market and economic conditions could adversely affect our business in the following ways, among others: conditions in the credit markets could impact the ability of our customers and their customers to obtain sufficient credit to support their operations; the failure of our customers to fulfill their purchase obligations could result in increases in bad debts and affect our working capital; and the failure of certain key suppliers could increase our exposure to disruptions in supply or to financial losses. We also may experience declining demand and falling prices for some of our products due to our customers' reluctance to replenish inventories. The overall impact of a global economic downturn on us is difficult to predict, and our business could be materially adversely impacted.

In addition, conditions in the international market for nitrogen fertilizer significantly influence our operating results. The international market for fertilizers is influenced by such factors as the relative value of the U.S. currency and its impact on the importation of fertilizers, foreign agricultural policies, the existence of, or changes in, import or foreign currency exchange barriers in certain foreign markets and other regulatory policies of foreign governments, as well as the U.S. laws and policies affecting foreign trade and investment.

Seasonality can adversely affect our business

If seasonal demand is less than we expect, we may be left with excess inventory that will have to be stored (in which case our results of operations will be negatively affected by any related increased storage costs) or liquidated (in which case the selling price may be below our production, procurement and storage costs). The risks associated with excess inventory and product shortages are exacerbated by the volatility of natural gas and nitrogen fertilizer prices and the relatively brief periods during which farmers can apply nitrogen fertilizers. If prices for our products rapidly decrease, we may be subject to inventory write-downs, adversely affecting our operating results. If seasonal demand is greater than we expect, we may experience product shortages, and customers of ours may turn to our competitors for products that they would otherwise have purchased from us.

Ammonia can be very volatile and extremely hazardous. Any liability for accidents involving ammonia or other products we produce or transport that cause severe damage to property or injury to the environment and human health could have a material adverse effect on our results of operations, financial condition and ability to make cash distributions. In addition, the costs of transporting ammonia could increase significantly in the future.

We manufacture, process, store, handle, distribute and transport ammonia, which can be very volatile and extremely hazardous. Major accidents or releases involving ammonia could cause severe damage or injury to property, the environment and human health, as well as a possible disruption of supplies and markets. Such an event could result in civil lawsuits, fines, penalties and regulatory enforcement proceedings, all of which could lead to significant liabilities. Any damage to persons, equipment or property or other disruption of our ability to produce or distribute our products could result in a significant decrease in operating revenues and significant additional cost to replace or repair and insure our assets, which could have a material adverse effect on our results of operations and financial condition. We periodically experience minor releases of ammonia related to leaks from our equipment. Similar events may occur in the future.

In addition, we may incur significant losses or costs relating to the operation of our railcars used for the purpose of carrying various products, including ammonia. Due to the dangerous and potentially toxic nature of the cargo, in particular ammonia, on board railcars, a railcar accident may result in fires, explosions and pollution. These circumstances may result in sudden, severe damage or injury to property, the environment and human health. In the event of pollution, we may be held responsible even if we are not at fault and we complied with the laws and

regulations in effect at the time of the accident. Litigation arising from accidents involving ammonia and other products we produce or transport may result in our being named as a defendant in lawsuits asserting claims for large amounts of damages, which could have a material adverse effect on our results of operations and financial condition.

A major factor underlying the current high level of demand for our nitrogen-based fertilizer products is the production of ethanol. A decrease in ethanol production, an increase in ethanol imports or a shift away from corn as a principal raw material used to produce ethanol could have a material adverse effect on our results of operations, financial condition and ability to make cash distributions.

A major factor underlying the solid level of demand for our nitrogen-based fertilizer products is the production of ethanol in the United States and the use of corn in ethanol production. Ethanol production in the United States is highly dependent upon a myriad of federal statutes and regulations, and is made significantly more competitive by various federal and state incentives and mandated usage of renewable fuels pursuant to the federal renewable fuel standards ("RFS"). To date, the RFS has been satisfied primarily with fuel ethanol blended into gasoline. However, a number of factors, including the continuing "food versus fuel" debate and studies showing that expanded ethanol usage may increase the level of greenhouse gases in the environment as well as be unsuitable for small engine use, have resulted in calls to reduce subsidies for ethanol, allow increased ethanol imports and to repeal or waive (in whole or in part) the current RFS, any of which could have an adverse effect on corn-based ethanol production, planted corn acreage and

fertilizer demand. Therefore, ethanol incentive programs may not be renewed, or if renewed, they may be renewed on terms significantly less favorable to ethanol producers than current incentive programs.

There are a number of important limitations and exceptions to the covenants and restrictions contained in our debt agreements and our preferred stock.

In addition, certain failures to make payments on significant contract obligations when due constitute a cross-default of some of our debt instruments, including the indenture governing our Senior Secured Notes (the "Senior Secured Notes Indenture"). A breach of any of these covenants or restrictions could result in an event of default under one or more of our debt agreements at different entities within our capital structure, including as a result of cross acceleration or default provisions. Upon the occurrence of an event of default under one of these debt agreements, our lenders or noteholders could elect to declare all amounts outstanding under that debt agreement to be immediately due and payable and/or terminate all commitments to extend further credit. Such actions by those lenders or noteholders could cause cross defaults or accelerations under our other debt. If we were unable to repay those amounts, the lenders or noteholders could proceed against any collateral granted to them to secure such debt. In the case of a default under debt that is guaranteed, holders of such debt could also seek to enforce the guarantees. If lenders or noteholders accelerate the repayment of all borrowings, we would likely not have sufficient assets and funds to repay those borrowings. Such occurrence could result in our or our applicable subsidiary going into bankruptcy, liquidation or insolvency.

Our business and customers are sensitive to adverse economic cycles.

Our business can be affected by cyclical factors such as inflation, currency exchange rates, global energy policy and costs, global market conditions and economic downturns in specific industries. Certain sales are sensitive to the level of activity in the agricultural, mining, automotive and housing industries. Further, material economic changes that adversely affect our natural gas working interests or lower natural gas prices may require us to write down the carrying value of our natural gas working interests. Therefore, substantial changes could adversely affect our operating results, liquidity, financial condition and capital resources.

Weather conditions adversely affect our business.

The agricultural products produced and sold by us have been in the past, and could be in the future, materially affected by adverse weather conditions (such as excessive rain or drought) in the primary markets for our fertilizer and related agricultural products. Some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. These climate changes might also occur as the result of other phenomena that human activity is unable to influence, including changes in solar activity and volcanic activity. Regardless of the cause, if any of these unusual weather events occur during the primary seasons for sales of our agricultural products (March-June and September-November), this could have a material adverse effect on our agricultural sales and our financial condition and results of operations.

There is intense competition in the markets we serve.

Substantially all of the markets in which we participate are highly competitive with respect to product quality, price, distribution, service, and reliability. We compete with many companies, domestic and foreign, that have greater financial, marketing and other resources. Specifically, the overall nitrogen market is expected to be affected as a result of the number of announced and started nitrogen expansion projects in the U.S. Competitive factors could require us to reduce prices or increase spending on product development, marketing and sales, which could have a material adverse effect on our business, results of operation and financial condition.

We compete with many U.S. producers and producers in other countries, including state-owned and government-subsidized entities. Some competitors have greater total resources and are less dependent on earnings from chemical sales, which make them less vulnerable to industry downturns and better positioned to pursue new expansion and development opportunities. Our competitive position could suffer to the extent we are not able to expand our own resources sufficiently either through investments in new or existing operations or through acquisitions, joint ventures or partnerships. An inability to compete successfully could result in the loss of customers, which could adversely affect our sales and profitability.

A substantial portion of our sales are dependent upon a limited number of customers.

For 2016, six customers accounted for approximately 39% of our consolidated net sales. One of these customers is Covestro, which sales are pursuant to the Covestro Agreement under which one of our subsidiaries operates a nitric plant located within Covestro's chemical manufacturing complex as discussed above under Industrial Acids and Other Chemical Products of Item 1 - Business. This agreement: (a) allows us to pass-through most of the costs of producing the nitric acid that Covestro purchases, including the cost of ammonia; (b) to receive management fees for managing the operations and marketing nitric acid at the Baytown Facility and; (c) to receive a portion of any carbon credits that are sold. The loss of, or a material reduction in purchase levels by, one or more of these

customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer with other sales on substantially similar terms.

Cost and the lack of availability of raw materials could materially affect our profitability and liquidity.

Our sales and profits are heavily affected by the costs and availability of primary raw materials. These primary raw materials are subject to considerable price volatility. Historically, when there have been rapid increases in the cost of these primary raw materials, we have sometimes been unable to timely increase our sales prices to cover all of the higher costs incurred. While we periodically enter into futures/forward contracts to economically hedge against price increases in certain of these raw materials, there can be no assurance that we will effectively manage against price fluctuations in those raw materials.

Natural gas represents the primary raw material feedstock in the production of most of our chemical products. Although we enter into contracts with certain customers that provide for the pass-through of raw material costs, we have a substantial amount of sales that do not provide for the pass-through of raw material costs. Also, the spot sales prices of our agricultural products may not correlate to the cost of natural gas but rather reflect market conditions for similar and competing nitrogen sources. This lack of correlation can compromise our ability to recover our full cost to produce the products in this market. As a result, in the future, we may not be able to pass along to all of our customers the full amount of any increases in raw material costs. Future price fluctuations in our raw materials may have an adverse effect on our financial condition, liquidity and results of operations.

We do not operate our natural gas working interest properties and have no, or very limited, ability to exercise influence over operations of these properties or their associated cost.

Additionally, we depend on certain vendors to deliver natural gas and other key components that are required in the production of our products. Any disruption in the supply of natural gas and other key components could result in lost production or delayed shipments.

The price of natural gas in North America and worldwide has been volatile in recent years and has declined on average due in part to the development of significant natural gas reserves, including shale gas, and the rapid improvement in shale gas extraction techniques, such as hydraulic fracturing and horizontal drilling. Future production of natural gas from shale formations could be reduced by regulatory changes that restrict drilling or hydraulic fracturing or increase its cost or by reduction in oil exploration and development prompted by lower oil prices and resulting in production of less associated gas. Additionally, increased demand for natural gas, particularly in the Gulf Coast Region, due to increased industrial demand and increased natural gas exports could result in increased natural gas prices.

We have suspended in the past, and could suspend in the future, production at our chemical facilities due to, among other things, the high cost or lack of availability of natural gas and other key components, which could adversely affect our competitiveness in the markets we serve. Accordingly, our financial condition, liquidity and results of operations could be materially affected in the future by the lack of availability of natural gas and other key components and increase costs relating to the purchase of natural gas and other key components.

We may have inadequate insurance.

While we maintain liability, property and business interruption insurance, including certain coverage for environmental contamination, it is subject to coverage limits and policies that may exclude coverage for some types of damages. Although there may currently be sources from which such coverage may be obtained, the coverage may not continue to be available to us on commercially reasonable terms or the possible types of liabilities that may be

incurred by us may not be covered by our insurance. In addition, our insurance carriers may not be able to meet their obligations under the policies, or the dollar amount of the liabilities may exceed our policy limits. Even a partially uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Furthermore, we are subject to litigation for which we could be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. While we maintain insurance, there can be no assurance that our insurance will prove to be adequate. If we are required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, our business, results of operations, financial condition and liquidity could be materially adversely affected. For further discussion of our litigation, please see "Other Pending, Threatened or Settled Litigation" in Note 11 to Consolidated Financial Statements included in this report.

Loss of key personnel could negatively affect our business.

We believe that our performance has been and will continue to be dependent upon the efforts of our principal executive officers. We cannot promise that our principal executive officers will continue to be available. Although we have employment agreements with certain of our principal executive officers, including Jack E. Golsen, Daniel D. Greenwell, and Mark T. Behrman, we do not have employment agreements with all of our key personnel. The loss of some of our principal executive officers could have a material

adverse effect on us. We believe that our future success will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel.

Terrorist attacks and other acts of violence or war, and natural disasters (such as hurricanes, pandemic health crises, etc.), have negatively affected and could negatively affect U.S. and foreign companies, the financial markets, the industries where we operate, our operations and our profitability.

Terrorist attacks in the U.S and elsewhere and natural disasters (such as hurricanes or pandemic health crises) have in the past negatively affected, and can in the future negatively affect our operations. We cannot predict further terrorist attacks and natural disasters in the U.S. and elsewhere. These attacks or natural disasters have contributed to economic instability in the U.S. and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, our business, results of operations and financial condition. In addition, terrorist attacks and natural disasters may directly affect our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could affect our sales, our production capability and our ability to deliver products to our customers. In the past, hurricanes affecting the Gulf Coast of the U.S. have negatively affected our operations and those of our customers. As previously noted, some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects, whether anthropogenic or otherwise, were to occur in areas where we or our clients operate, they could have in adverse effect on our assets and operations. The consequences of any terrorist attacks or hostilities or natural disasters are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

Cyber security risks could adversely affect our business operations.

As we continue to increase our dependence on information technologies to conduct our operations, the risks associated with cyber security also increase. We rely on our enterprise resource planning software ("ERP") and other information systems, among other things, to manage our manufacturing, supply chain, accounting and financial functions. This risk not only applies to us, but also to third parties on whose systems we place significant reliance for the conduct of our business. We have implemented security procedures and measures in order to protect our information from being vulnerable to theft, loss, damage or interruption from a number of potential sources or events. Although we believe these measures and procedures are appropriate, we may not have the resources or technical sophistication to anticipate, prevent, or recover from rapidly evolving types of cyber-attacks. Compromises to our information systems could have an adverse effect on our results of operations, liquidity and financial condition.

Our transportation and distribution activities rely on third party providers, which subject us to risks and uncertainties beyond our control that may adversely affect our operations.

We rely on railroad, trucking, pipeline and other transportation service providers to transport raw materials to our manufacturing facilities, to coordinate and deliver finished products to our storage and distribution system and our retail centers and to ship finished products to our customers. These transportation operations, equipment and services are subject to various hazards, including adverse operating conditions, extreme weather conditions, system failures, work stoppages, delays, accidents such as spills and derailments and other accidents and operating hazards.

In the event of a disruption of existing transportation or terminaling facilities for our products or raw materials, alternative transportation and terminaling facilities may not have sufficient capacity to fully serve all of our customers or facilities. An extended interruption in the delivery of our products to our customers or the supply of natural gas, ammonia or sulfur to our production facilities could adversely affect sales volumes and margins.

These transportation operations, equipment and services are also subject to environmental, safety, and regulatory oversight. Due to concerns related to accidents, terrorism or increasing concerns regarding transportation of potentially hazardous substances, local, provincial, state and federal governments could implement new regulations affecting the transportation of raw materials or our finished products. If transportation of our products is delayed or we are unable to obtain raw materials as a result of any third party's failure to operate properly or the other hazards described above, or if new and more stringent regulatory requirements are implemented affecting transportation operations or equipment, or if there are significant increases in the cost of these services or equipment, our revenues and cost of operations could be adversely affected. In addition, we may experience increases in our transportation costs, or changes in such costs relative to transportation costs incurred by our competitors.

Future technological innovation could affect our business.

Future technological innovation, such as the development of seeds that require less crop nutrients, or developments in the application of crop nutrients, if they occur, could have the potential to adversely affect the demand for our products and results of operations.

We are reliant on a limited number of key facilities.

Our fertilizer operations are concentrated in four separate complexes. The suspension of operations at any of these complexes could adversely affect our ability to produce our products and fulfill our commitments, and could have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, our facilities may be subject to failure of equipment that may be difficult to replace and could result in operational disruptions.

Potential increase of imported agricultural products.

Russia and Ukraine both have substantial capacity to produce and export fertilizer grade AN. Producers in these countries also benefit from below-market prices for natural gas, due to government regulation and other factors. Historically, the U.S. Department of Commerce (“DOC”) has restrained AN imports from Russia and Ukraine with anti-dumping tariffs. On August 26, 2016, however, the DOC revoked these tariffs on Russian AN producers. As a result, we may face more substantial competition from Russian producers of fertilizer grade AN. Though anti-dumping tariffs on Ukrainian AN producers remain in effect, we cannot guarantee whether and for how long these tariffs will remain in place. If the Ukrainian tariff were to be revoked or modified, we could face more competition from Ukrainian AN producers.

In addition, producers in China have substantial capacity to produce and export urea. Depending on various factors, including prevailing prices from other exporters, the price of coal, and the price of China’s export tariff, higher volumes of urea from China could be imported into the U.S. at prices that could have an adverse effect on the selling prices of other nitrogen products, including the nitrogen products we manufacture and sell.

Current and future legislative or regulatory requirements affecting our business may result in increased costs and decreased revenues, cash flows and liquidity or could have other negative effects on our business.

Our business is subject to numerous health, safety, security and environmental laws and regulations. The manufacture and distribution of chemical products are activities that entail health, safety and environmental risks and impose obligations under health, safety and environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Although we believe we have established processes to monitor, review and manage our businesses to comply with the numerous health, safety and environmental laws and regulations, our business in the past has been, and in the future, may be, subject to fines, penalties and sanctions for violations and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from our chemical facilities. Further, a number of our chemical facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on their operations and our results of operation and financial condition. These operating permits are subject to modification, renewal and revocation. In addition, third parties may contest our ability to receive or renew certain permits that we need to operate, which can lengthen the application process or even prevent us from obtaining necessary permits. We regularly monitor and review our operations, procedures and policies for compliance with permits, laws and regulations. Despite these compliance efforts, risk of noncompliance or permit interpretation is inherent in the operation of our business.

