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

FORM 8-K

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

Date of report (Date of earliest event reported): August 26, 2016

LSB INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	1-7677	73-1015226
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma	73107
(Address of principal executive offices)	(Zip Code)

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

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

LSB Industries, Inc., a Delaware corporation (the “Company”), is filing this Current Report on Form 8-K to update the presentation of certain financial information and related disclosures contained in its Form 10-K for the year ended December 31, 2015 (the “2015 Form 10-K”) and its First Quarter Form 10-Q for the quarter ended March 31, 2016 (the “First Quarter 2016 Form 10-Q”). This Form 8-K reflects the presentation of the Company’s Climate Control Business as a discontinued operation. Subsequent to the filing of the Company’s 2015 Form 10-K and First Quarter 2016 Form 10-Q, the Climate Control business was reclassified as held for sale and the results of operations of the Climate Control business were reclassified as discontinued operations. The change had no impact on net income (loss), net income (loss) per basic or diluted share amounts.

This Form 8-K retrospectively revises our consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, and our unaudited condensed consolidated financial statements as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 to reflect the Company’s Climate Control business as a discontinued operation. This update is consistent with the presentation of continuing and discontinued operations included in the Company’s Form 10-Q for the quarter ended June 30, 2016 filed with the Securities and Exchange Commission ("SEC") on August 8, 2016 (the “Second Quarter 2016 Form 10-Q”). The retrospectively revised Items contained in the Company’s 2015 Form 10-K are presented in Exhibits 99.1, 99.2, 99.3, and 99.4 to this Form 8-K. The retrospectively revised Items contained in the Company’s First Quarter 2016 Form 10-Q are presented in Exhibit 99.5 to this Form 8-K.

The exhibits to this Current Report on Form 8-K supersede the following Items in the 2015 Form 10-K and the First Quarter 2016 Form 10-Q to reflect, retrospectively, the changes resulting from the reclassification of the Company's Climate Control business as discontinued operations for all periods presented:

- Part II, Item 6. Revised Selected Financial Data – 2015 Form 10-K
- Part II, Item 7. Revised Management's Discussion and Analysis of Financial Condition and Results of Operations – 2015 Form 10-K
- Part II, Item 8. Revised Financial Statements and Supplementary Data – 2015 Form 10-K
- Part IV, Item 15. Revised Exhibits, Financial Statement Schedules – 2015 Form 10-K
- Part I, Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016

All other information in the 2015 Form 10-K and the First Quarter 2016 Form 10-Q remains unchanged. This Current Report on Form 8-K does not reflect events occurring subsequent to the filing of the 2015 Form 10-K and/or the First Quarter 2016 Form 10-Q and does not modify or update the disclosures therein in any way, other than as required to reflect the Climate Control business as discontinued operations as described above and as set forth in the exhibits attached hereto. Without limitation to the foregoing, this Current Report on Form 8-K does not purport to update the MD&A in either the 2015 Form 10-K and the First Quarter 2016 Form 10-Q for any information, uncertainties, risks, events or trends occurring or known to management. For developments since the filing of the 2015 Form 10-K and/or the First Quarter 2016 Form 10-Q, please refer to the Second Quarter 2016 Form 10-Q, as well as other filings of the Company made with the SEC. The information in this Current Report on Form 8-K should be read in conjunction with the 2015 Form 10-K, the First Quarter 2016 Form 10-Q and such subsequent filings.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Pinnacle Energy Services, L.L.C.
99.1	Part II, Item 6. Revised Selected Financial Data – 2015 Form 10-K
99.2	Part II, Item 7. Revised Management's Discussion and Analysis of Financial Condition and Results of Operations – 2015 Form 10-K
99.3	Part II, Item 8. Revised Financial Statements and Supplementary Data – 2015 Form 10-K
99.4	Part IV, Item 15. Revised Exhibits, Financial Statement Schedules – 2015 Form 10-K
99.5	Part I, Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

Dated: August 26, 2016

LSB INDUSTRIES, INC.

By:	/s/ Mark T. Behrman
Name:	Mark T. Behrman
Title:	Executive Vice President and Chief Financial Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-199864) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan, as amended by the First Amendment;

2. Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan;

3. Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees;

4. Registration Statement (Form S-8 No. 333-153103) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan or any combination of the foregoing;

5. Registration Statement (Form S-3 No. 333-209838) pertaining to the LSB Industries, Inc. 2008 Incentive Plan, as amended;

6. Registration Statement (Form S-3 No. 333-212281) pertaining to the LSB Industries, Inc. 2016 Long Term Incentive Plan; and

7. Registration Statement (Form S-1 No. 333-212503) of LSB Industries, Inc.

of our report dated February 29, 2016, except for the impact of the matters discussed in Note 2 pertaining to discontinued operations, as to which the date is August 26, 2016, with respect to the consolidated financial statements and schedule of LSB Industries, Inc., included in this Current Report on Form 8-K.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
August 26, 2016

Exhibit 23.2

CONSENT OF PINNACLE ENERGY SERVICES, LLC

We issued our report letter dated February 4, 2016 for the year ended December 31, 2015 on estimates of proved reserves and future net cash flows of certain oil and natural gas properties located in Wyoming County, Pennsylvania of Zena Energy, L.L.C. As independent oil and gas consultants, we hereby consent to the use and inclusion of information from the aforementioned report letter as attached as Exhibit 99.1 to the LSB Industries, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“LSB 2015 10-K”) and incorporated by reference in this Current Report on Form 8-K of LSB Industries, Inc. (“LSB Form 8-K”).

