LSB INDUSTRIES INC
Form 10-K
February 26, 2018

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, 2017

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

(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:

Title of Each Class	Name of Each Exchange 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
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017, was approximately $259 million. As a result, the Registrant is an accelerated filer as of December 31, 2017. 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, 2017. 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 16, 2018, the Registrant had 28,602,954 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 2017 fiscal year, are incorporated by reference in Part III.

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 2017 fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Overview

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 manufacture and market chemical products for the agricultural, industrial and mining markets. We own and operate facilities in El Dorado, Arkansas (the "El Dorado Facility"), Cherokee, Alabama (the "Cherokee Facility"), and Pryor, Oklahoma (the "Pryor Facility"), and we operate a facility for Covestro AG ("Covestro") in Baytown, Texas (the "Baytown Facility"). Our products are sold through distributors and directly to end customers throughout the United States.

Our Business

Our business manufactures products for three principal markets:

- ammonia, fertilizer grade ammonium nitrate ("AN" and "HDAN") and urea ammonia nitrate ("UAN") 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 ("DEF") for industrial applications; and
- industrial grade AN ("LDAN") and AN solutions for the mining industry.

The products we manufacture are primarily derived from two raw material feedstocks: natural gas and ammonia. Our facilities and production processes have been designed to produce products that are marketable at nearly each stage of production. This has allowed us to develop and deploy a business model that optimizes the mix of products to capture the value opportunities in the end markets we serve with a focus on balancing our production.

The chart below highlights representative products and applications in each of our end markets.

End Market	Products	Applications
Agricultural	UAN, HDAN, ammonia	Fertilizer and fertilizer blends for corn and other crops; NPK fertilizer blends
Industrial Acids and Other	Nitric acid, ammonia, sulfuric acid, diesel exhaust fluid	Semi-conductor and polyurethane intermediates; Pulp and paper, alum, water treatment, metals and vanadium processing; Power plant emissions abatement, water treatment, refrigerants, metals processing; Exhaust stream additive
Mining	LDAN, AN solutions, and Specialty HDAN	Specialty emulsions for mining applications, surface mining, quarries, and construction

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

	2017	2016	2015
Percentage of consolidated net sales:			
Agricultural products	43 %	44 %	48 %
Industrial acids and other chemical products	46 %	42 %	38 %
Mining products	9 %	12 %	11 %
Other products	2 %	2 %	3 %
	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 information regarding our net sales, operating income or losses and total assets for the past three fiscal years, see the Consolidated Financial Statements included in this report.

Our Strategy

We pursue a strategy of balancing the sale of product as fertilizer into the agriculture markets at spot prices or short duration pre-sales 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 more consistent levels of production then some of our competitors and helps reduce the volatility risk inherent in the prices of our raw material feedstocks and/or the changes in demand for our products.

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 may, from time to time, compromise our ability to recover our full cost to produce the product. 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 continually pursue profitable growth and margin enhancement. 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.

Key Initiatives for 2018

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 several initiatives underway that we believe will assist us in improving the reliability of our plants and allow us to produce more products for sale while lowering our cost of production. In 2017, we made the decision to upgrade our existing maintenance management system through technology enhancements and work processes to improve our predictive and preventative maintenance programs at our facilities. At that time, we also made the decision to engage outside maintenance experts to assist us in expediting its implementation and in its overall use. We expect that the system will be implemented by the end of the second quarter of 2018 and we will begin to see the benefits in the second half of 2018.

Additionally, specific to our Pryor Facility, we engaged several outside engineering firms to assist us in an overall plant reliability study which will be used to enhance our reliability improvement plan for that facility. We expect the study to be completed during the second quarter of 2018.

- Focus on the Continued Improvement of Our Safety Performance. We believe that high safety standards are critical to improved plant performance. With that in mind, we implemented enhanced safety programs at our facilities that focus on reducing risks and improving our safety culture in 2017. The implementation and training of these programs will continue in 2018 and we expect these will benefit our on-stream rates.

- Continue Broadening of the distribution of our AN and Nitric Acid products. We increased our overall sales volume of HDAN in 2017 by approximately 60,000 tons or 26% to approximately 290,000 tons compared to 230,000 tons for 2016 through various marketing initiatives which include: (1) storing and distributing HDAN at our Pryor and Cherokee Facilities which allows us to sell to new markets and customers out of those facilities and; (2) educating growers on the additional applications for HDAN. In 2018, we will continue to focus on those initiatives and other initiatives in an effort to continue to grow our annual sales volumes over 2017.

In addition, through increased marketing efforts, we increased our sales volumes of Nitric Acid by approximately 18,000 tons from 82,000 tons in 2016 to 100,000 tons in 2017. We will continue to focus on increasing our marketing efforts in order to expand our market for our nitric acid products in North America.