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment over time. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. We try to anticipate future regulatory requirements that might be imposed and plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of compliance.

Changes to the production equipment at our chemical facilities that are required in order to comply with health, safety and environmental regulations may require substantial capital expenditures.

Explosions and/or losses at other chemical facilities that we do not own (such as the April 2013 explosion in West, Texas) could also result in new or additional legislation or regulatory changes, particularly relating to public health, safety or any of the products manufactured and/or sold by us or the inability on the part of our customers to obtain or maintain insurance as to certain products manufactured and/or sold by us, which could have a negative effect on our revenues, cash flow and liquidity.

In summary, new or changed laws and regulations or the inability of our customers to obtain or maintain insurance in connection with any of our chemical products could have an adverse effect on our operating results, liquidity and financial condition.

We may be required to modify or expand our operating, sales and reporting procedures and to install additional equipment in order to comply with current and possible future government regulations.

The chemical industry in general, and producers and distributors of ammonia and AN specifically, are scrutinized by the government, industry and public on security issues. Under current and proposed regulations, we may be required to incur substantial additional costs relating to security at our chemical facilities and distribution centers, as well as in the transportation of our products. These costs could have a material effect on our results of operations, financial condition, and liquidity. The cost of such regulatory changes, if

significant enough, could lead some of our customers to choose other products to ammonia and AN, which would have a significant adverse effect on our business.

The “Secure Handling of Ammonium Nitrate Act of 2007” was enacted by the U.S. Congress, and subsequently the U.S. Department of Homeland Security (“DHS”) published a notice of proposed rulemaking in 2011. This regulation proposes to require sellers, buyers, their agents and transporters of solid AN and certain solid mixtures containing AN to possess a valid registration issued by DHS, keep certain records, report the theft or unexplained loss of regulated materials, and comply with certain other new requirements. We and others affected by this proposal have submitted appropriate comments to DHS regarding the proposed regulation. It is possible that DHS could significantly revise the requirements currently being proposed. Depending on the provisions of the final regulation to be promulgated by DHS and on our ability to pass these costs to our customers, these requirements may have a negative effect on the profitability of our AN business and may result in fewer distributors who are willing to handle the product. DHS has not finalized this rule, and has indicated that its next action, and the timing of such an action, is undetermined.

On August 1, 2013, U.S. President Obama issued an executive order addressing the safety and security of chemical facilities in response to recent incidents involving chemicals such as the explosion at West, Texas. The President directed federal agencies to enhance existing regulations and make recommendations to the U.S. Congress to develop new laws that may affect our business. In January 2016, the U.S. Chemical Safety and Hazard Investigation Board (“CSB”) released its final report on the West, Texas incident. The CSB report identifies several federal and state regulations and standards that could be strengthened to reduce the risk of a similar incident occurring in the future. While the CSB does not have authority to directly regulate our business, the findings in this report, and other activities taken in response to the West, Texas incident by federal, state, and local regulators may result in additional regulation of our processes and products.

In January 2017, the U.S. Environmental Protection Agency (“EPA”) finalized revisions to its Risk Management Program. The revisions include new requirements for certain facilities to perform hazard analyses, third-party auditing, incident investigations and root cause analyses, emergency response exercises, and to publicly share chemical and process information. Compliance with many of rule’s new requirements will be required beginning in 2021. The EPA has temporarily delayed the rule’s effect until March 21, 2017, and has indicated that it may further delay the rule’s implementation. These requirements may have a negative effect on the profitability of our AN business. The Occupational Safety and Health Administration (“OSHA”) is likewise considering changes to its Process Safety Management standards. In addition, DHS, the EPA, and the Bureau of Alcohol, Tobacco, Firearms and Explosives updated a joint chemical advisory on the safe storage, handling, and management of AN. While these actions may result in additional regulatory requirements or changes to our operators, it is difficult to predict at this time how these and any other possible regulations, if and when adopted, will affect our business, operations, liquidity or financial results.

Proposed and existing governmental laws and regulations relating to greenhouse gas and other air emissions may subject certain of our operations and customers to significant new costs and restrictions on their operations and may reduce sales of our products.

Our chemical manufacturing facilities use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state legislatures and administrative agencies, including the EPA, are considering the scope and scale of greenhouse gas or other air emission regulation. Legislation and administrative actions have been considered that would regulate greenhouse gas emissions at some point in the future for our facilities, and existing and possible actions have already affected certain of our customers, leading to closure or rate reductions of certain facilities.

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment, the EPA has adopted regulations pursuant to the federal Clean Air Act to reduce greenhouse gases emissions from various sources. For example, the EPA requires certain large stationary sources to obtain preconstruction and operating permits for pollutants regulated under the Prevention of Significant Deterioration and Title V programs of the Clean Air Act. Facilities required to obtain preconstruction permits for such pollutants are also required to meet “best available control technology” standards that are being established by the states. These regulatory requirements could adversely affect our operations and restrict or delay our ability to obtain air permits for new or modified sources. The EPA has also instituted a mandatory greenhouse gas reporting requirement that began in 2010, which affects all of our chemical manufacturing sites. The EPA has also passed additional regulations that will affect our working interest in natural gas working interest properties. For example, in May 2016, the EPA finalized rules that establish new controls for emissions of methane and volatile organic compounds from new, modified or reconstructed sources in the oil and natural gas sector, including production, processing, transmission and storage activities. Compliance will require enhanced record-keeping practices, the purchase of new equipment, and increased frequency of maintenance and repair activities to address emissions leakage at certain well sites and compressor stations, and also may require hiring additional personnel to support these activities or the engagement of third party contractors to assist with and verify compliance.

Greenhouse gas regulation could: increase the price of the electricity and other energy sources purchased by our chemical facilities; increase costs for natural gas and other raw materials (such as ammonia); potentially restrict access to or the use of certain raw materials necessary to produce our chemical products; and require us to incur substantial expenditures to retrofit our chemical

facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted. Federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations. For instance, the EPA published a rule, known as the Clean Power Plan, to limit greenhouse gases from electric power plants. In February 2016, the Supreme Court stayed the implementation of the Clean Power Plan while legal challenges to the rule proceed. Depending on the outcome of those challenges, and how various states choose to implement this rule, the Clean Power Plan could result in greater electric costs, more use of alternative energy sources, and a decreased demand for coal-generated electricity.

The Clean Power Plan is one of many recent developments aimed at limiting greenhouse gas emissions that could adversely affect our clients in the coal industry, and thus limit the market for some of our products. Enactment of laws or passage of regulations regarding emissions from the combustion of coal by the United States, states, or other countries could also result in electricity generators further switching from coal to other fuel sources or result in additional coal-fueled power plant closures. For example, the Paris Agreement, which entered into force in November 2016, includes pledges to voluntarily limit or reduce future emissions. The United States is one of over 100 nations that have indicated an intent to comply with the agreement. This agreement could result in additional firm commitments by various nations with respect to future GHG emissions. These commitments could further disfavor coal-fired generation, particularly in the medium- to long-term. In addition, the U.S. Department of the Interior announced a moratorium on issuing certain new coal leases on federal land while the Bureau of Land Management undertakes a programmatic review of the federal coal program. While statements from President Trump indicate that the new administration may take an alternative approach on many of these issues, we cannot at present determine when and how these regulations, agreements, and initiatives will be affected. Pressure from advocacy groups and policies limiting available financing for the development of new coal-fueled power plants could adversely affect the demand for coal in the future, and thus limit the market for some of our products.

Certain of our stockholders control a significant amount of our voting stock, and their interests could conflict with interests of other stockholders.

LSB Funding LLC (“LSB Funding”), our largest voting shareholder and an unrelated third party, owns one share of Series F redeemable Class C preferred stock (the “Series F Redeemable Preferred”), which has voting rights with common stock equal to 16.1% of the total voting power of LSB’s common stock as of February 17, 2017.

Jack E. Golsen, the Executive Chairman of our Board of Directors (the “Board”) and Barry H. Golsen, a member of our Board, entities owned by them, and trusts for which they possess voting or dispositive power as trustee (the “Golsen Holders”) owned as of February 17, 2017, an aggregate of 2,185,517 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together vote as a class and represent approximately 10.5% of the voting power (prior to conversion of the shares of voting preferred) of our issued and outstanding voting securities as of that date. The series of preferred represented by the 20,000 shares of voting preferred is convertible into an aggregate of 666,666 shares of our common stock.

Pursuant to a Board Representation and Standstill Agreement entered into in connection with LSB Funding’s purchase of preferred stock in December 2015, LSB Funding has the right to designate three directors on our Board, and the Golsen Holders have the right to appoint two directors, subject to reduction in each case in certain circumstances. This is in addition to their ability to vote generally in the election of directors. As a result, each of LSB Funding and the Golsen Holders have significant influence over the election of directors to our Board.

The interests of LSB Funding and the Golsen Holders may conflict with interests of other stockholders (as well as with each other). As a result of the voting power and board designation rights of LSB Funding and the Golsen Holders, the ability of other stockholders to influence our management and policies could be limited.

Exploration of Strategic Alternatives

We have initiated a process to explore and evaluate potential strategic alternatives for our business, which may include a sale, a merger with another party or another strategic transaction involving some or all of our assets. There can be no assurance that the exploration of strategic alternatives will result in the identification or consummation of any transaction. In addition, we may incur substantial expenses associated with identifying and evaluating potential strategic alternatives. The process of exploring strategic alternatives may be time consuming and disruptive to our business operations and if we are unable to effectively manage the process, our business, financial condition and results of operations could be adversely affected. We also cannot assure that any potential transaction or other strategic alternative, if identified, evaluated and consummated, will provide greater value to our stockholders than that reflected in our current stock price. Any potential transaction would be dependent upon a number of factors that may be beyond our control, including, among other factors, market conditions, industry trends, the interest of third parties in our business and the availability of financing to potential buyers on reasonable terms.

We are subject to a variety of factors that could discourage other parties from attempting to acquire us.

Our certificate of incorporation provides for a staggered Board and, except in limited circumstances, a two-thirds vote of outstanding voting shares to approve a merger, consolidation or sale of all, or substantially all, of our assets. In addition, we have entered into severance agreements with our executive officers and some of the executive officers of certain subsidiaries that provide, among other things, that if, within a specified period of time after the occurrence of a change in control of LSB, these officers are terminated, other than for cause, or the officer terminates his employment for good reason, the officer would be entitled to certain severance benefits. Certain of our preferred stock series and debt instruments also provide special rights in a change of control, including in some cases the ability to be repaid in full or redeemed.

We have authorized and unissued (including shares held in treasury) 46,724,170 shares of common stock and 4,090,231 shares of preferred stock as of December 31, 2016. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

We have adopted a preferred share purchase plan, which is designed to protect us against certain creeping acquisitions, open market purchases and certain mergers and other combinations with acquiring companies.

The foregoing provisions and agreements are designed to discourage a third-party tender offer, proxy contest, or other attempts to acquire control of us and could have the effect of making it more difficult to remove incumbent management. In addition, LSB Funding and the Golsen Holders have significant voting power and rights to designate board representatives, all of which may further discourage a third-party tender offer, proxy contest, or other attempts to acquire control of us.

Delaware has adopted an anti-takeover law which, among other things, will delay for three years business combinations with acquirers of 15% or more of the outstanding voting stock of publicly-held companies (such as us), unless:

- prior to such time the Board of the corporation approved the business combination that results in the stockholder becoming an invested stockholder;
- the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction;
- two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the Board; or
- the stockholders of the corporation amend its articles of incorporation or by-laws electing not to be governed by this provision.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed “Forward-Looking Statements” within the meaning of Section 27A of the Securities Act of 1933 (as amended, the “Securities Act”) and Section 21E of the Securities Exchange Act. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words “believe,” “expect,” “anticipate,” “intend,” and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein include, but are not limited to, the following:

- our ability to invest in projects that will generate best returns for our stockholders;
- our future liquidity outlook;
- the outlook our chemical products and related markets;

- the amount, timing and effect on the nitrogen market from the current nitrogen expansion projects;
- the effect from the lack of non-seasonal volume;
 - our belief that competition is based upon service, price, location of production and distribution sites, and product quality and performance;
- our outlook for the coal industry;
- the availability of raw materials;
- the result of our product and market diversification strategy
- changes in domestic fertilizer production;
- the increasing output and capacity of our existing production facilities;

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- on-stream rates at our production facilities;
- our ability to moderate risk inherent in agricultural markets;
- the sources to fund our cash needs and how this cash will be used;
- the ability to entering into the additional borrowings;
- the anticipated cost and timing of our capital projects;
- certain costs covered under warranty provisions;
- our ability to pass to our customers cost increases in the form of higher prices;
- our belief as to whether we have sufficient sources for materials and components;
- our ability to obtain ammonia from other sources;
- annual natural gas requirements;
- compliance by the El Dorado Facility of the terms of its permits;
- the costs of compliance with environmental laws, health laws, security regulations and transportation regulations;
- our belief as to when Turnarounds will be performed and completed;
- anticipated costs of Turnarounds during 2017;
- expenses in connection with environmental projects;
- the effect of litigation and other contingencies;
- the increase in depreciation, depletion and amortization;
 - the benefits from the El Dorado expansion project;
- our ability to comply with debt servicing and covenants;
- our ability to meet debt maturities or redemption obligations when due; and
- our beliefs as to whether we can meet all required covenant tests for the next twelve months.

While we believe, the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to, the following:

- changes in general economic conditions, both domestic and foreign;
- material reductions in revenues;
- material changes in interest rates;
- our ability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- adverse effects on increases in prices of raw materials;
- changes in federal, state and local laws and regulations, especially environmental regulations or the American Reinvestment and Recovery Act, or in the interpretation of such;
- releases of pollutants into the environment exceeding our permitted limits;
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us;
- the requirement to use internally generated funds for purposes not presently anticipated;
- the inability to secure additional financing for planned capital expenditures or financing obligations due in the near future;
- our substantial existing indebtedness;
- material changes in the cost of certain precious metals, natural gas, and ammonia;
- limitations due to financial covenants;

- changes in competition;
- the loss of any significant customer;
- increases in cost to maintain internal controls over financial reporting;
- changes in operating strategy or development plans;
- an inability to fund the working capital and expansion of our businesses;
- changes in the production efficiency of our facilities;
- adverse results in our contingencies including pending litigation;
- unplanned downtime at one or more of our chemical facilities;
- changes in production rates at any of our chemical plants;
- an inability to obtain necessary raw materials and purchased components;
- material increases in cost of raw materials;
- material changes in our accounting estimates;
- significant problems within our production equipment;
- fire or natural disasters;
- an inability to obtain or retain our insurance coverage;
- difficulty obtaining necessary permits;
- difficulty obtaining third-party financing;
- risks associated with drilling natural gas wells;
- risks associated with proxy contests initiated by dissident stockholders;
- changes in fertilizer production;
- reduction in acres planted for crops requiring fertilizer;
- decreases in duties for products we sell resulting in an increase in imported products into the U.S.;
- uncertainties in estimating natural gas reserves;
- volatility of natural gas prices;
- weather conditions;
- increases in imported agricultural products;
- other factors described in the MD&A contained in this report; and
- other factors described in “Risk Factors” contained in this report.

Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

Defined Terms

The following is a list of terms used in this report.

ADEQ	-The Arkansas Department of Environmental Quality.
Amended Note	-An amended note between Zena Energy L.L.C. and the original lender.
AN	-Ammonium nitrate.
ARO	-Asset retirement obligation.
BAE	-BAE Systems Ordinance Systems, Inc.
Baytown Facility	-The nitric acid production facility located in Baytown, Texas.
Borrowers	-LSB and certain of its subsidiaries that are party to the Working Capital Revolver Loan.
CAO	-A consent administrative order.
Cherokee Facility	-Our chemical production facility located in Cherokee, Alabama.
Consent Solicitation	-A consent solicitation initiated in August 2016 to effect certain amendments to the Original 7.75% Indenture.
Covestro	-The party with whom our subsidiary in Baytown has entered into an agreement for supply of nitric acid through at least June 2021, the Covestro Agreement.
Covestro Agreement	-A long-term contract that (a) allows us to pass-through most of the costs of producing the nitric acid that Covestro purchases, including the cost of ammonia; (b) to receive management fees for managing the operations and marketing nitric acid at the Baytown Facility and; (c) to receive a portion of any carbon credits that are sold. The term of this agreement runs until June 2021 with options for renewal.
CVR	-Coffeyville Resources Nitrogen Fertilizers, LLC.
CVR Purchase Agreement	-An agreement between PCC and CVR, whereby CVR has agreed to purchase certain volumes of UAN from PCC.
DOJ	-The U.S. Department of Justice.
DEF	-Diesel Exhaust Fluid.
DHS	-The U.S. Department of Homeland Security.
DOC	-The U.S. Department of Commerce.

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EDA -El Dorado Ammonia L.L.C.

EDC -El Dorado Chemical Company.

EIA -The U.S. Energy Information Administration.

El Dorado Facility-Our chemical production facility located in El Dorado, Arkansas.

Environmental and Health Laws -Numerous federal, state and local environmental, health and safety laws.

