

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 10-Q**

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

For the quarterly period ended March 31, 2020

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**

(State or other jurisdiction of  
incorporation or organization)

**73-1015226**  
(I.R.S. Employer  
Identification No.)

**3503 NW 63<sup>rd</sup> Street, Suite 500, Oklahoma City, Oklahoma**  
(Address of principal executive offices)

**73116**  
(Zip Code)

(Registrant's telephone number, including area code) **(405) 235-4546**

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, Par Value \$.10</b>	<b>LXU</b>	<b>New York Stock Exchange</b>

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 Exchange Act).

Yes  No

The number of shares outstanding of the Registrant's common stock was 29,303,216 shares as of May 1, 2020.

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at March 31, 2020 is unaudited)**

	March 31, 2020	December 31, 2019
(In Thousands)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 37,483	\$ 22,791
Accounts receivable	51,060	40,203
Allowance for doubtful accounts	(328)	(261)
Accounts receivable, net	50,732	39,942
Inventories:		
Finished goods	24,632	21,738
Raw materials	1,671	1,573
Total inventories	26,303	23,311
Supplies, prepaid items and other:		
Prepaid insurance	8,722	11,837
Supplies	25,162	24,689
Other	8,833	8,303
Total supplies, prepaid items and other	42,717	44,829
Total current assets	157,235	130,873
Property, plant and equipment, net	928,393	936,474
Other assets:		
Operating lease assets	19,149	15,330
Intangible and other assets, net	5,374	5,812
	24,523	21,142
	\$ 1,110,151	\$ 1,088,489

(Continued on following page)

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**  
**(Information at March 31, 2020 is unaudited)**

	March 31, 2020	December 31, 2019
(In Thousands)		
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 54,010	\$ 58,477
Short-term financing	6,893	9,929
Accrued and other liabilities	40,544	25,484
Current portion of long-term debt	9,665	9,410
Total current liabilities	111,112	103,300
Long-term debt, net	480,837	449,634
Noncurrent operating lease liabilities	14,506	11,404
Other noncurrent accrued and other liabilities	5,154	6,214
Deferred income taxes	35,343	35,717
Commitments and contingencies (Note 5)		
Redeemable preferred stocks:		
Series E 14% cumulative, redeemable Class C preferred stock, no par value, 210,000 shares issued; 139,768 outstanding; aggregate liquidation preference of \$251,108,000 (\$242,800,000 at December 31, 2019)	243,704	234,893
Series F redeemable Class C preferred stock, no par value, 1 share issued and outstanding; aggregate liquidation preference of \$100	—	—
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding; aggregate liquidation preference of \$3,085,000 (\$3,025,000 at December 31, 2019)	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding; aggregate liquidation preference of \$1,267,000 (\$1,252,000 at December 31, 2019)	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 31,283,210 shares issued	3,128	3,128
Capital in excess of par value	196,972	196,833
Retained earnings	29,369	57,632
	232,469	260,593
Less treasury stock, at cost:		
Common stock, 1,979,994 shares (2,009,566 shares at December 31, 2019)	12,974	13,266
Total stockholders' equity	219,495	247,327
	\$ 1,110,151	\$ 1,088,489

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In Thousands, Except Per Share Amounts)	
Net sales	\$ 83,411	\$ 94,152
Cost of sales	80,860	86,834
Gross profit	2,551	7,318
Selling, general and administrative expense	10,006	7,224
Other expense (income), net	(468)	23
Operating income (loss)	(6,987)	71
Interest expense, net	13,479	10,987
Non-operating other expense (income), net	(675)	224
Loss before provision (benefit) for income taxes	(19,791)	(11,140)
Provision (benefit) for income taxes	(339)	400
Net loss	(19,452)	(11,540)
Dividends on convertible preferred stocks	75	75
Dividends on Series E redeemable preferred stock	8,307	7,256
Accretion of Series E redeemable preferred stock	504	496
Net loss attributable to common stockholders	<u>\$ (28,338)</u>	<u>\$ (19,367)</u>
Basic and dilutive net loss per common share	<u>\$ (1.01)</u>	<u>\$ (0.69)</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**

	Common Stock Shares	Treasury Stock- Common Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock- Common	Total
(In Thousands)								
Balance at December 31, 2019	31,283	(2,010)	\$ 3,000	\$ 3,128	\$ 196,833	\$ 57,632	\$ (13,266)	\$ 247,327
Net loss						(19,452)		(19,452)
Dividend accrued on redeemable preferred stock						(8,307)		(8,307)
Accretion of redeemable preferred stock						(504)		(504)
Stock-based compensation					495			495
Other		30			(356)		292	(64)
Balance at March 31, 2020	<u>31,283</u>	<u>(1,980)</u>	<u>3,000</u>	<u>3,128</u>	<u>196,972</u>	<u>29,369</u>	<u>(12,974)</u>	<u>219,495</u>
Balance at December 31, 2018	31,283	(2,438)	\$ 3,000	\$ 3,128	\$ 198,482	\$ 153,773	\$ (16,186)	\$ 342,197
Net loss						(11,540)		(11,540)
Dividend accrued on redeemable preferred stock						(7,256)		(7,256)
Accretion of redeemable preferred stock						(496)		(496)
Stock-based compensation					612			612
Other		(76)			(144)		(546)	(690)
Balance at March 31, 2019	<u>31,283</u>	<u>(2,514)</u>	<u>3,000</u>	<u>3,128</u>	<u>198,950</u>	<u>134,481</u>	<u>(16,732)</u>	<u>322,827</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
(In Thousands)		
<b>Cash flows from operating activities</b>		
Net loss	\$ (19,452)	\$ (11,540)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Deferred income taxes	(374)	445
Depreciation and amortization of property, plant and equipment	17,592	16,826
Amortization of intangible and other assets	315	313
Other	1,373	2,098
Cash provided (used) by changes in assets and liabilities:		
Accounts receivable	(7,512)	2,543
Inventories	(2,996)	(3,393)
Prepaid insurance	3,115	2,991
Accounts payable	(3,171)	(10,480)
Accrued interest	11,805	9,659
Other assets and other liabilities	(2,873)	(2,401)
Net cash provided (used) by operating activities	<u>(2,178)</u>	<u>7,061</u>
<b>Cash flows from investing activities</b>		
Expenditures for property, plant and equipment	(10,737)	(7,115)
Other investing activities	179	9
Net cash used by investing activities	<u>(10,558)</u>	<u>(7,106)</u>
<b>Cash flows from financing activities</b>		
Proceeds from revolving debt facility	30,000	—
Proceeds from other long-term debt	2,570	795
Payments on other long-term debt	(2,042)	(1,610)
Payments on short-term financing	(3,036)	(2,714)
Taxes paid on equity awards	(64)	(690)
Other financing activities	—	(79)
Net cash provided (used) by financing activities	<u>27,428</u>	<u>(4,298)</u>
Net increase (decrease) in cash and cash equivalents	14,692	(4,343)
Cash and cash equivalents at beginning of period	22,791	26,048
Cash and cash equivalents at end of period	<u>\$ 37,483</u>	<u>\$ 21,705</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Summary of Significant Accounting Policies**

For a complete discussion of our significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”) on February 25, 2020.

**Basis of Consolidation** – LSB Industries, Inc. (“LSB”) and its subsidiaries (the “Company”, “We”, “Us”, or “Our”) are consolidated in the accompanying consolidated financial statements. LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain prior period amounts reported in our consolidated financial statements and notes thereto have been reclassified to conform to current period presentation.

**Nature of Business** – We are engaged in the manufacture and sale of chemical products. The chemical products we primarily manufacture, market and sell are ammonia, fertilizer grade AN (“HDAN”) and 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 for industrial applications, and industrial grade AN (“LDAN”) and solutions for the mining industry. We manufacture and distribute our products in four facilities; three of which we own and are located in El Dorado, Arkansas (the “El Dorado Facility”); Cherokee, Alabama (the “Cherokee Facility”); and Pryor, Oklahoma (the “Pryor Facility”); and one of which we operate on behalf of a global chemical company in Baytown, Texas (the “Baytown Facility”).

Sales to customers include farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the United States (“U.S.”); industrial users of acids throughout the U.S. and parts of Canada; and explosive manufacturers in the U.S.

In our opinion, the unaudited condensed consolidated financial statements of the Company as of March 31, 2020 and for the three months ended March 31, 2020 and 2019 include all adjustments and accruals, consisting of normal, recurring accrual adjustments, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our 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.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in connection with our audited consolidated financial statements and notes thereto included in our 2019 Form 10-K.

**Use of Estimates** – The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes** – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Significant judgment is applied in evaluating the need for and the magnitude of appropriate valuation allowances against deferred tax assets.

In addition, we do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the relevant taxing authorities based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized.

Income tax benefits associated with amounts that are deductible for income tax purposes are recorded through the statement of operations. These benefits are principally generated from exercises of restricted stock. We reduce income tax expense for investment tax credits in the period the credit arises and is earned.

See Note 7 regarding the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Summary of Significant Accounting Policies (continued)**

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

**Redeemable Preferred Stocks** – Our redeemable preferred stocks that are redeemable outside of our control are classified as temporary/mezzanine equity. The redeemable preferred stocks were recorded at fair value upon issuance, net of issuance costs or discounts. In addition, certain embedded features included in the Series E Redeemable Preferred required bifurcation and are classified as derivative liabilities. The carrying values of the redeemable preferred stocks are being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) using the interest method so that the carrying amount will equal the redemption value as of October 25, 2023, the earliest possible redemption date by the holder. The accretion was recorded to retained earnings. However, this accretion will change if the expected redemption date changes.

**Derivatives, Hedges and Financial Instruments** – Derivatives are recognized in the balance sheet and are measured at fair value. Changes in fair value of derivatives are recorded in results of operations unless the normal purchase or sale exceptions apply, or hedge accounting is elected.

Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

**Level 1** - Valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts.

**Level 2** - Valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts

**Level 3** - Valuations of assets and liabilities classified as Level 3 are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement

**Revenue Recognition**

We determine revenue recognition through the following steps:

- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Generally, satisfaction occurs when control of the promised goods is transferred to the customer or as services are rendered or completed in exchange for consideration in an amount for which we expect to be entitled. Generally, control is transferred when the preparation for shipment of the product to a customer has been completed. Most of our contracts contain a single performance obligation with the promise to transfer a specific product.

Most of our revenue is recognized from performance obligations satisfied at a point in time, however, we have a performance obligation to perform certain services that are satisfied over a period of time. Revenue is recognized from this type of performance obligation as services are rendered and are based on the amount for which we have a right to invoice, which reflects the amount of expected consideration that corresponds directly with the value of the services performed.

For most of our contracts with customers, the transaction price from the inception of a contract is constrained to a short period of time (generally one month) as these contracts contain terms with variable consideration related to both price and quantity. These contract prices are often based on commodity indexes (such as NYMEX natural gas index) published monthly and the contract quantities are typically based on estimated ranges. The quantities become fixed and determinable over a period of time as each sale order is received from the customer.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Summary of Significant Accounting Policies (continued)**

The nature of our contracts also gives rise to other types of variable consideration, including volume discounts and rebates, make-whole provisions, other pricing concessions, and short-fall charges. We estimate these amounts based on the expected amount to be provided to customers, which result in a transaction price adjustment reducing revenue (net sales) with the offset increasing contract or refund liabilities. These estimates are based on historical experience, anticipated performance, and our best judgment at the time. We reassess these estimates on a quarterly basis.

The aforementioned constraints over transaction prices in conjunction with the variable consideration included in our material contracts prevent a practical assignment of a specific dollar amount to performance obligations at the beginning and end of the period. Therefore, we have applied the variable consideration allocation exception.

Future revenues to be earned from the satisfaction of performance obligations will be recognized when control transfers as goods are loaded and weighed or services are performed over the remaining duration of our contracts.

**Recently Issued Accounting Pronouncements**

**ASU 2020-04** – In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance for a limited time to ease the potential accounting burden associated with transitioning away from reference rates such as LIBOR that are expected to be discontinued. This ASU provides exceptions and optional expedients for applying GAAP to contract modifications, hedging relationships, and other transactions that reference LIBOR or other reference rates to be discontinued as a result of reference rate reform. They do not apply to modifications made or hedges entered into or evaluated after December 31, 2022, unless the hedging relationships existed as of that date and optional expedients for them were elected and retained through the end of the hedging relationship. This ASU became effective upon issuance. We continue to evaluate the effect of this ASU and plan to utilize this relief for our debt agreement that include LIBOR rates.

**ASU 2019-12** – In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which affects general principles within Topic 740, Income Taxes. The amendments of ASU 2019-12 are meant to simplify and reduce the cost of accounting for income taxes. The ASU removes certain exceptions to the general framework and also seeks to simplify and/or clarify accounting for income taxes by adding certain requirements that would simplify GAAP for financial statement preparers. The effective date of ASU 2019-12 is fiscal years (and interim periods within those fiscal years) beginning after December 15, 2020. Early adoption is permitted but requires simultaneous adoption of all provisions of the new standard. We continue to evaluate the effect of our pending adoption of this ASU on our consolidated financial statements and related disclosures at this time.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**2. Loss Per Common Share**

	Three Months Ended March 31,	
	2020	2019
	(Dollars In Thousands, Except Per Share Amounts)	
<b>Numerator:</b>		
Net loss	\$ (19,452)	\$ (11,540)
Adjustments for basic net loss per common share:		
Dividend requirements on Series E Redeemable Preferred	(8,307)	(7,256)
Dividend requirements on Series B Preferred	(60)	(60)
Dividend requirements on Series D Preferred	(15)	(15)
Accretion of Series E Redeemable Preferred	(504)	(496)
Numerator for basic and dilutive net loss per common share - net loss attributable to common stockholders	<u>\$ (28,338)</u>	<u>\$ (19,367)</u>
<b>Denominator:</b>		
Denominator for basic and dilutive net loss per common share - adjusted weighted-average shares (1)	<u>28,176,205</u>	<u>27,959,024</u>
Basic and dilutive net loss per common share	<u>\$ (1.01)</u>	<u>\$ (0.69)</u>

(1) Excludes the weighted-average shares of unvested restricted stock that are contingently issuable.

The following weighted-average shares of securities were not included in the computation of diluted net loss per common share as their effect would have been antidilutive:

	Three Months Ended March 31,	
	2020	2019
Restricted stock and stock units	1,206,856	930,386
Convertible preferred stocks	916,666	916,666
Series E Redeemable Preferred - embedded derivative	303,646	303,646
Stock options	124,000	124,000
	<u>2,551,168</u>	<u>2,274,698</u>

**3. Current and Noncurrent Accrued and Other Liabilities**

	March 31, 2020	December 31, 2019
	(In Thousands)	
Accrued interest	\$ 18,896	\$ 7,091
Current portion of operating lease liabilities	4,781	4,066
Accrued payroll and benefits	4,415	5,385
Deferred revenue	3,118	3,443
Accrued death and other executive benefits	2,556	2,564
Other	11,932	9,149
	<u>45,698</u>	<u>31,698</u>
Less noncurrent portion	5,154	6,214
Current portion of accrued and other liabilities	<u>\$ 40,544</u>	<u>\$ 25,484</u>

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**4. Long-Term Debt**

Our long-term debt consists of the following:

	March 31, 2020	December 31, 2019
(In Thousands)		
Working Capital Revolver Loan, with a current interest rate of 3.75% (A)	\$ 30,000	\$ —
Senior Secured Notes due 2023 (B)	435,000	435,000
Secured Promissory Note due 2021, with an interest rate of 5.25% (C)	3,882	4,746
Secured Promissory Note due 2023, with a current interest rate of 5.17% (D)	12,210	12,705
Secured Financing due 2023, with an interest rate of 8.32% (E)	12,804	13,476
Secured Loan Agreement due 2025, with an interest rate of 8.75% (F)	7,789	5,219
Other	150	159
Unamortized discount, net of premium and debt issuance costs	(11,333)	(12,261)
	490,502	459,044
Less current portion of long-term debt	9,665	9,410
Long-term debt due after one year, net	<u>\$ 480,837</u>	<u>\$ 449,634</u>

**(A)** Our revolving credit facility (the “Working Capital Revolver Loan”) provides for advances up to \$75 million, based on specific percentages of eligible accounts receivable and inventories and up to \$10 million of letters of credit, the outstanding amount of which reduces the available for borrowing under the Working Capital Revolver Loan. At March 31, 2020, our available borrowings under our Working Capital Revolver Loan were approximately \$20.5 million, based on our eligible collateral, less outstanding letters of credit. The maturity date of the Working Capital Revolver Loan is February 26, 2024. The Working Capital Revolver Loan also provides for a springing financial covenant (the “Financial Covenant”), which requires that, if the borrowing availability is less than 10.0% of the total revolver commitments, then the borrowers must maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00. The Financial Covenant, if triggered, is tested monthly.