- Improving the Margins on Sales of Our Products. Over the last several years, we have focused on increasing our sales volumes to produce at optimal on-stream rates and lower our manufacturing costs per ton of product. Beginning in 2018, we will undertake a review of all sales to customers to determine if there are opportunities to improve the margins on sales to those customers and to explore if there are further product upgrading opportunities.
- Reducing and controlling our cost structure. We have engaged outside experts to assist us in centralizing and expanding our Company-wide procurement efforts. We expect this to be implemented by the end of the second quarter of 2018 and believe that these efforts will result in a reduction in expenses and capital spend in the aggregate of between $3 million to $5 million on an annualized basis.

Over the last 18 months, we have reduced our SG&A and plant expenses over $12 million annually and believe, in addition to the procurement initiative discussed above, there is still an opportunity to further reduce those expenses.

- Focus on Improving Our Capital Structure and Overall Cost of Capital. We are actively seeking ways to improve our capital structure and reduce our overall cost of capital. We believe that the improving end markets for our products combined with our improved operating performance will be a benefit.

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

Our Competitive Strengths

Strategically Located Chemical Assets and Long-Standing Customer Relationships

Our business benefits from highly advantaged locations with logistical and distribution benefits. We have access to the ammonia pipeline from the U.S. Gulf at our El Dorado Facility, which provides low cost transportation to distribution points. The El Dorado Facility also has rail access that is in close proximity to our HDAN customers. Our Cherokee Facility is located east of the Mississippi River, allowing it to reach customers that are not freight logical for others. Our Cherokee Facility sits adjacent to the Tennessee River, providing barge access, in addition to truck and rail access. Our Pryor Facility is located in the heart of the Southern Plains with close proximity to the Port of Catoosa along with strategic rail and truck access.

Advantaged and Improving Raw Material Cost Position

We believe we are able to effectively manage input costs for our primary raw materials, natural gas and ammonia, which allows us to partially offset the impact of volatility in feedstock costs in our business. We currently produce ammonia at our El Dorado Facility, our Cherokee Facility and our Pryor Facility, which allows us to take advantage of the spread between producing and purchasing ammonia at those facilities. Additionally, our Pryor Facility has a natural gas cost advantage as its cost of gas is materially lower than our El Dorado and Cherokee Facilities. The Baytown Facility does not produce ammonia and therefore purchases between 135,000 to 145,000 tons of ammonia per year. However, under our long-term contract with Covestro, we pass through the full cost of the ammonia, leaving us with no exposure to ammonia price fluctuations.

Diversified Sources of Revenue

Our business serves a broad range of end markets, which we believe diminishes the cyclicality of our financial performance. Our business serves the agricultural, industrial and mining markets. The flexible nature of our production process allows us the ability to shift our product mix based on end market demand.

Operation of Multiple Facilities and High Production Capacity

We operate our business through several facilities. Operating multiple facilities diversifies the risk and impact of operational issues that may occur at a single plant, which gives us a strategic advantage over competitors that operate their company through a single facility. Additionally, our competitive production capacity of our combined plants allows us to decrease manufacturing costs, helping us to achieve enhanced margins.

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 World Agricultural Supply and Demand Estimates Report (“WASDE”) released February 8, 2018 reports U.S. corn production for 2016/2017 (“2017 Crop”) was 15.2 billion bushels, up 11.4% from 2015/2016 (“2016 Crop”), reflecting increases in planted and harvested acres. In addition, they estimate yields per acre of 174.6 bushels per acre for the 2017 Crop compared to 168.4 bushels per acre for the 2016 Crop. This report also estimates world corn ending stocks for 2017/2018 (“2018 Crop”) at 203.1 million tons, a decrease over the 2017 Crop ending stocks of approximately 11.6% while U.S. corn ending stocks of 59.8 million tons, an increase of approximately 3% over the prior year. This has led the WASDE to estimate that U.S. growers will plant 90.2 million acres of corn in the 2018 Crop, a decrease of 3.8 million acres over the previous year, with expected yields of 176.6 bushels per acre, a 1% increase in yield from the previous year.

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 in the U.S. for the full year 2017 was up 6% from 2016 due to increased export demand. EIA is forecasting a 2% decrease in U.S. coal production in 2018 and another 2% decrease in 2019. U.S. coal consumption is also expected to decline over the next two years due to low natural gas prices reducing demand for coal for coal-fired electricity generation. EIA also expects U.S. coal export demand to decline in 2018 and 2019. We believe that coal production in the U.S. continues to face significant challenges from competition from natural gas and renewable sources of energy. 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. In addition, the metals and mineral mining markets have been and, in certain segments such as iron ore, 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 currently low-cost producers of ammonia that is consumed in North America and the expectation is that will continue.

That low cost of production stimulated investment in brownfield and greenfield nitrogen expansion projects in the U.S. Many of those projects were cancelled or placed on hold. However, a number of the announced expansion projects have been completed and began 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 2018 caused by an imbalance of supply and demand.

Agricultural Products

We produce and sell UAN, HDAN and ammonia, all of which are nitrogen-based fertilizers. 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. Our nitrogen-based fertilizers are used to grow food crops, biofuel feedstock crops, pasture land for grazing livestock and forage production. We maintain long-term relationships with wholesale agricultural distributors and retailers and also sell directly to agricultural end-users through our network of wholesale and retail distribution centers.