ERP -Enterprise Resource Planning Software.

EPA -The U.S. Environmental Protection Agency.

Global -Global Industrial, Inc., a subcontractor asserting mechanics liens for work rendered to LSB and EDC.

Golsen Holders -Jack E. Golsen, our Executive Chairman of the Board, and Barry H. Golsen, a member of the Board, entities owned by them and trusts for which they possess voting or dispositive power as trustee.

Hallowell Facility -A chemical facility previously owned by two of our subsidiaries located in Kansas.

HDAN -High density ammonium nitrate prills used in the agricultural industry.

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KDHE	-The Kansas Department of Health and Environment.
Indenture Amendments	-Certain amendments to the Original 7.75% Indenture.
LDAN	-Low density ammonium nitrate prills used in the mining industry.
Leidos	-Leidos Constructors L.L.C.
Liquidation Preference	-The Series E Redeemable Preferred liquidation preference of \$1,000 per share plus accrued and unpaid dividends plus the participation rights value.
Loan Conversion Date	-The date which El Dorado Ammonia L.L.C. received final funding on a loan which was converted to a seven-year secured term loan requiring equal monthly principal and interest payments with a final balloon payment due May 2023.
LSB	-LSB Industries, Inc.
MD&A	-Management's Discussion and Analysis of Financial Condition and Results of Operations found in Item 7 of this report.
MMBtu	-Million Metric British thermal units.
NOV	-Notice of Violation
NPDES	-National Pollutant Discharge Elimination.
ODEQ	-The Oklahoma Department of Environmental Quality.
Orica Agreement	-An expired agreement with Orica International Pte Ltd.
Original 7.75% Indenture	-The indenture, dated as of August 7, 2013, pursuant to which we issued the \$425 million 7.75% Senior Secured Notes due 2019.
PCC	-Pryor Chemical Company.
PP&E	-Plant, property and equipment.
Project	-A greenhouse reduction project being performed at our Baytown Facility.
Pryor Facility	-Our chemical production facility located in Pryor, Oklahoma.
Purchaser	-LSB Funding L.L.C.
Renewed Rights Agreement	-A renewed shareholder rights plan effective January 5, 2009.
	-An amendment to a shareholder rights plan effective December 4, 2015.

Renewed Rights
Amendment

Registration Rights Agreement-Warrants - A registration rights agreement relating to the registered resale of the common stock issuable upon exercise of the Warrants and certain other common stock, by and between LSB and LSB Funding LLC.

SEC - The U.S. Securities and Exchange Commission.

Secured Promissory Note due 2019 - A secured promissory note between EDC and a lender which matures in June 2019.

Secured Promissory Note due 2023 - A secured promissory note between EDA and a lender which matures in May 2023.

Senior Secured Notes - The Senior Secured Notes, subsequently amended under the Supplemental Indenture, with a current interest rate of 8.50%.

Senior Secured Notes Indenture - The Original 7.75% Indenture Agreement, dated as of August 7, 2013, governing the 7.75% Senior Secured Notes, together with the First Supplemental Indenture to the Original 7.75% Indenture, dated as of September 7, 2016.

Series B Preferred - The Series B 12% cumulative convertible Class C Preferred stock.

Series D Preferred - The Series D 6% cumulative convertible Class C preferred stock.

Series E Redeemable Preferred - The 14% Series E Redeemable Preferred stock with participating rights and liquidating distributions based on a certain number of shares of our common stock.

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Series F Redeemable Preferred	-The Series F Redeemable Preferred stock have one share to vote as a single class on all matters with our common stock equal to 456,225 shares of our common stock.
SG&A	-Selling, general and administrative expense.
Supplemental Indenture	-The First Supplemental Indenture, dated as of September 7, 2016, to the Original 7.75% Indenture.
TSA	-A transition services agreement.
Turnaround	-A planned major maintenance activity.
UAN	-Urea ammonium nitrate.
U.S.	-United States.
Warrant	-A warrant to purchase 4,103,746 shares of our common stock at a par value \$0.10 which was held by LSB Funding LLC.
WASDE	-World Agricultural Supply and Demand Estimates Report.
West Fertilizer	-West Fertilizer Company.
Working Capital	-Our secured revolving credit facility.
Revolver Loan	
Working Capital Revolver Loan Amendment	-The senior secured revolving credit facility, amended effective January 17, 2016.
Zena	-Zena Energy L.L.C., a subsidiary of the Company.
7.75% Notes Redemption	-The redemption of \$50 million in aggregate principal amount of the 7.75% Senior Secured Notes on September 7, 2016.
7.75% Senior Secured Notes	-\$425 million aggregate principal amount of 7.75% Senior Secured Notes due August 1, 2019 issued pursuant to the Original 7.75% Indenture, subsequently amended under the Supplemental Indenture, with a current interest rate of 8.50%
12% Notes Redemption	-The redemption of all outstanding 12% Senior Secured Notes on September 7, 2016.
12% Senior Secured Notes	-The \$50 million aggregate principal amount of 12% Senior Secured Notes due August 1, 2019.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

The following table presents our significant properties for 2016:

	El Dorado	Cherokee	Pryor Facility	Baytown	Chemical Distribution Centers
Facility Location	Facility El Dorado, AR	Facility Cherokee, AL	Facility Pryor, OK	Facility Baytown, TX	(A)
Plant Area (acres)	150	160	47	2	
Site Area (acres)	1,400	1,300	104	Covestro site	
Site Status				Operating	
Capacity Utilization	Owned 65 % (B)	Owned 95 % (C)	Owned 84 % (D)	Agreement 100%	(A)

(A) We distribute our agricultural products through 11 wholesale and retail distribution centers, with 9 of the centers located in Texas (8 of which we own and 1 of which we lease); 1 center located in Tennessee (owned); and 1 center located in Missouri (owned).

(B) The percentage of utilization for the El Dorado Facility relates to its ammonia production capacity. Production at the new ammonia plant began during the second quarter of 2016. The capacity utilization rate is based on 1,150 tons per day of production since production began. We are currently producing at approximately 1,300 tons per day.

(C) The percentage of utilization for the Cherokee Facility relates to its ammonia production capacity and is based on 515 tons per day of production for the year. The listed rate excludes 28 turnaround days.

(D) The percentage of utilization for the Pryor Facility relates to its ammonia production capacity and is based on 675 tons per day of production for the year. The listed rate excludes 21 turnaround days. The Pryor Facility has additional operational capacity for nitric acid and AN solution in excess of its current ammonia capacity.

Most of our real property and equipment located at our chemical facilities are being used to secure our long-term debt. All of the properties utilized by our businesses are suitable and adequate to meet the current needs of that business and relate to domestic operations.

ITEM 3. LEGAL PROCEEDINGS

See Legal Matters under Note 11 of Notes to Consolidated Financial Statements included in this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is trading on the New York Stock Exchange under the symbol “LXU”. The following table shows, for the periods indicated, the high and low intraday sales prices of our common stock.

	Year Ended December 31,			
	2016		2015	
Quarter	High	Low	High	Low
First	\$ 14.10	\$ 3.68	\$ 42.91	\$ 29.00
Second	\$ 15.50	\$ 7.73	\$ 47.33	\$ 40.06
Third	\$ 13.85	\$ 7.66	\$ 41.74	\$ 15.16
Fourth	\$ 9.93	\$ 4.52	\$ 18.23	\$ 5.38

Stockholders

As of February 17, 2017, we had approximately 460 record holders of our common stock.

Dividends

We have not paid cash dividends on our outstanding shares of common stock during the two most recent fiscal years but have paid cash dividends on our outstanding series of convertible preferred stock during this period. See discussion concerning dividends and restrictions in payment of dividends below under “Liquidity and Capital Resources - Dividends” and “- Loan Agreements” of the MD&A contained in Item 7 of this report.

Equity Compensation Plans

Discussions relating to our equity compensation plans under Item 12 of Part III are incorporated by reference to our definitive proxy statement which we intend to file with the SEC on or before May 1, 2017.

Sale of Unregistered Securities

There were no unregistered sales of equity securities in 2016 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

Preferred Share Rights Plan

See discussions relating to our preferred share rights plan under Preferred Share Rights Plan of Note 14 to Consolidated Financial Statements contained in this report.

ITEM 6. SELECTED FINANCIAL DATA (1)

	Year ended December 31,				
	2016	2015	2014	2013	2012
(In Thousands, Except Per Share Data)					
Selected Statement of Operations Data in Dollars:					
Net sales	\$374,585	\$437,695	\$495,888	\$416,223	\$516,255
Operating income (loss)	\$(90,223)	(71,166)	30,577	73,739	69,682
Interest expense, net	\$30,945	7,371	21,599	13,301	3,891
Provisions (benefit) for income taxes	\$(41,956)	(32,520)	4,251	23,955	24,515
Income (loss) from continuing operations	\$(88,133)	(46,146)	5,087	35,600	42,110
Income from discontinued operations, net of taxes	\$200,301	11,381	14,547	19,362	16,494
Net income (loss)	\$112,168	(34,765)	19,634	54,962	58,604
Net (loss) income attributable to common stockholders	\$64,760	\$(38,038)	\$19,334	\$54,662	\$58,304
Income (loss) per common share attributable to					
common stockholders:					
Basic:					
Income (loss) from continuing operations	\$(5.28)	\$(2.17)	\$0.21	\$1.57	\$1.87
Income from discontinued operations, net of taxes	\$7.82	\$0.50	\$0.65	\$0.86	\$0.74
Net income (loss)	\$2.54	\$(1.67)	\$0.86	\$2.43	\$2.61
Diluted:					
Income (loss) from continuing operations	\$(5.28)	\$(2.17)	\$0.21	\$1.51	\$1.79
Income from discontinued operations, net of taxes	\$7.82	\$0.50	\$0.64	\$0.82	\$0.70
Net income (loss)	\$2.54	\$(1.67)	\$0.85	\$2.33	\$2.49
Selected Balance Sheet Data in Dollars:					
Total assets	\$1,270,420	\$1,361,827	\$1,130,572	\$1,075,218	\$575,808
Long-term debt, including current portion, net	\$420,220	520,422	450,885	455,054	67,634
Redeemable preferred stock	\$145,029	177,272	—	—	—
Stockholders' equity	\$492,513	\$421,580	\$434,048	\$411,715	\$354,497
Selected Other Data in Dollars:					
Cash dividends declared per common share	—	—	—	—	—

(1) The following selected consolidated financial data were derived from our audited consolidated financial statements and should be read in conjunction with, and are qualified by reference to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II of this report. The financial information presented may not be indicative of our future performance.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2016 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

General

LSB is headquartered in Oklahoma City, Oklahoma and through its subsidiaries, manufactures and sells chemical products for the agricultural, mining, and industrial markets. We own and operate facilities in Cherokee, Alabama, El Dorado, Arkansas and Pryor, Oklahoma, and operate a facility, for Covestro in Baytown, Texas. Our products are sold through distributors and directly to end customers throughout the U.S.

Key Initiatives for 2017

We believe our future results of operations and financial condition will depend significantly on our ability to successfully implement the following key initiatives:

- **Improving the on-stream rates of our chemical plants.** We have made and continue to make: (1) upgrades to the operations teams at our chemical facilities; (2) investments of capital to enhance the reliability of each of our plants at each facility in order to reduce unplanned outages, unplanned downtimes, and the frequency of planned Turnarounds; and (3) continued efforts to focus on safety and efficiency throughout our entire operations.
- **Broadening the distribution of our AN and Nitric Acid products.** Given the reduction in our LDAN sales from the declining use of coal, we have expanded our overall sales of HDAN through a number of marketing initiatives that have broadened our addressable market. Those initiatives have included, storing and distributing HDAN at our Pryor and Cherokee Facilities and selling to new markets and customers out of those facilities. In addition, through our marketing efforts, we are working on expanding our market for our nitric acid products to parts of the Western U.S. and Canada.
- **Reducing and controlling our cost structure.** In 2016, we put in place SG&A expense reductions of approximately \$6 million per year that we will realize beginning in 2017. In addition, beginning in 2017 we have reduced plant costs at each manufacturing facility by approximately \$6 million. We continue to review our overall costs and believe that we will be able to further reduce costs during 2017.
- **Selling non-core assets.** In 2016, we identified assets that are no longer necessary in the operations of our business. Those assets include our working interest in the natural gas properties in the Marcellus Shale, our engineered products business, certain pieces of equipment and certain real estate. In the fourth quarter of 2016, we sold a portion of this equipment for approximately \$5 million and are in the process of selling certain other non-core assets, which we believe could generate an additional approximately \$15 million to \$20 million of net cash proceeds (net of any debt outstanding against these assets).
 - Evaluate strategic initiatives for our business. We have initiated a process to explore and evaluate potential strategic alternatives for our business, which may include a sale, a merger with another party, or another strategic transaction involving some or all of our assets. We have retained Morgan Stanley & Co. LLC as our financial advisor to assist with this process.

We may not successfully implement any or all of these initiatives. Even if we successfully implement the initiatives, they may not achieve the beneficial results that we expect or desire.

Business and Financing Developments - 2016

Sale of Climate Control Business

On July 1, 2016, we completed the sale of our Climate Control Business to a subsidiary of NIBE for a total of \$364 million before the customary adjustments set forth in the Stock Purchase Agreement. As a result, we recognized a pre-tax gain on the sale of approximately \$282 million. At December 31, 2016, our accounts receivable included approximately \$2.7 million relating to the sale of our Climate Control Business representing an indemnity escrow balance. Our current and noncurrent accrued and other liabilities also include approximately \$5.5 million related to estimated contingent liabilities, costs in connection with the Transition Services Agreement (“TSA”) and certain severance agreements associated with the sale. See additional discussion in Note 2 to Consolidated Financial Statements included in this report.

El Dorado Expansion

During the second quarter of 2016, the new ammonia plant at our El Dorado Facility became operational and began producing ammonia at our nameplate capacity of 1,150 tons per day. However, the ammonia plant experienced unplanned downtime from various causes including a lightning strike, heat exchanger tube leaks and required modifications to the process vent system design to improve safety and reliability. As a result, our 2016 average on-stream rate for this plant since becoming operational was only 64% but has steadily improved on a quarterly basis with the on-stream rate for fourth quarter of 2016 at 73%.

Since the ammonia plant became operational, the El Dorado Facility has been a net seller of ammonia. All ammonia that the facility has not upgraded into other products is sold to Koch Fertilizer LLC via pipeline under a previously reported three-year offtake agreement.

As discussed below under “Liquidity and Capital Resources,” the final cost of the El Dorado expansion project was approximately \$835 million.

During 2016, the El Dorado Facility’s new nitric acid plant required several warranty repairs. After attempts to repair leaks in the nitric acid plant’s nitrous oxide abatement vessel, it was determined that this abatement vessel would need to be replaced under warranty provisions. In order to operate the nitric acid plant while a permanent solution was developed, we obtained a consent administrative order from the Arkansas Department of Environmental Quality (“ADEQ”) to allow the facility to by-pass the failed nitrous oxide abatement system and continue to operate the new nitric acid plant until April 2018. We made use of our secondary nitric acid plant at the El Dorado Facility and shipped product from our other facilities to ensure that customer demands were met while we designed and installed the by-pass system. We anticipate that the design, fabrication, and installation of a new nitrous oxide abatement vessel will be complete no later than April 2018 and all costs will be covered under warranty provisions.

New and Amended Contracts

UAN Purchase and Sale Agreement – We entered into a new UAN purchase and sale agreement with Coffeyville Resources Nitrogen Fertilizers, LLC (“CVR”) that became effective June 1, 2016. Under the agreement, CVR is purchasing all of the UAN produced at Pryor Chemical Company (“PCC”) in excess of the needs of PCC or its affiliates, which shall be no more than 30,000 tons per year. The initial term of the contract is for three years. This agreement replaced another agreement with a different customer.

LDAN Purchase and Sale Agreement - We amended a purchase and sale agreement with one of our LDAN customers. The amendment reduced the required sales volumes and overall potential shortfall charges. In return, this customer

will pay us a fee of \$9 million, of which \$6 million was received in 2016. The remaining fee of \$3 million is due by March 31, 2017. Income associated with these payments is being deferred and recognized over the contract term.

Redemption of Portion of Series E Redeemable Preferred and Senior Secured Notes

In September 2016, we completed a consent solicitation to effect the certain amendments to the Original 7.75% Indenture (the “Indenture Amendments”) and entered into a Supplemental Indenture (the “Supplemental Indenture”) as discussed in Note 9 to Consolidated Financial Statements included in this report. As a result, in September 2016, we redeemed 70,232 shares of the Series E Redeemable Preferred Stock for approximately \$80 million, which includes \$78.3 million related to the liquidation preference of \$1,000 per share and accumulated dividends and \$1.7 million related to the participation rights value associated with the redeemed shares. In October 2016, we called debt totaling approximately \$107 million (including accrued interest) as follows:

\$50 million of 12% Senior Secured Notes due 2019 at a call price of 106% plus accrued interest and;

\$50 million of 7.75% Senior Secured Notes due 2019 at a call price of 103.875% plus accrued interest.

Those payments, along with the Series E Redemption, were funded with proceeds from the sale of our Climate Control Business. See further discussion under “Liquidity and Capital Resources.”