**(B)** On April 25, 2018, LSB completed the issuance and sale of \$400 million aggregate principal amount of its 9.625% Senior Secured Notes due 2023 (the “Notes”), pursuant to an indenture (the “Indenture”), dated as of April 25, 2018. The Notes were issued at a price equal to 99.509% of their face value.

On June 21, 2019, LSB completed the issuance and sale of \$35 million aggregate principal amount of its 9.625% Senior Secured Notes due 2023 (the “New Notes”). The New Notes were issued pursuant to the Indenture (the Notes together with the New Notes, the “Senior Secured Notes”). The New Notes were issued at a price equal to 102.125% of their face value, plus accrued interest from May 1, 2019 to June 21, 2019.

The Senior Secured Notes mature on May 1, 2023. Interest is to be paid semiannually in arrears on May 1<sup>st</sup> and November 1<sup>st</sup>.

**(C)** El Dorado Chemical Company (EDC), one of our subsidiaries, is party to a secured promissory note due in March 2021. Principal and interest are payable in monthly installments.

**(D)** El Dorado Ammonia L.L.C. (“EDA”), one of our subsidiaries, is party to a secured promissory note due in May 2023. Principal and interest are payable in equal monthly installments with a final balloon payment of approximately \$6.1 million.

**(E)** EDC is party to a secured financing arrangement with an affiliate of LSB Funding L.L.C. (“LSB Funding”). Principal and interest are payable in 48 equal monthly installments with a final balloon payment of approximately \$3 million due in June 2023.

**(F)** EDC is party to a secured loan agreement with an affiliate of LSB Funding, which provided for available borrowings (the “Interim Loan”) during the construction of certain equipment (the “Interim Loan Period”), subject to certain conditions. During the Interim Loan Period, interest only was payable in monthly installments. Effective February 28, 2020, the Interim Loan Period ended, and the Interim Loan was replaced by a secured promissory note due in March 2025. Under the terms of the note, principal and interest are payable in 60 equal monthly installments.

## 5. Commitments and Contingencies

**Natural Gas Purchase Commitments** – At March 31, 2020, certain of our natural gas contracts qualify as normal purchases under GAAP and thus are not mark-to-market, which contracts included volume purchase commitments with fixed costs of approximately 11.5 million MMBtus of natural gas. These contracts extend through December 2020 at a weighted-average cost of \$1.85 per MMBtu (\$21.2 million) and a weighted-average market value of \$1.75 per MMBtu (\$20.1 million).

**Legal Matters** - Following is a summary of certain legal matters involving the Company:

### A. Environmental Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (collectively, 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 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 related enforcement policies 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. Further, a number of our 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 financial condition.

Historically, significant capital expenditures have been incurred by our subsidiaries in order to comply with the Environmental and Health Laws, and significant capital expenditures are expected to be incurred in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our facilities should we discontinue the operations of a facility.

As of March 31, 2020, our accrued liabilities for environmental matters totaled \$183,000 relating primarily to the matters discussed below. It is reasonably possible that a change in the estimate of our liability could occur in the near term.

#### 1. Discharge Water Matters

Each of our manufacturing facilities generates process wastewater, which may include cooling tower and boiler water quality control streams, contact storm water and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by various permits generally issued by the respective state environmental agencies as authorized and overseen by the U.S. Environmental Protection Agency. These permits limit the type and amount of effluents that can be discharged and control the method of such discharge. In October 2017, PCC filed a Permit Renewal Application for its Non-Hazardous Injection Well Permit at the Pryor Facility. Although the Injection Well Permit expired in 2018, PCC continues to operate the injection well pending the Oklahoma Department of Environmental Quality (“ODEQ”) action on the Permit Renewal Application. PCC and ODEQ are engaged in ongoing discussions related to the renewal of the injection well to address the wastewater stream.

Our El Dorado Facility is subject to a National Pollutant Discharge Elimination System (“NPDES”) permit issued by the Arkansas Department of Environmental Quality (“ADEQ”) in 2004. In 2010, the ADEQ issued a draft NPDES permit renewal for the El Dorado Facility, which contained more restrictive discharge limits than the previous 2004 permit. In August 2017, ADEQ issued a final NPDES permit with new dissolved mineral limits. EDC filed an appeal in September 2017 and a Permit Appeal Resolution (“PAR”) was signed in July 2018. EDC is in compliance with the revised permit limits agreed upon in the PAR.

In November 2006, the El Dorado Facility entered into a Consent Administrative Order (“CAO”) that recognizes the presence of nitrate contamination in the shallow groundwater. The CAO required EDC to perform semi-annual groundwater monitoring, continue operation of a groundwater recovery system, submit a human health and ecological risk assessment, and submit a remedial action plan.

## 5. Commitments and Contingencies (continued)

The risk assessment was submitted in August 2007. In February 2015, the ADEQ stated that El Dorado Chemical was meeting the requirements of the CAO and should continue semi-annual monitoring. Subsequent to the PAR mentioned previously, a new CAO was signed in October 2018, which required an Evaluation Report of the data and effectiveness of the groundwater remedy for nitrate contamination. In February 2019, the Evaluation Report was submitted to the ADEQ and the ADEQ approved the report in August 2019.

No liability has been established at March 31, 2020, in connection with this ADEQ matter.

### 2. Other Environmental Matters

In 2002, certain of our subsidiaries sold substantially all of their operating assets relating to a Kansas chemical facility (the "Hallowell Facility") but retained ownership of the real property where the facility is located. Our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and develop a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters.

As the successor to a prior owner of the Hallowell Facility, Chevron Environmental Management Company ("Chevron") has agreed in writing, within certain limitations, to pay and has been paying one-half of the costs of the investigation and interim measures relating to this matter as approved by the Kansas Department of Health and Environment (the "KDHE"), subject to reallocation.

Our subsidiary and Chevron have retained an environmental consultant to prepare and perform a corrective action study work plan as to the appropriate method to remediate the Hallowell Facility. The proposed strategy includes long-term surface and groundwater monitoring to track the natural decline in contamination. The KDHE is currently evaluating the corrective action strategy, and, thus, it is unknown what additional work the KDHE may require, if any, at this time.

We accrued our allocable portion of costs primarily for the additional testing, monitoring and risk assessments that could be reasonably estimated, which is included in our accrued liabilities for environmental matters discussed above. The estimated amount is not discounted to its present value. As more information becomes available, our estimated accrual will be refined.

### B. Other Pending, Threatened or Settled Litigation

In 2013, an explosion and fire occurred at the West Fertilizer Co. ("West Fertilizer") located in West, Texas, causing death, bodily injury and substantial property damage. West Fertilizer is not owned or controlled by us, but West Fertilizer was a customer of EDC, and purchased AN from EDC from time to time. LSB and EDC received letters from counsel purporting to represent subrogated insurance carriers, personal injury claimants and persons who suffered property damages informing LSB and EDC that their clients are conducting investigations into the cause of the explosion and fire to determine, among other things, whether AN manufactured by EDC and supplied to West Fertilizer was stored at West Fertilizer at the time of the explosion and, if so, whether such AN may have been one of the contributing factors of the explosion. Initial lawsuits filed named West Fertilizer and another supplier of AN as defendants.

In 2014, EDC and LSB were named as defendants, together with other AN manufacturers and brokers that arranged the transport and delivery of AN to West Fertilizer, in the case styled *City of West, Texas vs. CF Industries, Inc., et al.*, in the District Court of McLennan County, Texas. The plaintiffs allege, among other things, that LSB and EDC were negligent in the production and marketing of fertilizer products sold to West Fertilizer, resulting in death, personal injury and property damage. EDC retained a firm specializing in cause and origin investigations with particular experience with fertilizer facilities, to assist EDC in its own investigation. LSB and EDC placed its liability insurance carrier on notice, and the carrier is handling the defense for LSB and EDC concerning this matter.

Our product liability insurance policies have aggregate limits of general liability totaling \$100 million, with a self-insured retention of \$250,000, which retention limit has been met relating to this matter. In August 2015, the trial court dismissed plaintiff's negligence claims against us, and EDC based on a duty to inspect but allowed the plaintiffs to proceed on claims for design defect and failure to warn.

Subsequently, we and EDC have entered into confidential settlement agreements (with approval of our insurance carriers) with several plaintiffs that had claimed wrongful death and bodily injury and insurance companies asserting subrogation claims for damages from the explosion. A portion of these settlements have been paid by the insurer as of March 31, 2020. While these settlements resolve the claims of a number of the claimants in this matter for us, we continue to be party to litigation related to this explosion by other plaintiffs, in addition to indemnification or defense obligations we may have to other defendants. We continue to defend these lawsuits vigorously and we are unable to estimate a possible range of loss at this time if there is an adverse outcome in this matter as to EDC. As of March 31, 2020, no liability reserve has been established in connection with this matter, except for the unpaid portion of the settlement agreements that are covered by insurance as discussed above.

## **5. Commitments and Contingencies (continued)**

In 2015, we and EDA received formal written notice from Global Industrial, Inc. (“Global”) of Global’s intention to assert mechanic liens for labor, service, or materials furnished under certain subcontract agreements for the improvement of the new ammonia plant (“Ammonia Plant”) at our El Dorado Facility. Global is a subcontractor of Leidos Constructors, LLC (“Leidos”), the general contractor for EDA for the construction for the Ammonia Plant. Leidos terminated the services of Global with respect to their work performed at our El Dorado Facility.

LSB and EDA intend to pursue recovery of any damage or loss caused by Global’s work performed through their contract with Leidos at our El Dorado Facility. In March 2016, EDC and we were served a summons in a case styled *Global Industrial, Inc. d/b/a Global Turnaround vs. Leidos Constructors, LLC et al.*, in the Circuit court of Union County, Arkansas, wherein Global seeks damages under breach of contract and other claims. At the time of the summons, our accounts payable included invoices totaling approximately \$3.5 million related to the claims asserted by Global but such invoices were not approved by Leidos for payment. We have requested indemnification from Leidos under the terms of our contracts which they have denied. As a result, we are seeking reimbursement of legal expenses from Leidos under our contracts. We also seek damages from Leidos for their wrongdoing during the expansion, including breach of contract, fraud, gross negligence, professional negligence and gross negligence.

On September 25, 2018, the Court bifurcated the case into: (1) Global’s claims against Leidos and LSB, and (2) the cross-claims between Leidos and LSB. Part (1) of the case was tried in the Court during the fall of 2018 and the Court rendered an interim judgment in March 2020 and issued its final judgment on April 23, 2020. In summary, the judgment awarded Global (i) approximately \$7.4 million (amount includes the \$3.5 million discussed above) for labor, service, and materials furnished relating to the Ammonia Plant, (ii) approximately \$1.3 million for prejudgment interest, and (iii) a claim of lien on certain property and the foreclosure of the lien to satisfy these obligations. In addition, post-judgment interest will accrue at the annual rate of 4.25% until paid. As a result of the judgment during the first quarter of 2020, we accounted for the following:

- accrued an additional \$3.9 million in accounts payable, which offset amount was capitalized as PP&E, since such costs directly related to the construction of the Ammonia Plant;
- recognized additional depreciation expense of \$0.5 million associated with the amount above capitalized to PP&E, which offset amount was a credit to PP&E (accumulated depreciation);
- accrued prejudgment and post-judgment interest totaling \$1.3 million in accrued interest, which offset amount was classified as interest expense.

We intend to appeal the judgment and will request a stay of the judgment pending appeal.

LSB intends to vigorously prosecute its claims against Leidos in Part (2) of the matter. Due to the impact from the coronavirus (“COVID-19”) pandemic, the Trial date for Part (2) of the matter has been delayed until September 2020.

We are also involved in various other claims and legal actions (including matters involving gain contingencies). It is possible that the actual future development of claims could be different from our estimates but, after consultation with legal counsel, we believe that changes in our estimates will not have a material effect on our business, financial condition, results of operations or cash flows.

## **6. Derivatives, Hedges and Financial Instruments**

For the periods presented, the following significant instruments are accounted for on a fair value basis:

### Natural Gas Contracts

During the first quarter of 2020, we entered into certain forward natural gas contracts (“natural gas contracts”), which are accounted for on a mark-to-market basis. We are utilizing these natural gas contracts as economic hedges for risk management purposes but are not designated as hedging instruments. At March 31, 2020, our natural gas contracts included 2.6 million MMBtu of natural gas and extend through January 2021 (none at December 31, 2019). The valuations of the natural gas contracts are classified as Level 2. At March 31, 2020, the valuation inputs included the contractual weighted-average cost of \$2.01 per MMBtu and the weighted-average market value of \$1.81 per MMBtu. For the three months ended March 31, 2020, we recognized a loss of \$0.7 million (classified as cost of sales), which includes an unrealized loss of \$0.5 million (none for the three months ended March 31, 2019). The cash flows relating to these natural contracts are included in cash flows from operating activities.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**6. Derivatives, Hedges and Financial Instruments (continued)**

Embedded Derivative

As discussed in Note 8, certain embedded features (“embedded derivative”) relating to the redemption of the Series E Redeemable Preferred, which includes certain contingent redemption features and the participation rights value have been bifurcated from the Series E Redeemable Preferred and recorded as a liability. At March 31, 2020 and December 31, 2019, we estimate that the contingent redemption features have fair value since we estimate that it is probable that a portion of the shares of this preferred stock would be redeemed prior to October 25, 2023. For certain other embedded features, we estimated no fair value based on our assessment that there is a remote probability that these features will be exercised.

The fair value of the embedded derivative was valued using discounted cash flow models and primarily based on the difference in the present value of estimated future cash flows with no redemptions prior to October 25, 2023 compared to certain redemptions deemed probable during the same period and applying the effective dividend rate of the Series E Redeemable Preferred. In addition, at March 31, 2020 and December 31, 2019, the fair value of the embedded derivative included the valuation of the participation rights, which was based on the equivalent of 303,646 shares of our common stock at \$2.10 and \$4.20 per share, respectively.

The valuations of the embedded derivative are classified as Level 3. This derivative is valued using market information, management’s redemption assumptions, the underlying number of shares as defined in the terms of the Series E Redeemable Preferred, and the market price of our common stock.

For the three months ended March 31, 2020 and 2019, we recognized an unrealized gain of approximately \$0.6 million and an unrealized loss of \$0.2 million, respectively, due to the change in fair value of the embedded derivative. These unrealized gains and losses are included in non-operating income and expense.

The following details our liabilities that are measured at fair value on a recurring basis at March 31, 2020 and December 31, 2019:

Description	Total Fair Value at March 31, 2020	Fair Value Measurements at March 31, 2020 Using			Total Fair Value at December 31, 2019
		Quoted Prices in Active Markets for Identical Contracts (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)	
(In Thousands)					
<b>Liabilities - Current and noncurrent accrued and other liabilities:</b>					
Natural gas contracts	\$ 527	\$ —	\$ 527	\$ —	\$ —
Embedded derivative	\$ 447	\$ —	\$ —	\$ 447	\$ 1,084
<b>Total</b>	<b>\$ 974</b>	<b>\$ —</b>	<b>\$ 527</b>	<b>\$ 447</b>	<b>\$ 1,084</b>

(1) There was no Level 3 transfer activity for the three months ended March 31, 2020 and 2019.

Other Financial Instruments

At March 31, 2020 and December 31, 2019, we did not have any financial instruments with fair values significantly different from their carrying amounts (which excludes issuance costs, if applicable), except for the Senior Secured Notes as shown below.

	March 31, 2020		December 31, 2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In Millions)				
Senior Secured Notes (1)	\$ 435	\$ 348	\$ 435	\$ 449

(1) Based on a quoted price of 80.11 at March 31, 2020 and 103.25 at December 31, 2019.