We consent to the incorporation by reference of our report letter in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-199864) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan, as amended by the First Amendment;

2. Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan;

3. Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees;

4. Registration Statement (Form S-8 No. 333-153103) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan or any combination of the foregoing;

5. Registration Statement (Form S-3 No. 333-209838) pertaining to the LSB Industries, Inc. 2008 Incentive Plan, as amended;

6. Registration Statement (Form S-3 No. 333-212281) pertaining to the LSB Industries, Inc. 2016 Long Term Incentive Plan; and

7. Registration Statement (Form S-1 No. 333-212503) of LSB Industries, Inc.

PINNACLE ENERGY SERVICES, LLC

By: /s/ John Paul Dick
Name: John Paul Dick
Title: Manager, Registered Petroleum Engineer

August 26, 2016
Oklahoma City, Oklahoma

ITEM 6. SELECTED FINANCIAL DATA (1)

	Year ended December 31,				
	2015	2014	2013	2012	2011
	(In Thousands, Except Per Share Data)				
Selected Statement of Operations Data in Dollars:					
Net sales (2)	$ 437,695	$ 495,888	$ 416,223	$ 516,255	$ 549,871
Operating income (loss)	(71,166)	30,577	73,739	69,682	102,985
Interest expense, net	7,371	21,599	13,301	3,891	5,822
Provisions (benefit) for income taxes	(32,520)	4,251	23,955	24,515	36,090
Income (loss) from continuing operations	(46,146)	5,087	35,600	42,110	61,491
Income from discontinued operations, including taxes	11,381	14,547	19,362	16,494	22,351
Net income (loss)	(34,765)	19,634	54,962	58,604	83,842
Net (loss) income attributable to common stockholders	$ (38,038)	$ 19,334	$ 54,662	$ 58,304	$ 83,537
Income (loss) per common share attributable to common stockholders:					
Basic:					
Income (loss) from continuing operations	$ (2.17)	$ 0.21	$ 1.57	$ 1.87	$ 2.79
Income from discontinued operations, including taxes	$ 0.50	$ 0.65	$ 0.86	$ 0.74	$ 1.01
Net income (loss)	$ (1.67)	$ 0.86	$ 2.43	$ 2.61	$ 3.80
Diluted:					
Income (loss) from continuing operations	$ (2.17)	$ 0.21	$ 1.51	$ 1.79	$ 2.63
Income from discontinued operations, including taxes	$ 0.50	$ 0.64	$ 0.82	$ 0.70	$ 0.95
Net income (loss)	$ (1.67)	$ 0.85	$ 2.33	$ 2.49	$ 3.58
Selected Balance Sheet Data in Dollars:					
Total assets (3)	$ 1,361,827	$ 1,130,572	$ 1,075,218	$ 575,808	$ 500,953
Long-term debt, including current portion, net (3)	520,422	450,885	455,054	67,634	71,132
Redeemable preferred stock	177,272	—	—	—	44
Stockholders' equity	$ 421,580	$ 434,048	$ 411,715	$ 354,497	$ 293,270
Selected Other Data in Dollars:					
Cash dividends declared per common share	—	—	—	—	—

(1) The following selected consolidated financial data were derived from our audited consolidated financial statements and should be read in conjunction with, and are qualified by reference to Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations in Exhibit 99.2 and the audited consolidated financial statements and notes thereto in Exhibit 99.3 attached to this Form 8-K. The financial information presented may not be indicative of our future performance.

The assets and liabilities and operating results for the previously reported Climate Control Business segment have been reclassified as assets and liabilities held for sale and discontinued operations from our continuing operations for all periods presented. For further information regarding our discontinued operations, see Note - 2 Discontinued Operations to the audited consolidated financial statements in Exhibit 99.3 attached to this Form 8-K.

(2) Prior periods have been adjusted to classify certain shipping and handling costs from net sales and SG&A to cost of sales to conform to our current presentation of our consolidated statement of operations for 2015. See Note - 1 to Consolidated Financial Statements in Exhibit 99.3 attached to this Form 8-K.