Key Industry Factors

Supply and Demand

Agricultural

Sales of our agricultural products were approximately 44% of our total net sales for 2016. The price at which our agricultural products are ultimately sold depends on numerous factors, including the supply and demand for nitrogen fertilizers which, in turn, depends upon world grain demand and production levels, the cost and availability of transportation and storage, weather conditions, competitive pricing and the availability of imports. Additionally, expansions or upgrades of competitors' facilities and international and domestic political and economic developments continue to play an important role in the global nitrogen fertilizer industry economics. These factors can affect, in addition to selling prices, the level of inventories in the market which can cause price volatility and effect product margins.

One of the key factors that affects demand of our agricultural products is corn prices. Changes in corn prices can affect the number of acres of corn planted in a given year, and the number of acres planted will drive the level of nitrogen fertilizer consumption, likely effecting prices. The World Agricultural Supply and Demand Estimates Report ("WASDE"), dated January 12, 2017, estimates U.S. corn production for 2016 of 15.1 billion bushels, up 11% from 2015, reflecting an increase in planted and harvested areas, in addition to higher yields per acre. In addition, this report estimates world corn ending stocks for 2016/2017 at 220.9 million tons, an increase over 2015/2016 ending stocks of approximately 5% and U.S. corn ending stock of 59.8 million tons, an increase of approximately 36% over the prior year. Despite the increase in ending stocks, the USDA is estimating that U.S. growers will plant 90 to 91 million acres of corn in 2017, a decrease of only approximately 4 million acres from the previous year.

Given the low price of natural gas in North America over the last several years, North American fertilizer producers have become the global low cost producers for delivered fertilizer products to the Midwest U.S. Several years ago, the market believed that low natural gas prices would continue. That belief, combined with favorable fertilizer pricing, led to the announcement of numerous expansions of existing nitrogen chemical facilities and the construction of new nitrogen chemical facilities. Since those announcements, fertilizer pricing has been in continuous decline and many of the announced expansions and new nitrogen chemical facilities have been cancelled. However, approximately 5 million tons of annual ammonia production capacity has either been added or are expected to be added by the end of 2017. Ammonia production in North America will increase from approximately 15 million tons annually to approximately 20 million tons annually, replacing most of the ammonia that has been imported into North America to cover the annual demand of approximately 21 million tons. Additional domestic supply of ammonia will also change the physical flow of ammonia in North America. However, since most of the added domestic ammonia production will come with additional production capacity for upgraded nitrogen products (Urea, UAN and DEF), North America will continue to import between 2 million to 3 million tons of ammonia annually. All of this has created uncertainty in the fertilizer markets and has put pressure on all fertilizer prices in North America that, we believe, will last throughout 2017. However, since the fertilizer market is seasonal, selling prices and demand will increase ahead of the spring season and remain until the end of that season with prices typically falling after the spring season.

Industrial

Sales of our industrial products were approximately 42% of our total net sales for 2016. Our industrial products sales volumes are dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemistry Council, the U.S. economic indicators continue to be mostly positive for these sectors domestically. Our sales prices generally vary with the market price of our feedstock (ammonia or natural gas, as applicable) in our pricing arrangements with customers.

Mining

Sales of our mining products were approximately 12% of our total net sales for 2016. Our mining products are LDAN and AN solutions, which are primary used as AN fuel oil and specialty emulsions for surface mining of coal and for usage in quarries and the construction industry. As reported by the EIA, annual coal production in the U.S. for the full year of 2016 is estimated to be down 17% from 2015 and at its lowest level since 1978 continuing an eight-year decline. EIA is forecasting a 7% increase in U.S. coal production from coal-fired electricity generation in 2017 and a slight increase from 2017 to 2018. We believe that coal production in the U.S. continues to face significant challenges from competition from natural gas and renewables. While we believe, our plants are well-located to support the more stable coal-producing regions in the upcoming years, our current mining sales volumes are being affected by overall lower customer demand for LDAN. We do not expect a significant increase in our mining business in the near term.

Farmer Economics

The demand for fertilizer is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors such as their financial resources, soil conditions, weather patterns and the types of crops planted.

Natural Gas Prices

Natural gas is the primary feedstock for the production of nitrogen fertilizers at our Cherokee and Pryor Facilities and, with the completion of the construction of the ammonia plant, at our El Dorado Facility beginning in the third quarter of 2016. In recent years, U.S. natural gas reserves have been increasing significantly due to, among other factors, advances in extracting shale gas, which has reduced and stabilized natural gas prices, providing North America with a cost advantage over certain imports. As a result, our competitive position and that of other North American nitrogen fertilizer producers have been positively affected.

We historically have purchased natural gas in the spot market, through the use of forward purchase contracts, or through a combination of both and have used forward purchase contracts to lock in pricing for a portion of our natural gas requirements. These forward purchase contracts are generally either fixed-price or index-price, short-term in nature and for a fixed supply quantity. We are able to purchase natural gas at competitive prices due to our connections to large distribution systems and their proximity to interstate pipeline systems. Over the past several years, natural gas prices have experienced significant downward fluctuations, which have had a positive effect on our cost of producing nitrogen fertilizer. The following table shows the annual volume of natural gas we purchased and the average cost per MMBtu:

	2016	2015
Natural gas volumes (MMBtu in millions) (1)	20	11
Natural gas average cost per MMBtu	\$2.66	\$3.19

(1) The increase in volume in 2016 is primarily attributed to the new ammonia plant at the El Dorado Facility and higher overall ammonia operating rates at our plants.

As of December 31, 2016, we had volume purchase commitments with a fixed cost for natural gas of approximately 2.4 million MMBtus at an average cost of \$3.20 per MMBtu. These commitments are for firm purchases during the first quarter of 2017 and represent approximately 41% of our total exposed natural gas usage required for that period. In January 2017, we increased our volume purchase commitments with a fixed cost for natural gas to approximately 3.4 million MMBtus at an average cost of \$3.28 per MMBtu. With the additional commitments, which now extend through June 2017, we have approximately 53% of our total exposed natural gas usage requirements at an average price of \$3.28 for the first quarter of 2017 and 20% of our total exposed natural gas usage requirements at an average price of \$3.35 for the second quarter of 2017.

Transportation Costs

Costs for transporting nitrogen based products can be significant relative to their selling price. For example, ammonia is a hazardous gas at ambient temperatures and must be transported in specialized equipment, which is more expensive than other forms of nitrogen fertilizers. In recent years, a significant amount of the ammonia consumed annually in the U.S was imported. Therefore, nitrogen fertilizers prices in the U.S. are influenced by the cost to

transport product from exporting countries, giving domestic producers who transport shorter distances an advantage.

Key Operational Factors

Facility Reliability

Consistent, reliable and safe operations at our chemical plants are critical to our financial performance and results of operations. The financial effects of planned downtime at our plants, including Turnarounds is mitigated through a diligent planning process that takes into account the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Unplanned downtime of our plants typically results in lost contribution margin from lost sales of our products, lost fixed cost absorption from lower production of our products and increased costs related to repairs and maintenance. All Turnarounds result in lost contribution margin from lost sales of our products, lost fixed cost absorption from lower production of our products, and increased costs related to repairs and maintenance, which repair and maintenance costs are expensed as incurred.

Our Pryor Facility is on a one-year Turnaround cycle and we expect to perform a Turnaround in the fourth quarter of 2017. Annual Turnarounds will continue through 2019 and at that time we expect to move to a two-year Turnaround cycle.

At our El Dorado Facility, historically, we were able to perform Turnaround projects on individual plants without shutting down the entire facility as we have redundancy for most of our produced products. The effect of lost production from those have not been

significant. With the completion of the new ammonia plant, the facility will begin to schedule traditional Turnarounds that will require the ammonia plant to be taken out of production and will cause a financial effect from lost production. This Facility will initially be on a two-year Turnaround cycle with its initial Turnaround scheduled for 2018.

Our Cherokee Facility is on a two-year Turnaround cycle, with the last Turnaround being performed in the third quarter of 2016. The next Turnaround to be performed is expected to occur in the third quarter of 2018 at which time we expect to move to a three-year Turnaround cycle.

Prepay Contracts

We use forward sales of our fertilizer products to optimize our asset utilization, planning process and production scheduling. These sales are made by offering customers the opportunity to purchase product on a forward basis at prices and delivery dates that are agreed upon. We use this program to varying degrees during the year depending on market conditions and our view of changing price environments. Fixing the selling prices of our products months in advance of their ultimate delivery to customers typically causes our reported selling prices and margins to differ from spot market prices and margins available at the time of shipment.

Consolidated Results for 2016

Our consolidated net sales for 2016 were \$374.6 million compared to \$437.7 million for 2015. Our consolidated operating loss was \$90.2 million compared to \$71.2 million for 2015. The items affecting our operating results are discussed below and under "Results of Operations."

Items Affecting Comparability of Results

On-Stream Rates

The on-stream rates of our plants affect our production, the absorption of fixed costs of each plant and sales of our products. It is a key operating metric that we use to manage our business. In particular, we closely monitor the on-stream rates of our ammonia plants as that is the basic product used to produce all upgraded products. In 2016, we improved the operating rates at both our Cherokee and Pryor ammonia plants. At our Cherokee Facility, the on-stream rate (excluding the effect from its scheduled Turnaround) for 2016 for our ammonia plant increased to 96% from 94% in 2015. We expect on-stream rates to continue at this level in 2017.

At our Pryor Facility, the on-stream rate (excluding the effect from its scheduled Turnaround) for 2016 for our ammonia plant increased to 86% from 83% in 2015. Although the rate increased, it fell below our expectations. We believe that the capital improvements made to the ammonia plant in 2016 will improve the on-stream rate for 2017 to between 90% and 95%. We expect on-stream rates to continue at this level in 2017.

The El Dorado Facility's ammonia plant began production in mid-2016. It is typical for newly operated plants that are in production to go through a period of optimization (Shakedown) that may require the plant to be taken out of operation for a period of time. Our reported 2016 on-stream rate for the ammonia plant at El Dorado was 64%. However, since going into operation, the on-stream rate has steadily improved on a quarterly basis with the on-stream rate for the fourth quarter of 73%. The on-stream rate has continued to improve in the first quarter of 2017 and we believe that the ammonia plant will operate at approximately a 95% on-stream rate for 2017. The plant is currently producing ammonia in excess of 1,300 tons per day, which is above its nameplate capacity of 1,150 tons per day.

Selling Prices

During 2016, selling prices for our agricultural products declined significantly over 2015 selling prices. Average selling prices for our ammonia, UAN and HDAN decreased 34%, 30% and 28%, respectively compared to 2015 average selling prices. The decreases in overall agricultural products selling prices were caused by lower corn prices in 2016 compared to 2015, lower natural gas prices year-over-year and the addition of nitrogen production capacity being added globally in 2016 and 2017 and this additional supply's expected effect on the supply/demand balance in the U.S.

Depreciation Expense

During 2016 and 2015, depreciation expense was \$59.4 million and \$35.9 million, respectively. The increase is primarily due to our El Dorado expansion project being completed and placed into service during the second quarter of 2016.

Certain Startup, One-Time, Warranty and Other Expenses

During 2016, the El Dorado Facility's new ammonia plant became operational. We estimate that our operating costs were \$5.1 million higher during the first half of 2016, as a result of start-up and commissioning activities related to the new ammonia plant.

The El Dorado Facility's new nitric acid plant incurred certain expenses after start-up for which we believe a portion will be covered under our warranty provisions. The estimated impact on our operating results for 2016 was approximately \$8 million to \$9 million.

During 2016, EDC incurred a one-time fee of \$12.1 million related to consulting services associated with the reduction of assessed property values for the El Dorado projects real and personal property for both the nitric acid plant, nitric acid concentrator plant and the ammonia plant. We expect material property tax savings in future periods through a reduction of property taxes paid.

During 2015, we incurred certain one-time corporate SG&A costs relating to severance agreements with former executives of \$2.0 million.

Debt and Interest Expense

For 2016 and 2015, interest expense was \$30.9 million and \$7.4 million, net of capitalized interest of \$15.0 million and \$30.6 million, respectively. Interest was capitalized based upon construction in progress of the El Dorado expansion project, which was completed during the second quarter of 2016. In addition, interest expense increased \$4.5 million relating to the 12% Senior Secured Notes sold in November 2015 and repaid in October 2016 and \$2.2 million, as a result of the debt modification associated with the Consent Solicitation in 2016.

Loss on Extinguishment of Debt

As discussed above under "Business and Financing Developments – 2016", in October 2016, we called debt totaling \$106.9 million (including accrued interest) to redeem all of the outstanding \$50 million of the 12% Senior Secured Notes due 2019 at the original redemption price of 106% plus accrued interest and \$50 million of the 7.75% Senior Secured Notes due 2019 at the original redemption price of 103.875% plus accrued interest. As a result of this transaction, we recognized a loss on extinguishment of debt of approximately \$8.7 million.

Impairment of Natural Gas Properties (2015 only)

As previously reported during third quarter of 2015, we recognized a non-cash impairment charge of \$39.7 million to write-down the carrying value of our working interest in natural gas properties in the Marcellus Shale region to the estimated fair value. In addition, we recognized a \$3.5 million non-cash impairment charge to reduce the carrying value of certain plant assets related to unused ammonia production equipment at our Pryor Facility.

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2016, 2015, and 2014 and accompanying notes and the discussions under "Overview" and "Liquidity and Capital Resources" included in this MD&A.

We present the following information about our results of operations. Net sales to unaffiliated customers are reported in the consolidated financial statements and gross profit represents net sales less cost of sales. Net sales are reported on a gross basis with the cost of freight being recorded in cost of sales.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The following table contains certain financial information relating to our continuing operations:

	2016	2015	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	\$166,180	\$209,770	\$(43,590)	(20.8)%
Industrial acids and other chemical products	155,744	167,520	(11,776)	(7.0)%
Mining products	43,532	47,475	(3,943)	(8.3)%
Other products	9,129	12,930	(3,801)	(29.4)%
Total net sales	\$374,585	\$437,695	\$(63,110)	(14.4)%
Gross profit (loss)				
Gross profit (loss)	\$(49,306)	\$20,048	\$(69,354)	(345.9)%
Gross profit (loss) percentage (1)	(13.2)%	4.6 %	(17.8)%	
Selling, general and administrative expense	40,168	49,813	(9,645)	(19.4)%
Impairment of long-lived assets and goodwill	1,621	43,188	(41,567)	(96.3)%
Other income, net	(872)	(1,787)	915	(51.2)%
Operating loss	(90,223)	(71,166)	(19,057)	26.8 %
Interest expense, net	30,945	7,371	23,574	319.8 %
Loss on extinguishment of debt	8,703	—	8,703	100.0 %
Non-operating other expense, net	218	129	89	69.0 %
Benefit for income taxes	(41,956)	(32,520)	(9,436)	29.0 %
Loss from continuing operations	(88,133)	(46,146)	(41,987)	91.0 %
Additions to property, plant and equipment:				
Additions to property, plant and equipment:	\$165,104	\$469,877	\$(304,773)	(64.9)%
Depreciation, depletion and amortization of property, plant and equipment:				
Depreciation, depletion and amortization of property, plant and equipment:	\$59,354	\$35,930	\$23,424	65.2 %

(1)As a percentage of net sales

The following tables provide key operating metrics for the Agricultural Products:

Product (tons sold)	2016	2015	Change	Percentage Change
UAN	372,593	354,695	17,898	5 %
HDAN	218,283	171,294	46,989	27 %
Ammonia	93,013	90,658	2,355	3 %
Other	23,290	19,237	4,053	21 %
Total	707,179	635,884	71,295	11 %

Percentage

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Average Selling Prices (price per ton)	2016	2015	Change	Change
UAN	\$173	\$246	\$(73)	(30)%
HDAN	\$253	\$349	\$(96)	(28)%
Ammonia	\$331	\$499	\$(168)	(34)%

With respect to sales of Industrial, Mining and Other Chemical Products, the following table indicates the volumes sold of our major products:

Product (tons sold)	2016	2015	Change	Percentage Change	
Nitric Acid - Baytown	446,950	500,725	(53,775)	(11)	%
Nitric Acid - All Other	82,237	54,108	28,129	52	%
LDAN/HDAN	93,039	70,660	22,379	32	%
AN Solution	83,090	94,594	(11,504)	(12)	%
Ammonia	127,265	36,235	91,030	251	%
Total	832,581	756,322	76,259	10	%

Net Sales

In general, for 2016, our agricultural sales were lower, influenced by lower selling prices for ammonia, UAN and HDAN, partially offset by higher sales volume from improved on-stream rates at our facilities in 2016 as discussed under "Items Affecting Comparability". Industrial products sales and mining sales both decreased due primarily to lower selling prices partially offset by higher overall sales volumes. In addition, other products, which includes our natural gas working interest, decreased as natural gas sales prices and volumes declined in 2016 compared to 2015.