The Senior Secured Notes valuations are classified as Level 2. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**7. Income Taxes**

On March 27, 2020, the President of the U.S. signed into law the CARES Act. The CARES Act provides relief to corporate taxpayers by permitting a five year carryback of 2018-2020 net operating losses (“NOLs”), removing the 80% limitation on the carryback of those NOLs, increasing the Section 163(j) 30% limitation on interest expense deductibility to 50% of adjusted taxable income for 2019 and 2020, and accelerates refunds for minimum tax credit carryforwards, along with a few other provisions. During the three months ended March 31, 2020, no material adjustments were required to the income tax benefit as a result of the enactment of the CARES Act.

Provision (benefit) for income taxes is as follows:

	Three Months Ended March 31,	
	2020	2019
	(In Thousands)	
<b>Current:</b>		
Federal	\$ —	\$ —
State	35	(45)
Total Current	\$ 35	\$ (45)
<b>Deferred:</b>		
Federal	\$ (753)	\$ 323
State	379	122
Total Deferred	\$ (374)	\$ 445
Provision (benefit) for income taxes	\$ (339)	\$ 400

For the three months ended March 31, 2020 and 2019, the current provision (benefit) for state income taxes shown above includes regular state income tax, provisions for uncertain state income tax positions, and other similar adjustments.

Our estimated annual effective rate for 2020 includes the impact of permanent tax differences, limits on deductible compensation, valuation allowances and other permanent items.

We considered both positive and negative evidence in our determination of the need for valuation allowances for deferred tax assets. Information evaluated includes our financial position and results of operations for the current and preceding years, the availability of deferred tax liabilities and tax carrybacks, as well as an evaluation of currently available information about future years. Valuation allowances are reflective of our quarterly analysis of the four sources of taxable income, including the calculation of the reversal of existing tax assets and liabilities, the impact of financing activities and our quarterly results. Based on our analysis, we currently believe that it is more-likely-than-not that a portion of our federal deferred tax assets will not be able to be utilized and we estimate the valuation allowance to be recorded during 2020 to be approximately \$5.3 million. We have also determined it was more-likely-than-not that a portion of our state deferred tax assets would not be able to be utilized and we estimate the valuation allowance associated with these state deferred tax assets to be recorded during 2020 will be approximately \$3.3 million.

We will continue to evaluate both the positive and negative evidence on a quarterly basis in determining the need for a valuation allowance with respect to our deferred tax assets. Changes in positive and negative evidence, including differences between estimated and actual results and additional guidance for various provisions of the CARES Act, could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated financial statements. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

The tax benefit for the three months ended March 31, 2020 was \$0.3 million (2% benefit on pre-tax loss) and the tax provision for the three months ended March 31, 2019 was \$0.4 million (4% provision on pre-tax loss). For the first three months ended March 31, 2020 and 2019, the effective tax rate is less than the statutory tax rate primarily due to the impact of the valuation allowances.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2016-2019 years remain open for all purposes of examination by the U.S. Internal Revenue Service and other major tax jurisdictions.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. Redeemable Preferred Stocks**

***Series E and Series F Redeemable Preferred***

As of March 31, 2020, the Series E Redeemable Preferred has a 14% annual dividend rate and a participating right in dividends and liquidating distributions equal to 303,646 shares of common stock (participation rights value). Dividends accrue semi-annually in arrears and are compounded. Pursuant to the terms of the Series E Redeemable Preferred, the annual dividend rate will increase (a) by 0.50% in April 2021 (b) by an additional 0.50% in April 2022 and (c) by an additional 1.0% in April 2023. The Series E Redeemable Preferred contains redemption features and a participation rights value that are being accounted for as derivative instruments and have been bifurcated from the Series E Redeemable Preferred as discussed in Note 6.

As of March 31, 2020, the Series F Redeemable Preferred has voting rights to vote as a single class on all matters which the common stock have the right to vote and is entitled to a number of votes equal to 456,225 shares of our common stock.

Changes in our Series E and Series F Redeemable Preferred are as follows:

	Series E Redeemable Preferred	
	Shares	Amount
	(Dollars In Thousands)	
Balance at December 31, 2019	139,768	\$ 234,893
Accretion relating to liquidation preference on preferred stock	—	269
Accretion for discount and issuance costs on preferred stock	—	235
Accumulated dividends	—	8,307
Balance at March 31, 2020	<u>139,768</u>	<u>\$ 243,704</u>

**9. Net Sales**

***Disaggregated Net Sales***

As discussed in Note 1, we primarily derive our revenues from the sales of various chemical products. The following table presents our net sales disaggregated by our principal markets, which disaggregation is consistent with other financial information utilized or provided outside of our consolidated financial statements:

	Three Months Ended March 31,	
	2020	2019
	(Dollars In Thousands)	
Net sales:		
Agricultural products	\$ 41,458	\$ 46,820
Industrial acids and other chemical products	35,206	37,850
Mining products	6,747	9,482
Total net sales	<u>\$ 83,411</u>	<u>\$ 94,152</u>

***Other Information***

Although most of our contracts have an original expected duration of one year or less, for our contracts with a duration greater than one year, the average remaining expected duration was approximately 15 months at March 31, 2020.

Liabilities associated with contracts with customers (contract liabilities) primarily relate to deferred revenue and customer deposits associated with cash payments received in advance from customers for volume shortfall charges and product shipments. We had approximately \$4.2 million and \$3.6 million of contract liabilities as of March 31, 2020 and December 31, 2019, respectively. For the three months ended March 31, 2020 and 2019, revenues of \$0.5 million and \$1.4 million, respectively, were recognized and included in the balance at the beginning of the respective period.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**10. Related Party Transactions**

As of March 31, 2020, we have two separate outstanding financing arrangements with an affiliate of LSB Funding as discussed in footnotes (E) and (F) of Note 4. Also, an affiliate of LSB Funding holds \$50 million of our Senior Secured Notes discussed in footnote (B) of Note 4. In addition, LSB Funding holds all outstanding shares of the Series E and Series F Redeemable Preferred discussed in Note 8.

The Golsen Holders hold all outstanding shares of the Series B Preferred and Series D Preferred, which accumulated dividends on such shares totaled approximately \$1.4 million at March 31, 2020.

**11. Supplemental Cash Flow Information**

The following provides additional information relating to cash flow activities:

	Three Months Ended	
	March 31,	
	2020	2019
	<u>(In Thousands)</u>	
Cash refunds for:		
Income taxes, net	\$ (332)	\$ (48)
Noncash continuing investing and financing activities:		
Supplies and accounts payable associated with additions of property, plant and equipment	\$ 20,229	\$ 11,901
Dividends accrued on Series E Redeemable Preferred	\$ 8,307	\$ 7,256
Accretion of Series E Redeemable Preferred	\$ 504	\$ 496

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with a review of the other Items included in this Form 10-Q and our March 31, 2020 condensed consolidated financial statements included elsewhere in this report. A reference to a “Note” relates to a note in the accompanying notes to the condensed consolidated financial statements. This MD&A reflects our operating results, unless otherwise noted. 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 Operating Initiatives for 2020**

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

- *Continued Focus on Becoming a “Best in Class” Chemical plant operator with respect to safe, reliable operations that produce the highest quality product.*
  - We believe that high safety standards are critical and a precursor to improved plant performance. With that in mind, we implemented and are currently managing enhanced safety programs at our facilities that focus on improving our safety culture that will reduce risks and continuously improve our safety performance.
  - Additionally, over the last several years, our focus has been on upgrading our existing maintenance management system through technology enhancements and work processes to improve our predictive and preventative maintenance programs at our facilities.
  - We have several initiatives underway that we believe will improve the overall reliability of our plants and allow us to produce more products for sale while lowering our cost of production. Those initiatives are focused on building internal expertise to improve oversight of external contractors, operating behavior and procedure enhancements including operator training, leadership training, shift change enhancements and operating and maintenance procedures and developing systems to advance the use of process data to identify and correct anomalies in the manufacturing processes and asset performance.
- *Continue Broadening of the Distribution of our Products.* To further leverage our plants current production capacity, we are continuing to expand the distribution of our industrial and mining products by partnering with customers to take product into different markets within the U.S. as well as markets outside the U.S. Additionally, during 2019, we developed a pipeline of margin enhancement projects including product loading and unloading improvements, tank storage and capital to facilitate guest plant opportunities which, we expect will result in improved margins on the sales of our products. We expect to complete these projects over the next 12 to 18 months.
- *Improve 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 our improved operating performance will be a benefit in achieving those efforts.

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.

#### **Recent Business Developments**

##### **COVID-19 Pandemic**

All of the facilities we operate have been designated as essential critical infrastructure based on guidelines issued by the United States Department of Homeland Security’s Cybersecurity and Infrastructure Security Agency. Since we produce fertilizer products used by the agriculture industry, as well as chemical products required in a variety of industrial manufacturing processes, LSB has been determined to be a critical service, and therefore, our facilities are remaining in operation despite the evolving global health crisis resulting from the COVID-19 pandemic. Management has taken significant measures to ensure the health and safety of our employees and our business continuity during this challenging situation. Specific to our personnel at our manufacturing facilities and retail agricultural centers, we have developed plans and procedures that allow them to operate in the safest manner possible in order to protect them, their families, our vendors and customers. These include daily health screenings, including temperature checks and questionnaires, use of proper personal protection equipment, regular disinfection and cleaning of equipment and workspaces, social distancing, working from home where appropriate and quarantining of employees according to specific protocols. Thus far, our efforts have been successful as we have had no employees known to contract COVID-19. We will maintain our discipline in this regard for however long the current health risk persists.

As discussed below under “Key Industry Factors”, the USDA recently increased its forecast for total corn acres to be planted in 2020 from 94 million to 97 million, up from the 89 million acres of corn planted in the U.S. in 2019. The increase suggests strong growth in demand for fertilizers during the second quarter spring planting season, which we expect to benefit our results. With respect to the COVID-19 pandemic, we have seen some pull back in demand across our industrial and mining business. However, we anticipate that we can shift some of this production towards our agricultural end markets that are experiencing elevated demand. This, along with the cost saving measures discussed below, should allow us to minimize the overall impact to our financial results. While the current global health crisis remains a major uncertainty for the U.S. economy, that could affect industrial and mining orders in the coming months, we are well diversified across our end markets and we expect will minimize the impact to our financial results

Due to the unprecedented level of uncertainty prevalent in the economy at this time, management and our Board of Directors have taken several decisive actions to control our costs and maintain liquidity until the business environment stabilizes and visibility improves. Specifically, we have identified a combination of plant expenses and SG&A that have been deferred for the next 60 days or potentially longer depending on the duration of the COVID-19 crisis. Additionally, we currently have deferred between \$5 million and \$6 million of capital expenditures not related to Environmental, Health and Safety investments until the fourth quarter of 2020.

On the liquidity front, as of March 31, 2020, we had approximately \$58 million of combined cash and borrowing capacity, which, we believe, provides us with ample liquidity to fund our operations and meet our obligations.

Additionally, we received a \$10 million loan through the Paycheck Protection Program (“PPP”) within the CARES Act stimulus package. The funds from this loan, along with the decisive action we have taken to defer expenses and capital expenditures, have enabled us to avoid the need to furlough or terminate employees to counteract the lost volume and pricing impacts we have seen or expect as a result of the COVID-19 pandemic. We are also evaluating additional funding options that may be available through the CARES Act stimulus package for mid-sized companies. Also see discussions below under “Liquidity and Capital Resources.”

## **Key Industry Factors**

### ***Supply and Demand***

#### **Agricultural**

See discussion above concerning the COVID-19 pandemic under “Recent Business Developments.”

Sales of our agricultural products were approximately 50% of our total net sales for the first quarter of 2020. 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 affect product margins.

From a farmers’ perspective, 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.

Additionally, changes in corn prices and those of soybean, cotton and wheat 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 USDA estimates the number of acres of corn being planted in the U.S. in 2020 to be approximately 97.0 million acres. In addition, the USDA estimates corn production for the 2019 harvest at approximately 13.7 billion bushels, down 5 percent from the 2018 harvest. The average yield in the U.S. is estimated at 168.0 bushels per acre, 8.4 bushels below the 2018 harvest yield of 176.4 bushels per acre.

The following April estimates are associated with the corn market:

	2020 Crop (2019 Harvest) <u>April Report (1)</u>	2019 Crop (2018 Harvest) <u>April Report (1)</u>	Percentage Change (2)	2018 Crop (2017 Harvest) <u>April Report (1)</u>	Percentage Change (3)
U.S. Area Planted ( <i>Million acres</i> )	89.7	88.9	0.9%	90.2	(0.6%)
U.S. Yield per Acre ( <i>Bushels</i> )	168.0	176.4	(4.8%)	176.6	(4.9%)
U.S. Production ( <i>Million bushels</i> )	13,692	14,340	(4.5%)	14,609	(6.3%)
U.S. Ending Stocks ( <i>Million metric tons</i> )	53.2	56.4	(5.7%)	54.4	(2.2%)
World Ending Stocks ( <i>Million metric tons</i> )	303.2	320.9	(5.5%)	341.6	(11.2%)

- (1) Information obtained from WASDE reports dated April 9, 2020 (“April Report”) for the 2019/2020 (“2020 Crop”), 2018/2019 (“2019 Crop”) and 2017/2018 (“2018 Crop”) corn marketing years. The marketing year is the twelve-month period during which a crop normally is marketed. For example, the marketing year for the current corn crop is from September 1 of the current year to August 31 of the next year. The year begins at the harvest and continues until just before harvest of the following year.
- (2) Represents the percentage change between the 2020 Crop amounts compared to the 2019 Crop amounts.
- (3) Represents the percentage change between the 2020 Crop amounts compared to the 2018 Crop amounts.

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. Following the expansions, global nitrogen fertilizer supply outpaced global nitrogen fertilizer demand causing oversupply in the global and North American markets. In addition, the new domestic supply of ammonia and other fertilizer products changed the physical flow of ammonia in North America placing pressure on nitrogen fertilizer selling prices as the new capacity was absorbed by the market. More recently, ammonia pricing has been under pressure as a result of inordinately inclement weather in late 2018 and 2019, which led to limited fertilizer application and resultant elevated ammonia inventory levels in the domestic distribution channel. Additionally, UAN prices have pulled back in part, due to European anti-dumping duties that were imposed on imports from certain countries, including the U.S., which has caused increased imports of UAN into the U.S. primarily from Trinidad and Russia and exports from the U.S. to decrease, resulting in increased overall supply in the U.S market. Also, ammonia prices in the Southern Plains market have been under additional pricing pressure relating to the closure of the Magellan ammonia pipeline discussed below under “Transportation Costs.”

After a challenging 2019 for U.S. corn farmers, a lower 2019 harvest and a decline in the stock-to-use ratio for corn, the USDA is projecting an increase in planted corn acres for the 2020 planting season representing an approximate 8% increase in corn acres year over year. However, with the nation restricted from traveling in an attempt to slow the spread of the COVID-19 pandemic, gasoline usage has been significantly curtailed putting pressure on ethanol prices and causing the closure of numerous ethanol production facilities. Most gasoline has 10% ethanol content. Ethanol is commonly made from corn and Ethanol production is the largest user of U.S. corn, representing roughly 40% of corn demand. As a result, the USDA has dropped corn demand from ethanol production by 375 million bushels for 2020 in their April report. This increases the USDA ending corn stocks forecast from the 2020 harvest compared to their March report. This puts pressure on current and projected corn prices and could have an impact on the number of corn acres planted this Spring and, in the Spring of 2021, which may impact fertilizer demand as early as this Fall.

Therefore, for 2020, we expect overall stronger demand for our products somewhat tempered by continued pricing pressures on fertilizer and corn pricing.

### **Industrial and Mining**

See discussion above concerning the COVID-19 pandemic under “Recent Business Developments.”

Sales of our industrial products were approximately 42% of our total net sales for the first quarter of 2020. 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 are experiencing weakness and contracting in the wake of the COVID-19 pandemic and its impact on the U.S market we serve in addition to weakness in the global economy. Our sales prices generally vary with the market price of ammonia or natural gas, as applicable, in our pricing arrangements with customers.