(3) Prior periods have been adjusted for the reclassification of certain debt issuance costs from total assets to long-term debt, net, to be consistent with the 2015 presentation due to the adoption of certain Accounting Standards Updates as discussed under Accounting Pronouncements - Note - 1 to Consolidated Financial Statements in Exhibit 99.3 attached to this Form 8-K.

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

The following Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with a review of Part II, Item 8 - Revised Financial Statements and Supplementary Data included in Exhibit 99.3. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements" included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 29, 2016. This MD&A discusses the results of our continuing operations which is our chemical business.

Recent Development

Sale of Climate Control Business

On July 1, 2016 we completed the sale of our Climate Control Business to a subsidiary of NIBE for a total of $364 million subject to post-closing adjustments. We plan to use a substantial portion of the net proceeds of the sale to repay our outstanding debt, redeem our preferred stock, or a combination of the two. This sale was pursuant to the terms of the Stock Purchase Agreement entered into with NIBE on May 11, 2016. As a result, we sold to NIBE all of the outstanding shares of stock of the Climate Control Group. As of December 31, 2015, the assets and liabilities of Climate Control Business have been segregated and reported as held for sale. In addition, the results of operations and related cash flows of the Climate Control Business are presented as discontinued operations. For the third quarter of 2016, our discontinued operations will reflect a material gain, net of income taxes, as the result of this sale. However, the actual amount of the gain will not be finalized until the final purchase price and income tax adjustments have been completed. Although this sale results in a large taxable gain, we expect substantially all of this taxable gain will be offset by net operating losses which will include bonus and accelerated depreciation, resulting in no material cash taxes due.

Overview

General

LSB Industries, Inc. ("LSB") is headquartered in Oklahoma City, Oklahoma and through its subsidiaries (the "Company", "We", "Us", or "Our") 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 a global chemical company, in Baytown, Texas. Our products are sold through distributors and directly to end customers throughout the United States.

Key Expectations for 2016

The new ammonia plant at the El Dorado Facility was mechanically complete in February 2016 and should begin production early in the second quarter of 2016. We define mechanical completion as it relates to the El Dorado ammonia plant as having concluded the installation of process vessels and rotating equipment, including associated piping and valves. Additionally, utility equipment systems such as cooling water, steam generation, raw water treatment, and air systems, along with related piping, have been installed. Currently, all that remains to fully complete construction activities at the El Dorado ammonia plant is the connection of the electronic instrumentation wiring to the field instruments, along with the painting and insulation of the piping and process vessels, and the final grading and concrete containment for proper drainage of the process areas.

Management and our Board, as previously announced, will continue to review strategic alternatives for our businesses in order to maximize shareholder value including asset sales and/or the separation of our two businesses. Additionally, once the El Dorado ammonia plant becomes operational, we intend to explore refinancing our capital structure.

Key Capital Expenditure, Financing and Other Developments – 2015

The El Dorado Facility has certain expansion projects underway, a portion of which have been completed. These expansion projects include an ammonia production plant; a new 65% strength nitric acid plant and nitric acid concentrator; and other support infrastructure. The new nitric acid concentrator went into production in June 2015, and the new nitric acid plant went into production during November 2015. The new ammonia plant was mechanically complete in February 2016 and should begin production early in the second quarter of 2016.

During 2015, management in conjunction with the owner's representative, the engineering, procurement and construction contractor and other consultants determined that the total cost to complete the El Dorado Expansion would exceed what we previously projected at the beginning of the year, due, in part, to an under-estimation of the budgeted costs, work performed by a former subcontractor and mechanical and piping labor cost increases compared to earlier estimates. We have now determined that the total cost to complete the El Dorado Expansion is estimated to be in the range of $831 million to $855 million, of which $705 million was spent as of December 31, 2015 and $126 million to $150 million is estimated to be spent in 2016.

Although we had begun seeking additional debt financing to address what were then our known costs of the El Dorado Expansion during the third quarter of 2015, the reluctance of existing bondholders to permit additional senior indebtedness unless we obtained additional equity caused us to reevaluate our financing plans and liquidity needs while we also worked to define the new cost estimates. As a result of that analysis, we concluded that our liquidity needs to complete the projects would exceed available debt financing, particularly in light of our existing debt covenants limiting the incurrence of additional indebtedness. Given that publicly offered financing would be unavailable before we had defined the cost estimates and the release of our 2015 third quarter results and would probably be unavailable even after those events, our options were either to obtain other financing solutions in order for us to continue the projects or delay or stop the projects during the fourth quarter of 2015 to preserve our liquidity for other operations, which, without the El Dorado costs, are generally self-sustaining. We also took additional steps to address our liquidity concerns, including obtaining extended payment terms, for a limited time during the fourth quarter, from Leidos our EDC contractor, for our El Dorado Expansion and by obtaining financing for discrete pieces of equipment.