Agricultural products comprised approximately 44% and 48% of our net sales for 2016 and 2015, respectively. Agricultural sales decreased as our average selling prices per ton of our products were significantly lower for 2016 compared to 2015. This reduction in selling prices was partially offset by an increase in sales volumes for HDAN, UAN and Ammonia. The increase in HDAN sales volume was driven by a strong spring fertilizer season which increased our customer demand and expanded our customer base during 2016. The higher UAN and ammonia sales volumes were primarily due to higher production at our Pryor Facility in 2016 compared to 2015 partially offset by lower production and sales volumes at our Cherokee Facility due to performing a bi-annual Turnaround in 2016. Industrial acids and other chemical products sales decreased primarily as the result of lower overall product selling prices. A majority of our sales of these products are tied to the cost of our feedstock, primarily natural gas and ammonia, which are passed through as part of the selling prices to our customers. Our feedstock costs were lower in 2016 compared to 2015. The decrease in selling prices was partially offset by higher sales volume of ammonia as our El Dorado Facility began producing ammonia during the second quarter of 2016 compared to no production in 2015. Mining products sales decreased primarily due to lower product selling prices as a majority of our sales from these products are tied to the cost of our feedstock, primarily natural gas and ammonia, which are passed through as part of the selling prices to our customers. Our feedstock costs were lower in 2016 compared to 2015. Additionally, our Cherokee Facility performed its bi-annual Turnaround in 2016 which reduced the production of AN solution for 2016. The reduction in production at our Cherokee Facility was partially offset by an increase in sales volume of LDAN at our El Dorado Facility. Other products consist of natural gas sales from our working interests in certain natural gas properties and sales of industrial machinery and related components. The decrease in other products is primarily due to lower realized sales prices out of the Marcellus Shale region combined with lower production volumes in 2016 compared to 2015. During 2016, the operator of these properties elected to slow well development due to the decline in natural gas sales prices. They are currently reevaluating their development program as natural gas prices have increased making certain wells economical to develop.

Gross Profit

As noted in the table above, we incurred a gross loss of \$49.3 million in 2016 compared to gross profit of \$20.0 million in 2015, or a decrease in gross profit of approximately \$69.3 million. In addition to the negative effect from

lower sales discussed above, 2016 includes a one-time cost of \$12.1 million relating to consulting services associated with the reduction of property taxes from fixing the assessed value for our El Dorado Facility, costs incurred relating to the start-up and commissioning activities at our El Dorado expansion project, increased repair expenses associated with unplanned downtime experienced at our Cherokee, Pryor and El Dorado Facilities, an increase in overall depreciation expense partially offset by improved feedstock costs from lower average natural gas prices and our El Dorado Facility producing ammonia from natural gas compared to purchasing ammonia for a portion of the year. See discussion above under “Items Affecting Comparability of Results.”

Selling General and Administrative Expense

Our SG&A expenses were \$40.2 million for 2016, a decrease of \$9.6 million compared to 2015. The decrease includes a \$4.5 million reduction in expenses related to shareholder activities, \$3.8 million reduction in overall compensation related costs, and \$1.5 million reduction in training expenses partially offset by an increase of \$1.5 million in legal fees related primarily to our review of strategic initiatives and updates to our corporate governance practices and policies.

Impairment of Long-Lived Assets and Goodwill

During 2016, we recognized a non-cash impairment charge of \$1.6 million to fully write-off the carrying value of goodwill.

In 2015, we recognized non-cash impairment charges totaling \$43.2 million, consisting of an impairment charge of \$39.7 million to reduce the carrying value of our working interest in natural gas properties and a \$3.5 million impairment charge to reduce the carrying value of certain plant assets related to unused ammonia production equipment at our Pryor Facility.

Interest Expense, net

Interest expense for 2016 was \$30.9 million compared to \$7.4 million for 2015. The increase is due primarily to a reduction in capitalized interest during 2016 of \$15.6 million as a result of the El Dorado expansion project completion. In addition, \$4.5 million of the increase in interest expense relates to the 12% Senior Secured Notes sold in November 2015 and repaid in October 2016 and \$2.2 million as a result of the debt modification of the Senior Secured Notes in 2016.

Loss on Extinguishment of Debt

As a result of the repayment of \$50 million of the 7.75% Senior Secured Notes and all of our 12% Senior Secured Notes in 2016, we incurred a loss on extinguishment of debt of \$8.7 million, consisting of prepayment premiums and writing off associated unamortized debt issuance costs.

Benefit for Income Taxes

The benefit for income taxes for 2016 was \$42 million compared to \$32.5 million for the same period in 2015. The effective tax rate was 32% for 2016 and 41% for 2015. The decrease in the benefit rate is primarily related to the increased valuation allowance established on state net operating losses that we anticipate will not be able to utilized prior to expiration.

Income from Discontinued Operations, net of taxes

As previously reported, the results of operations of the Climate Control Business have been presented as discontinued operations. For 2016, income from discontinued operations was \$200.3 million, including a gain of \$282 million and net of a tax provision of \$91.7 million. For 2015, income from discontinued operations was \$11.4 million, net of a tax provision of \$9 million.

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Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The following table contains certain financial information relating to our continuing operations:

	2015	2014	Change	Percentage	Change
	(Dollars In Thousands)				
Net sales:					
Agricultural products	\$209,770	\$230,046	\$(20,276)	(8.8)	%
Industrial acids and other chemical products	167,520	173,876	(6,356)	0 (3.7)	%
Mining products	47,475	67,484	(20,009)	0 (29.7)	%
Other products	12,930	24,482	(11,552)	(47.2)	%
Total net sales	\$437,695	\$495,888	\$(58,193)	0 (11.7)	%
Gross profit					
Gross profit	\$20,048	\$65,465	\$(45,417)	0 (69.4)	%
Gross profit percentage (1)	4.6	% 13.2	% (8.6)	%	
Selling, general and administrative expense, including					
provision for (recovery of) losses on accounts receivable	49,813	38,991	10,822	27.76	%
Impairment of long-lived assets	43,188	—	43,188	100.00	%
Property insurance recoveries in excess of losses incurred	—	(5,147)	5,147	(100.00)	%
Other expense (income), net	(1,787)	1,044	(2,831)	(271.17)	%
Operating income (loss)	(71,166)	30,577	(101,743)	(332.74)	%
Interest expense, net	7,371	21,599	(14,228)	(65.87)	%
Non-operating other expense (income), net	129	(281)	410	(145.91)	%
Provision (benefit) for income taxes	(32,520)	4,251	(36,771)	(865.00)	%
Equity in earnings of affiliate	—	(79)	79	(100.00)	%
Income (loss) from continuing operations	(46,146)	5,087	(51,233)	(1007.14)	%
Additions to property, plant and equipment:					
	\$469,877	\$238,245	\$231,632	97.22	%
Depreciation, depletion and amortization of property, plant					
and equipment:	\$35,930	\$30,987	\$4,943	16.0	%

(1) As a percentage of net sales

Net Sales

Our sales in the agricultural markets primarily were at the spot market price in effect at the time of sale or at a negotiated future price. The majority of our sales in the industrial and mining markets were pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass-through component in the sales price. In general, for 2015 our agricultural sales were lower due to lower sales volumes for HDAN, ammonia and our other agricultural products due to unusually wet application seasons and lower prices for HDAN and UAN partially offset by higher UAN sales volumes. Mining sales also declined primarily due to lower sales prices and volumes while sales of industrial products decreased slightly with lower prices partially offset by higher sales volumes. In addition, natural gas sales prices and volumes declined in 2015 compared to 2014.

• Agricultural products comprised approximately 47.9% and 46.4% of our net sales for 2015 and 2014, respectively. The sales decline of 8.8% over 2014 sales was driven by a slight overall decline in sales volumes with lower HDAN, ammonia and other agricultural products sales volumes partially offset by higher UAN sales volumes. The higher UAN sales volumes were primarily due to higher production at our Cherokee and Pryor Facilities in 2015 compared to 2014 when we performed a bi-annual turnaround at the Cherokee Facility. Compounding the slight decline in sales volumes was a decrease in our average product selling prices per ton in 2015 with UAN down 9% and HDAN down 1%. These lower selling prices were attributable to lower natural gas and other commodity prices coupled with lower urea selling prices caused by the large amount of imports, placing downward pressure on selling prices. Ammonia prices were essentially unchanged for 2015 compared to 2014.

- Industrial acids and other chemical products sales increased as a result of increased volumes at the Baytown Facility (which performed a Turnaround in 2014, but not in 2015) and at our Cherokee Facility, partially offset by lower prices from the pass-through of decreased ammonia costs to contractual customers and lower volumes from the El Dorado Facility due to lower customer demand.

• Mining products sales decreased primarily due to lower sales of LDAN resulting from the expiration of the take-or-pay Orica Agreement in April 2015 compared to the contract being in place for the full year in 2014 and lower sales volumes for the balance of 2015 due to being a high cost producer and not competitive in the marketplace. Additionally, lower sales volumes of AN solution at our Cherokee Facility are the result from a continued decline of demand for mining products in the Appalachian region combined with lower selling prices contributed to lower mining sales.

• Other products consist of natural gas sales from our working interests in certain natural gas properties and sales of industrial machinery and related components. The decrease in other products is primarily due to lower realized sales prices out of the Marcellus Shale region combined with lower production volumes in 2015 compared to 2014 as the operator of these properties has slowed development due to the decline in natural gas sales prices.

Gross Profit

Our gross profit decreased \$45.4 million in 2015 when compared to 2014. Excluding the business interruption insurance recoveries of \$22.9 million in 2014, the decrease in gross profit in 2015 compared to 2014 was \$22.5 million. The decrease of \$22.5 million was primarily due to the loss of the margin contribution relating to the expiration of the Orica Agreement, lost absorption of fixed overhead costs associated with lower production of HDAN, lower average sales prices, and increased operating costs including railcar lease costs, partially offset by the higher overall on-stream rate at the Cherokee Facility and lower natural gas feedstock costs. Natural gas feedstock costs decreased approximately 25% but that was partially offset by operating losses incurred relating to our working interests in certain natural gas properties.

Selling General and Administrative Expense

Our SG&A expenses were \$49.8 million for 2015, an increase of \$10.8 million compared to 2014. The increase was primarily driven by an increase in personnel related expenses of \$7.4 million including one-time severance payments of approximately \$2.0 million for certain senior executives and training expenses of \$1.4 million primarily related to the expansion related activities at the El Dorado Facility. In addition, professional fees increased \$1.3 million for legal and investment banking services related to various financing activities, auditing and other accounting services and other consulting services.

Impairment of Long-Lived Assets

In 2015, we recognized non-cash impairment charges totaling \$43.2 million, consisting of an impairment charge of \$39.7 million to reduce the carrying value of our working interest in natural gas properties and a \$3.5 million impairment charge to reduce the carrying value of certain plant assets related to unused ammonia production equipment at our Pryor Facility.

Other Expense (Income), net

In 2015, other income was \$1.8 million compared to other expense of \$1.0 million in 2014. During 2015, we recognized other income of \$0.9 million relating to a litigation settlement and other miscellaneous items and \$0.9 million related to the sale of carbon credits. In 2014, we recognized other expense of \$1.0 million primarily relating to losses on sales and disposal of PP&E.

Interest Expense, net

Interest expense for 2015 was \$7.4 million compared to \$21.6 million for 2014. The decrease is due primarily to capitalized interest on capital projects under development and construction, of which \$30.6 million was capitalized in 2015 compared to \$14.1 million during 2014.

Provision (benefit) for Income Taxes

The benefit for income taxes from continuing operations for 2015 was \$32.5 million compared to a provision of \$4.3 million for the same period in 2014. The effective tax rate was 41% for 2015 and 46% for 2014.

Income from Discontinued Operations, net of taxes

The results of operations of the Climate Control Business have been presented as discontinued operations. For 2015, income from discontinued operations was \$11.4 million, net of a tax provision of \$9 million. For 2014, income from discontinued operations was \$14.6 million, net of a tax provision of \$8.1 million.

LIQUIDITY AND CAPITAL RESOURCES

The following summarizes our continuing cash flow activities for 2016:

Cash Flow from Continuing Operating Activities

For 2016, net cash used by continuing operating activities was \$22.2 million, primarily as the result of net income of \$112.2 million less an adjustment of \$200.3 million for net income from discontinued operations and an adjustment of deferred income taxes of \$42 million, plus adjustments of \$59.4 million for depreciation, depletion and amortization of PP&E, \$8.7 million for a loss on extinguishment of debt, other noncash adjustments totaling approximately \$12.3 million and \$27.5 million net cash provided from our working capital.

Cash Flow from Continuing Investing Activities

For 2016, net cash provided by continuing investing activities was \$153.3 million that consisting of \$356.7 million of net proceeds from the sale of the Climate Control Business and \$9.1 million associated with other activities partially offset by \$212.5 million of cash used for expenditures for PP&E.

Cash Flow from Continuing Financing Activities

For 2016, net cash used by continuing financing activities was \$193.6 million, primarily related to the payments on the 7.75% and 12% Senior Secured Notes totaling \$100 million, the redemption of a portion of the Series E Redeemable Preferred including dividends of approximately \$80 million, payments on long-term debt of \$15.4 million and payments of debt and equity modification, extinguishment and issuance costs of \$13.1 million partially offset by net proceeds from long-term debt financing of approximately \$14.8 million.

Capitalization

The following is our total current cash, long-term debt, redeemable preferred stock and stockholders' equity:

	December 31, 2016	December 31, 2015
	(In Millions)	
Cash and cash equivalents	\$60.0	\$ 127.2
Revolving credit facility and long-term debt:		
Working Capital Revolver Loan	\$—	\$ —
Senior Secured Notes due 2019	375.0	425.0
12% Senior Secured Notes due 2019	—	50.0
Secured Promissory Note due 2017	6.5	15.9
Secured Promissory Note due 2019	9.2	—
Secured Promissory Note due 2021	14.3	16.1
Secured Promissory Note due 2023	18.6	15.0
Other	4.2	7.1
Unamortized discount and debt issuance costs	(7.6)	(8.7)
Total long-term debt, including current portion, net	\$420.2	\$ 520.4
Series E and F redeemable preferred stock (1)	\$145.0	\$ 177.3

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Total stockholders' equity \$492.5 \$ 421.6

(1)Liquidation preference of \$161.8 million as of December 31, 2016.

In July 2016, we sold our Climate Control Business for a total of \$364 million before customary adjustments set forth in the Stock Purchase Agreement. In September 2016, holders of our Senior Secured Notes agreed to allow us to redeem a portion of the Series E Redeemable Preferred and to call a portion of the Senior Secured Notes and all of the 12% Senior Secured Notes. In September 2016, we used \$80 million to redeem a portion of the Series E Redeemable Preferred (including accumulated dividends and participation rights value). In October 2016, we used approximately \$107 million to redeem \$50 million of the 7.75% Senior Secured Notes and all of the 12% Senior Secured Notes (including accrued interest and the redemption prices).

We currently have a revolving credit facility, our Working Capital Revolver Loan, with a borrowing base of \$50 million. As of January 31, 2017, our Working Capital Revolver Loan was undrawn and had \$40.5 million of availability.

As discussed below, we have planned capital additions relating to maintaining and enhancing safety and reliability at our facilities of approximately \$30 million to \$35 million for 2017.

We believe that the combination of our cash on hand, the availability on our revolving credit facility (amended in January 2017) as discussed below under “Loan Agreements and Redeemable Preferred Stock,” and our cash from operations will be sufficient to fund our anticipated liquidity needs for the next twelve months. In addition, as discussed above under “Overview–Key Initiatives”, we have determined that certain non-core assets are not necessary in the operations of our business. In December 2016 we sold a non-core asset for approximately \$5 million and are working on the sale of other assets including our working interest in the Marcellus Shale, our engineered products business and certain pieces of equipment and real estate. We believe that these assets could generate between approximately \$15 million and \$20 million in net cash proceeds, if sold.

Compliance with Long - Term Debt Covenants

As discussed below under “Loan Agreements,” the Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. The Working Capital Revolver Loan does not include financial covenant requirements unless a defined covenant trigger event has occurred and is continuing. As of December 31, 2016, no trigger event had occurred.

Loan Agreements and Redeemable Preferred Stock

Senior Secured Notes due 2019 – Pursuant to the terms of the Supplemental Indenture and subsequent redemption of \$50 million of the 7.75% Senior Secured Notes and all of the \$50 million 12% Senior Secured Notes during 2016 as discussed in Note 9 of Notes to Consolidated Financial Statements included in this report, the remaining \$375 million Senior Secured Notes bears an annual interest rate of 8.5%. Interest is to be paid semiannually on February 1st and August 1st.

Secured Promissory Note due 2017 – On April 1, 2016, Zena Energy L.L.C. (“Zena”), one of our subsidiaries, entered into the second amended and restated note (the “Amended Note”) with its original lender. Principal and interest are payable in 20 monthly installments with the first installment made on May 1st. Interest is based on the LIBOR rate plus 300 basis points. The terms of the promissory note were not changed by this amendment. The Amended Note matures on December 1, 2017. The Amended Note continues to be secured by certain working interests and related properties and proceeds and is guaranteed by LSB.

Secured Promissory Note due 2019 - On February 5, 2016, EDC entered into a secured promissory note due 2019 for an original principal amount of \$10 million. The secured promissory note due 2019 bears interest at the rate of 5.73% per annum and matures on June 29, 2019. Principal and interest are payable in 40 equal monthly installments with a final balloon payment of approximately \$6.7 million. The Secured Promissory Note due 2019 is secured by the cogeneration facility equipment and is guaranteed by LSB.