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 internationals 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 affect product margins.

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. See our discussion above concerning broadening the distribution of our AN products under "Key Initiatives for 2018".

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 our Pryor Facility. The term of the agreement runs through June 2019 with annual renewal options.

We sell most of our agricultural products at the current spot market price in effect at the time of shipment, although during certain times of the year, we 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 cyclicality 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, one of our subsidiaries, El Dorado Chemical Company ("EDC") and Koch Fertilizer are parties to 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. We began selling ammonia under this agreement during June 2016. The term of the agreement runs until June 2019, with annual renewal options.

We operate the Baytown Facility on behalf of Covestro and we believe it is one of the 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 almost all 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 for marketing nitric acid not used by Covestro to third party customers 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 products sales volumes are dependent upon general economic conditions primarily in the housing, automotive, and paper industries. Our sale prices generally vary with the market price of our feedstock (ammonia or natural gas, as applicable) in our pricing arrangements with customers.

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 2018".

Mining Products

We produce and sell LDAN and AN solution to the mining industry, which are primarily used as AN fuel oil and specialty emulsions for surface mining of coal, mining of precious metals and for usage in quarries and providing aggregates to the construction industry. We have signed long-term contracts with customers that provide for the annual sale of LDAN 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 15.6 million MMBtus of natural gas annually to produce approximately 450,000 tons of ammonia; the Cherokee Facility would purchase approximately 5.8 million MMBtus of natural gas per year in order to produce approximately 180,000 tons of ammonia; and the Pryor Facility would purchase approximately 6.8 million MMBtus of natural gas annually 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 primarily to match quantities needed to produce product that has been sold forward. As of December 31, 2017, we had volume purchase commitments with a fixed cost for natural gas of approximately 1.3 million MMBtus at an average cost of $2.42 per MMBtu. These commitments are for firm purchases during the first quarter of 2018 and represent approximately 17% of our total exposed natural gas usage required for that period.

The Baytown Facility purchases 135,000 to 145,000 tons of ammonia per year. However, under our long-term contracts for that business, 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 less susceptible. 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 we distribute the majority of our agricultural products. 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 Austin Powder Company, CF Industries Holdings, Inc., Chemtrade Logistics Inc., Cytec Industries, OCI Partners LP, Dyno Nobel, a subsidiary of Incitec Pivot Limited, The Gavilon Group, Helm AG, Koch Industries, Norfalco, Nutrien (formerly known as Agrium and Potash Corporation of Saskatchewan), Orica Limited, 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, 2017, we employed 569 persons, 166 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"), 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 U.S. Securities and Exchange Commission ("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.

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;
- 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 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.

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.

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.

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 2018, 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 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, 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 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 or intentional acts such as terrorism 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.

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.

Furthermore, most ethanol is currently produced from corn and other raw grains, such as milo or sorghum, especially in the Midwest. The current trend in ethanol production research is to develop an efficient method of producing ethanol from cellulose-based biomass, such as agricultural waste, forest residue, municipal solid waste and energy crops (plants grown for use to make biofuels or directly exploited for their energy content). If an efficient method of producing ethanol from cellulose-based biomass is developed, the demand for corn may decrease significantly, which could reduce demand for nitrogen fertilizer products and have a material adverse effect on the prices we receive on sales of our ammonia products and our results of operations, financial condition and ability to make cash distributions.

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. Therefore, substantial changes could adversely affect our operating results, liquidity, financial condition and capital resources.

Weather conditions adversely affect our business.

The products (primarily agricultural) 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. In addition, weather can cause an interruption to the operations of our chemical facilities. Many 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 being affected as a result of the number of announced, started and recently completed 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 is dependent upon a limited number of customers.

For 2017, seven customers accounted for approximately 46% 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.

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 natural 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. 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 ensure that our principal executive officers will continue to be available. Although we have employment agreements with certain of our principal executive officers, including 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 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 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 an adverse effect on our assets and 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 are significantly dependent upon internet connectivity and a third-party cloud hosting vendor. 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, equipment and personnel shortages, 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 nitrogen production is 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. However, these tariffs were resolved by the DOC in 2016 and 2017 respectfully. As a result, we may face more substantial competition from Russian producers of fertilizer grade AN.

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, we previously were, 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.

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, could lead some of our customers to choose other products over ammonia and AN, which may 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 the rule's new requirements will be required beginning in 2021. The EPA has temporarily delayed the rule's effective date until February 19, 2019 and has indicated that it may further delay the rule's implementation, however, this delay has been challenged in court and certain of those challenges remain pending. 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 adopted regulations pursuant to the federal Clean Air Act to reduce greenhouse gas 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.

Although 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. 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. The EPA is currently reviewing the Clean Power Plan however, it could result in increased electricity costs due to increased requirements for use of alternative energy sources, and a decreased demand for coal-generated electricity.

Laws, regulations or other issues related to climate change could have a material adverse effect on us.