Sales of our mining products were approximately 8% of our total net sales for the first quarter of 2020. Our mining products are LDAN and AN solution, which are primary used as AN fuel oil and specialty emulsions for usage in the quarry and the construction industries, for metals mining, and to a lesser extent, for coal. In our mining markets, our sales volumes are typically driven by changes in the overall North American consumption levels of mining products that can be impacted by weather. Additionally, recent reduction in coal mining activities is increasing competition within the other sectors of this market. While we believe our plants are

well located to support the more stable quarry and construction industries and the metals mining industries, our mining sales volumes for the first quarter of 2020 were affected by overall lower customer demand in our mining markets.

### ***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. During the first quarter of 2020, we also entered into certain forward natural gas contracts as discussed in Note 6. 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 volume of natural gas we purchased and the average cost per MMBtu:

	Three Months Ended March 31,	
	2020	2019
Natural gas volumes (MMBtu in millions)	7.7	7.4
Natural gas average cost per MMBtu	\$ 2.09	\$ 2.91

### ***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. However, we continue to evaluate the recent rising costs of rail and truck freight domestically. Additionally, the Magellan ammonia pipeline, which had an annual capacity to transport approximately 900,000 tons per year, most of which was produced in Oklahoma and Texas and delivered via the pipeline in the Midwest has been permanently shut down. Without the pipeline in place for ammonia transport, producers have to rely on other transportation venues, primarily truck, but will also include rail and barge transport of ammonia. Higher transportation costs may impact our margins if we are not able to pass through these costs. As a result, we continue to evaluate supply chain efficiencies to reduce or counter the impact of higher logistics costs.

### **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 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.

The Pryor Facility is currently on a two-year Turnaround cycle with the next Turnaround planned for the third quarter of 2021. At that time, we will seek to move to a three-year Turnaround cycle.

The El Dorado Facility is currently on a three-year Turnaround cycle with the next Turnaround planned in the third quarter of 2022.

Our Cherokee Facility is currently on a three-year Turnaround cycle with the next Turnaround planned in the third quarter of 2021.

#### ***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 with dates typically occurring within 12 months. 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 of the First Quarter of 2020**

Our consolidated net sales for the first quarter of 2020 were \$83.4 million compared to \$94.2 million for the same period in 2019. Our consolidated operating loss was \$7.0 million compared to a consolidated operating income of \$0.1 million for the same period in 2019. The items impacting our operating results are discussed in more detail below and under “Results of Operations.”

### **Items Affecting Comparability of Results of the First Quarter**

#### ***Selling Prices***

During the first quarter of 2020, average agricultural selling prices for our ammonia, UAN and HDAN decreased 34%, 28% and 11%, respectively, compared to the same period in 2019. As discussed above under “Key Industry Factors,” the decline in ammonia average selling prices reflects decreases in the Southern Plains benchmark for this product resulting from elevated ammonia inventory levels from the inordinately inclement weather throughout the Midwest over the past year and the closure of the Magellan ammonia pipeline in September 2019 which has led to excess ammonia supply in the Southern Plains market. UAN prices were negatively impacted by European anti-dumping duties which resulted in less exports of UAN from the U.S. and more imports of UAN from Russia and Trinidad into the United States. HDAN prices are being impacted by the decline in the overall agricultural commodity prices.

Our first quarter 2020 average industrial selling prices for our ammonia also decreased compared to the same period of 2019 as a result of the aforementioned elevated ammonia inventory levels. The first quarter 2020 Tampa Ammonia pricing declined approximately 11% as compared to the same period in 2019, which led to a decrease in industrial selling prices as many of our industrial contracts are indexed to the Tampa Ammonia benchmark price.

#### ***Legal Fees***

For the first quarters of 2020 and 2019, legal fees were approximately \$3.6 million and \$1.1 million, respectively. The change primarily relates to fees incurred as we pursue our claims against Leidos to recover damages and losses associated with the construction of the ammonia plant at the El Dorado Facility as discussed in footnote B of Note 5. Due to the impact from the COVID-19 pandemic, the trial date has been delayed until September 2020. We expect minimal legal fee spending related to our Leidos case over the next several months. However, costs will increase later this year as we restart preparations for trial in September.

### **Results of Operations**

The following Results of Operations should be read in conjunction with our condensed consolidated financial statements for the three months ended March 31, 2020 and 2019 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 condensed 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.

**Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019**

The following table contains certain financial information:

	Three Months Ended March 31,			Change	Percentage Change
	2020	2019			
(Dollars In Thousands)					
<b>Net sales:</b>					
Agricultural products	\$ 41,458	\$ 46,820	\$ (5,362)	(11)%	
Industrial and mining products	41,953	47,332	(5,379)	(11)%	
Total net sales	<u>\$ 83,411</u>	<u>\$ 94,152</u>	<u>\$ (10,741)</u>	(11)%	
<b>Gross profit:</b>					
Agricultural products (1)	\$ 3,254	\$ 6,453	\$ (3,199)	(50)%	
Industrial and mining products (1)	16,874	17,676	(802)	(5)%	
Adjusted gross profit by market (1)	20,128	24,129	(4,001)	(17)%	
Depreciation and amortization (2)	(17,577)	(16,811)	(766)	5%	
Total gross profit	2,551	7,318	(4,767)	(65)%	
Selling, general and administrative expense	10,006	7,224	2,782	39%	
Other expense (income), net	(468)	23	(491)		
Operating income (loss)	(6,987)	71	(7,058)	(9941)%	
Interest expense, net (3)	13,479	10,987	2,492	23%	
Non-operating other expense (income), net	(675)	224	(899)		
Provision (benefit) for income taxes	(339)	400	(739)	(185)%	
Net loss	<u>\$ (19,452)</u>	<u>\$ (11,540)</u>	<u>\$ (7,912)</u>	(69)%	
<b>Other information:</b>					
Gross profit percentage (4)	3.1%	7.8%	(4.7)%		
Property, plant and equipment expenditures	<u>\$ 10,737</u>	<u>\$ 7,115</u>	<u>\$ 3,622</u>	51%	

- (1) Represents a non-GAAP measure since the amount excludes unallocated depreciation, amortization and Turnaround expenses, if any.  
(2) Represents amount classified as cost of sales.  
(3) First quarter of 2020 includes interest expense of \$1.3 million associated with a litigation judgment discussed in footnote (B) of Note 5.  
(4) As a percentage of the total net sales.

The following table provides certain financial information by market (dollars in thousands):

	Three Months Ended March 31,					
	2020		2019		Change	
	Agricultural Products	Industrial and Mining Products	Agricultural Products	Industrial and Mining Products	Agricultural Products	Industrial and Mining Products
Net sales	<u>\$ 41,458</u>	<u>\$ 41,953</u>	<u>\$ 46,820</u>	<u>\$ 47,332</u>	<u>\$ (5,362)</u>	<u>\$ (5,379)</u>
Adjusted gross profit by market (1)	<u>\$ 3,254</u>	<u>\$ 16,874</u>	<u>\$ 6,453</u>	<u>\$ 17,676</u>	<u>\$ (3,199)</u>	<u>\$ (802)</u>
Adjusted gross profit percentage by market (2)	<u>7.8%</u>	<u>40.2%</u>	<u>13.8%</u>	<u>37.3%</u>	<u>(6.0)%</u>	<u>2.9%</u>

- (1) Represents a non-GAAP measure since the amount excludes unallocated depreciation, amortization and Turnaround expenses, if any. See reconciliation included in the financial information table above.  
(2) As a percentage of the respective net sales.

The following tables provide key operating metrics for the agricultural products:

Product (tons sold)	Three Months Ended March 31,			Percentage
	2020	2019	Change	Change
UAN	114,689	94,577	20,112	21%
HDAN	65,874	59,845	6,029	10%
Ammonia	20,510	19,205	1,305	7%
Other	2,946	3,328	(382)	(11)%
Total	204,019	176,955	27,064	15%

Gross Average Selling Prices (price per ton)	Three Months Ended March 31,			Percentage
	2020	2019	Change	Change
UAN	\$ 161	\$ 224	\$ (63)	(28)%
HDAN	\$ 236	\$ 264	\$ (28)	(11)%
Ammonia	\$ 245	\$ 372	\$ (127)	(34)%

With respect to sales of industrial products, the following tables indicate key operating metrics of our major products:

Product (tons sold)	Three Months Ended March 31,			Percentage
	2020	2019	Change	Change
Ammonia	70,528	74,834	(4,306)	(6)%
Nitric Acid	25,823	22,375	3,448	15%
Other Industrial Products	10,888	8,274	2,614	32%
Total	107,239	105,483	1,756	2%
Tampa Ammonia Benchmark (price per metric ton)	\$ 250	\$ 280	\$ (30)	(11)%

With respect to sales of mining products, the following table indicates the volumes sold of our major products:

Product (tons sold)	Three Months Ended March 31,			Percentage
	2020	2019	Change	Change
LDAN/HDAN/AN Solution	\$ 30,723	\$ 36,615	\$ (5,892)	(16)%

### **Net Sales**

- Agricultural product sales decreased driven by lower selling prices for all of our agricultural products as discussed above under “Items Affecting Comparability of Results of the First Quarter.” The impact from the decline in selling prices was partially offset by an increase in sales volume largely attributable to improved production from our facilities resulting from our extensive Turnarounds and other maintenance and upgrades performed over the last several years.
- Industrial acids and other industrial chemical product sales decreased primarily from lower selling prices due primarily to lower Tampa ammonia benchmark pricing. The average Tampa ammonia pricing was approximately \$30 per ton lower compared to the same period in 2019. This decline was partially offset by improved sales volumes for nitric acid and our other industrial products resulting in less ammonia sales as the ammonia was upgraded to higher margin products.
- Mining products sales decreased primarily as the result of overall lower sales volume and selling prices for our mining products. A large portion of our mining sales contracts are linked to natural gas indexes and as the cost of natural gas declines, the pricing for these products declines accordingly.

**Gross Profit**

As noted in the tables above, we recognized a gross profit of \$2.6 million for the first quarter of 2020 compared to \$7.3 million for the same period in 2019, or a decrease of \$4.7 million. Overall, our gross loss percentage decreased to 3.1% compared to 7.8% for the same period in 2019.

Our agricultural products adjusted gross profit percentage decreased to 8% for the first quarter of 2020 from 14% for the first quarter of 2019 due primarily to decline in selling prices for all of our agricultural products, partially offset by higher sales volumes for all of our major products as discussed above.

Industrial and mining products adjusted gross profit percentage increased to 40% for the first quarter of 2020 from 37% for the same period in 2019 primarily driven by improved overall production and sales volume as discussed above partially offset by lower overall Tampa ammonia pricing, which averaged approximately \$250 per metric ton during the first quarter of 2020 compared to \$280 per metric ton for the same period in 2019.

The net negative effect on gross profit from sales activity discussed above was partially offset by approximately \$6.3 million in lower natural gas costs per MMBtu.

**Selling, General and Administrative**

Our SG&A expenses were \$10.0 million for the first quarter of 2020, an increase of \$2.8 million compared to the same period in 2019. The increase was primarily driven by the increase in legal fees, including fees associated with the legal matter discussed above under "Items Affecting Comparability of Results of the First Quarter."

**Interest Expense, net**

Interest expense for the first quarter of 2020 was \$13.5 million compared to \$11 million for the same period in 2019. The increase relates primarily to the interest expense incurred associated with a litigation judgment discussed in footnote (B) of Note 5 and the issuance of the New Notes in 2019 as discussed in Note 4.

**Provision (Benefit) for Income Taxes**

The benefit for income taxes for the first quarter of 2020 was \$0.3 million compared to a provision for income taxes of \$0.4 million for the same period in 2019. The resulting effective tax rate for the first quarters of 2020 and 2019 was 2% (benefit on pre-tax loss) and 4% (provision on pre-tax loss), respectively. For the first quarters of 2020 and 2019, the effective tax rate is less than the statutory rate primarily due to the impact of the valuation allowance. Also see discussion in Note 7.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following table summarizes our cash flow activities for the three months ended March 31:

	2020	2019	Change
	(In Thousands)		
Net cash flows from operating activities	\$ (2,178)	\$ 7,061	\$ (9,239)
Net cash flows from investing activities	\$ (10,558)	\$ (7,106)	\$ (3,452)
Net cash flows from financing activities	\$ 27,428	\$ (4,298)	\$ 31,726

### **Net Cash Flow from Operating Activities**

Net cash used by operating activities was \$2.2 million for the first quarter of 2020 compared to net cash provided of \$7.1 million for the same period of 2019, a change of approximately \$9.3 million.

For the first quarter of 2020, the net cash used is the result of a net loss of \$19.5 million plus adjustments of \$17.6 million for depreciation and amortization of PP&E and other adjustments of \$1.3 million and net cash used of \$1.6 million primarily from our working capital.

For the first quarter of 2019, the net cash provided is the result of a net loss of \$11.5 million plus adjustments of \$16.8 million for depreciation and amortization of PP&E, \$0.4 million for deferred taxes and other adjustments of \$2.4 million and net cash used of approximately \$1.0 million primarily from our working capital.

### **Net Cash Flow from Investing Activities**

Net cash used by investing activities was \$10.6 million for the first quarter of 2020 compared to \$7.1 million for the same period of 2019, a change of \$3.5 million.

For the first quarters of 2020 and 2019, the net cash used relates primarily to expenditures for PP&E.

### **Net Cash Flow from Financing Activities**

Net cash provided by financing activities was \$27.4 million for the first quarter of 2020 compared to net cash used of \$4.3 million for the same period of 2019, a change of \$31.7 million.

For the first quarter of 2020, the net cash provided primarily consists of proceeds of \$30 million from our Working Capital Revolver Loan and proceeds of \$2.6 million from other long-term debt partially offset by payments on other long-term debt and short-term financing of \$5.1 million and payments of \$0.1 million for other financing activities.

For the first quarter of 2019, the net cash used primarily consists of payments on other long-term debt and short-term financing of \$4.3 million and payments of \$0.8 million for other financing activities partially offset by proceeds \$0.8 million from other long-term debt.

## Capitalization

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

	March 31, 2020	December 31, 2019
	(In Millions)	
Cash and cash equivalents	\$ 37.5	\$ 22.8
Long-term debt:		
Working Capital Revolver Loan	\$ 30.0	\$ —
Senior Secured Notes due 2023	435.0	435.0
Secured Promissory Note due 2021	3.9	4.7
Secured Promissory Note due 2023	12.2	12.7
Secured Financing due 2023	12.8	13.5
Secured Loan Agreement due 2025	7.8	5.2
Other	0.1	0.2
Unamortized discount and debt issuance costs	(11.3)	(12.3)
Total long-term debt, including current portion, net	\$ 490.5	\$ 459.0
Series E and F redeemable preferred stock (1)	\$ 243.7	\$ 234.9
Total stockholders' equity	\$ 219.5	\$ 247.3

(1) Liquidation preference of \$251.1 million as of March 31, 2020.

See discussion above concerning the COVID-19 pandemic under "Recent Business Developments."

As of March 31, 2020, we have a revolving credit facility, our Working Capital Revolver Loan, with a borrowing base of \$75 million. As of March 31, 2020, our Working Capital Revolver Loan had outstanding borrowings of \$30.0 million and approximately \$20.5 million of availability. We preemptively borrowed on the Working Capital Revolver Loan to ensure access to liquidity given the uncertainty surrounding the COVID-19 pandemic.

In April 2020, LSB entered into a \$10 million loan under the PPP within the CARES Act stimulus package. Under the terms of the PPP, an amount up to the full principal amount and any accrued interest of the loan may be forgiven based on the proceeds from the loan being spent primarily on payroll costs within the first 8 weeks of the loan period. Pursuant to the terms of the loan, the loan bears an annual interest rate of 1.00% and matures in April 2022. For the portion of the loan amount not forgiven, no payments of principal or interest is required for the first 6 months. Thereafter, principal and interest are payable in 18 equal monthly installments.

For the full year of 2020, we expect capital expenditures to be approximately \$25 million to \$30 million, which includes approximately \$5 million to \$10 million for margin enhancement projects. The remaining capital spending is planned for reliability and maintenance capital projects.

We believe that the combination of our cash on hand, the availability on our revolving credit facility, and our cash flow from operations will be sufficient to fund our anticipated liquidity needs for the next twelve months.