We considered and explored financing options including debt, equity-linked and equity as well as potential asset sales. As part of those considerations we took into account our permitted indebtedness limits, the costs and likelihood of obtaining consents to raise our permitted indebtedness limits, the sale of one or more of our significant assets or divisions, and various forms of equity issuances. We recognized that, without additional financing, some counterparties to contracts might begin changing payment terms and requiring cash payments in advance, which would further impair our liquidity and affect our business. We evaluated our choices based on timing of financing, certainty of completion, and short- and long-term costs. Ultimately, based on the choices available after analyzing and pursuing various options, we concluded that termination or delay of the El Dorado Expansion would significantly impair the long-term value of the Company compared to the costs and benefits of a private debt and equity financing solution and that a sale of significant assets was not likely to be completed in the timeframe needed at an appropriate price. Therefore, during the fourth quarter of 2015, we entered into the following agreements as summarized below:

12% Senior Secured Notes

On November 9, 2015, LSB sold $50 million aggregate principal amount of the 12% senior secured notes due 2019 (the “12% Senior Secured Notes”) in a private placement exempt from registration under the Securities Act. The 12% Senior Secured Notes bear interest at the annual rate of 12% and mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st, which began February 1, 2016. The 12% Senior Secured Notes are secured on a pari passu basis with the same collateral securing LSB’s existing $425 million aggregate principal amount of 7.75% Senior Secured Notes issued in 2013 (the “7.75% Senior Secured Notes”). The 12% Senior Secured Notes have covenants and events of default that are substantially similar to those applicable to the 7.75% Senior Secured Notes. See further discussion in Note 9 to Consolidated Financial Statements in Exhibit 99.3 attached to this Form 8-K.

Securities Purchase Agreement

On December 4, 2015, LSB entered into a securities purchase agreement (the “Securities Purchase Agreement”) with an unrelated third party, LSB Funding, (“LSB Funding”) pursuant to which LSB sold to LSB Funding, in a private placement exempt from registration under the Securities Act the following:

- $210 million of Series E Redeemable Preferred which includes participation rights in dividends and liquidating distributions,
- a warrant to purchase 4,103,746 shares of our common stock, par value $0.10, which number of shares is equal to 17.99% of the outstanding shares of our common stock before the completion of this private placement (the “Warrants”), and
- one share of Series F Redeemable Preferred which has voting rights with common stock equal to 19.99% of the outstanding shares of our common stock before the completion of this private placement.

See further discussion in Note 13 to Consolidated Financial Statements in Exhibit 99.3 attached to this Form 8-K.

Registration Right Agreements

In connection with the 12% Senior Secured Notes, LSB entered into a registration rights agreement (the “Registration Rights Agreement-Notes”). Pursuant to the Registration Rights Agreement-Notes, we have agreed to use our reasonable best efforts to file with the SEC a registration statement on an appropriate form with respect to a registered offer to exchange the 12% Senior Secured Notes for new notes with terms substantially identical in all material respects to the 12% Senior Secured Notes, cause the registration statement to be declared effective under the Securities Act, and complete the exchange within 180 days after the effective date of such registration statement. We are also obligated to update the registration statement by filing a post-effective amendment.

In connection with the Securities Purchase Agreement, LSB entered into a registration rights agreement (the “Registration Rights Agreement-Warrants”) relating to the registered resale of the common stock issuable upon exercise of the Warrants and certain other common stock. Pursuant to the Registration Rights Agreement-Warrants, we are required to file a registration statement for such registered resale within nine months from December 4, 2015 (the “Closing Date”), to permit the public resale of registrable securities

then outstanding from time to time as permitted by Rule 415 under the Securities Act. We are required to use commercially reasonable efforts to cause the registration statement to become effective as soon as practicable thereafter. Furthermore, the registration statement must be declared effective within twelve months after the Closing Date by filing a post-effective amendment.

Board Representation and Standstill Agreement

On the Closing Date, LSB and the Purchaser entered into a Board Representation and Standstill Agreement. Pursuant to the Board Representation and Standstill Agreement, we agreed to permit LSB Funding to appoint three nominees to our Board of Directors (the “Board”). Until the Board Designation Termination Date (as defined in the agreement), so long as LSB Funding or its affiliates own the Series E Redeemable Preferred or the Warrants, LSB Funding will continue to be entitled to designate three directors. In the event of redemption in full of the Series E Redeemable Preferred by LSB, LSB Funding will be entitled to designate only two directors so long as LSB Funding owns the Warrants or any shares of our common stock issuable thereunder. However, LSB Funding will be entitled to designate only one director nominee in the event LSB Funding and its affiliates collectively cease to beneficially own at least 10% (but not greater than 24.99%) of our common stock issued pursuant to the Warrants (whether owned directly or as a right to acquire upon exercise of the Warrants). LSB Funding’s rights to designate any directors will terminate when LSB Funding and its affiliates collectively cease to beneficially own at least 10% of our common stock issued pursuant to the Warrants (whether owned directly or as a right to acquire upon exercise of the Warrants).