If we, or other companies with which we do business become subject to laws or regulations related to climate change, it could have a material adverse effect on us. The United States may enact new laws, regulations and interpretations relating to climate change, including potential cap-and-trade systems, carbon taxes and other requirements relating to reduction of carbon footprints and/or greenhouse gas emissions. Other countries have enacted climate change laws and regulations and the United States has been involved in discussions regarding international climate change treaties. The federal government and some of the states and localities in which we operate have enacted certain climate change laws and regulations and/or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had any known material adverse effect on us to date, they could result in substantial costs, including compliance costs, monitoring and reporting costs and capital. Furthermore, our reputation could be damaged if we violate climate change laws or regulations. We cannot predict how future laws and regulations, or future interpretations of current laws and regulations, related to climate change will affect our business, results of operations, liquidity and financial condition. Lastly, the potential physical impacts of climate change on our operations are highly uncertain and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. Any of these matters could have a material adverse effect on us.

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 15.8% of the total voting power of LSB’s common stock as of February 16, 2018.

Jack E. Golsen, Chairman Emeritus 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 16, 2018, 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 10.4% 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 two directors on our Board, and the Golsen Holders have the right to appoint two directors as amended in October 2017, 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.

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) 46,381,342 shares of common stock and 4,090,231 shares of preferred stock as of December 31, 2017. 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;
- 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 enter 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 2018;
- 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;
- changes in laws, regulations or other issues related to climate change;
- 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 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.;
- 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.

Act	-	The Tax Cuts and Jobs Act of 2017.
ADEQ	-	The Arkansas Department of Environmental Quality.
AN	-	Ammonium nitrate.
ARO	-	Asset retirement obligation.
ASU	-	Accounting Standard Update.
BAE	-	BAE Systems Ordinance Systems, Inc.
Baytown Facility	-	The nitric acid production facility located in Baytown, Texas.
BKV	-	BKV Chelsea L.L.C.
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.
Chevron	-	Chevron Environmental Management Company.
Climate Control Business	-	Former business conducted through the Climate Control Group.
Climate Control Group	-	Climate Control Group, Inc., a former direct, wholly owned subsidiary of Consolidated and an indirect subsidiary of LSB.
	-	

Consent Solicitation		A consent solicitation initiated in August 2016 to effect certain amendments to the Original 7.75% Indenture.
Consolidated	-	Consolidated Industries L.L.C., a former direct, wholly owned subsidiary of LSB.
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.
DD&A	-	Depreciation, depletion and amortization.
DOJ	-	The U.S. Department of Justice.
DEF	-	Diesel Exhaust Fluid.

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DHS	- The U.S. Department of Homeland Security.
DOC	- The U.S. Department of Commerce.
EDA	- El Dorado Ammonia L.L.C.
EDC	- El Dorado Chemical Company.
EDN	- El Dorado Nitrogen L.L.C.
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.
FASB	- Financial Accounting Standards Board.
Financial Covenant	- Certain springing financial covenants associated with the working capital revolver loan.
GAAP	- U. S. Generally Accepted Accounting Principles.
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.
IRS	- U. S. Internal Revenue Service.
J. Golsen	- Jack E. Golsen.
KDHE	- The Kansas Department of Health and Environment.
Koch Fertilizer	- Koch Fertilizer L.L.C.
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.
LSB Funding	- LSB Funding L.L.C.
MD&A	- Management's Discussion and Analysis of Financial Condition and Results of Operations found in Item 7 of this report.
NIBE	- NIBE Industrier AB (publ). and NIBE Energy Systems Inc., an indirect wholly owned subsidiary of NIBE Industrier AB.
NOL	- Net Operating Loss.
NPDES	- National Pollutant Discharge Elimination.
NSO	- Non-qualified stock options.

ODEQ	- The Oklahoma Department of Environmental Quality.
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.
OSHA	- Occupational Safety and Health Administration.
PCC	- Pryor Chemical Company.
PP&E	- Plant, property and equipment.
Properties	- Zena’s former rights, title and interests in all of its oil and natural gas properties located in Wyoming County, Pennsylvania.
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.
Renewed Rights Amendment	- An amendment to a shareholder rights plan effective December 4, 2015.
Retirement Date	- Date of retirement of Jack E. Golsen as Executive Chairman of the Board, December 31, 2017.
RFS	- Federal renewable fuel standards.
SAR	- Stock appreciation rights.
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 2021	- A secured promissory note between EDC and a lender which matures in March 2021.
Secured Promissory Note due 2023	- A secured promissory note between EDA and a lender which matures in May 2023.
S. Golsen	- Steven J. Golsen.
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.
Series F Redeemable Preferred	-	The Series F Redeemable Preferred stock with 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.
Shortfall	-	Tax deficiencies recorded in equity to the extent of previous windfalls and then to the income statement.
Springing Maturity Date	-	90 days prior to the maturity date of the Senior Secured Notes, to the extent the Senior Secured Notes are not refinanced or repaid prior to 90 days prior to January 17, 2022.
Stock Purchase Agreement	-	An agreement between NIBE and Consolidated to purchase all of the outstanding common stock of the Climate Control Group.