### Compliance with Long - Term Debt Covenants

As discussed below in Note 4, the Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. The Working Capital Revolver Loan does not include financial covenant requirements unless a defined covenant trigger event has occurred and is continuing. As of March 31, 2020, no trigger event had occurred.

### Loan Agreements and Redeemable Preferred Stock

**Senior Secured Notes due 2023** – LSB has \$435 million aggregate principal amount of the 9.625% Senior Secured Notes currently outstanding, as discussed in footnote (B) of Note 4. Interest is to be paid semiannually on May 1<sup>st</sup> and November 1<sup>st</sup>, maturing May 1, 2023.

**Secured Promissory Note due 2021** – EDC is party to a secured promissory note due March 26, 2021. This promissory note bears interest at the annual rate of 5.25%. Principal and interest are payable in monthly installments. This promissory note is secured by a natural gas pipeline at the El Dorado Facility and is guaranteed by LSB.

**Secured Promissory Note due 2023** – EDA is party to a secured promissory note due May 10, 2023. Principal and interest are payable in equal monthly installments with a final balloon payment of approximately \$6.1 million. This promissory note bears interest at a rate that is based on the monthly LIBOR rate plus a base rate for a total of 5.17%. This promissory note is secured by the ammonia storage tank and related systems and is guaranteed by LSB.

**Secured Financing due 2023** – EDC is party to a secured financing arrangement with an affiliate of LSB Funding. Principal and interest are payable in 48 equal monthly installments with a final balloon payment of approximately \$3 million due in June 2023.

**Secured Loan Agreement due 2025** - EDC is party to a secured loan agreement with an affiliate of LSB Funding, which provided for available borrowings (the “Interim Loan”) during the construction of certain equipment (the “Interim Loan Period”), subject to certain conditions. During the Interim Loan Period, interest only was payable in monthly installments. Effective February 28, 2020, the Interim Loan Period ended, and the Interim Loan was replaced by a secured promissory note due in March 2025. Under the terms of the note, principal and interest are payable in 60 equal monthly installments.

**Working Capital Revolver Loan** – At March 31, 2020, our Working Capital Revolver Loan had outstanding borrowings of \$30 million and approximately \$20.5 million of availability, based on our eligible collateral, less outstanding letters of credit as of that date. Also see discussion above under “Compliance with Long-Term Debt Covenants.”

**Redemption of Series E Redeemable Preferred** – At March 31, 2020, there were 139,768 outstanding shares of Series E Redeemable Preferred and the aggregate liquidation preference (par value plus accrued dividends) was \$251.1 million.

At any time on or after October 25, 2023, each Series E holder has the right to elect to have such holder’s shares redeemed by us at a redemption price per share equal to the liquidation preference per share of \$1,000 plus accrued and unpaid dividends plus the participation rights value (the “Liquidation Preference”). Additionally, at our option, we may redeem the Series E Redeemable Preferred at any time at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. Lastly, with receipt of (i) prior consent of the electing Series E holder or a majority of shares of Series E Redeemable Preferred and (ii) all other required approvals, including under any principal U.S. securities exchange on which our common stock is then listed for trading, we can redeem the Series E Redeemable Preferred by the issuance of shares of common stock having an aggregate common stock price equal to the amount of the aggregate Liquidation Preference of such shares being redeemed in shares of common stock in lieu of cash at the redemption date.

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

Since carrying values of the redeemable preferred stocks are being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) using the interest method so that the carrying amount will equal the redemption value as of October 25, 2023, the earliest possible redemption date by the holder, this accretion has and will continue to affect income (loss) per common share. However, this accretion will change if the expected redemption date changes.

#### **Capital Expenditures – First Quarter of 2020**

For the first quarter of 2020, capital expenditures relating to PP&E were \$10.7 million. The capital expenditures were funded primarily from cash and working capital.

See discussion above under “Capitalization” for our expected capital expenditures.

#### **Expenses Associated with Environmental Regulatory Compliance**

We are subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, we incurred expenses of \$1.2 million during the first quarter of 2020 in connection with environmental projects. For the remainder of 2020, we expect to incur expenses ranging from \$3.1 million to \$3.5 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

#### **Dividends**

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

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually (May 1 and November 1) in arrears at the current annual rate of 14% of the liquidation value of \$1,000 per share, but such annual rate will increase beginning on April 25, 2021 as discussed in Note 8. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, only when declared by our Board. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the current annual rate of 14%, but such annual rate will increase beginning on April 25, 2021. The current semi-annual compounded dividend is approximately \$118.87 per share for the current aggregate semi-annual dividend of \$16.6 million. We also must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the Purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of March 31, 2020, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately \$111.3 million.

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

- \$0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of \$60,000, and
- \$12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of \$240,000.

As of March 31, 2020, the amount of accumulated dividends on the Series D Preferred and Series B Preferred totaled approximately \$1.4 million. All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Holders. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

### **Seasonality**

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.

### **Performance and Payment Bonds**

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of March 31, 2020, we have agreed to indemnify the sureties for payments, up to \$9.7 million, made by them in respect of such bonds. These insurance bonds are expected to expire or be renewed later in 2020.

### **New Accounting Pronouncements**

Refer to Note 1 for recently issued accounting standards.

### **Critical Accounting Policies and Estimates**

See “Critical Accounting Policies and Estimates,” Item 7 of our 2019 Form 10-K. In addition, the preparation of financial statements requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies and fair values, including, but not limited to, various environmental and legal matters that require us to make estimates and assumptions, including costs relating to a corrective action study work plan approved by the KDHE discussed under footnote 2 – Other Environmental Matters of Note 5 and the lawsuits styled *City of West, Texas vs. CF Industries, Inc., et al.*, discussed under “Other Pending, Threatened or Settled Litigation” of Note 5.

Also, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Significant judgment is applied in evaluating the need for and the magnitude of appropriate valuation allowances against deferred tax assets.

The carrying values of the redeemable preferred stocks discussed in Note 8 are being increased by periodic accretions (recorded to retained earnings and included in determining income or loss per share) using the interest method so that the carrying amount will equal the redemption value as of October 25, 2023, the earliest possible redemption date by the holder.

It is also reasonably possible that the estimates and assumptions utilized as of March 31, 2020 could change in the near term. Actual results could differ materially from these estimates and judgments, as additional information becomes known.

### **Off-Balance Sheet Arrangements**

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

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **General**

Our results of operations and operating cash flows are impacted by changes in market prices of ammonia and natural gas and changes in market interest rates.

#### **Forward Sales Commitments Risk**

Periodically, we enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be March 31, 2020 exposed to embedded losses should our product costs exceed the firm sales prices. At March 31, 2020, we had no embedded losses associated with sales commitments with firm sales prices.

#### **Commodity Price Risk**

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. Since we are exposed to commodity price risk, we periodically enter into contracts to purchase natural gas for anticipated production needs to manage risk related to changes in prices of natural gas commodities. Generally, these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business, these contracts are exempt from the accounting and reporting requirements relating to derivatives. As discussed in Note 6, during the first quarter of 2020, we entered into certain natural gas contracts, which are accounted for on a mark-to-market basis. At March 31, 2020, these natural gas contracts included 2.6 million MMBtus of natural gas and therefore a \$0.10 change in natural gas price would impact pre-tax operating results by approximately \$0.3 million.

#### **Interest Rate Risk**

Generally, we are exposed to variable interest rate risk with respect to our revolving credit facility. As of March 31, 2020, we had \$30 million outstanding borrowings on this credit facility. We are also exposed to interest rate risk on variable rate borrowings for certain commercial loans in the amount of approximately \$20.0 million. We currently do not hedge our interest rate risk associated with these variable interest loans.

### **Item 4. Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rule 13a-15 under the Exchange Act designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2020. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2020, at the reasonable assurance level.

## 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,” “plan,” “may,” “could” 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;

- the impact from the COVID-19 pandemic;
- 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 industrial and mining industries;
- 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 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;
- annual natural gas requirements;
- compliance by our Facilities with the terms of our 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;
- expenses in connection with environmental projects;
- the effect of litigation and other contingencies;
- the increase in interest expense;
- 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 associated with the COVID-19 pandemic;
- 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 natural gas and certain precious metals;
- 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.;
- adverse effects from regulatory policies, including tariffs;
- volatility of natural gas prices;
- weather conditions;
- increases in imported agricultural products; and
- other factors described in “Risk Factors” in our Form 10-K for the year ended December 31, 2019.

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.

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

<b>ADEQ</b>	- The Arkansas Department of Environmental Quality.
<b>AN</b>	- Ammonium nitrate.
<b>ASU</b>	- Accounting Standard Update.
<b>Baytown Facility</b>	- The nitric acid production facility located in Baytown, Texas.
<b>CARES</b>	- Coronavirus Aid, Relief, and Economic Security Act
<b>CAO</b>	- A consent administrative order.
<b>Cherokee Facility</b>	- Our chemical production facility located in Cherokee, Alabama.

<b>Chevron</b>	- Chevron Environmental Management Company.
<b>COVID-19</b>	- The coronavirus.
<b>Covestro</b>	- The party with whom our subsidiary in Baytown has entered into an agreement for supply of nitric acid through at least October 2021, the Covestro Agreement.
<b>EDA</b>	- El Dorado Ammonia L.L.C.
<b>EDC</b>	- El Dorado Chemical Company.
<b>El Dorado Facility</b>	- Our chemical production facility located in El Dorado, Arkansas.
<b>Environmental and Health Laws</b>	- Numerous federal, state and local environmental, health and safety laws.
<b>FASB</b>	- Financial Accounting Standards Board.
<b>Financial Covenant</b>	- Certain springing financial covenants associated with the working capital revolver loan.
<b>GAAP</b>	- U. S. Generally Accepted Accounting Principles.
<b>Global</b>	- Global Industrial, Inc., a subcontractor asserting mechanics liens for work rendered to LSB and EDC.
<b>Golsen Holders</b>	- 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.
<b>Hallowell Facility</b>	- A chemical facility previously owned by two of our subsidiaries located in Kansas.
<b>HDAN</b>	- High density ammonium nitrate prills used in the agricultural industry.
<b>Interim Loan</b>	- A loan agreement between EDC and a lender, which had borrowing availability for the construction of certain equipment.
<b>Interim Loan Period</b>	- The time period covered by the Interim Loan for certain equipment construction between EDC and a lender.
<b>KDHE</b>	- The Kansas Department of Health and Environment.
<b>LDAN</b>	- Low density ammonium nitrate prills used in the mining industry.
<b>Leidos</b>	- Leidos Constructors L.L.C.
<b>Liquidation Preference</b>	- The Series E Redeemable Preferred liquidation preference of \$1,000 per share plus accrued and unpaid dividends plus the participation rights value.
<b>LSB</b>	- LSB Industries, Inc.
<b>LSB Funding</b>	- LSB Funding L.L.C.
<b>MD&amp;A</b>	- Management's Discussion and Analysis of Financial Condition and Results of Operations.
<b>New Notes</b>	- The notes issued on June 21, 2019 with an interest rate of 9.625%, which mature in May 2023.
<b>Note</b>	- A note in the accompanying notes to the condensed consolidated financial statements.
<b>Notes</b>	- The notes issued on April 28, 2018 with an interest rate of 9.625%, which mature in May 2023.
<b>NPDES</b>	- National Pollutant Discharge Elimination System.
<b>ODEQ</b>	- The Oklahoma Department of Environmental Quality.
<b>PAR</b>	- Permit Appeal Resolution.
<b>PCC</b>	- Pryor Chemical Company.
<b>PP&amp;E</b>	- Plant, property and equipment.
<b>PPP</b>	- Paycheck Protection Program.
<b>Pryor Facility</b>	- Our chemical production facility located in Pryor, Oklahoma.
<b>Purchaser</b>	- LSB Funding L.L.C.
<b>SEC</b>	- The U.S. Securities and Exchange Commission.
<b>Secured Financing due 2023</b>	- A secured financing agreement between EDC and an affiliate of LSB Funding L.L.C. which matures in June 2023.
<b>Secured Loan Agreement due 2025</b>	- A secured loan agreement between EDC and an affiliate of LSB Funding L.L.C. which matures in March 2025.
<b>Secured Promissory Note due 2021</b>	- A secured promissory note between EDC and a lender which matures in March 2021.
<b>Secured Promissory Note due 2023</b>	- A secured promissory note between EDA and a lender which matures in May 2023.
<b>Senior Secured Notes</b>	- The Notes and New Notes, taken together due on May 1, 2023 with a stated interest rate of 9.625%.
<b>Series B Preferred</b>	- The Series B 12% cumulative convertible Class C Preferred stock.

<b>Series D Preferred</b>	- The Series D 6% cumulative convertible Class C preferred stock.
<b>Series E Redeemable Preferred</b>	- The 14% Series E Redeemable Preferred stock with participating rights and liquidating distributions based on a certain number of shares of our common stock.
<b>Series F Redeemable Preferred</b>	- 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.
<b>SG&amp;A</b>	- Selling, general and administrative expense.
<b>Turnaround</b>	- A planned major maintenance activity.
<b>UAN</b>	- Urea ammonium nitrate.
<b>U.S.</b>	- United States.
<b>USDA</b>	- United States Department of Agriculture.
<b>WASDE</b>	- World Agricultural Supply and Demand Estimates Report.
<b>West Fertilizer</b>	- West Fertilizer Company.
<b>Working Capital Revolver Loan</b>	- Our secured revolving credit facility.
<b>2018 Crop</b>	- Corn crop marketing year (September 1 - August 31), which began in 2017 and ended in 2018 and primarily relates to corn planted and harvested in 2017.
<b>2019 Crop</b>	- Corn crop marketing year (September 1 - August 31), which began in 2018 and ended in 2019 and primarily relates to corn planted and harvested in 2018.
<b>2020 Crop</b>	- Corn crop marketing year (September 1 - August 31), which began in 2019 and will end in 2020 and primarily relates to corn planted and harvested in 2019.

## PART II OTHER INFORMATION

### **Item 1. Legal Proceedings**

#### ***Other Litigation***

We are from time to time subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service. For further discussion of our legal matters, see “Note 5—Commitments and Contingencies—Legal Matters” in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q.

### **Item 1A. Risk Factors**

Reference is made to Item 1A of our 2019 Form 10-K filed with the SEC on February 25, 2020 for our discussion regarding risk factors. There are no material changes from the risk factors disclosed in our 2019 Form 10-K, except that the risk factor styled below has been added.

#### **Pandemics or disease outbreaks, such as COVID-19, may disrupt our business, which could adversely affect our financial performance.**

The novel coronavirus (“COVID-19”) has evolved into a global pandemic and the full extent of its impact will depend on future developments that are uncertain and cannot be accurately predicted, including new information that may emerge concerning the COVID-19 pandemic and the actions to contain the COVID-19 pandemic or treat its impact, among others. Currently, all of the facilities we own and operate have been designated as essential critical infrastructure based on guidelines issued by the United States Department of Homeland Security’s Cybersecurity and Infrastructure Security Agency. Since we produce fertilizer products used by the agriculture industry, as well as chemical products required in a variety of industrial manufacturing processes, LSB has been determined to be a critical service, and therefore, our facilities are remaining in operation despite the evolving global health crisis resulting from the COVID-19 pandemic. However, if additional mandatory closures of businesses are imposed by the federal, state and local governments to control the spread of the virus, these closures could disrupt the operations of our management, business and finance teams. In addition, a significant downturn in global economic growth, or recessionary conditions in major geographic regions, may lead to reduced demand for a portion or all our products, which could adversely affect our business and results of operations. As the COVID-19 pandemic continues to spread, our business operations could be disrupted or delayed, and our business, financial condition, and results of operations could be adversely affected.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

See “Index to Exhibits” on page 38.