Secured Promissory Note due 2021 - On April 9, 2015, EDC entered into a secured promissory note due 2021 for an original principal amount of approximately \$16.2 million. The Secured Promissory Note due 2021 bears interest at the rate of 5.25% per year and matures on March 26, 2021. Interest only is payable monthly for the first 12 months of the term. Principal and interest are payable monthly for the remaining term of the Secured Promissory Note due 2021. This Secured Promissory Note due 2021 is secured by a natural gas pipeline at the El Dorado Facility and is guaranteed by LSB.

Secured Promissory Note due 2023 - On September 16, 2015, El Dorado Ammonia L.L.C. (“EDA”), one of our subsidiaries, entered into a secured promissory note with an initial funding of \$15 million and a maximum principal

note amount of \$19.8 million. On May 13, 2016 (the “Loan Conversion Date”), the remainder of the funding of \$4.8 million was drawn and the outstanding principal balance of \$19.8 million was converted to a seven-year secured term loan requiring 83 equal monthly principal and interest payments with a final balloon payment of approximately \$6.1 million. This Note bears interest at a rate that is based on the monthly LIBOR rate plus a base rate for a total of 4.87%. The Secured Promissory Note is secured by the ammonia storage tank and related systems and is guaranteed by LSB.

Working Capital Revolver Loan - Effective January 17, 2017, LSB and certain of its subsidiaries entered into the Third Amended and Restated Loan and Security Agreement (the “Working Capital Revolver Loan Amendment”), which amends and restates the existing working capital revolver (as so amended and restated, the “Working Capital Revolver Loan”). Pursuant to the terms of the Working Capital Revolver Loan, borrowers may borrow on a revolving basis up to \$50 million. Obligations under the Working Capital Revolver Loan are secured by a first-priority security interest in substantially all of the borrower’s current assets, including accounts receivable and inventory. The agreement provides that the Senior Secured Notes secure the Working Capital Revolver Loan on a second-priority basis. The Working Capital Revolver Loan provides for the issuances of letters of credit in an aggregate amount not to exceed to \$10 million, with the outstanding amount of any such letters of credit reducing availability for borrowings under the Working Capital Revolver Loan.

The maturity date of the Working Capital Revolver Loan is January 17, 2022, with a springing earlier maturity date (the “Springing Maturity Date”) that is 90 days prior to the maturity date of the currently existing senior notes (the “Senior Notes”), to the extent the Senior Notes are not refinanced or repaid prior to the Springing Maturity Date.

At January 31, 2017, there were no outstanding borrowings under the Working Capital Revolver Loan. At January 31, 2017, the net credit available for borrowings under our Working Capital Revolver Loan was approximately \$40.5 million, based on our eligible collateral, less outstanding letters of credit as of that date.

The Working Capital Revolver Loan Amendment also provides for a springing financial covenant (the “Financial Covenant”), which requires that, if the borrowing availability is less than or equal to the greater of 10.0% of the total revolver commitments and \$5 million, then the borrowers must maintain (a) with respect to relevant periods ending on or prior to September 30, 2017, a minimum EBITDA in the amount set forth in the Working Capital Revolver Loan Amendment and (b) with respect to relevant periods ending after September 30, 2017, a minimum fixed charge coverage ratio of not less than 1.00:1.00. The Financial Covenant, if triggered, is tested monthly.

Also, see Note 21 of Notes to Consolidated Financial Statements included in this report for additional information on this credit facility.

Redemption of Series E Redeemable Preferred – As discussed above under “Business and Financing Developments - 2016”, in September 2016, we successfully completed the consent solicitation initiated in August 2016 to affect amendments to the Original 7.75% Indenture and entered into the Supplemental Indenture. As a result, in September 2016, we redeemed 70,232 shares of the Series E Redeemable Preferred for approximately \$80 million, which includes \$78.3 million for the liquidation preference of \$1,000 per share and accumulated dividends and \$1.7 million for the participation rights value associated with the redeemed shares. At December 31, 2016, there were 139,768 outstanding shares of Series E Redeemable Preferred.

At any time on or after August 2, 2019, each Series E holder has the right to elect to have such holder’s shares redeemed by us at a redemption price per share equal to the liquidation preference per share of \$1,000 plus accrued and unpaid dividends plus the participation rights value (the “Liquidation Preference”). Additionally, at our option, we may redeem the Series E Redeemable Preferred at any time at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. Lastly, with receipt of (i) prior consent of the electing Series E holder or a majority of shares of Series E Redeemable Preferred and (ii) all other required approvals, including under any principal U.S. securities exchange on which our common stock is then listed for trading, we can redeem the Series E Redeemable Preferred by the issuance of shares of common stock having an aggregate common stock price equal to the amount of the aggregate Liquidation Preference of such shares being redeemed in shares of common stock in lieu of cash at the redemption date.

In the event of liquidation, the Series E Redeemable Preferred is entitled to receive its Liquidation Preference before any such distribution of assets or proceeds is made to or set aside for the holders of our common stock and any other junior stock. In the event of a change of control, we must make an offer to purchase all of the shares of Series E Redeemable Preferred outstanding at the Liquidation Preference.

Since carrying values of the redeemable preferred stocks are being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) using the interest method so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder, this accretion has and will continue to affect income (loss) per common share. In addition, this accretion could accelerate if the expected redemption date is earlier than August 2, 2019.

As of December 31, 2016, the aggregate liquidation preference (par value plus accrued dividends) was \$161.8 million.

Also, see discussion in Note 13 to Consolidated Financial Statements included in this report.

Capital Additions – 2016

Capital additions during 2016 primarily related to PP&E of \$165.3 million, of which most relates to the completed expansion projects at our El Dorado Facility (which additions include equipment associated with maintaining compliance with environmental laws, regulations and guidelines). Additionally, these additions include other capital costs of \$0.9 million associated with maintaining compliance with environmental laws, regulations and guidelines. The capital additions were funded primarily from cash, third-party financing and working capital. Due to the increase in the amount of capital additions incurred, our depreciation, depletion and amortization expenses have increased in 2016.

For 2017, we expect our annual capital expenditures (including capital expenditures in our planned Turnaround at our Pryor Facility) to range between \$30 million to \$35 million. Capital expenditures for 2017 include those needed for maintenance and reliability, safety and efficiency. They do not include any capital spending to increase capacity.

Expenses Associated with Environmental Regulatory Compliance

We are subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, we incurred expenses of \$5.3 million in 2016 in connection with environmental projects. For 2017, we expect to incur expenses ranging from \$3.5 million to \$4.5 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

Dividends

We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future.

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually, commencing May 1, 2016, in arrears at the annual rate of 14% of the liquidation value of \$1,000 per share. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, only when declared by our Board, of \$70.00 per share for the aggregate semi-annual dividend of \$9.8 million. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the annual rate of 14%. We also must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the Purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of December 31, 2016, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately \$22 million.

Dividends on the Series D 6% cumulative convertible Class C preferred stock (the "Series D Preferred") and Series B 12% cumulative convertible Class C Preferred Stock (the "Series B Preferred") are payable annually, only when declared by our Board, as follows:

\$0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of \$60,000, and \$12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of \$240,000. As of December 31, 2016, no dividend has been declared and the amount of accumulated dividends on the Series D Preferred and Series B Preferred totaled approximately \$0.4 million. All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Holders. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

Seasonality

See discussion above under "Part I-Item 1 Business" for seasonality trends.

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2016, we have agreed to indemnify the sureties for payments, up to \$10 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2017.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934.

Aggregate Contractual Obligations

As of December 31, 2016, our aggregate contractual obligations are summarized in the following table:

Contractual Obligations	Total	Payments Due in the Year Ending December 31,					Thereafter
		2017	2018	2019	2020	2021	
(In Thousands)							
Long-term debt:							
Senior Secured Notes	\$375,000	\$—	\$—	\$375,000	\$—	\$—	\$—
Other	52,835	13,745	9,146	12,492	5,507	3,200	8,745
Total long-term debt	427,835	13,745	9,146	387,492	5,507	3,200	8,745
Interest payments on long-term debt (1)	86,749	34,237	33,648	17,146	732	483	503
Series E redeemable preferred stock (2)	139,768	—	—	139,768	—	—	—
Dividends earned Series E redeemable preferred stock (2)	88,005	—	—	88,005	—	—	—
Other capital expenditures (3)	35,000	35,000	—	—	—	—	—
Operating leases	27,428	7,097	6,717	5,968	3,280	1,357	3,009
Natural gas pipeline commitment (4)	17,681	2,507	2,507	2,507	2,507	2,507	5,146
Firm purchase commitments	7,832	7,832	—	—	—	—	—
Other contractual obligations	18,608	4,917	2,017	3,294	2,017	1,709	4,654
Other contractual obligations included in noncurrent accrued and other liabilities (5)	7,243	—	567	5,177	187	192	1,120
Total	\$856,149	\$105,335	\$54,602	\$649,357	\$14,230	\$9,448	\$23,177

- (1) The estimated interest payments relating to variable interest rate debt are based on interest rates at December 31, 2016.
- (2) The Series E redeemable preferred stock (including dividends) are assumed to be redeemed and paid on the earliest possible redemption date by the holder, August 2, 2019.
- (3) Other capital expenditures include only the estimated committed amounts (high end of range) at December 31, 2016.
- (4) Our proportionate share of the minimum costs to ensure capacity relating to a gathering and pipeline system.
- (5) The future cash flows relating to executive and death benefits are based on estimates at December 31, 2016. The participation rights value associated with embedded derivative of our Series E redeemable preferred stock is based the value of our common stock at December 31, 2016 and is based on the earliest possible redemption date by the holder, August 2, 2019.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies and fair values. It is reasonably possible that the estimates and assumptions utilized as of December 31, 2016, could change in the near term. The more critical areas of financial reporting affected by management's judgment, estimates and assumptions include the following:

Impairment of Long-Lived Assets and Goodwill – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset (asset group) exceeds the estimated undiscounted future cash flows expected to result from the use of the asset (asset group) and its eventual disposition. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. In general, and depending on the event or change in circumstances, our asset groups are reviewed for impairment on a facility-by-facility basis (such as the Cherokee, El Dorado or Pryor Facility). As it relates to natural gas properties, proven natural gas properties are reviewed for impairment on a field-by-field basis and nonproducing leasehold costs are reviewed for impairment on a property-by-property basis. In addition, if the event or change in circumstance relates to the possible sale of an asset (or group of assets), the specific asset (or group of assets) is reviewed for impairment.

In addition, goodwill is reviewed for impairment at least annually. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Our goodwill of \$1.6 million related to the acquisition of our El Dorado Facility.

Generally, the evaluation of goodwill for impairment involves a two-step test. Step 1 involves comparing the estimated fair value of each respective reporting unit to its carrying value, including goodwill. Our step 1 test utilized both a market approach and income approach to estimate the fair values of our reporting units. The market approach was based on enterprise value to estimated EBITDA multiples of our peer group (Level 3 inputs). If the estimated fair value exceeds the carrying value, the reporting unit's goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, step 2 must be performed to determine whether goodwill is impaired and, if so, the amount of the impairment. Step 2 involves calculating an implied fair value of goodwill by performing a hypothetical allocation of the estimated fair value of the reporting unit determined in step 1 to the respective tangible and intangible net assets of the reporting unit (Level 3 inputs). The remaining implied goodwill is then compared to the actual carrying amount of the goodwill for the reporting unit. To the extent, the carrying amount of goodwill exceeds the implied goodwill, the difference is the amount of the goodwill impairment.

During 2016, pricing for our key product groups deteriorated well below expectations foreseen at December 31, 2015. Additionally, we believe the lower price environment is expected to continue throughout 2017. Thus, in accordance with ASC 350, we determined it was more likely than not that the fair value of goodwill related to our El Dorado Facility was less than its carrying amount (goodwill and other) implied under step 2 resulting in an impairment charge of \$1.6 million to fully write-down the carrying value of goodwill, originally recognized upon acquisition of the El Dorado Facility during the 1980s. We also performed a recoverability test on the property, plant and equipment of the El Dorado Facility and determined that no impairment charges were necessary at December 31, 2016.

As previously reported, during September 2015, we recognized an impairment charge of \$39.7 million to write-down the carrying value (\$62.2 million) of our working interest in natural gas properties in the Marcellus Shale region to their estimated fair value of \$22.5 million. The impairment charge represented the amount by which the carrying value of these natural gas properties exceeded the estimated fair value and was therefore not recoverable. The estimated fair

value was determined based on estimated future discounted net cash flows, a Level 3 input, using estimated production and prices at which we reasonably expect natural gas will be sold, including the Evaluation provided by our independent consulting petroleum engineer in October 2015. The event triggering the review for impairment related primarily from the results received from the Evaluation. The impairment was due to the decline in prices for natural gas futures, large natural gas price differentials in the Marcellus Shale region and the resulting changes in the drilling plans of these natural gas properties that caused certain of these properties to be reclassified from the “proved undeveloped reserves” category to the “probable undeveloped resources” category included in the Evaluation because those properties are no longer likely to be developed within five years.

Our independent consulting petroleum engineering firm calculated our natural gas reserves using volumetric analysis of the reservoir and rate decline analysis for existing producers. The process of estimating proved reserves and future net cash flows is complex involving decisions and assumptions in evaluating the available engineering and geologic data and natural gas prices and the cost to produce these reserves and other factors, many of which are beyond our control. These assumptions include estimates of future natural gas production, commodity prices based on commodity futures price strips, operating and development costs, and a risk-adjusted discount rate of 10%, which is based on an industry standard. As a result, these estimates are imprecise and should be expected to change as future information becomes available. These changes could be significant.

As a non-operator of our natural gas properties, we rely on information provided from the operator which is given to our independent consulting petroleum engineering firm for use in the preparation of our reserve estimates. The reserve estimates are reviewed by our certain members of our accounting group for accuracy and checked for consistency in its preparation along with validating the assumptions provided by the operator based on actual performance. Additionally, members of management met with the operator periodically to review our properties and discuss performance.

In addition, during December 2015, we recognized an impairment charge of \$3.5 million to write down the carrying value (\$8.5 million) of certain plant assets related to certain ammonia production equipment at our Pryor Facility to their estimated fair value of approximately \$5.0 million. The change of circumstances triggering the review for impairment related primarily to an offer received from a possible buyer on this non-core ammonia production equipment. The estimated fair value was determined based on an offer received from a possible buyer less estimated costs that would be incurred if the equipment is sold (Level 3 inputs). In 2016, this ammonia production equipment was sold to a third party for a minimal gain.

In addition, and as discussed above under “Overview”, we currently own non-core assets (total net book value of approximately \$44 million), and we are currently considering selling a portion of these assets. Due to the nature of some of these assets, there may be a limited market. As a result, and depending on appraisals obtained and offers received, if any, from potential buyers, it is reasonably possible we could incur impairment charges or losses on sales of assets in the near term.

Contingencies – Certain conditions may exist which may result in a loss, but which will only be resolved when future events occur. We and our legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, we would accrue for such contingent losses when such losses can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. Loss contingency liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term. In addition, we recognize contingent gains when such gains are realized or realizable and earned.

We are involved in various legal matters that require management to make estimates and assumptions, including costs relating to the lawsuit styled City of West, Texas v CF Industries, Inc., et al, discussed under “Other Pending, Threatened or Settled Litigation” of Note 11 to Consolidated Financial Statements include in this report.

As discussed in Note 2, in conjunction with the Climate Control Business sale in 2016, we entered into a TSA, pursuant to which, among other things, we agreed to provide certain information technology, payroll, legal, tax and other general services up through December 2017. As of December 31, 2016, our current and noncurrent accrued and other liabilities include approximately \$5.5 million relating primarily to estimated contingent liabilities, costs associated with the TSA and severance agreements associated with the sale of the Climate Control Business.

It is possible that the actual costs could be significantly different than our estimates.

Regulatory Compliance – As discussed under “Environmental, Health and Safety Matters” in Item 1 of this report, we are subject to specific federal and state regulatory compliance laws and guidelines. We have developed policies and procedures related to regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. We will also be obligated to manage certain discharge water outlets and monitor

groundwater contaminants at our chemical facilities should we discontinue the operations of a facility. However, certain conditions exist which may result in a loss but which will only be resolved when future events occur relating to these matters. We are involved in various environmental matters that require management to make estimates and assumptions, including our current inability to develop a meaningful and reliable estimate (or range of estimate) as to the costs relating to a corrective action study work plan approved by the KDHE discussed under footnote 3 – Other Environmental Matters of Note 11. At December 31, 2016 and 2015, liabilities totaling \$0.3 million and \$0.4 million, respectively have been accrued relating to these issues as discussed. This liability is included in current accrued and other liabilities and is based on current estimates that may be revised in the near term. At the time that cost estimates for any corrective action are received, we will adjust our accrual accordingly. It is possible that the adjustment to the accrual and the actual costs could be significantly different than our current estimates.

Redeemable Preferred Stocks – On December 4, 2015, we issued the Series E and F Redeemable Preferred. The redeemable preferred stocks are redeemable outside of our control and are classified as temporary/mezzanine equity on our consolidated balance sheet. In addition, certain embedded features (the “embedded derivative”) included in the Series E Redeemable Preferred required bifurcation and are classified as derivative liabilities.