Supplemental Indenture	- The First Supplemental Indenture, dated as of September 7, 2016, to the Original 7.75% Indenture.
Transition Agreement	- An agreement between Jack Golsen and LSB, dated June 30, 2017.
TSA	- A transition services agreement.
Turnaround	- A planned major maintenance activity.
UAN	- Urea ammonium nitrate.
UMB	- UMB Bank, n.a.
U.S.	- United States.
Warrants	- 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.
Wells Fargo	- Wells Fargo Capital Finance L.L.C.
West Fertilizer	- West Fertilizer Company.
Windfall	- Tax benefits in excess of compensation costs.
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 former subsidiary of the Company.
1992 Agreement	- An individual benefit agreement with a former executive.
2005 Agreement	- A death benefit agreement with Jack E. Golsen.
2015 Restricted Stock	- Grants under the 2008 Plan of restricted stock during 2015 to certain executives.
2016 Crop	- Corn crop marketing year (September 1 - August 31), which began in 2015 and ended in 2016.
2016 Restricted Stock	- Grants under the 2016 Plan of restricted stock during 2016.
2017 Crop	-

	Corn crop marketing year (September 1 - August 31), which began in 2016 and ended in 2017.
2017 Restricted Stock	- Grants under the 2016 Plan of restricted stock during 2017.
2018 Crop	- Corn crop marketing year (September 1 - August 31), which began in 2017 and ending in 2018.
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% 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.

ITEM 2. PROPERTIES

The following table presents our significant properties for 2017:

Facility	El Dorado Facility	Cherokee Facility	Pryor Facility	Baytown Facility	Chemical Distribution Centers
Location	El Dorado, AR	Cherokee, AL	Pryor, OK	Baytown, TX	(A)
Plant Area (acres)	150	160	47	2	
Site Area (acres)	1,400	1,300	104	Covestro site	
Site Status	Owned	Owned	Owned	Operating Agreement	(A)
Capacity Utilization	99% (B)	94% (C)	68% (D)	85% (E)	

(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. The capacity utilization rate is based on 1,150 tons per day of production since production began. We are currently producing at above 1,300 tons per day. We did not perform a Turnaround during 2017.

(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. We did not perform a Turnaround during 2017.

(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 17 days to perform a Turnaround during 2017. The Pryor Facility has additional operational capacity for nitric acid and AN solution in excess of its current ammonia capacity.

(E) The percentage of utilization for the Baytown Facility relates to its nitric acid production capacity and is based on 1,530 tons per day of production for the year. We did not perform a Turnaround during 2017.

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,			
	2017		2016	
Quarter	High	Low	High	Low
First	$11.70	$7.03	$14.10	$3.68
Second	$11.34	$6.82	$15.50	$7.73
Third	$11.71	$5.55	$13.85	$7.66
Fourth	$9.50	$6.68	$9.93	$4.52

Stockholders

As of February 16, 2018, we had approximately 432 record holders of our common stock.

Dividends

We have not paid cash dividends on our outstanding shares of common stock or convertible preferred stocks during the two most recent fiscal years. In 2017, we did not pay cash dividends on our outstanding series of redeemable preferred stocks but did pay cash dividends during 2016. 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 April 30, 2018.

Sale of Unregistered Securities

There were no unregistered sales of equity securities in 2017 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,				
	2017	2016	2015	2014	2013
	(In Thousands, Except Per Share Data)				
Selected Statement of Operations Data in Dollars:					
Net sales	$427,504	$374,585	$437,695	$495,888	$416,223
Operating income (loss)	(34,091)	(90,223)	(71,166)	30,577	73,739
Interest expense, net	37,267	30,945	7,371	21,599	13,301
Provisions (benefit) for income taxes	(40,759)	(41,956)	(32,520)	4,251	23,955
Income (loss) from continuing operations	(30,293)	(88,133)	(46,146)	5,087	35,600
Income from discontinued operations, net of taxes	1,076	200,301	11,381	14,547	19,362
Net income (loss)	(29,217)	112,168	(34,765)	19,634	54,962
Net income (loss) income attributable to common stockholders	$(59,447)	$64,760	$(38,038)	$19,334	$54,662
Income (loss) per common share attributable to common stockholders:					
Basic:					
Income (loss) from continuing operations	$(2.22)	$(5.28)	$(2.17)	$0.21	$1.57
Income from discontinued operations, net of taxes	$0.04	$7.82	$0.50	$0.65	$0.86
Net income (loss)	$(2.18)	$2.54	$(1.67)	$0.86	$2.43
Diluted:					
Income (loss) from continuing operations	$(2.22)	$(5.28)	$(2.17)	$0.21	$1.51
Income from discontinued operations, net of taxes	$0.04	$7.82	$0.50	$0.64	$0.82
Net income (loss)	$(2.18)	$2.54	$(1.67)	$0.85	$2.33
Selected Balance Sheet Data in Dollars:					
Total assets	$1,189,182	$1,270,420	$1,361,827	$1,130,572	$1,075,218
Long-term debt, including current portion, net	$409,399	$420,220	$520,422	$450,885	$455,054
Redeemable preferred stocks	$174,959	$145,029	$177,272	$—	$—
Stockholders' equity	$438,196	$492,513	$421,580	$434,048	$411,715
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 the MD&A contained in Item 7 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 MD&A should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2017 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 2018

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 several initiatives underway that we believe will assist us in improving the reliability of our plants and allow us to produce more products for sale while lowering our cost of production. In 2017, we made the decision to upgrade our existing maintenance management system through technology enhancements and work processes to improve our predictive and preventative maintenance programs at our facilities. At that time, we also made the decision to engage outside maintenance experts to assist us in expediting its implementation and in its overall use. We expect that the system will be implemented by the end of the second quarter of 2018 and we will begin to see the benefits in the second half of 2018.