## **Index to Exhibits Item**

<b>Exhibit Number</b>	<b>Exhibit Title</b>	<b>Incorporated by Reference to the Following</b>
3(i).1	<a href="#">Restated Certificate of Incorporation of LSB Industries, Inc., dated January 21, 1977, as amended August 27, 1987</a>	Exhibit 3(i).1 to the Company's Form 10-K filed on February 28, 2013
3(ii).1	<a href="#">Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014 and August 21, 2014</a>	Exhibit 3(ii).1 to the Company's Form 8-K filed August 27, 2014
3(ii).2	<a href="#">Fifth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of April 26, 2015</a>	Exhibit 3(ii) to the Company's Form 8-K filed April 30, 2015
3(ii).3	<a href="#">Sixth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 2, 2015</a>	Exhibit 3(ii) to the Company's Form 8-K filed December 8, 2015
3(ii).4	<a href="#">Seventh Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 22, 2015</a>	Exhibit 3(ii) to the Company's Form 8-K filed December 29, 2015
10.1(a)	<a href="#">Severance and Change in Control Agreement, dated April 6, 2020, between LSB Industries, Inc. and Kristy Carver</a>	
10.2(a)	<a href="#">Fifth Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement, dated March 30, 2020, by and among El Dorado Nitrogen, L.P., El Dorado Chemical Company and Covestro LLC</a>	
10.3(a)	<a href="#">Third Amendment to Third Amended and Restated Loan and Security Agreement, dated as of April 20, 2020, by and among Wells Fargo Capital Finance, LLC, as the arranger and administrative agent, the lenders party thereto, LSB Industries, Inc. and its subsidiaries identified on the signature pages thereto as borrowers and the Company's subsidiaries identified on the signature pages thereto as guarantors.</a>	
31.1(a)	<a href="#">Certification of Mark T. Behrman, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302</a>	
31.2(a)	<a href="#">Certification of Cheryl A. Maguire, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302</a>	
32.1(b)	<a href="#">Certification of Mark T. Behrman, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906</a>	
32.2(b)	<a href="#">Certification of Cheryl A. Maguire, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906</a>	
101.INS(a)	XBRL Instance Document	
101.SCH(a)	XBRL Taxonomy Extension Schema Document	
101.CAL(a)	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF(a)	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB(a)	XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE(a)	XBRL Taxonomy Extension Presentation Linkbase Document	

- (a) Filed herewith  
(b) Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 7<sup>th</sup> day of May 2020.

LSB INDUSTRIES, INC.

/s/ Cheryl A. Maguire

Cheryl A. Maguire  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Harold L. Rieker, Jr.

Harold L. Rieker, Jr.  
Vice President – Financial Reporting  
(Principal Accounting Officer)

**SEVERANCE AND CHANGE IN CONTROL AGREEMENT**

This Severance and Change in Control Agreement (the “**Agreement**”) is made and entered into as of March 31, 2020 (the “**Effective Date**”), by LSB Industries, Inc., a Delaware Corporation (the “**Company**”) and Kristy D. Carver (the “**Executive**”). The Company and Executive are referred to collectively as the “**Parties**” and individually as a “**Party**.”

WHEREAS, Executive is currently employed as the Senior Vice President and Treasurer of the Company and is an integral part of its management;

WHEREAS, the Chief Executive Officer of the Company (the “**CEO**”) has determined that it is in the best interests of the Company to ensure that the Company will have the continuous employment of key management personnel, such as Executive;

WHEREAS, the CEO has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of Executive; and

WHEREAS, the CEO believes it is essential to provide Executive with certain severance benefits upon Executive’s involuntary separation from service.

NOW, THEREFORE, in consideration of the mutual covenants, promises, and obligations set forth herein, the Parties agree as follows:

1. **Term.** This Agreement will have an initial term commencing on the Effective Date and ending on March 31, 2021. On April 1, 2021 and each April 1 thereafter, the term of this Agreement will renew automatically for an additional twelve (12) month period (the initial term and all renewals are referred to as the “**Term**”), unless the Company provides Executive with written notice of non-renewal at least ninety (90) days prior to such renewal date; provided, however, if a Change in Control occurs during the Term, this Agreement shall continue until the later of: (i) the first anniversary of a Change in Control Date; or (ii) the satisfaction of all of the obligations of the Parties under this Agreement. For the avoidance of doubt, the Company’s non-renewal of this Agreement shall not constitute a Qualifying Termination (as defined below).

2. **Severance Benefits.**

2.1 **Qualifying Termination prior to a Change in Control Event.** If, during the Term, Executive’s employment is terminated pursuant to a Qualifying Termination prior to a Change in Control Event, Executive shall be entitled to receive the Accrued Amounts (defined below) and, subject to Executive’s timely execution and delivery (and non-revocation) of a general release and waiver of claims in substantially the form set forth in Exhibit A (the “**Release**”) (the period between the Qualifying Termination and the date that the Release becomes effective, the “**Release Execution Period**”), Executive shall be entitled to receive the following:

(a) An amount equal to one times Executive’s annual base salary at the rate in effect immediately prior to the date of Executive’s Qualifying Termination (without giving effect to any salary reductions which satisfy the definition of Good Reason) (the

**“Severance Payment”**). The Severance Payment will be payable in equal monthly installments consistent with the Company’s normal payroll practices during the twelve (12) month period immediately following the effective date of Executive’s Qualifying Termination (the **“Severance Period”**), with the first installment due no later than the sixtieth (60th) day following Executive’s Qualifying Termination; provided that, if the Release Execution Period begins in one taxable year and ends in another taxable year, payment shall not commence until the first payroll period in January of the second taxable year (the **“Payment Delay”**).

(b) If Executive (and his dependents) timely elects to continue health care continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (**“COBRA”**), the Company will pay any premiums associated with such COBRA continuation coverage until the earliest to occur of (i) the expiration of the Severance Period; (ii) the date Executive first becomes eligible for health insurance with a subsequent employer; or (iii) the date Executive is no longer eligible for continuation coverage under COBRA. Notwithstanding the foregoing, if at any time the Company determines, in its sole discretion, that its payment of a portion of the COBRA premiums on Executive’s behalf reasonably could result in the Company or plan participants incurring additional costs, penalties or taxes under applicable law (including, without limitation, Section 2716 of the Public Health Service Act, and Section 105(h) of the Internal Revenue Code) then in lieu of paying a portion of the COBRA premiums on Executive’s behalf, the Company will instead pay Executive on the last day of each remaining month for which Executive is entitled to the COBRA subsidy, a fully taxable cash payment equal to the COBRA subsidy for that month, subject to applicable tax withholding.

(c) In the event Executive does not receive one or more installments of the Severance Payment or other amounts set forth in this Section 2.1 due to the Payment Delay, the aggregate amount of any delayed payments that otherwise would have been paid to Executive on such pay periods shall be paid to Executive in a lump-sum payment in the first pay period following the end of the Release Execution Period and all remaining payments shall be paid on their original schedule.

2.2 Qualifying Termination in Connection with a Change in Control Event. If, during the Term, Executive’s employment is terminated pursuant to a Qualifying Termination during a Change in Control Event, Executive shall be entitled to receive the Accrued Amounts and, subject to Executive’s timely execution and delivery (and non-revocation) of a Release, Executive shall be entitled to receive the following:

(a) An amount equal one times the sum of the Executive’s annual base salary and target bonus at the rates in effect immediately prior to the date of Executive’s Qualifying Termination (without giving effect to any salary reductions which satisfy the definition of Good Reason) (the **“CIC Payment”**); which shall be paid in a single sum within sixty (60) days following the effective date of Executive’s Qualifying Termination; provided that, if the Release Execution Period begins in one taxable year and ends in another taxable year, payment shall not be made until the first payroll period in January of the second taxable year.

(b) If Executive (and his dependents) timely elects to continue health care continuation coverage under COBRA, the Company will pay any premiums associated with such COBRA continuation coverage until the earliest to occur of (i) the twelve (12) month anniversary of the Qualifying Termination; (ii) the date Executive first becomes eligible for health insurance with a subsequent employer; or (iii) the date Executive is no longer eligible for continuation coverage under COBRA. Notwithstanding the foregoing, if the payments under this [Section 2.2\(c\)](#) would violate the nondiscrimination rules applicable to non-grandfathered plans under the ACA, or result in the imposition of penalties under the ACA and the related regulations and guidance promulgated thereunder, the Parties agree to reform this [Section 2.2\(c\)](#) in such manner as is necessary to comply with the ACA.

2.3 Other Terminations of Employment. Notwithstanding anything to the contrary in Sections 2.1 and 2.2 above, in connection with any termination of employment, Executive shall be entitled to receive the Accrued Amounts.

### 3. Definitions.

3.1 The “**Accrued Amounts**” include the following:

(a) any accrued but unpaid base salary which shall be paid on the pay date immediately following the termination date of Executive’s employment in accordance with the Company’s payroll procedures;

(b) any earned but unpaid bonus amounts with respect to any completed fiscal year immediately preceding the termination date of Executive’s employment, which shall be paid on the otherwise applicable payment date, except to the extent payment is otherwise deferred pursuant to any applicable deferred compensation arrangement;

(c) reimbursement for unreimbursed business expenses properly incurred by Executive, which shall be subject to and paid in accordance with the Company’s business expense reimbursement policy; and

(d) any vested employee benefits to which Executive may be entitled to receive under the Company’s employee benefit plans or programs as of the date of Executive’s termination of employment; which shall be subject to, and paid in accordance with, the terms of the Company’s employee benefit plans or programs.

3.2 “**Cause**” means (i) the Executive’s conviction of, or plea of nolo contendere to, a felony (other than for a traffic violation); (ii) the Executive’s continued failure to substantially perform the Executive’s material duties hereunder (other than due to a mental or physical impairment) after receipt of written notice from the Company that specifically identifies the manner in which the Executive has substantially failed to perform the Executive’s material duties and specifies the manner in which the Executive may substantially perform his material duties in the future; (iii) an act of fraud or gross or willful material misconduct by the Executive; or (iv) a willful and material violation of the material provisions of the Company’s Code of Conduct or the Company’s Code of Business Conduct. Anything herein to the contrary notwithstanding, the

Executive shall not be terminated for “Cause” hereunder unless (A) written notice stating the basis for the termination is provided to the Executive, (B) as to clauses (ii) or (iv) of this paragraph, the Executive fails to cure such neglect or conduct within thirty (30) days following receipt of such notice.

3.3 “Change in Control” means:

(a) A “change in the ownership of the Company” which shall occur on the date that any one person, or more than one person acting as a group, acquires ownership of stock in the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company as of the Effective Date; however, if any one person or more than one person acting as a group is considered to own more than 50% of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same person or persons will not be considered a “change in the ownership of the Company” (or to cause a “change in the effective control of the Company” within the meaning of paragraph (ii) below) and an increase of the effective percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this paragraph; provided, further, however, that for purposes of this paragraph (i), any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company shall not constitute a Change in Control. This paragraph (i) applies only when there is a transfer of the stock of the Company (or issuance of stock) and stock in the Company remains outstanding after the transaction;

(b) A “change in the effective control of the Company” which shall occur on the date that either (A) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company, except for any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company; or (B) a majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of a “change in the effective control of the Company,” if any one person, or more than one person acting as a group, is considered to effectively control the Company within the meaning of this paragraph (ii) after the Effective Date, the acquisition of additional control of the Company by the same person or persons is not considered a “change in the effective control of the Company,” or to cause a “change in the ownership of the Company” within the meaning of paragraph (i) above; or

(c) A “change in the ownership of a substantial portion of the Company’s assets” which shall occur on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets of the Company that have

a total gross fair market value equal to or more than 40% of the total gross fair market value of all the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. Any transfer of assets to an entity that is controlled by the stockholders of the Company immediately after the transfer, as provided in guidance issued pursuant to Code Section 409A, shall not constitute a Change in Control.

3.4 “**Change in Control Date**” shall be any date during the Term on which a Change in Control occurs.

3.5 “**Change in Control Event**” shall mean at any time during the period beginning one hundred eighty (180) calendar days before, and ending on the 12-month anniversary following, the occurrence of a Change in Control.

3.6 “**Good Reason**” means (i) any material diminution in the Executive’s job duties, authorities or responsibilities (including, without limitation, the removal of the Executive as Senior Vice President and Treasurer, the Executive failing to be the Senior Vice President and Treasurer of any surviving or successor entity, including the ultimate parent, or the Company’s stock (or following a Change in Control, the surviving or successor entity’s stock) no longer being (or not being) publicly traded on the New York Stock Exchange or NASDAQ); (ii) a reduction in the Executive’s Base Salary or Target Bonus as a percentage of Base Salary; (iii) the failure of the Executive to report solely and directly to the Chief Financial Officer or Chief Executive Officer of the Company (including any successor entity); (iv) the assignment of duties substantially inconsistent with the Executive’s status as Senior Vice President and Treasurer of the Company; (v) a relocation of the Executive’s primary place of employment to a location more than fifty (50) miles from the current location of the Company’s offices in Oklahoma City, Oklahoma; (vi) any other material breach of this Agreement by the Company, (vii) the failure of the Company to obtain the assumption in writing of its obligations under the Agreement by any successor to all or substantially all of the assets of the Company after a merger, consolidation, sale or similar transaction in which such Agreement is not assumed by operation of law or (viii) on or following a Change in Control, the failure of the surviving or successor entity to provide the Executive with an Equity Award with terms no less favorable to the Executive, and with a grant date value equal to or greater than the aggregate grant date value of the equity awards granted to the Executive by the Company during the 12-month period immediately prior to the Change in Control. In order to invoke a termination for Good Reason, (A) the Executive must provide written notice to the Company within ninety (90) days of the later of the occurrence, or the Executive’s knowledge, of any event of “Good Reason,” (B) the Company must fail to cure such event within thirty (30) days of the giving of such notice and (C) the Executive must provide a Notice of Termination within thirty (30) days following the expiration of the Company’s cure period.

3.7 “**Person**” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or any other business entity

3.8 **“Qualifying Termination”** shall mean Executive’s termination of employment by the Company without Cause or Executive’s resignation of employment for Good Reason.

4. **Mitigation.** In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and except as provided in [Sections 2.1\(c\)](#) and 2.2(c) (with respect to medical insurance continuation), any amounts payable pursuant to [Section 2](#) shall not be reduced by compensation Executive earns on account of employment with another employer.

5. **Governing Law.** This Agreement, for all purposes, shall be construed in accordance with the laws of the State of Oklahoma without regard to conflicts of law principles.

6. **Entire Agreement.** Unless specifically provided herein, this Agreement contains all of the understandings and representations between Executive and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

7. **Modification and Waiver.** No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by Executive and the Company. No waiver by the Parties of any breach by another Party of any condition or provision of this Agreement to be performed by another Party shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by any Party in exercising any right, power, or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power, or privilege.

8. **Tax Withholding.** The Company shall have the right to withhold from any amount payable under this Agreement any federal, state, and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

9. **Severability.** If any provision of this Agreement is held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the Parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement.

10. **Headings.** Headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

11. **Counterparts.** This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

(a) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Code and the regulations and guidance promulgated thereunder (collectively “Code Section 409A”) or an exemption therefrom and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. If the Executive notifies the Company (with specificity as to the reason therefor) that the Executive believes that any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause the Executive to incur any additional tax or interest under Code Section 409A and the Company concurs with such belief or the Company (without any obligation whatsoever to do so) independently makes such determination, the Company shall, after consulting with the Executive, reform such provision to attempt to comply with Code Section 409A through good faith modifications to the minimum extent reasonably appropriate to conform with Code Section 409A. To the extent that any provision hereof is modified in order to comply with Code Section 409A such modification shall be made in good faith and shall, to the maximum extent reasonably possible, maintain the original intent and economic benefit to the Executive and the Company of the applicable provision without violating the provisions of Code Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.” If the Executive is deemed on the date of termination to be a “specified employee” within the meaning of that term under Code Section 409A(a)(2)(B), then with regard to any payment or the provision of any benefit that is considered deferred compensation under Code Section 409A payable on account of a “separation from service,” such payment or benefit shall be made or provided at the date which is the earlier of (A) the expiration of the six (6)-month period measured from the date of such “separation from service” of the Executive, and (B) the date of the Executive’s death, to the extent required under Code Section 409A. Upon the expiration of the foregoing delay period, all payments and benefits delayed pursuant to this Section 24(b) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(c) To the extent that reimbursements or other in-kind benefits under this Agreement constitute “nonqualified deferred compensation” for purposes of Code Section 409A, (A) all expenses or other reimbursements hereunder shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by the Executive, (B) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (C) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any

taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

(d) For purposes of Code Section 409A, the Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, (i) the actual date of payment within the specified period shall be within the sole discretion of the Company and, (ii) if such payment qualifies as non-qualified deferred compensation under Section 409A and it can be paid in one of two calendar years, it shall be paid in the second calendar year.

