



## LSB INDUSTRIES, INC. REPORTS RESULTS FOR THE 2012 SECOND QUARTER

August 8, 2012

OKLAHOMA CITY, Oklahoma...August 8, 2012... LSB Industries, Inc. (NYSE: LXU) announced today results for the second quarter ended June 30, 2012.

Second Quarter 2012 Financial Highlights Compared to Second Quarter 2011:

- Sales were \$209.3 million compared to \$235.6 million;
- Operating income was \$42.3 million compared to \$48.3 million;
- Net income and net income applicable to common shareholders were \$26.0 million compared to \$28.6 million; and
- Diluted earnings per common share were \$1.11 compared to \$1.22.

### Discussion of Second Quarter of 2012:

The \$26.3 million decrease in consolidated sales was primarily the result of a \$17.5 million or 11.2% decrease in Chemical Business' sales and a \$9.6 million or 12.5% decrease in Climate Control Business' sales.

Our consolidated operating income was \$42.3 million for the second quarter of 2012 compared to \$48.3 million for the same period in 2011. The \$6.0 million decrease in operating income includes \$3.6 million in our Chemical Business and \$1.9 million in our Climate Control Business. Additionally, the second quarter of 2011 included an insurance recovery of \$8.6 million (recorded as a reduction to cost of sales) relating to a business interruption claim relating to our Chemical Business.

- The Chemical Business' sales and operating income were adversely affected by unplanned downtime events:
- We estimate the Pryor, Oklahoma chemical plant (the "Pryor Facility") lost approximately 70,000 tons of potential urea ammonia nitrate ("UAN") sales due to the unplanned downtime of its urea reactor. The impact of the lost UAN production was partially offset by the continued production and sales of anhydrous ammonia, primarily into its agricultural markets. We estimate the unplanned downtime at the Pryor Facility reduced the Chemical Business' operating income, including lost absorption and gross profit margins, by approximately \$10 million during the quarter. The urea reactor was returned to service in July 2012.
- The El Dorado, Arkansas chemical plant ("El Dorado Facility") lost all nitric and sulfuric acid production on May 15, 2012 when a reactor in its 98% concentrated nitric acid plant ("DSN plant") exploded destroying the DSN plant and damaging the other three regular concentration nitric acid plants and the sulfuric acid plant. Without acid production for the remainder of the second quarter, all production at the El Dorado Facility was lower than would have been expected resulting in lost absorption and gross profit margins. We estimate that the event reduced the Chemical Business' operating income for the second quarter by approximately \$7 million. Currently, two of the three regular concentration nitric acid plants are back in production and the third plant is expected to be back in production by the end of August. Repairs to the sulfuric acid plant should be complete and production of sulfuric acid should restart in the fourth quarter.
- The decrease in the Climate Control Business' operating income was primarily due to lower sales volume.

### First Six Months 2012 Financial Highlights Compared to First Six Months 2011:

- Sales were \$399.5 million compared to \$413.1 million;
- Operating income was \$65.4 million compared to \$82.3 million;
- Net income was \$40.3 million compared to \$49.5 million;
- Net income applicable to common shareholders was \$40.0 million compared to \$49.2 million; and
- Diluted earnings per common share were \$1.72 compared to \$2.12.

The \$13.6 million decrease in sales included a \$4.7 million decrease in the Chemical Business and a \$10.5 million decrease in the Climate Control Business. The decrease in consolidated operating income for the period was the result of decreases in the Chemical and Climate Control Businesses' operating income of \$12.3 million and \$4.5 million, respectively.

### Second Quarter Chemical Business Overview:

Our Chemical Business' sales for the second quarter of 2012 were \$138.1 million, a decrease of \$17.5 million compared to the same period in 2011, which includes a \$6.6 million decrease in industrial acids and other products sales and a \$12.6 million decrease in mining products sales partially offset by a \$1.7 million increase in agricultural products sales.

The downtime at our El Dorado Facility curtailed production of mining and industrial acids. In addition, sales of mining products declined due to a warmer than normal winter in North America which reduced demand for coal, resulting in excess coal inventories. Also with lower natural gas prices, certain utility companies switched fuel from coal to natural gas.

## **Second Quarter Climate Control Business Overview:**

Net sales for the Climate Control Business were \$67.5 million, or approximately \$9.6 million below the same period in 2011, and included a \$6.5 million decrease in geothermal and water source heat pump sales, a \$1.9 million decrease in hydronic fan coil sales, and a \$1.2 million decrease in other HVAC sales. Generally, the overall decline can be attributed to the lower beginning backlog entering the 2012 second quarter related to lower order intake during the first quarter of 2012. The overall decrease in net sales resulted in an approximately \$1.9 million decrease in operating income.