Additionally, specific to our Pryor Facility, we engaged several outside engineering firms to assist us in an overall plant reliability study which will be used to enhance our reliability improvement plan for that facility. We expect the study to be completed during the second quarter of 2018.

- Focus on the Continued Improvement of Our Safety Performance. We believe that high safety standards are critical to improved plant performance. With that in mind, we implemented enhanced safety programs at our facilities that focus on reducing risks and improving our safety culture in 2017. The implementation and training of these programs will continue in 2018 and we expect these will benefit our on-stream rates.
- Continue Broadening of the distribution of our AN and Nitric Acid products. We increased our overall sales volume of HDAN in 2017 by approximately 60,000 tons or 26% to approximately 290,000 tons compared to 230,000 tons for 2016 through various marketing initiatives which include: (1) storing and distributing HDAN at our Pryor and Cherokee Facilities which allows us to sell to new markets and customers out of those facilities and; (2) educating growers on the additional applications for HDAN. In 2018, we will continue to focus on those initiatives and other initiatives in an effort to continue to grow our annual sales volumes over 2017.

In addition, through increased marketing efforts, we increased our sales volumes of Nitric Acid by approximately 18,000 tons from 82,000 tons in 2016 to 100,000 tons in 2017. We will continue to focus on increasing our marketing efforts in order to expand our market for our nitric acid products in North America.

- Improving the Margins on Sales of Our Products. Over the last several years, we have focused on increasing our sales volumes to produce at optimal on-stream rates and lower our manufacturing costs per ton of product. Beginning in 2018, we will undertake a review of all sales to customers to determine if there are opportunities to improve the margins on sales to those customers and to explore if there are further product upgrading opportunities.

- Reducing and controlling our cost structure. We have engaged outside experts to assist us in centralizing and expanding our Company-wide procurement efforts. We expect this to be implemented by the end of the second quarter of 2018 and believe that these efforts will result in a reduction in expenses and capital spend in the aggregate of between $3 million to $5 million on an annualized basis.

Over the last 18 months, we have reduced our SG&A and plant expenses over $12 million annually and believe, in addition to the procurement initiative discussed above, there is still an opportunity to further reduce those expenses.

- Focus on Improving Our Capital Structure and Overall Cost of Capital. We are actively seeking ways to improve our capital structure and reduce our overall cost of capital. We believe that the improving end markets for our products combined with our improved operating performance will be a benefit.

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

Business Developments - 2017

Sale of Working Interests in Natural Gas Properties and Other Non-Core Assets

At the end of 2016, we identified certain assets that were no longer necessary in the operations of our business. During 2017, we sold assets totaling approximately $23.8 million. We sold all of Zena Energy L.L.C. (“Zena”) assets including Zena’s right, title, and interest in all of its oil and natural gas properties (the “Properties”) located in Wyoming County, Pennsylvania for a purchase price of approximately $16.3 million, which sale was completed on June 26, 2017. Concurrently with the closing of the purchase and sale agreement, a portion of the net proceeds (approximately $3.5 million) was used to repay the remaining outstanding balance of a promissory note, which was secured by the Properties. As a result of the sale, we no longer own any working interest in oil and natural gas properties. During 2017, we also sold our engineered products business (industrial machinery and related components) and other various non-core assets for approximately $7.5 million of net proceeds. We continue to evaluate our assets in order to determine if there are additional non-core assets that we should monetize.

Approval of Arkansas Incentive Tax Credit

During 2017, we received notification from the State of Arkansas that incentive tax credits had been approved associated with certain capital expenditures associated with the El Dorado Facility’s expansion projects completed primarily in the fourth quarter of 2015 and the second quarter of 2016. As a result, we recognized a current and noncurrent receivable totaling approximately $8.1 million associated with these incentive tax credits with the offset reducing plant, property and equipment (“PP&E”) (covered by the tax credit) by approximately $7.4 million and the remaining balance of $0.7 million as a reduction to cost of sales (recovery of previously incurred depreciation expense related to the PP&E). As of December 31, 2017, our current and noncurrent incentive tax credits receivable totaled $7.4 million.

Planned and Unplanned Downtime at our Pryor and El Dorado Facilities

During 2017, we experienced an aggregate of 158 days of unplanned downtime that contributed to approximately $21 million in lost improvement to our operating results. The following were the main unplanned downtime events:

In May 2017, the ammonia plant at our Pryor Facility experienced a lightning strike causing a loss of power to the facility and 16 days of unplanned downtime.