(e) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "nonqualified deferred compensation" for purposes of Code Section 409A be subject to offset by any other amount unless otherwise permitted by Code Section 409A.

13. Section 280G. In the event that part or all of the payments or benefits to be paid or provided to Executive under this Agreement together with the aggregate present value of payments, consideration, compensation and benefits under all other plans, arrangements and agreements applicable to Executive ("**Total Payments**") will be subject to an excise tax under the provisions of Code Section 4999 ("**Excise Tax**"), the Total Payments shall be reduced so that the maximum amount of the Total Payments (after reduction) will be one dollar (\$1.00) less than the amount that would cause the Total Payments to be subject to the Excise Tax; provided, however, that the Total Payments shall only be reduced to the extent the after-tax value of amounts received by Executive after application of the above reduction would exceed the after-tax value of the Total Payments received by Executive without application of such reduction. If applicable, the particular payments that are to be reduced shall be subject to the mutual agreement of Executive and the Company, with a view to maximizing the value of the payments to Executive that are not reduced.

14. Legal Fees. The Company shall pay to Executive all reasonable legal fees and expenses which Executive incurs following a Change in Control Event in seeking in good faith to obtain or enforce any right or benefit provided by this Agreement (provided, that Executive shall refund all such fees and expenses to the Company should he or she not substantially prevail in the applicable proceeding). This payment shall be made within 10 business days after the Company receives Executive's written request for payment accompanied by reasonable evidence of fees and expenses incurred. To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Executive under this Agreement shall be paid to Executive on or before the last day of the calendar year following the calendar year in which the expense was incurred, the amount of expenses eligible for reimbursement (and in-kind benefits provided) during any one calendar year may not effect amounts reimbursable or provided in any subsequent year, and the right to reimbursement (and in-kind benefits provided) under this Agreement shall not be subject to liquidation or exchange for another benefit.

15. Successors and Assigns. The Agreement will be binding on the Company and its successors. The Company shall require any corporation, entity, individual or other person who is

the successor (whether by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all the business and/or assets of the Company to expressly assume and agree to perform the Company's obligations under this Agreement. As used in this Section 16, "the Company" shall have the meaning as defined herein and any successor to its business and/or assets. Any obligations of the Company under this Agreement shall be the joint and several obligation of the Company.

16. Notice. Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, or by overnight carrier to the parties at the addresses set forth below (or such other addresses as specified by the Parties by like notice):

If to the Company:

3503 NW 63rd Street, Suite 500  
Oklahoma City, OK 73116  
Attn: General Counsel

If to Executive:

At the last address on file with the Company.

17. Survival. Upon the expiration or other termination of this Agreement, the respective rights and obligations of the Parties shall survive such expiration or other termination to the extent necessary to carry out the intentions of the parties under this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

"COMPANY"

LSB INDUSTRIES, INC.

By: /s/ Cheryl Maguire  
Name: Cheryl Maguire  
4/6/2020  
Title: Chief Financial Officer

"EXECUTIVE"

/s/ K Carver  
Kristy D. Carver

**Exhibit A**  
**(Form of Release)**

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## EXHIBIT A

### GENERAL RELEASE

I, Kristy D. Carver, in consideration of and subject to the performance by LSB Industries, Inc. (together with its affiliated companies and subsidiaries and its successors and assigns, the "Company"), of its obligations under Section 2 of the Severance and Change in Control Agreement, dated as of December 31, 2019 (the "Agreement"), do hereby release and forever discharge as of the date hereof the Company and its respective affiliates and subsidiaries and all present, former and future directors, officers, agents, representatives, employees, successors and assigns of the Company and/or its respective affiliates and subsidiaries and direct or indirect owners (collectively, the "Released Parties") to the extent provided herein (this "General Release"). Terms used herein but not otherwise defined shall have the meanings given to them in the Agreement.

1. I understand that, other than the Accrued Benefits, the payments or benefits paid or granted to me under Section 2 of the Agreement represent, in part, consideration for signing this General Release and are not salary, wages or benefits to which I was already entitled. I understand and agree that I will not receive the payments and benefits specified in Section 2 of the Agreement, other than the Accrued Benefits, unless I execute this General Release and do not revoke this General Release within the time period permitted hereafter. Such payments and benefits will not be considered compensation for purposes of any employee benefit plan, program, policy or arrangement maintained or hereafter established by the Company or its affiliates.

2. Except as provided in paragraph 4 below and except for the provisions of the Agreement which expressly survive the termination of my employment with the Company, I knowingly and voluntarily (for myself, my heirs, executors, administrators and assigns) release and forever discharge the Company and the other Released Parties from any and all claims, suits, controversies, actions, causes of action, cross-claims, counter-claims, demands, debts, compensatory damages, liquidated damages, punitive or exemplary damages, other damages, claims for costs and attorneys' fees, or liabilities of any nature whatsoever in law and in equity, both past and present (through the date that this General Release becomes effective and enforceable) and whether known or unknown, suspected, or claimed against the Company and/or any of the Released Parties which I, my spouse, or any of my heirs, executors, administrators or assigns, ever had, now have, or hereafter may have, by reason of any matter, cause, or thing whatsoever, from the beginning of my initial dealings with the Company to the date of this General Release, and particularly, but without limitation of the foregoing general terms, any claims arising from or relating in any way to my employment relationship with Company, the terms and conditions of that employment relationship, and the termination of that employment relationship (including, but not limited to, any allegation, claim or violation, arising under: Title VII of the Civil Rights Act of 1964, as

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amended; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (including the Older Workers Benefit Protection Act), the Equal Pay Act of 1963, as amended; the Americans with Disabilities Act of 1990; the Family and Medical Leave Act of 1993; the Worker Adjustment Retraining and Notification Act; the Employee Retirement Income Security Act of 1974; any applicable Executive Order Programs; the Fair Labor Standards Act; or their state or local counterparts; or under any other federal, state or local civil or human rights law, or under any other local, state, or federal law, regulation or ordinance; or under any public policy, contract or tort, or under common law; or arising under any policies, practices or procedures of the Company; or any claim for wrongful discharge, breach of contract, infliction of emotional distress, defamation, or any claim for costs, fees, or other expenses, including attorneys' fees incurred in these matters) (all of the foregoing collectively referred to herein as the "Claims"). I understand and intend that this General Release constitutes a general release of all claims and that no reference herein to a specific form of claim, statute or type of relief is intended to limit the scope of this General Release.

3. I represent that I have made no assignment or transfer of any right, claim, demand, cause of action, or other matter covered by paragraph 2 above.

4. I agree that this General Release does not waive or release any rights or claims that I may have under the Age Discrimination in Employment Act of 1967 which arise after the date I execute this General Release. I acknowledge and agree that my separation from employment with the Company in compliance with the terms of the Agreement shall not serve as the basis for any claim or action (including, without limitation, any claim under the Age Discrimination in Employment Act of 1967). Notwithstanding anything herein to the contrary, I am not waiving any of the following (and definition of "Claims" shall not include these claims or rights): (i) any claim or right to enforce the Agreement or this General Release; (ii) any claims which arise after the date of this General Release; (iii) my rights as a shareholder of the Company; and (iv) my rights to be indemnified and/or defended and/or advanced expenses, including pursuant to the Company's corporate governance documents or the Indemnification Agreement (as defined in the Agreement) or, if greater, applicable law and my rights to be covered under any applicable directors' and officers' insurance liability policies.

5. I agree that I hereby waive all rights to sue or obtain equitable, remedial or punitive relief from any or all Released Parties of any kind whatsoever with respect to claims released by me herein, including, without limitation, reinstatement, back pay, front pay, and any form of injunctive relief. Notwithstanding the foregoing, I acknowledge that I am not waiving and am not being required to waive any right that cannot be waived under law, including the right to file an administrative charge or participate in an administrative investigation or proceeding; provided, however, that I disclaim and waive any right to share or participate in any monetary award resulting from the prosecution of such charge or investigation or proceeding.

6. In signing this General Release, I acknowledge and intend that it shall be effective as a bar to each and every one of the Claims hereinabove mentioned or implied. I expressly consent that this General Release shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected Claims (notwithstanding any state or local statute that expressly limits the effectiveness of a general release of unknown, unsuspected and unanticipated Claims), if any, as well as those relating to any other Claims hereinabove mentioned or implied. I acknowledge and agree that this waiver is an essential and material term of this General Release and that without such waiver the Company would not have agreed to the terms of the Agreement. I further agree that in the event that I should bring a Claim seeking damages against the Company, or in the event that I should seek to recover against the Company in any Claim brought by a governmental agency on my behalf, this General Release shall serve as a complete defense to such

Claims to the maximum extent permitted by law. I further agree that I am not aware of any pending Claim, or of any facts that could give rise to a Claim, of the type described in paragraph 2 as of the execution of this General Release.

7. I agree that neither this General Release, nor the furnishing of the consideration for this General Release, shall be deemed or construed at any time to be an admission by the Company, any Released Party or myself of any improper or unlawful conduct.

8. I agree that I will forfeit all amounts payable by the Company pursuant to the Agreement if I challenge the validity of this General Release. I also agree that if I violate this General Release by suing the Company or the other Released Parties with respect to Claims released by me herein, I will pay all costs and expenses of defending against the suit incurred by the Released Parties, including reasonable attorneys' fees, and return all payments received by me pursuant to the Agreement on or after the termination of my employment.

9. I agree that this General Release is confidential and agree not to disclose any information regarding the terms of this General Release, except to my immediate family and any tax, legal or other counsel that I have consulted regarding the meaning or effect hereof (and I will instruct each of the foregoing not to disclose the same to anyone) or as required by law or to the extent reasonably necessary in connection with any dispute between me and the Company regarding this General Release or the Agreement.

10. Any non-disclosure provision in this General Release does not prohibit or restrict me (or my attorney) from responding to any inquiry about this General Release or its underlying facts and circumstances by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or any other self-regulatory organization or governmental entity.

11. I represent that I am not aware of any Claim by me, and I acknowledge that I may hereafter discover Claims or facts in addition to or different than those which I now know or believe to exist with respect to the subject matter of the release set forth in paragraph 2 above and which, if known or suspected at the time of entering into this General Release, may have materially affected this General Release and my decision to enter into it.

12. Notwithstanding anything in this General Release to the contrary, this General Release shall not relinquish, diminish, or in any way affect any rights or claims arising out of any breach by the Company or by any Released Party of the Agreement after the date hereof.

13. Whenever possible, each provision of this General Release shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this General Release is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this General Release shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein. This General Release constitutes the complete and entire agreement and understanding among the parties, and supersedes any and all prior or contemporaneous agreements, commitments, understandings or arrangements, whether written or oral, between or among any of the parties, in each case concerning the subject matter hereof.

BY SIGNING THIS GENERAL RELEASE, I REPRESENT AND AGREE THAT

- (i) I HAVE READ IT CAREFULLY;
- (ii) I UNDERSTAND ALL OF ITS TERMS AND KNOW THAT I AM GIVING UP IMPORTANT RIGHTS, INCLUDING BUT NOT LIMITED TO, RIGHTS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED, THE EQUAL PAY ACT OF 1963, THE AMERICANS WITH DISABILITIES ACT OF 1990 AND THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED;
- (iii) I VOLUNTARILY CONSENT TO EVERYTHING IN IT;
- (iv) I HAVE BEEN ADVISED TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING IT AND I HAVE DONE SO OR AFTER CAREFUL READING AND CONSIDERATION, I HAVE CHOSEN NOT TO DO SO OF MY OWN VOLITION,
- (v) I HAVE HAD AT LEAST [21][45] DAYS FROM THE DATE OF MY RECEIPT OF THIS RELEASE TO CONSIDER IT AND THE CHANGES MADE SINCE MY RECEIPT OF THIS RELEASE ARE NOT MATERIAL OR WERE MADE AT MY REQUEST AND WILL NOT RESTART THE REQUIRED [21][45]-DAY PERIOD;
- (vi) I UNDERSTAND THAT I HAVE SEVEN (7) DAYS AFTER THE EXECUTION OF THIS RELEASE TO REVOKE IT AND THAT THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED; AND
- (vii) I HAVE SIGNED THIS GENERAL RELEASE KNOWINGLY AND VOLUNTARILY AND WITH THE ADVICE OF ANY COUNSEL RETAINED TO ADVISE ME WITH RESPECT TO IT.

SIGNED: \_\_\_\_\_  
\_\_\_\_\_

DATE:

**Fifth Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement by and among El Dorado Nitrogen, LLC, El Dorado Chemical Company, and Covestro LLC  
("Fifth Amendment")**

This Fifth Amendment, effective as of the 30th day of March, 2020 ("Effective Date"), modifies and amends the above-mentioned Nitric Acid Supply, Operating and Maintenance Agreement, by and between Covestro LLC (formerly known as Bayer MaterialScience LLC), a Delaware limited liability company (hereinafter referred to as "Covestro"), El Dorado Nitrogen, L.L.C., an Oklahoma limited liability company (hereinafter referred to as "EDN") and El Dorado Chemical Company, an Oklahoma corporation (hereinafter referred to as "El Dorado").

**RECITALS**

**WHEREAS**, EDN, El Dorado, and Covestro are parties to that certain Nitric Acid Supply, Operating and Maintenance Agreement, having an effective date of October 23, 2008 and amended by the First Amendment effective July 1, 2009, the Second Amendment dated June 16, 2010, the Third Amendment effective July 1, 2014, and the Fourth Amendment effective January 1, 2018 (collectively, the "Agreement"), and

**WHEREAS**, the parties desire to and have agreed to amend the Agreement to reflect some modifications to the Agreement,

**NOW, THEREFORE**, in consideration of the promises and mutual covenants hereinafter contained, and intending to be legally bound, the parties agree as follows:

**AGREEMENT**

1. Definitions. Capitalized terms used herein and not otherwise defined herein shall have the meaning specified in the Agreement.
  2. Section 22.2, Renewals. The following paragraph is added to the end of Section 22.2:  
  
"The current Renewal Term, which is the first of the five successive Renewal Terms, is set to expire on June 30, 2021. The current Renewal Term shall be extended for four months and will now expire on October 31, 2021, unless sooner terminated as provided in the Agreement. Notwithstanding the foregoing provisions of this Section 22.2, during the current Renewal Term expiring on October 31, 2021, either Covestro or EDN may avoid automatic renewal of the Term of this Agreement by giving the other party written notice of its intention not to renew the Term of this Agreement by no later than July 31, 2020."
  3. No Other Changes. Subject to the changes set forth in this Fifth Amendment, all other provisions of the Agreement remain in full force and effect without modification.
  4. Representations and Warranties. Covestro hereby represents and warrants to EDN, and EDN represents and warrants to Covestro as follows:
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- (a) this Fifth Amendment has been duly and validly authorized, executed and delivered by such party and constitutes the legal, valid and binding obligations of each such party enforceable against it in accordance with their respective terms; and
- (b) the execution, delivery and performance of this Fifth Amendment by such party will not:
  - (i) violate or conflict with its charter or bylaws;
  - (ii) breach or result in a default (or an event which, with the giving of notice or the passage of time, or both, would constitute a default) under, require any consent under, result in the imposition of any lien under or give to others any rights or termination, acceleration, suspension, revocation, cancellation or amendment of any agreement to which it is a party;
  - (iii) breach or otherwise violate any order, writ, judgment, injunction or decree issued by any governmental person or entity which names such party or is directed to such party or any of its respective properties or assets;
  - (iv) violate any Laws; or
  - (v) require any consent, authorization, approval, exemption, or other action by, or any filing, registration or qualification with, any governmental person or entity other than those which have been made or obtained prior to the date hereof.

5. Counterparts; Telefacsimile Execution. This Fifth Amendment may be executed in any number of counterparts, and by each of the parties on separate counterparts, each of which, when so executed, shall be deemed an original, but all of which shall constitute but one and the same instrument. Delivery of an executed counterpart of this Fifth Amendment by electronic scan, electronic mail, or telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Fifth Amendment. The failure of any party to deliver a manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Fifth Amendment.

is whereof, the parties hereto have executed this Fifth Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement effective the date stated above.