Currently, the carrying values of the redeemable preferred stocks are being increased by periodic accretions (recorded to retained earnings and included in determining income or loss per share) using the interest method so that the carrying amount will equal the

redemption value as of August 2, 2019, the earliest possible redemption date by the holder. However, a portion of this accretion was accelerated (\$6.6 million) during the third quarter of 2016 as the result of the redemption discussed above under “Overview” and the remaining accretion could accelerate if the expected redemption date is earlier than August 2, 2019. Approximately \$46 million of accretion (including the amount for earned dividends) was recorded to retained earnings in 2016. At December 31, 2016, the carrying value of these redeemable preferred stocks was \$145 million.

For the embedded derivative, changes in fair value are recorded in our statement of operations. As the result of the Indenture Amendments in connection with the Consent Solicitation relating to the Senior Secured Notes as above under “Overview” and in Note 9, including the redemption of the portion of Series E Redeemable Preferred discussed in Notes 9 and 13, we estimate that the contingent redemption feature has no fair value based on low probability that the remaining shares of Series E Redeemable Preferred would be redeemed prior to August 2, 2019. At December 31, 2016 and 2015, the fair value of the participation rights was \$2.6 million and \$3.3 million, respectively, based on the equivalent of 303,646 and 456,225 shares, respectively, of our common stock at \$8.42 and \$7.25 per share, respectively. No valuation input adjustments were considered necessary relating to nonperformance risk for the embedded derivative based on our current forecast. The valuation is classified as Level 3.

Management’s judgment and estimates in the above areas are based on information available from internal and external resources at that time. Actual results could differ materially from these estimates and judgments, as additional information becomes known.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Our results of operations and operating cash flows are affected by changes in market prices of natural gas, changes in market interest rates and changes in market currency exchange rates.

Forward Sales Commitments Risk

Periodically, we enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At December 31, 2016, we had no embedded losses associated with sales commitments with firm sales prices.

Commodity Price Risk

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. We are exposed to commodity price risk as we generally do not use derivative financial instruments to manage risks related to changes in prices of commodities. We periodically enter into contracts to purchase natural gas for anticipated production needs. Generally, these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2016, we did not have any natural gas derivatives not meeting the definition of a normal purchase and sale.

Interest Rate Risk

Generally, we are exposed to variable interest rate risk with respect to our revolving credit facility. As of December 31, 2016, we have zero borrowings on this credit facility. We are also exposed to interest rate risk on variable rate borrowings for certain commercial loans in the amount of approximately \$25.2 million. We currently do not hedge our interest rate risk associated with these variable interest loans.

The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive debt agreements as of December 31, 2016:

	Years ending December 31,							Total
	2017	2018	2019	2020	2021	Thereafter		
	(Dollars In Thousands)							
Expected maturities of long-term debt (1):								
Variable interest rate debt	\$8,546	\$1,980	\$1,980	\$1,980	\$1,980	\$ 8,745	\$25,211	
Weighted-average interest rate	4.65 %	4.78 %	4.78 %	4.78 %	4.78 %	4.78 %	4.74 %	
Fixed interest rate debt	\$5,199	\$7,166	\$385,512	\$3,527	\$1,220	\$ —	\$402,624	
Weighted-average interest rate	8.30 %	8.35 %	8.34 %	5.25 %	5.25 %	0.00 %	8.31 %	

(1) The variable and fixed interest rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2016.

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The following table presents our significant purchase commitments under firm purchase commitments with fixed prices and related weighted-average contract costs by contract terms as of December 31, 2016:

	Years ending December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
	(Dollars In Thousands, Except For Weighted Average Costs)						
Firm purchase commitments:							
Natural gas:							
Total cost of contracts	\$7,832						\$7,832
Weighted-average cost per MMBtu	\$3.20						\$3.20

At December 31, 2016 and 2015, we did not have any financial instruments with fair values significantly different from their carrying amounts (which excludes issuance costs, if applicable), except for the Senior Secured Notes as shown below.

	2016		2015	
	Carrying	Estimated	Carrying	Estimated
	Amount	Fair Value	Amount	Fair Value
	(In Millions)			
Senior Secured Notes (1)	\$375	\$ 356	\$425	\$ 355

(1)Based on a quoted price of 94.88 at December 31, 2016 and 83.65 at December 31, 2015.

The Senior Secured Notes valuation is classified as Level 2. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurements of our other long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We have included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporate by reference the relevant portions of those statements and information into this Item 8.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our

internal control over financial reporting.

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act. Our internal control system is a process, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework). Based on our assessment, we believe that, as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on the following page.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of LSB Industries, Inc.

We have audited LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2016 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). LSB Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, LSB Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LSB Industries, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of LSB Industries, Inc. and our report dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma

February 27, 2017

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ITEM 9B. OTHER INFORMATION

None.

PART III

Item 10, Item 11, Item 12, Item 13 and Item 14 are incorporated by reference to our definitive proxy statement which we intend to file with the SEC on or before May 1, 2017.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Company appear immediately following this Part IV:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets at December 31, 2016 and 2015</u>	F-3
<u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2016</u>	F-5
<u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2016</u>	F-6
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2016</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9
<u>Quarterly Financial Data (Unaudited)</u>	F-51

(a) (2) Financial Statement Schedule

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts F-53

We have omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in our Consolidated Financial Statements, including the notes to those statements.

(a)(3) Exhibits

Exhibit	Incorporated by Reference
Number Exhibit Title	to the Following
2.1 Purchase and Sale Agreement, dated October 31, 2012, by and between Clearwater Enterprises, L.L.C. and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K filed November 2, 2012. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request.
2.2 Purchase and Sale Agreement, dated August 28, 2013, by and between Hat Creek Energy LLC, Citrus Energy Appalachia, LLC, Troy Energy Investments, LLC, and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K, filed August 30, 2013. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the Securities and Exchange Commission upon request.
3(i).1 Restated Certificate of Incorporation of LSB Industries, Inc., dated January 21, 1977, as amended August 27, 1987	Exhibit 3(i).1 to the Company's Form 10-K filed on February 28, 2013
3(ii).1 Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014 and August 21, 2014	Exhibit 3(ii).1 to the Company's Form 8-K filed August 27, 2014
3(ii).2 Fifth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of April 26, 2015	Exhibit 3(ii) to the Company's Form 8-K filed April 30, 2015
3(ii).3 Sixth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 2, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 8, 2015
3(ii).4 Seventh Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 22, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 29, 2015
4.1 Specimen Certificate for the Company's Series B Preferred Stock	Exhibit 4.27 to the Company's Registration Statement on Form S-3 No. 33-9848
4.2 Specimen Certificate for the Company's Series D 6% Cumulative, Convertible Class C Preferred Stock	Exhibit 4.3 to the Company's Form 10-K filed March 3, 2011
4.3	

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Specimen Certificate for the Company's Common Stock	Exhibit 4.3 to the Company's Registration Statement on Form S-3 ASR filed November 16, 2012
4.4 Certificate of Designations of Series E Cumulative Redeemable Class C Preferred Stock of LSB Industries, Inc., dated as of December 4, 2015	Exhibit 4.1 to the Company's Form 8-K filed December 8, 2015
4.5 Certificate of Designations of Series F Cumulative Redeemable Class C Preferred Stock of LSB Industries, Inc., dated as of December 4, 2015	Exhibit 4.2 to the Company's Form 8-K filed December 8, 2015
4.6 Renewed Rights Agreement, dated as of December 2, 2008, between the Company and UMB Bank, n.a.	Exhibit 4.1 to the Company's Form 8-K filed December 5, 2008
4.7 Amendment to Renewed Rights Agreement, dated December 3, 2008, between LSB Industries, Inc. and UMB Bank, n.a.	Exhibit 4.3 to the Company's Form 8-K filed December 5, 2008
4.8 Amendment to Renewed Rights Agreement, dated as of December 4, 2015, by and between LSB Industries, Inc. and UMB Bank, n.a., dated as of December 4, 2015	Exhibit 4.3 to the Company's Form 8-K filed December 8, 2015
4.9 Indenture, dated August 7, 2013, among LSB Industries, Inc., the guarantors named therein and UMB Bank, n.a., as trustee	Exhibit 4.1 to the Company's Form 8-K filed August 14, 2013

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Exhibit	Number	Exhibit Title	Incorporated by Reference
			to the Following
	4.10	First Supplemental Indenture, dated as of September 7, 2016, by and among LSB Industries, Inc., the guarantors party thereto and UMB Bank, n.a., as trustee and notes collateral agent	Exhibit 4.1 to the Company's Form 8-K filed October 4, 2016.
	4.11	Intercreditor Agreement, dated August 7, 2013, by and among Wells Fargo Capital Finance, Inc., as agent and UMB Bank, n.a., as collateral agent, and acknowledged and agreed to by LSB Industries, Inc. and the other grantors named therein	Exhibit 99.1 to the Company's Form 8-K filed August 14, 2013
	10.1*	Form of Death Benefit Plan Agreement, dated April 1, 1981	Exhibit 10.2 to the Company's Form 10-K filed March 31, 2006
	10.2*	LSB Industries, Inc. Outside Directors Stock Purchase Plan, dated May 24, 1999	Exhibit 99.2 to the Company's Form 8-K filed October 23, 2014
	10.3*	LSB Industries, Inc. 2008 Incentive Stock Plan, effective June 5, 2008, as amended by First Amendment, effective June 5, 2014	Exhibit 99.3 to the Company's Form 8-K filed June 11, 2014
	10.4*	Form of Restricted Stock Agreement	Exhibit 10.3 to the Company's Form 8-K filed January 8, 2016
	10.5*	Form of Incentive Stock Option Agreement for 2008 Plan	Exhibit 10.8 to the Company's Form 10-K filed February 29, 2016
	10.6*	LSB Industries, Inc. 2016 Long Term Incentive Plan	Exhibit 4.8 to the Company's Form S-8 filed June 28, 2016
	10.7*	Form of LSB Industries, Inc. 2016 Long Term Incentive Plan Stock Option Agreement	Exhibit 4.9 to the Company's Form S-8 filed June 28, 2016

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10.8*	Form of LSB Industries, Inc. 2016 Long Term Incentive Plan Restricted Stock Unit Agreement (Director Award)	Exhibit 4.10 to the Company's Form S-8 filed June 28, 2016
10.9*	Form of LSB Industries, Inc. 2016 Long Term Incentive Plan Restricted Stock Agreement	Exhibit 4.11 to the Company's Form S-8 filed June 28, 2016
10.10*	Employment Agreement, dated April 27, 2015, by and between the Company and Barry H. Golsen	Exhibit 99.3 to the Company's Form 8-K filed April 30, 2015
10.11*	Severance and Release Agreement, dated September 1, 2015, by and between the Company and Barry H. Golsen	Exhibit 10.1 to the Company's Form 8-K filed September 4, 2015
10.12*	Amendment to Severance Agreement, dated December 17, 2008, by and between Barry H. Golsen and the Company. Each Amendment to Severance Agreement with Jack E. Golsen, Tony M. Shelby, David R. Goss and David M. Shear is substantially the same as this exhibit and will be provided to the Commission upon request	Exhibit 99.2 to the Company's Form 8-K filed December 23, 2008
10.13*	Employment Agreement and Amendment to Severance Agreement dated January 12, 1989, between the Company and Jack E. Golsen, dated March 21, 1996, (with Severance Agreement dated January 17, 1989 attached) as amended by the First Amendment to Employment Agreement, dated April 29, 2003, as amended by the Second Amendment to Employment Agreement, dated May 12, 2005, as amended by the Third Amendment to Employment and Severance Agreement, dated December 17, 2008, as amended by the Fourth Amendment to Employment Agreement, dated January 1, 2015	Exhibit 10.9 to the Company's Form 10-K filed March 2, 2015
10.14*	2015 Amendment to Severance Agreement, dated April 27, 2015, by and between the Company and Jack E. Golsen	Exhibit 99.7 to the Company's Form 8-K filed April 30, 2015

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Exhibit	Incorporated by	
Number	Reference	
Exhibit Title	to the Following	
10.15*	Offer Letter, dated February 5, 2014, and Non-Qualified Stock Option Agreement, by and between the Company and Mark T. Behrman	Exhibit 99.5 to the Company's Form 8-K filed April 30, 2015
10.16*	Employment Agreement by and between LSB Industries, Inc. and Mark Behrman, dated January 14, 2016	Exhibit 10.1 to the Company's Form 8-K filed January 21, 2016
10.17*	Restricted Stock Agreement by and between LSB Industries, Inc. and Mark Behrman, dated as of December 31, 2015	Exhibit 10.17 to the Company's Form 10-K filed February 29, 2016
10.18*	Amended and Restated Severance Agreement, dated April 27, 2015, by and between the Company and Tony M. Shelby. Substantially similar Amended and Restated Severance Agreements, each dated April 27, 2015, between the Company and each of David R. Goss, Phil Gough, Greg Withrow, James Murray, III, Michael Tepper, Paul Rydlund, Steven Golsen, Heidi Brown, and David Shear are not attached hereto, but will be provided to the Securities and Exchange Commission upon request.	Exhibit 99.6 to the Company's Form 8-K filed April 30, 2015
10.19*	Severance and Release Agreement, dated November 3, 2015, by and between the Company and David R. Goss	Exhibit 10.2 to the Company's Form 10-Q filed November 9, 2015
10.20*	Independent Contractor Agreement, dated September 30, 2015, by and between the Company and Circle S. Consulting LLC, (executed by Richard S. Sanders on behalf of Circle S. Consulting LLC as President & Individually).	Exhibit 10.3 to the Company's Form 10-Q filed November 9, 2015
10.21*	Severance and Release Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 30, 2015	Exhibit 10.1 to the Company's Form 8-K filed January 8, 2016
10.22*	Consulting Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K filed January 8, 2016
10.23*	Employment Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.1 to the Company's Form 8-K/A filed January 7, 2016

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10.24*	Restricted Stock Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K/A filed January 7, 2016
10.25*	Employment Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	Exhibit 10.25 to the Company's Form 10-K filed February 29, 2016
10.26*	Restricted Stock Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	Exhibit 10.26 to the Company's Form 10-K filed February 29, 2016
10.27*	Separation and Release Agreement by and between LSB Industries, Inc. and Tony M. Shelby, dated as of February 22, 2016	Exhibit 10.1 to the Company's Form 8-K filed February 25, 2016
10.28*	Employment Agreement by and between LSB Industries, Inc. and John Diesch, executed as of July 21, 2016	Exhibit 10.1 to the Company's Form 8-K filed August 2, 2016
10.29*	Form of Retention Bonus Agreement	Exhibit 10.28 to the Company's Form 10-K filed February 29, 2016
10.30	Indemnification Agreement, dated October 14, 2015, by and between the Company and Jack E. Golsen, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule	Exhibit 10.1 to the Company's Form 8-K filed October 19, 2015

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Exhibit	Incorporated by Reference
Number Exhibit Title	to the Following
10.31	<p>Indemnification Agreement, dated October 14, 2015 by and between the Company and David M. Shear, together with a schedule identifying other substantially identical agreements between the Company and each of its executive officers identified on the schedule</p> <p>Exhibit 10.2 to the Company's Form 8-K filed October 19, 2015</p>
10.32	<p>Indemnification Agreement, dated as of December 4, 2015, by and between LSB Industries, Inc. and Jonathan S. Bobb, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule</p> <p>Exhibit 10.5 to the Company's Form 8-K filed December 8, 2015</p>
10.33	<p>Nitric Acid Supply, Operating and Maintenance Agreement, dated October 23, 2008, by and among El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC</p> <p>Exhibit 10.1 to the Company's Form 10-Q filed November 6, 2008</p> <p>CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #30125, DATED OCTOBER 4, 2013, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.</p>
10.34	<p>Second Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement, dated June 16, 2010, by and among El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC</p> <p>Exhibit 10.2 to the Company's Form 10-Q filed August 6, 2010</p> <p>CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #30124, DATED OCTOBER 4, 2013, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.</p>
10.35	<p>Third Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement, dated June 25, 2013, by and among El Dorado</p> <p>Exhibit 10.3 to the Company's Form 10-Q filed August 9, 2013</p>

Nitrogen, L.P., El Dorado Chemical Company
and Bayer MaterialScience LLC

CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS
BEEN OMITTED AS IT IS SUBJECT OF A
COMMISSION ORDER CF #30123, DATED OCTOBER 4,
2013, GRANTING REQUEST BY THE COMPANY FOR
CONFIDENTIAL TREATMENT BY THE SECURITIES
AND EXCHANGE COMMISSION UNDER THE
FREEDOM OF INFORMATION ACT.