In June 2017, the ammonia plant at our El Dorado Facility was taken out of service to perform proactive adjustments and heat exchanger cleaning and repairs to enable the plant to operate closer to the higher end of its operating envelope on a sustained basis. Total downtime relating to this event was 12 days.

In July 2017, the Pryor Facility experienced an electrical outage shutting the facility down. As the facility was already down and considering the low selling price environment for our agricultural products, and other maintenance needing to be completed, the election was made to move forward the Turnaround previously scheduled for the fourth quarter of 2017 to the third quarter of 2017. Total downtime for the Turnaround was 17 days.

On September 23, 2017, the ammonia plant at the Pryor Facility experienced a minor fire and was taken out of service to repair damage to some of the plant’s electrical controls, wiring and piping. As these repairs were being performed, we decided to replace the process gas preheat system that was originally scheduled to be included in the 2018 Turnaround. The plant resumed production on December 4, 2017. Total downtime days during 2017 relating to this event was 72 days.

On October 3, 2017, the ammonia plant at our El Dorado Facility was taken out of service to make mechanical repairs to the burner refractory system on the boiler, which were completed on October 8, 2017. Following the work on the boiler, we determined that repairs on a process heat exchanger were necessary, which repairs to the heat exchanger were completed and ammonia production resumed on October 22, 2017. Total downtime of the ammonia plant related to these two events in October was 21 days.

Update on Strategic Alternatives Review

In July 2017, our Board of Directors terminated the formal sales process portion of its strategic review as they were not presented with a sale transaction that was in the best interest of our shareholders. Our Management and Board of Directors continues to work with its outside advisors on evaluating other strategic, financial and operational options on an ongoing basis.

El Dorado Nitric Acid Plant

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 September 2018. We are in process of extending the consent administrative order. 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 by October 2018 and all costs will be covered under warranty provisions.

Key Industry Factors

Supply and Demand

Agricultural

Sales of our agricultural products were approximately 43% of our total net sales for 2017. 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.

Additionally, 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 WASDE, dated February 8, 2018, estimates U.S. corn production for 2016/2017 ("2017 Crop") was 15.2 billion bushels, up 11.4% from 2015/2016 ("2016 Crop"), reflecting increases in planted and harvested acres. In addition, they estimate yields per acre of 174.6 bushels per acre for the 2017 Crop compared to 168.4 bushels per acre for the 2016 Crop. This report also estimates world corn ending stocks for 2017/2018 ("2018 Crop") at 203.1 million tons, a decrease over the 2017 Crop ending stocks of approximately 11.6% while U.S. corn ending stocks of 59.8 million tons, an increase of approximately 3% over the prior year. This has led the WASDE to estimate that U.S. growers will plant 90.2 million acres of corn in the 2018 Crop, a decrease of 3.8 million acres over the previous year, with expected yields of 176.6 bushels per acre, a 1% increase in yield from the previous year.

On the supply side, 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, stimulated investment in numerous expansions of existing nitrogen chemical facilities and the construction of new nitrogen chemical facilities. Since those announcements, global nitrogen fertilizer supply has outpaced global nitrogen fertilizer demand causing oversupply in the global and North American markets. The increased fertilizer supply led to lower nitrogen fertilizer selling prices during most of 2017. Also, additional domestic supply of ammonia will change the physical flow of ammonia in North America placing pressure on ammonia and other fertilizer prices until the distribution system accepts the new supply. Beginning in the fourth quarter of 2017, we have seen an increase in fertilizer prices as the imports of fertilizers has decreases significantly and the distribution of the new domestic supply has been established. That has continued into the first quarter of 2018.

Industrial

Sales of our industrial products were approximately 46% of our total net sales for 2017. 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 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 9% of our total net sales for 2017. 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 2017 is up 6% from 2016 due to increased export demand. EIA is forecasting a 2% decrease in U.S. coal production in 2018 and another 2% decrease in 2019. U.S. coal consumption is also expected to decline over the next two years due to low natural gas prices reducing demand for coal for coal-fired electricity generation. EIA also expects U.S. coal export demand to decline in 2018 and 2019. We believe that coal production in the U.S. continues to face significant challenges from competition from natural gas and renewable sources of energy. 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 used to produce nitrogen fertilizers at our manufacturing facilities. In recent years, U.S. natural gas reserves have increased 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 has been positively affected.

We historically have purchased natural gas in the spot market, using 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. The following table shows the annual volume of natural gas we purchased and the average cost per MMBtu:

	2017	2016
Natural gas volumes (MMBtu in millions) (1)	27	20
Natural gas average cost per MMBtu	$3.04	$2.66

(1) The increase in volume in 2017 is primarily attributed to the new ammonia plant at the El Dorado Facility operating for the full year compared to approximately half a year for 2016 and higher overall ammonia operating rates at our plants.

As of December 31, 2017, we had volume purchase commitments with a fixed cost for natural gas of approximately 1.3 million MMBtus at an average cost of $2.42 per MMBtu. These commitments are for firm purchases during the first quarter of 2018 and represent approximately 17% of our total exposed natural gas usage required for that period.