**Covestro LLC**

**El Dorado Nitrogen, L.L.C.**

By: /s/ Demetri Zervoudis

By: /s/ Anne O. Rendon

Name: Demetri Zervoudis

Name: Anne O. Rendon

Title: SVP, Site Manager

Title: Senior Vice President

**El Dorado Chemical Company**

By: /s/ Mark Behrman

Name: Mark Behrman

Title: CEO

**THIRD AMENDMENT TO  
THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT**

THIS THIRD AMENDMENT TO THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Amendment") is entered into as of April 20, 2020 (the "Effective Date"), by and among WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company, as the arranger and administrative agent ("Agent") for the Lenders (as defined in the Credit Agreement referred to below), the Lenders party hereto, LSB INDUSTRIES, INC., a Delaware corporation ("Parent"), certain Subsidiaries of Parent designated on the signature pages hereto as borrowers (together with Parent, such Subsidiaries are collectively referred as the "Borrowers") and certain Subsidiaries of Parent designated on the signature pages hereto as guarantors (such Subsidiaries are collectively referred to as the "Guarantors" and together with the Borrowers, such Guarantors are collectively referred to as the "Loan Parties").

WHEREAS, the Borrowers, Agent, and the Lenders are parties to that certain Third Amended and Restated Loan and Security Agreement dated as of January 17, 2017 (as amended, restated, modified or supplemented from time to time, the "Credit Agreement"); and

WHEREAS, the Borrowers have requested that the Lenders agree to amend the Credit Agreement in certain respects as set forth herein, and the Lenders have agreed to the foregoing, on the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. In reliance upon the representations and warranties of the Borrowers set forth in Section 6 below, and subject to the satisfaction of the conditions set forth in Section 5 below, the Credit Agreement is hereby amended, which amendments shall first take effect as of the date the conditions set forth in Section 5 below are satisfied, as follows:

(a) The definitions of each of the terms "Consolidated Net Interest Expense," "Fixed Charge Coverage Ratio," and "Maximum Revolver Amount," set forth in Section 1.1 of the Credit Agreement are hereby amended and restated in their entirety as follows:

"Consolidated Net Interest Expense" means, with respect to any Person for any period, gross interest expense of such Person and its Subsidiaries for such period determined in conformity with GAAP (including, without limitation, interest expense paid to Affiliates of such Person other than a Subsidiary of Parent, less the sum of interest income and non-cash accretion expense and non-cash amortization of debt origination cost for such period, each determined on a consolidated basis and in accordance with GAAP for such Person and its Subsidiaries; provided that

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in no event shall Consolidated Net Interest Expense include any interest expense attributable to any CARES Debt other than CARES Unforgiven Debt.

"Fixed Charge Coverage Ratio" means, for any period, the ratio of (i) EBITDA for such period minus Capital Expenditures made (to the extent not already incurred in a prior period) or incurred during such period, to (ii) the sum of (A) all principal of Indebtedness of Parent and its Subsidiaries scheduled to be paid during such period (not including (w) the final scheduled payment of the Obligations at the Maturity Date, (x) the LSB Notes at the final maturity date applicable thereto, (y) principal payments on CARES Debt other than CARES Unforgiven Debt, or (z) Indebtedness consisting of the financing of insurance premiums in the ordinary course of business not in excess of the amount of such premiums to the extent that such amounts are expensed and therefor reduce EBITDA), plus (B) Consolidated Net Interest Expense of Parent and its Subsidiaries for such period, plus (C) all amounts required to be paid by Parent and its Subsidiaries on Capitalized Lease Obligations having a scheduled due date during such period (this clause (ii), "Fixed Charges").

"Maximum Revolver Amount" means \$65,000,000.

(b) Section 1.1 of the Credit Agreement is hereby further amended to add definitions of the terms "CARES Act Permitted Purposes," "CARES Act – Title I," "CARES Debt," "CARES Forgiveness Date", "CARES Unforgiven Debt," "Small Business Administration" and "Third Amendment Date," thereto, in appropriate alphabetical order, as follows:

"CARES Act Permitted Purposes" means, with respect to the use of proceeds of any CARES Debt, the purposes set forth in Section 1106(b) of the CARES Act – Title I and otherwise in compliance with all other provisions or requirements of the CARES Act – Title I applicable in order for the entire amount of the CARES Debt to be eligible for forgiveness.

"CARES Act - Title I" means Title I of the Coronavirus Aid, Relief and Economic Security Act, as amended (including any successor thereto), and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof, regardless of the date enacted, adopted, issued or implemented.

"CARES Debt" has the meaning set forth in Section 7.1(e).

"CARES Forgiveness Date" means five (5) Business Days after the date that the Borrowers obtain a final determination by the lender of the CARES Debt (and, to the extent required, the Small Business Administration) (or such longer period as may be approved in writing by Agent) regarding the amount of CARES Debt, if any, that will be forgiven pursuant to the provisions of the CARES Act - Title I.

"CARES Unforgiven Debt" means that amount of the CARES Debt that (x) has been determined by the lender of the CARES Debt (or the Small Business Administration) to be ineligible for forgiveness pursuant to the provisions of the

CARES Act - Title I; provided that if such determination has not been made on or before the date that is twelve (12) months after the date of incurrence of the CARES Debt (or such longer period as may be approved in writing by Agent), all such CARES Debt shall be deemed "CARES Unforgiven Debt" until such time as a final determination is made by the lender of the CARES Debt (and, to the extent required, the Small Business Administration) or (y) is not included in any application for such forgiveness submitted in accordance with the CARES Act - Title I within the time period specified in Section 6.18(b).

"Small Business Administration" means the U.S. Small Business Administration.

"Third Amendment Date" means April 20, 2020.

(c) Section 2.1 of the Credit Agreement is hereby amended by amending and restating clause (i) thereof in its entirety as follows:

(i) Increase in Revolver Commitments.

(i) At the option of the Borrowers (but subject to the conditions set forth in clause (ii) below), the Total Commitments and the Maximum Revolver Amount may each be increased by an aggregate amount after the Third Amendment Date not to exceed \$10,000,000, less the aggregate principal amount of the CARES Unforgiven Debt outstanding at such time (each such increase, an "Increase"). The Agent shall invite each Lender to increase its Pro Rata Share of the Total Commitments (it being understood that no Lender shall be obligated to increase its Pro Rata Share of its Revolver Commitment) in connection with a proposed Increase, and if sufficient Lenders do not agree to increase their Pro Rata Share of the Total Commitments in connection with such proposed Increase, then the Agent or the Borrowers may invite any prospective lender who is reasonably satisfactory to the Agent and the Borrowers to become a Lender in connection with a proposed Increase. Any Increase shall be in a principal amount of at least \$5,000,000 and integral multiples of \$1,000,000 in excess thereof. The Total Commitments and the Maximum Revolver Amount may be increased pursuant to this Section 2.1(i) after the Third Amendment Date on no more than 2 occasions.

(ii) Each of the following shall be conditions precedent to any Increase of the Total Commitments and the Maximum Revolver Amount:

(A) the Agent or the Borrowers shall have obtained the commitment of one or more Lenders (or other prospective lenders) reasonably satisfactory to the Agent and the Borrowers to provide such Increase and such lenders, each Borrower and the Agent have signed an amendment/joinder agreement to this Agreement, in form and substance reasonably satisfactory to the Agent, to which such lenders, the Borrowers, and the Agent are party,

(B) no Default shall have occurred and be continuing or would result from the borrowings to be made on the effective date of such Increase,

- (C) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such Increase, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date), and
- (D) the Borrower shall deliver or cause to be delivered officer's certificates and legal opinions of the type delivered on the Restatement Effective Date to the extent reasonably requested by, and in form and substance reasonably satisfactory to, the Agent.
- (iii) The terms and conditions of Advances made pursuant to new Revolver Commitments shall be identical to terms and conditions the Advances, unless otherwise agreed in writing by the Required Lenders.

(d) Section 6 of the Credit Agreement is hereby amended by adding the following Sections 5.23 at the end thereof as follows:

**5.23** **CARES Debt.** All applications, documents and other information submitted to any Governmental Authority with respect to the CARES Debt shall be true and correct in all material respects.

(e) Section 6 of the Credit Agreement is hereby amended by adding the following Sections 6.18 at the end thereof as follows:

**6.18** **CARES Debt.**

- (a) The Loan Parties shall provide to Agent (i) a copy of their application for CARES Debt promptly (and in any event within three (3) Business Days) upon submission thereof and (ii) copies of the definitive loan documentation for CARES Debt promptly (and in any event within three (3) Business Days) upon execution and delivery thereof by the parties.
- (b) The Loan Parties shall timely submit all applications and required documentation necessary or desirable for the lender of the CARES Debt and/or the Small Business Administration to make a determination regarding the amount of the CARES Debt that is eligible to be forgiven.
- (c) The Loan Parties shall provide to Agent copies of any amendments, modifications, waivers, supplements or consents executed and delivered with respect to CARES Debt promptly (and in any event within three (3) Business Days) upon execution and delivery thereof, and copies of any notices of default received by any Loan Party with respect to the CARES Debt.
- (d) [Reserved].
- (e) The Loan Parties shall apply the proceeds of the CARES Debt for CARES Act Permitted Purposes before using any other cash on hand to pay

expenses that are CARES Act Permitted Purposes. The Loan Parties shall cause the proceeds of the CARES Debt to be deposited in a Deposit Account that is not subject to the cash dominion of Agent.

(f) On or prior to the CARES Forgiveness Date, the Loan Parties shall deliver to Agent a written notice of the CARES Debt that will be forgiven pursuant to the provisions of the CARES Act - Title I, together with supporting documentation in respect thereof.

(f) Section 7.1 of the Credit Agreement is hereby amended by amending and restating clause (e) thereof in its entirety as follows:

(e) unsecured Indebtedness advanced in an aggregate amount not to exceed \$10,000,000 by (i) any Governmental Authority (including the Small Business Administration) or any other Person acting as a financial agent of a Governmental Authority or (ii) any other Person to the extent such Indebtedness under this clause (ii) is guaranteed by a Governmental Authority (including the Small Business Administration), in each case under this clause (e), pursuant to the CARES Act - Title I (such unsecured Indebtedness, "CARES Debt"); provided that, unless otherwise approved by Agent (such approval not to be unreasonably withheld, conditioned and delayed, and which shall be granted to the extent in accordance with any amendments or modifications of the CARES Act or any acts of any Governmental Authority in connection therewith), CARES Debt shall (1) have a maturity date not less than two (2) years after the date of incurrence of the CARES Debt and (2) bear interest at a non-default rate not greater than one percent (1%) per annum (subject to any provisions of such CARES Act Debt that expressly permit any Governmental Authority to modify such rate in accordance with the CARES Act);

(g) Section 7.8 of the Credit Agreement is hereby amended by inserting a new sentence at the end thereof as follows:

For the avoidance of doubt, nothing in this Section 7.8 shall restrict or prohibit the forgiveness of any CARES Debt or the payment thereof (to the extent unable to be forgiven) in accordance with its terms.

(h) Section 12 of the Credit Agreement is hereby amended to amend and restate in their entirety the notice addresses for Administrative Borrower as set forth below:

If to Administrative  
Borrower:

**LSB INDUSTRIES, INC.**  
3503 NW 63rd Street, Suite 500  
Oklahoma City, Oklahoma 73116  
Attn: Cheryl Maguire  
Kristy Carver  
Fax No. (405) 235-5067

with copies to:

**LSB INDUSTRIES, INC.**  
3503 NW 63rd Street, Suite 500  
Oklahoma City, Oklahoma 73116  
Attn: Michael J. Foster, Esq.  
Fax No. (405) 235-5067

with a copy (not constituting notice) to:

**ROPES & GRAY LLP**  
1211 Avenue of the Americas  
New York, New York 10036  
Attn: Leonard Klingbaum  
Andrea Hwang  
Fax No. (646) 728-2694  
(646) 728-2695

3. Continuing Effect. Except as expressly set forth in Section 2 of this Amendment, nothing in this Amendment shall constitute a modification or alteration of the terms, conditions or covenants of the Credit Agreement or any other Loan Document, or a waiver of any other terms or provisions thereof, and the Credit Agreement and the other Loan Documents shall remain unchanged and shall continue in full force and effect, in each case as amended hereby.

4. Reaffirmation and Confirmation. Each Loan Party hereby ratifies, affirms, acknowledges and agrees that the Credit Agreement and the other Loan Documents to which it is a party represent the valid, enforceable and collectible obligations of such Loan Party, and further acknowledges that there are no existing claims, defenses, personal or otherwise, or rights of setoff whatsoever with respect to the Credit Agreement or any other Loan Document. Each Loan Party hereby agrees that this Amendment in no way acts as a release or relinquishment of the Liens and rights securing payments of the Obligations. The Liens and rights securing payment of the Obligations are hereby ratified and confirmed by each Loan Party in all respects.

5. Conditions to Effectiveness. This Amendment shall become effective, and the amendments to the Credit Agreement set forth in Section 2 above shall become operative, as of the date hereof upon Agent's receipt of a copy of this Amendment executed and delivered by Agent, the Lenders and the Loan Parties.

6. Representations and Warranties. In order to induce Agent and the Lenders to enter into this Amendment, each Loan Party hereby represents and warrants to Agent and the Lenders that:

(a) after giving effect to this Amendment, all representations and warranties contained in the Loan Documents to which such Loan Party is a party are true, correct and complete in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date of this Amendment, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true, correct and complete in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties

that already are qualified or modified by materiality in the text thereof) on and as of such earlier date);

(b) no Default or Event of Default has occurred and is continuing or will exist after this Amendment becomes effective; and

(c) this Amendment and the Loan Documents, as amended hereby, constitute legal, valid and binding obligations of such Loan Party and are enforceable against such Loan Party in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally.

7. Miscellaneous.

(a) Expenses. The Borrowers jointly and severally agree to pay, promptly after demand therefor is made by Agent, all reasonable and documented out-of-pocket costs and expenses of Agent (including reasonable attorneys' fees of a single firm of counsel to Agent) incurred in connection with the preparation, negotiation, execution, delivery and administration of this Amendment and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided herein shall survive any termination of this Amendment and the Credit Agreement as amended hereby.

(b) Choice of Law and Venue; Jury Trial Waiver; Reference Provision. Without limiting the applicability of any other provision of the Credit Agreement or any other Loan Document, the terms and provisions set forth in Section 13 of the Credit Agreement are expressly incorporated herein by reference.

(c) Counterparts. This Amendment may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized and delivered as of the date first above written.

**BORROWERS:**

**LSB INDUSTRIES, INC.  
CHEMEX I CORP.  
CHEROKEE NITROGEN LLC  
EDC AG PRODUCTS COMPANY L.L.C.  
EL DORADO AMMONIA L.L.C.  
EL DORADO CHEMICAL COMPANY  
EL DORADO NITROGEN, L.L.C.  
LSB CHEMICAL L.L.C.  
PRYOR CHEMICAL COMPANY  
TRISON CONSTRUCTION, INC.**

By: /s/ K Carver  
Name: Kristy Carver  
Title: Senior Vice President, Treasurer  
and Assistant Secretary

**AGENT AND LENDERS:**

**WELLS FARGO CAPITAL FINANCE, LLC, as Agent**

By: /s/ Mark Bradford  
Name: Mark A. Bradford  
Title: Senior Vice President

**WELLS FARGO BANK, NATIONAL ASSOCIATION, as a  
Lender**

By: /s/ Mark Bradford  
Name: Mark A. Bradford  
Title: Senior Vice President

Signature Page to Second Amendment to Third Amended and Restated Loan and Security Agreement

CERTIFICATION

I, Mark T. Behrman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LSB Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 7, 2020

/s/ Mark T. Behrman

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Mark T. Behrman  
President, Chief Executive Officer  
and Director

CERTIFICATION

I, Cheryl A. Maguire, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LSB Industries, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 7, 2020

/s/ Cheryl A. Maguire

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Cheryl A. Maguire  
Executive Vice President  
and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended March 31 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Mark T. Behrman, President and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

/s/ Mark T. Behrman

Mark T. Behrman  
President, Chief Executive Officer  
(Principal Executive Officer) and  
Director

May 7, 2020

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. (“LSB”) on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Cheryl A. Maguire, Senior Vice President and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

/s/ Cheryl A. Maguire  
\_\_\_\_\_  
Cheryl A. Maguire  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial Officer)

May 7, 2020

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein and not for any other purpose.