Under the Board Representation and Standstill Agreement, the Golsen Holders, collectively, have the right to designate two directors; however, if the Golsen Holders, collectively, continue to beneficially own at least 2.5% (but not 5% or more) of the then outstanding Common Stock, the Golsen Holders will be entitled to designate up to one director. These designation rights will terminate immediately on the first date on which the Golsen Holders, collectively, no longer beneficially own at least 2.5% of the then outstanding common stock.

From and including the Closing Date through and including the annual meeting of stockholders to elect directors to the Board in 2016 (including any adjournments and postponements thereof), LSB Funding and the Golsen Holders have agreed that, at any meeting of the stockholders or in any other circumstances upon which a vote, consent or other approval of all or some of the stockholders is sought solely with respect to the matters described below, they will vote (or cause to be voted) or execute (or cause to be executed) consents with respect to, as applicable, all of our securities owned as of the applicable record date in favor of the election of the persons named in our proxy statement as the Board’s nominees for election as directors, and against any other nominees.

During the period commencing on the Closing Date and ending on the Standstill Termination Date (as defined below), LSB Funding has agreed that it will not, and will cause its affiliates not to, directly or indirectly, among other things:

- engage in any hostile or takeover activities with respect to LSB (including by means of a tender offer or soliciting proxies or written consents, other than as recommended by the Board);
- acquire or propose to acquire beneficial ownership of additional LSB common stock (other than the common stock issuable upon exercise of the Warrants) or other LSB securities that in the aggregate, together with their beneficial ownership of any other units, is equal to beneficial ownership of 20% or more of the voting power of the outstanding common stock (taking into account the voting rights of our common stock underlying the Warrants and the Series F Redeemable Preferred), provided that, the foregoing will not prohibit or apply to the receipt of any common stock paid as dividends on the Series E Redeemable Preferred held by LSB Funding or any of its affiliates or any common stock issued in exchange for the redemption of the Series E Redeemable Preferred held by LSB Funding or any Purchaser affiliates, and such Series E Redeemable Preferred and common stock shall not be taken into account for purposes of establishing compliance with the foregoing;
- acquire or propose to acquire any other LSB securities or any securities of any of our affiliates;
- call a special meeting of the stockholders; or
- propose to remove, or vote to remove, any directors, other than in accordance with the Board Representation and Standstill Agreement. “Standstill Termination Date” means the earlier of (1) 90 days after the Board Designation Termination Date and (2) the later of (A) the fifth anniversary of the Closing Date and (B) 90 days after the date on which all directors designated by LSB Funding pursuant to the Board Representation and Standstill Agreement have resigned or been removed from the Board, and LSB Funding has permanently waived and renounced its Board designation rights under the Board Representation and Standstill Agreement.

Ammonia Purchase and Sale Agreement

In November 2015, EDC and Koch Fertilizer entered into an ammonia purchase and sale agreement under which Koch Fertilizer agreed to purchase, with minimum purchase requirements, the ammonia that is in excess of El Dorado’s internal needs as discussed in Note - 11 to Consolidated Financial Statements in Exhibit 99.3 attached to this Form 8-K.

Significant Financial Developments – 2015

Our financial developments during 2015 included the following items:

- Our consolidated operating loss for 2015 was $71.2 million, which included the following items:
- a $43.2 million non-cash impairment charge primarily consisting of a $39.7 million non-cash impairment charge to reduce the carrying value of our working interest in natural gas properties in the Marcellus Shale region primarily as the result of a decline in forward prices for natural gas, large natural gas price differentials in the Marcellus Shale region and changes in the drilling plans of these natural gas properties (see discussion below under "Critical Accounting Policies and Estimates") and a $3.5 million non-cash impairment charge recorded by our Pryor Facility to reduce the carrying value of certain plant assets related to unused ammonia production equipment;
- a $19.1 million negative impact on operating results due to the planned and unplanned downtime experienced at the Pryor Facility. During the third quarter of 2015 ($15.6 million) and unplanned outage and resulting maintenance costs during the fourth quarter of 2015 ($3.5 million to $4.0 million)**;**
- a $27 million increase in operating losses at the El Dorado Facility resulting from the impact of the expiration of the Orica Agreement related to the sale of industrial grade AN ("LDAN") and lower sales volume of agricultural grade AN ("HDAN") primarily as the result of unfavorable weather conditions that curtailed the fall fertilizer application season, partially offset by;
- a $13.0 million improvement in operating results, after adjusting for a $28 million insurance recovery in 2014, at the Cherokee Facility primarily due to overall higher on-stream rates as this facility was not required to perform major planned maintenance (a "Turnaround") during 2015.

Key Industry Factors

Supply and Demand

Agricultural

Sales of our agricultural products were approximately 47.9% of our total net sales for 2015. 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, storage, weather conditions, competitive pricing and the availability of imports, among other factors. An expansion or upgrade of competitors' facilities, international and domestic political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and product margins.