- | | | |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| 10.36 | Agreement, dated effective August 1, 2013,
between United Steel Workers of America
International Union on behalf of LOCAL
13-434 and El Dorado Chemical Company | Exhibit 99.1 to the Company's Form 8-K filed October 11,
2013 |
| 10.37 | Agreement, dated effective October 17, 2013,
by and between International Association of
Machinists and Aerospace Workers, AFL-CIO
Local No. 224 and El Dorado Chemical
Company | Exhibit 99.2 to the Company's Form 8-K filed October 11,
2013 |

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Exhibit	Incorporated by Reference	
Number	Exhibit Title	to the Following
10.38	Agreement, dated November 12, 2013, by and between United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local Union No. 00417 and Cherokee Nitrogen Company	Exhibit 99.1 to the Company's Form 8-K filed February 13, 2014
10.39	Asset Purchase Agreement, dated as of December 6, 2002, by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 2.1 to the Company's Form 8-K dated December 27, 2002
10.40	Exhibits and Disclosure Letters to the Asset Purchase Agreement, dated as of December 6, 2002, by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 10.1b to the Company's Form 10-Q filed August 6, 2010
10.41(a)	Anhydrous Ammonia Sales Agreement, dated effective January 1, 2009 between Koch Nitrogen International Sàrl and El Dorado Chemical Company	
10.42(a)	Second Amendment to Anhydrous Ammonia Sales Agreement, dated February 23, 2010, between Koch Nitrogen International Sàrl and El Dorado Chemical Company	
10.43	Ninth Amendment to Anhydrous Ammonia Sales Agreement, dated November 30, 2015, by and between Koch Nitrogen International Sàrl and El Dorado Chemical Company	Exhibit 10.46 to the Company's Form 10-K filed February 29, 2016

CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #33502, DATED APRIL 4, 2016, GRANTING

REQUEST BY THE COMPANY FOR
CONFIDENTIAL TREATMENT BY THE
SECURITIES AND EXCHANGE COMMISSION
UNDER THE FREEDOM OF INFORMATION
ACT.

10.44 Ammonia Purchase and Sale Agreement by and
between El Dorado Chemical Company and Koch
Fertilizer, LLC, dated as of November 2, 2015

Exhibit 10.49 to the Company's Form 10-K filed
February 29, 2016

CERTAIN INFORMATION WITHIN THIS
EXHIBIT HAS BEEN OMITTED AS IT IS THE
SUBJECT OF A COMMISSION ORDER CF
#33502, DATED APRIL 4, 2016, GRANTING
REQUEST BY THE COMPANY FOR
CONFIDENTIAL TREATMENT BY THE
SECURITIES AND EXCHANGE COMMISSION
UNDER THE FREEDOM OF INFORMATION
ACT.

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Exhibit	Incorporated by Reference
Number Exhibit Title	to the Following
10.45 Urea Ammonium Nitrate Purchase and Sale Agreement dated as of March 3, 2016 and effective as of June 1, 2016 between Coffeyville Resources Nitrogen Fertilizers, LLC and Pryor Chemical Company	Exhibit 10.1 to the Company's Form 10-Q filed August 8, 2016 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #33783. DATED AUGUST 30, 2016, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.46 Railcar Management Agreement, dated May 7, 2009, by and between Pryor Chemical Company and Koch Nitrogen Company, LLC	Exhibit 99.2 to the Company's Form 8-K filed May 13, 2009
10.47 Real Estate Purchase Contract, dated as of May 8, 2011, by and between DPMG, Inc., Prime Financial L.L.C., Landmark Land Company, Inc., Gerald G. Barton and Jack E. Golsen	Exhibit 10.1 to the Company's Form 10-Q filed November 7, 2011
10.48 Real Estate Purchase Contract, dated as of September 8, 2011, by and between South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company Inc., Gerald G. Barton and Jack E. Golsen	Exhibit 10.2 to the Company's Form 10-Q filed November 7, 2011
10.49 Common Stock Purchase Warrant and Registration Rights granted by Landmark Land Company Inc. to Prime Financial, L.L.C., dated February 7, 2012	Exhibit 99.4 to the Company's Form 8-K filed February 16, 2012
10.50 Geothermal Use Contract, by and between South Padre Island Development, LLC and Prime Financial, L.L.C., dated February 7, 2012	Exhibit 99.5 to the Company's Form 8-K filed February 16, 2012
10.51 Stock Purchase Agreement by and among Consolidated Industries L.L.C. The Climate Control Group, Inc., NIBE Energy Systems Inc. and, solely for purposes of Sections 6.8, 6.19 and 11.15 therein, LSB Industries, Inc., and solely for purposes of Section 11.16 therein, NIBE Industrier AB (publ), dated as of May 11, 2016.	Exhibit 10.1 to the Company's Form 8-K filed May 13, 2016

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|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| 10.52 | Contract on the supply of Basic Engineering Package, Detail Engineering Package, Tagged Major Equipment and related Advisory Services, between Weatherly Inc. and El Dorado Chemical Company, dated November 30, 2012 | Exhibit 99.2 to the Company's Form 8-K filed December 6, 2012 |
| 10.53 | Engineering, Procurement and Construction Agreement, dated August 12, 2013, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC | Exhibit 10.1 to the Company's Form 8-K filed August 15, 2013 |
| 10.54 | Construction Agreement-DMW2, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC | Exhibit 99.1 to the Company's Form 8-K filed November 12, 2013 |
| 10.55 | Construction Agreement – NACSAC, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC | Exhibit 99.2 to the Company's Form 8-K filed November 12, 2013 |
| 10.56 | Engineering, Procurement and Construction Agreement, dated December 31, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC | Exhibit 99.1 to the Company's Form 8-K filed January 7, 2014 |

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Exhibit	Number Exhibit Title	Incorporated by Reference
		to the Following
10.57	Engineering, Procurement and Construction Contract, Amendment No. 1 dated October 20, 2015, by and between El Dorado Ammonia LLC and SAIC Constructors, LLC	Exhibit 10.1 to the Company's Form 8-K filed October 26, 2015
10.58	Promissory Note, dated February 1, 2013, in the original principal amount of \$35 million, issued by Zena Energy L.L.C. in favor of International Bank of Commerce	Exhibit 99.1 to the Company's Form 8-K filed February 7, 2013
10.59	Leasehold Mortgage, Security Agreement, Assignment and Fixture Filing, dated February 1, 2013, from Zena Energy L.L.C. to International Bank of Commerce	Exhibit 99.2 to the Company's Form 8-K filed February 7, 2013
10.60	Guaranty, dated February 1, 2013, issued by LSB Industries, Inc. in favor of International Bank of Commerce	Exhibit 99.3 to the Company's Form 8-K filed February 7, 2013
10.61	Settlement Agreement, dated April 26, 2015, by and among the Company and Starboard Value LP and its certain affiliates and associates	Exhibit 99.1 to the Company's Form 8-K filed April 30, 2015
10.62	Agreement by and among the Company and Engine Capital, L.P., Red Alder, LLC, and certain of their respective affiliates, dated April 3, 2014	Exhibit 99.2 to the Company's Form 8-K filed April 4, 2014
10.63	Consent Decree, dated May 28, 2014, by and among, LSB Industries, Inc., El Dorado Chemical Co., Cherokee Nitrogen Co., Pryor Chemical Co., El Dorado Nitrogen, L.P., the U.S. Department of Justice, the U.S. Environmental Protection Agency, the Alabama Department of Environmental Management, and the Oklahoma Department of Environment Quality	Exhibit 99.1 to the Company's Form 8-K filed June 3, 2014
10.64	Second Amended and Restated Loan and Security Agreement, dated December 31, 2013, by and among LSB Industries, Inc., each of its subsidiaries that are signatories thereto, the lenders signatories thereto, and Wells Fargo Capital Finance, LLC	Exhibit 4.9 to the Company's Form 10-K filed February 27, 2014
10.65	Amendment No. 1 to the Second Amended and Restated Loan and Security Agreement, dated as of June 11, 2015, by and among LSB Industries, Inc. its subsidiaries identified on the signature pages thereof, the lenders identified on the signature pages thereof and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders	Exhibit 99.1 to the Company's Form 8-K filed June 17, 2015
10.66	Amendment No. 2 to the Second Amended and Restated Loan and Security Agreement, dated as of November 9, 2015, by and among LSB Industries, Inc., its subsidiaries identified on the signature pages thereof, the lenders identified on the	Exhibit 10.3 to the Company's Form 8-K filed November 16, 2015

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signature pages thereof, and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders

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|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| 10.67 | Third Amended and Restated Loan and Security Agreement, dated as of January 17, 2017, by and among LSB Industries, Inc., the subsidiaries of LSB Industries, Inc. party thereto, the lenders party thereto, and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent. | Exhibit 10.1 to the Company's Form 8-K filed January 20, 2017 |
| 10.68 | Security Agreement dated as of August 7, 2013, among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A. as Collateral Agent | Exhibit 10.72 to the Company's Form 10-K filed February 29, 2016 |
| 10.69 | Supplement No. 1 to Security Agreement February 12, 2014 among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A., as Collateral Agent | Exhibit 10.73 to the Company's Form 10-K filed February 29, 2016 |

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Exhibit	Incorporated by Reference
Number Exhibit Title	to the Following
10.70 Note Purchase Agreement, dated November 9, 2015, by and among LSB Industries, Inc., the guarantors party thereto and LSB Funding LLC	Exhibit 10.1 to the Company's Form 8-K filed November 16, 2015
10.71 Promissory Note, dated November 9, 2015, by LSB Industries, Inc.	Exhibit 10.2 to the Company's Form 8-K filed November 16, 2015
10.72 Joinder Agreement to Intercreditor Agreement, dated November 9, 2015, by and among LSB Funding LLC, Wells Fargo Capital Finance, Inc., as ABL Agent, UMB Bank, N.A., as Notes Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.4 to the Company's Form 8-K filed November 16, 2015
10.73 Joinder Agreement to Security Agreement, dated November 9, 2015, by and among LSB Funding LLC, UMB Bank, N.A., as Collateral Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.5 to the Company's Form 8-K filed November 16, 2015
10.74 Securities Purchase Agreement by and among LSB Industries, Inc., LSB Funding LLC, and Security Benefit Corporation, dated as of December 4, 2015	Exhibit 10.1 to the Company's Form 8-K filed December 8, 2015
10.75 Warrant to Purchase Common Stock issued by LSB Industries, Inc. to LSB Funding LLC, dated as of December 4, 2015	Exhibit 10.2 to the Company's Form 8-K filed December 8, 2015
10.76 Board Representation and Standstill Agreement by and among LSB Industries, Inc., LSB Funding LLC, Security Benefit Corporation, Todd Boehly and the Golsen Holders (as defined therein), dated as of December 4, 2015	Exhibit 10.3 to the Company's Form 8-K filed December 8, 2015
10.77 Registration Rights Agreement by and between LSB Industries, Inc. and LSB Funding LLC, dated as of December 4, 2015	Exhibit 10.4 to the Company's Form 8-K filed December 8, 2015
10.78 Letter Agreement, dated as of August 12, 2016, by and among LSB Industries, Inc., LSB Funding LLC and Security Benefit Corporation	Exhibit 10.1 to the Company's Form 8-K filed August 12, 2016

Exhibit		Incorporated by Reference
Number	Exhibit Title	to the Following
12.1(a)	Calculation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	
21.1(a)	Subsidiaries of the Company	
23.1(a)	Consent of Independent Registered Public Accounting Firm	
31.1(a)	Certification of Daniel D. Greenwell, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302	
31.2(a)	Certification of Mark T. Behrman, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302	
32.1(b)	Certification of Daniel D. Greenwell, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906	
32.2(b)	Certification of Mark T. Behrman, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906	
101.INS(a)	XBRL Instance Document	
101.SCH(a)	XBRL Taxonomy Extension Schema Document	
101.CAL(a)	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF(a)	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB(a)	XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE(a)	XBRL Taxonomy Extension Presentation Linkbase Document	

*Executive Compensation Plan or Arrangement

(a) Filed herewith

(b) Furnished herewith

LSB Industries, Inc.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2017 By: /s/ Daniel D. Greenwell
Daniel D. Greenwell, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: February 27, 2017 By: /s/ Daniel D. Greenwell
Daniel D. Greenwell, President and Chief Executive Officer
(Principal Executive Officer) and Director

Dated: February 27, 2017 By: /s/ Mark T. Behrman
Mark T. Behrman, Executive Vice President of Finance, Chief Financial Officer (Principal Financial Officer)

Dated: February 27, 2017 By: /s/ Harold L. Rieker Jr.
Harold L. Rieker Jr., Vice President and Corporate Controller (Principal Accounting Officer)

Dated: February 27, 2017 By: /s/ Jack E. Golsen
Jack E. Golsen, Executive Chairman of the Board of Directors

Dated: February 27, 2017 By: /s/ Jonathan S. Bobb
Jonathan S. Bobb, Director

Dated: February 27, 2017 By: /s/ Mark R. Genender
Mark R. Genender, Director

Dated: February 27, 2017 By: /s/ Barry H. Golsen
Barry H. Golsen, Director

Dated: By: /s/ William F. Murdy
William F. Murdy, Director

February 27,
2017

Dated: February 27,
2017 By: /s/ Marran H. Ogilvie
Marran H. Ogilvie, Director

Dated: February 27,
2017 By: /s/ Joseph E. Reece
Joseph E. Reece, Director

Dated: February 27,
2017 By: /s/ Richard W. Roedel
Richard W. Roedel, Director

Dated: February 27,
2017 By: /s/ Richard S. Sanders Jr.
Richard S. Sanders Jr., Director

Dated: February 27,
2017 By: /s/ Lynn F. White
Lynn F. White, Director

LSB Industries, Inc.

Consolidated Financial Statements

And Schedule for Inclusion in Form 10-K

For the Fiscal Year ended December 31, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a) (2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 27, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma

February 27, 2017

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31,	
	2016	2015
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$60,017	\$127,195
Accounts receivable, net	51,299	49,601
Inventories	22,939	24,457
Supplies, prepaid items and other:		
Prepaid insurance	11,217	10,563
Precious metals	8,648	12,918
Supplies	24,100	18,681
Prepaid and refundable income taxes	1,193	6,811
Other	1,733	4,701
Total supplies, prepaid items and other	46,891	53,674
Deferred income taxes	—	4,774
Current assets held for sale	—	72,996
Total current assets	181,146	332,697
Property, plant and equipment, net	1,078,958	978,709
Intangible and other assets, net	10,316	16,640
Noncurrent assets held for sale	—	33,781
	\$1,270,420	\$1,361,827

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31,	
	2016	2015
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$54,246	\$87,999
Short-term financing	8,218	9,119
Accrued and other liabilities	44,037	39,808
Current portion of long-term debt	13,745	22,468
Current liabilities held for sale	—	32,526
Total current liabilities	120,246	191,920
Long-term debt, net	406,475	497,954
Noncurrent accrued and other liabilities	12,326	8,786
Noncurrent liabilities held for sale	—	12,136
Deferred income taxes	93,831	52,179
Commitments and contingencies (Note 11)		
Redeemable preferred stocks:		
Series E 14% cumulative, redeemable Class C preferred stock, no par value, 210,000 shares issued; 139,768 outstanding; aggregate liquidation preference of \$161,788,000 (210,000 outstanding; aggregate liquidation preference of \$212,287,000 at December 31, 2015)	145,029	177,272
Series F redeemable Class C preferred stock, no par value, 1 share issued and outstanding; aggregate liquidation preference of \$100	—	—
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized,	3,128	2,713

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31,280,685 shares issued (27,131,724 shares at December 31, 2015)		
Capital in excess of par value	192,172	192,249
Retained earnings	314,301	248,150
	512,601	446,112
Less treasury stock, at cost:		
Common stock, 3,004,855 shares (3,735,503 shares at December 31, 2015)	20,088	24,532
Total stockholders' equity	492,513	421,580
	\$1,270,420	\$1,361,827

See accompanying notes.

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LSB Industries, Inc.

Consolidated Statements of Operations

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands, Except Per Share Amounts)		
Net sales	\$374,585	\$437,695	\$495,888
Cost of sales	423,891	417,647	430,423
Gross profit (loss)	(49,306)	20,048	65,465
Selling, general and administrative expense	40,168	49,813	38,991
Impairments of long-lived assets and goodwill	1,621	43,188	—
Property insurance recovery in excess of losses incurred	—	—	(5,147)
Other expense (income), net	(872)	(1,787)	1,044
Operating income (loss)	(90,223)	(71,166)	30,577
Interest expense, net	30,945	7,371	21,599
Loss on extinguishment of debt	8,703	—	—
Non-operating other expense (income), net	218	129	(281)
Income (loss) from continuing operations before provision			
(benefit) for income taxes and equity in earnings of affiliate	(130,089)	(78,666)	9,259
Provision (benefit) for income taxes	(41,956)	(32,520)	4,251
Equity in earnings of affiliate	—	—	(79)
Income (loss) from continuing operations	(88,133)	(46,146)	5,087
Income from discontinued operations, net of taxes	200,301	11,381	14,547
Net income (loss)	112,168	(34,765)	19,634
Dividends on convertible preferred stocks	300	300	300
Dividends on Series E redeemable preferred stock	27,761	2,287	—
Accretion of Series E redeemable preferred stock	18,256	686	—
Net income attributable to participating securities	1,091	—	—
Net income (loss) attributable to common stockholders	\$64,760	\$(38,038)	\$19,334
Income (loss) per common share:			
Basic:			
Income (loss) from continuing operations	\$(5.28)	\$(2.17)	\$0.21
Income from discontinued operations, net of taxes	7.82	0.50	0.65
Net income (loss)	\$2.54	\$(1.67)	\$0.86
Diluted:			
Income (loss) from continuing operations	\$(5.28)	\$(2.17)	\$0.21
Income from discontinued operations, net of taxes	7.82	0.50	0.64

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Net income (loss)	\$2.54	\$(1.67)	\$
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