Bookings of new product orders were \$66.8 million in the second quarter of 2012 compared to \$64.3 million for the second quarter of 2011, an increase of 3.8%. As compared to the second quarter of last year, orders for commercial/institutional products increased 6.6% and orders for residential product orders decreased 7.6%.

## **CEO's Remarks:**

Jack Golsen, LSB's Board Chairman and CEO stated, "We were disappointed that net income and earnings per share for the second quarter were lower than last year's second quarter, although we feel the results were remarkable considering the explosion and downtime at our El Dorado Facility and the repairs that were under-way at the Pryor Facility."

Regarding El Dorado, Mr. Golsen said, "We have made good progress at El Dorado. Two of the three regular nitric acid plants are already back in production and we expect the third one to restart by the end of August. Sulfuric acid production should restart during the fourth quarter. Our 98% nitric acid plant was destroyed, but we plan to build a new nitric acid plant."

Turning to Pryor, Mr. Golsen continued, "The repairs to the urea reactor at the Pryor Facility were completed. However, we have had continual problems with the ammonia converter at the main ammonia plant. These problems have prevented us from reaching optimum production rates. We plan to replace the converter and make other modifications in early 2013 that should allow us to achieve our targeted rates."

Mr. Golsen concluded, "We are optimistic about the prospects for our agrochemical business, as most agricultural fundamentals remain strong. Whereas the current markets for our Climate Control products are soft, that business is well positioned to take advantage of the economic recovery when it occurs."

## **Balance Sheet:**

Mr. Golsen noted, "Our financial condition has continued to strengthen. At June 30, 2012, stockholders' equity was \$335 million and our long-term debt to equity ratio was 0.2 to 1."

## **Conference Call**

LSB's management will host a conference call covering the second quarter results on August 8, 2012 at 5:15 pm EDT/4:15 pm CDT to discuss these results and recent corporate developments. Participating in the call will be Chairman and CEO, Jack E. Golsen; President and COO, Barry H. Golsen; and Executive Vice President and CFO, Tony M. Shelby. Interested parties may participate in the call by dialing (201) 493-6739. Please call in ten minutes before the conference is scheduled to begin and ask for the LSB conference call. To coincide with the conference call, LSB will post a slide presentation at [www.lsb-okc.com](http://www.lsb-okc.com) on the webcast section of Investor Info tab.

To listen to a webcast of the call, please go to the Company's website at [www.lsb-okc.com](http://www.lsb-okc.com) at least 15 minutes before the conference call to download and install any necessary audio software. If you are unable to listen live, the conference call webcast will be archived on the Company's website. We suggest listeners use Microsoft Explorer as their web browser.

## **LSB Industries, Inc.**

LSB is a manufacturing and marketing company. LSB's principal business activities consist of the manufacture and sale of commercial and residential climate control products, such as geothermal and water source heat pumps, hydronic fan coils, modular chillers and large custom air handlers; and the manufacture and sale of chemical products for the agricultural, mining and industrial markets.

This press release contains certain forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. These forward-looking statements generally are identifiable by use of the words "believe," "expects," "intends," "plans to," "estimates," "projects" or similar expressions, and such forward-looking statements include, but are not limited to, that the third nitric acid plant is expected back in production by the end of August; that we plan to build a new nitric acid plant; that sulfuric acid production at the El Dorado facility should start during the fourth quarter; that the other modifications to the Pryor Urea plant in early 2013 should allow us to achieve our targeted rates; and that the Climate Control Business is well positioned to take advantage of the economic recovery when it occurs. Investors are cautioned that such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from the forward-looking statements as a result of various factors, including, but not limited to, general economic conditions, effect of the recession on the commercial and residential construction industry, acceptance by the market of our geothermal heat pump products, acceptance of our technology, changes to federal legislation or adverse regulations, available working capital, ability to install necessary equipment and renovations at the Pryor and El Dorado facilities in a timely manner, insurance coverage to repair or replace the damaged facilities is denied or materially limited; weather conditions; inability to obtain in a timely manner any necessary regulatory approvals; ability to finance our investments, and other factors set forth under "A Special Note Regarding Forward-Looking Statements", a discussion of a variety of factors which could cause the future outcome to differ materially from the forward-looking statements contained in this letter, and the Form 10-K for year ended December 31, 2011, and the Form 10Qs for the quarters ended March 31, 2012 and June 30, 2012.

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## **See Accompanying Tables**

[For full release including financial tables](#)