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 considers 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. Also see the Turnaround costs presented in the Quarterly Financial Data of the Consolidated Financial Statements included in this report.

During the unplanned outage in the fourth quarter of 2017 at our Pryor Facility, we replaced the process gas pre-heat system which was originally planned for the Turnaround in 2018. Although this extended the downtime, combined with previous maintenance work done at the facility during 2017, it allowed us to avoid a Turnaround in 2018 that had been previously planned. Following the Turnaround scheduled in 2019, we expect to move to a two-year Turnaround cycle at this facility.

At our El Dorado Facility, historically, we performed 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 perform a two-year Turnaround currently scheduled in the third quarter of 2018 and following this initial Turnaround, the facility will move to a three-year Turnaround cycle.

Our Cherokee Facility is currently 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 2017

Our consolidated net sales for 2017 were $427.5 million compared to $374.6 million for 2016. Our consolidated operating loss was $34.1 million compared to $90.2 million for 2016. 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 as used to produce all upgraded products. In 2017, we improved the operating rates at our Cherokee ammonia plant. The on-stream rate (excluding the effect from its scheduled Turnaround in 2016) for 2017 for our ammonia plant increased to 99% from 96% in 2016. We believe that the ammonia plant will have a minimum on-stream rate for 2018 of 95%, excluding the planned Turnaround days out of service.

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%. For 2017, the on-stream rate for its ammonia plant was 86%. We believe that the ammonia plant will operate at a minimum of 95% on-stream rate for 2018, excluding the planned Turnaround days out of service. 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.

At our Pryor Facility, the on-stream rate (excluding the effect from its Turnaround) for 2017 for our ammonia plant decreased to 69% from 86% in 2016, due primarily to the unplanned downtime discussed under “Business Developments - 2017.” We believe that our focus on improving on-stream rates as discussed in key initiatives for 2018 and the capital investments made to the ammonia plant to date, will improve the on-stream rate for 2018.

Because of the improved ammonia production at the El Dorado Facility, during 2017, we sold approximately 200,000 tons of ammonia that were in excess of our internal needs at this facility compared to approximately 88,000 tons in excess of our internal needs in 2016.

Selling Prices

During 2017, selling prices for our agricultural products declined significantly over 2016 selling prices. Average selling prices for our ammonia, UAN and HDAN decreased 17%, 12% and 6%, respectively compared to 2016 average selling prices. The decrease in ammonia selling prices was impacted by several factors: (1) a wet spring that caused lower pre-plant ammonia application and resulted in ammonia inventory buildup at the end of the spring season; (2) recent facility expansion projects that started ammonia production but had not yet started planned upgraded production facilities and; (3) intended distribution systems for increased ammonia production not yet in place. We expect this excess ammonia supply will begin to be absorbed in 2018 as these upgraded production facilities begin production and the distribution systems are in place. The decrease in UAN and HDAN selling prices were caused by lower average commodity prices and the nitrogen production capacity being added globally, and in North America specifically, that, we believe, created uncertainty on the ability of producers to efficiently distribute the additional production.

Depreciation Expense

During 2017 and 2016, depreciation expense was $67.0 million and $59.4 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.

Debt and Interest Expense

During 2017 and 2016, interest expense was $37.3 million and $30.9 million, net of capitalized interest $15.0 million for 2016 (minimal in 2017). Interest was capitalized based upon construction in progress of the El Dorado expansion project, which was completed during the second quarter of 2016. Also, 2016 included interest expense of $5.5 million from the 12% Senior Secured Notes which were repaid in October 2016, $2.2 million as a result of the debt modification associated with the Consent Solicitation and interest expense from borrowings under our Working Capital Revolver Loan.

Certain Startup, One-Time, Warranty and Other Expenses (2016 only)

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.

Loss on Extinguishment of Debt (2016 only)

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.

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2017, 2016, and 2015 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, 2017 Compared to Year Ended December 31, 2016

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

	2017	2016	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$184,054	$166,180	$17,874	11 %
Industrial acids and other chemical products	196,029	155,744	40,285	26 %
Mining products	38,854	43,532	(4,678)	(11)%
Other products	8,567	9,129	(562)	(6)%
Total net sales	$427,504	$374,585	$52,919	14 %
Gross profit (loss)	$5,466	$(49,306)	$54,772	111 %
Gross profit (loss) percentage (1)	1.3 %	(13.2)%	14.5 %	
Selling, general and administrative expense	34,990	40,168	(5,178)	(13)%
Impairment of long-lived assets and goodwill	—	1,621	(1,621)	100 %
Other expense (income), net	4,567	(872)	5,439	
Operating loss	(34,091)	(90,223)	56,132	62 %
Interest expense, net	37,267	30,945	6,322	20 %
Loss on extinguishment of debt	—	8,703	(8,703)	100 %
Non-operating other expense (income), net	(306)	218	(524)	
Benefit for income taxes	(40,759)	(41,956)	1,197	(3)%
Loss from continuing operations	(30,293)	(88,133)		