Corn prices affect the number of acres of corn planted in a given year, and the number of acres planted will drive nitrogen fertilizer consumption, likely driving ammonia, UAN and urea prices. Weather also will have an impact on fertilizer consumption. Although the latest World Agricultural Supply and Demand Estimates Report, report dated January 12, 2016 estimates record world corn ending stocks for 2015/2016 at 208.9 million tons, more than half of these tons are estimated to be held in China. Despite the record ending stocks, the USDA is estimating the U.S. growers will plant 90.5 million acres of corn in 2016 compared to 88.0 million in 2015. At present, the overall fertilizer market continues to be under pressure as inventories of fertilizer products at distributors and producers remain high due to the contracted fall application season and farmers and dealers delaying purchases as they believe fertilizer pricing will continue to drop. However, spring nitrogen movement is expected to be stronger in 2016 compared to 2015 given the increase in estimated planted acres in 2016 and that the 2015 fall nitrogen fertilizer application was disappointing due to poor weather conditions. Along with farmer and dealers delaying purchases, the strong U.S. dollar makes the U.S. an attractive market for importers to bring in product at lower prices, which is putting further pressure on the market. With the spring application season rapidly approaching, we believe that nitrogen fertilizer prices will recover as more fertilizer will need to be applied to maintain the yield achieved over the past two seasons given the truncated fall application season and imports continuing to run below the levels set last year.

Industrial

Sales of our industrial products were approximately 38.3% of our total net sales for 2015. Our industrial products sales volumes are dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemistry Council, the U.S. economic indicators continue to be mostly positive for these sectors domestically. Our sales prices generally vary with the market price of our feedstock (ammonia or natural gas, as applicable) in our pricing arrangements with customers.

Mining

Sales of our mining products were approximately 10.8% of our total net sales for 2015. Our mining products are LDAN and AN solutions. The primary uses are as AN fuel oil and specialty emulsions for surface mining of coal and for usage in quarries and the construction industry. As reported by the EIA, annual coal production in the U.S. for 2015 is estimated to be down 11%. EIA also forecasts an additional 6% decrease in U.S. coal production in 2016. The Appalachia region drove the decline in coal production with an estimated decline of approximately 15% from 2015. The Powder River Basin and Illinois Basin are estimated to have declined approximately 9% and 11%, respectively. Although the majority of our LDAN and AN solutions are used in the Powder River Basin which has experienced a slower rate of decline, we believe that coal production in the U.S. will face significant challenges assuming natural gas prices remain at current levels and given that export demand is expected to be lower due to the current strength of U.S. currency. While we believe our plants are well-located to support the regions that are more stable in the upcoming years, our current mining sales volumes are being impacted by overall lower customer demand for LDAN.

Farmer Economics

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

Natural Gas Prices

Natural gas is the primary feedstock for the production of nitrogen fertilizers at our Cherokee and Pryor Facilities and will be upon the completion of the construction of the ammonia plant at our El Dorado Facility. Over the last five 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 have been positively impacted.

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

	2015	2014
Natural gas volumes (MMBtu in millions)	11	11
Natural gas average cost per MMBtu	$ 3.19	$ 4.28

For 2016 we have forward purchase commitments of natural gas for approximately 3 million MMBtus for our Cherokee Facility, approximately 2 million MMBtus for our Pryor Facility and approximately 2 million MMBtus for our El Dorado Facility at an average cost of $2.76 per MMBtu. This represents approximately 30% of our exposed natural gas usage at each facility for 2016.

Ammonia Prices

Currently, ammonia is the primary feedstock for the production of HDAN and LDAN at our El Dorado Facility. That will continue until the new ammonia plant being constructed is operational which is expected to occur in the second quarter of 2016. Ammonia pricing is based on a published Tampa, Florida market index pursuant to an ammonia purchase agreement with Koch Nitrogen International Sarl ("Koch"), under which Koch agrees to supply certain of the El Dorado Facility's ammonia requirements. Under an amended agreement, the El Dorado Facility will purchase a majority of its ammonia requirement from Koch through the earlier of December 31, 2016 or the date on which the new ammonia plant comes on stream at the El Dorado Facility. The Tampa index is commonly used in annual contracts for the industrial sectors, and is based on the most recent major industry transactions in the Tampa market. Pricing considerations for ammonia incorporate international supply-demand, ocean freight and production factors. Subject to availability, the El Dorado Facility has the ability to source a portion of its ammonia requirements from our Pryor Facility, which costs are significantly less than current market prices. Once our new ammonia production plant at the El Dorado Facility commences production we believe this cost disadvantage will be eliminated. Over the past several years, ammonia prices have experienced large fluctuations. Additionally, the El Dorado Facility's cost to produce HDAN from purchased ammonia can at times exceed our selling price (a cost disadvantage as compared to producing ammonia from natural gas) as discussed below.

Based upon full plant production, the El Dorado Facility would expect to require 200,000 to 220,000 tons per year of ammonia feedstock to upgrade to other products. During 2015, the purchased ammonia was less than the amount required for full production due to lower production of:

- HDAN tons due to adverse weather conditions and cautious buyers resulting from falling nitrogen product selling prices and;
- LDAN production caused by low natural gas prices affecting the overall demand for coal translating to lower U.S. coal production combined with EDC currently being a high cost producer causing customers to purchase LDAN from competitors.

The table below shows the El Dorado Facility's annual volume of ammonia purchased and the average cost per short ton:

	2015	2014
Ammonia volumes (tons in thousands)	121	138
Ammonia average cost per short ton	$ 455	$ 506

It is expected that this overall trend will continue into the second quarter of 2016 until we begin operating our new ammonia production plant at the El Dorado Facility and will negatively impact our operating results until that point. We have executed contracts with customers with expected purchase requirements of 150,000 tons per year of LDAN a portion of which include minimum purchase requirement volumes. With the recent downturn in the mining industry, we are unsure if we will reach these sales levels. These contracts begin in 2016.

As mentioned above, our El Dorado Facility is currently at a cost disadvantage since it purchases ammonia compared to products produced with ammonia that were produced from natural gas. This cost disadvantage combined with the impact of the expiration of the Orica Agreement contributed to an operating loss for the facility during 2015 of approximately $45 million compared to an operating loss of approximately $18 million in 2014.

Transportation Costs

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

Key Operational Factors

Facility Reliability

Consistent, reliable and safe operations at our chemical plants are critical to our financial performance and results of operations. Unplanned downtime of the plants typically results in lost contribution margin, increased maintenance expense and decreased inventory for sale. The financial impact of planned downtime, including Turnarounds maintenance, is mitigated through a diligent planning process that takes into account, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Our Cherokee and Pryor Facilities have historically undergone a facility Turnaround every year. In the third quarter of 2014, our Cherokee Facility underwent an extended Turnaround replacing certain end-of-life equipment and performing additional maintenance required to move to a two-year Turnaround cycle. As a result, a Turnaround was not required at this facility during 2015 and we anticipate that Turnarounds at our Cherokee Facility typically will be performed every two years, and last 25 to 30 days. For the Cherokee Facility, the next bi-annual Turnaround is scheduled in mid-2016. Currently, Turnarounds at our Pryor Facility are performed annually, and typically last between 20 to 25 days. During the third quarter of 2015, the Pryor Facility completed a Turnaround that lasted 25 days. However, subsequent to the completion of this Turnaround, this facility experienced unplanned downtime as discussed below under "Items Affecting Comparability of Results." We are currently anticipating a Turnaround at our Pryor Facility in mid-2016. At our El Dorado Facility, since we are able to perform Turnaround projects on individual plants without shutting down the entire facility, the impact of lost production is not significant. However, upon completion of the new ammonia plant at our El Dorado Facility, the facility will begin with annual Turnarounds that are expected to last between 20 to 25 days. All Turnarounds result in lost fixed overhead absorption and additional maintenance costs, which costs are expensed as incurred.

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 we propose. We use this program to varying degrees during the year depending on market conditions and depending on our view as to

whether price environments will be increasing or decreasing. Fixing the selling prices of our products months in advance of their ultimate delivery to customers typically causes our reported selling prices and margins to differ from spot market prices and margins available at the time of shipment.

Consolidated Results for 2015

Our consolidated net sales for 2015 were $437.7 million compared to $495.9 million for 2014. Our consolidated operating loss was $71.2 million compared to consolidated operating income of $30.6 million for 2014. The items impacting our operating results are discussed below and under "Results of Operations."

Items Affecting Comparability of Results

Property and Business Interruption Insurance Claims and Recoveries

In January 2014, we settled claims with our insurance carriers related to property damage and business interruption at our Cherokee Facility. For 2014, the impact of these claims to our operating results was approximately $22.9 million recognized as a reduction to cost of sales and $5.1 million recognized as a property insurance recovery in excess of losses incurred.

Impairment of Natural Gas Properties and Long Lived Assets

During 2015, one of our subsidiaries received an engineering and economic evaluation (the "Evaluation") from our independent petroleum engineer relating to its working interest in natural gas properties in the Marcellus Shale region. The results of the Evaluation indicated that the carrying amount of these natural gas properties may not be recoverable. Therefore, a review for impairment was performed on these natural gas properties. As a result of the review, we recognized a non-cash impairment charge of $39.7 million to write-down the carrying value of our working interest in these natural gas properties to the estimated fair value of $22.5 million at the time of the evaluation. In addition, we recognized a $3.5 million non-cash impairment charge to reduce the carrying value of certain plant assets related to unused ammonia production equipment at our Pryor Facility. See additional discussion below under "Critical Accounting Policies and Estimates" in this Exhibit 99.2.

Pryor Downtime

Our Pryor Facility completed an annual Turnaround on August 4, 2015, which lasted 25 days. While restarting the plant, several mechanical issues were encountered requiring management to take the plant out of service for additional repairs. The plant was restarted and resumed production on September 23, 2015, resulting in 45 days of unplanned downtime. The Pryor facility experienced additional unplanned downtime in its Urea and UAN plants during the fourth quarter of 2015. We estimate that the period of planned and unplanned downtime at our Pryor Facility during the third quarter of 2015 resulted in reduced sales volumes of UAN and ammonia by approximately 18,300 tons and 22,200 tons, respectively and an additional reduction in UAN sales volumes of 21,000 tons in the fourth quarter. The impact from these outages increased our operating losses in 2015 by approximately $19 million, which includes unabsorbed overhead expenses, costs of repair and lost profit margin.

During the first six months of 2014, Pryor incurred unplanned downtime resulting in lost ammonia and UAN production of approximately 34,000 tons and 59,000 tons respectively. The estimated negative impact to operating income resulting from these outages was approximately $15 million. In addition, Pryor incurred a short planned 8-day outage in July to perform maintenance and experienced a 10-day unplanned outage in August resulting from a power outage.

Orica Agreement

EDC's LDAN sales agreement with Orica expired on April 9, 2015. The Orica Agreement included a provision for Orica to pay for fixed overhead costs and gross profit on the portion of the annual minimum of product not taken. The annual fixed overhead and gross profit associated with the 240,000 tons was approximately $20 million. As a result, during 2015, our El Dorado Facility had approximately $15 million less contribution margin from this agreement compared to 2014.

Subsequent to the expiration of the Orica Agreement, we continue to selling LDAN to other customers including Orica but at a lower volume given that we remain a high cost producer due to purchasing ammonia as the feedstock. We believe we will continue to experience lower volumes until the El Dorado ammonia plant construction is in production which is expected to begin early in the second quarter of 2016.

We have signed contracts with customers that, beginning in January 2016, provide for the sale of LDAN for approximately 150,000 tons annually under various cost plus pricing arrangements. With the recent downturn in the mining industry, we are unsure if we will reach these sales levels. Unlike the Orica Agreement, which contained take-or-pay provisions, certain of these contracts include minimum annual volume levels with penalty payments if minimum volumes are not met. However, as discussed in more detail above under "Key Industry Factors," our LDAN sales volumes are being impacted by the decline in coal production in the U.S.

Cherokee Turnaround Expense

In 2014 our Cherokee Facility underwent an extended Turnaround replacing certain end-of-life equipment and performing additional maintenance required to move to a two-year Turnaround cycle. The impact from this turnaround reduced our operating results in 2014 by approximately $5 million which includes unabsorbed overhead expenses, costs of repair and lost profit margin. Our Cherokee Facility has moved to a bi-annual turnaround schedule with the next Turnaround scheduled for third quarter of 2016.

Interest Expense, net

For 2015 and 2014, interest expense was $7.4 million and $21.6 million, net of capitalized interest of $30.6 million and $14.1 million, respectively. Interest was capitalized based upon construction in progress of the El Dorado Expansion and certain other capital projects.

Certain One-Time and Other Expenses

During 2015, we incurred certain one-time corporate costs relating to severance agreements with former executives of $2.0 million and we incurred stock-based compensation of $0.4 million associated with our Chief Executive Officer relating to restricted stock that vested on the date of grant, and certain Board fees of $0.2 million.

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2015, 2014, and 2013 and accompanying notes in Exhibit 99.3 to this Form 8-K and the discussions under “Overview” and “Liquidity and Capital Resources” included in this Exhibit 99.2. See discussion in Note - 1 to Consolidated Financial Statements in Exhibit 99.3 to this Form 8-K regarding the adjusted prior period amounts to classify certain shipping and handling from net sales and SG&A to cost of sales to conform to our current presentation of our consolidated statement of operations for 2015.

We present the following information about our results of operations. Net sales to unaffiliated customers as reported in the consolidated financial statements. Gross profit represents net sales less cost of sales.

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

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

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

(1) As a percentage of net sales

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

Product (tons sold)	2015	2014	Change	Percentage Change
UAN	354,695	307,442	47,253	15 %
HDAN	171,294	214,187	(42,893)	(20) %
Ammonia	90,658	94,762	(4,104)	(4) %
Other	19,237	28,326	(9,089)	(32) %
Total	635,884	644,717	(8,833)	(1) %

Average Selling Prices (price per ton)	2015	2014	Change	Percentage Change
UAN	$ 246	$ 271	$ (25)	(9) %
HDAN	$ 349	$ 351	$ (2)	(1) %
Ammonia	$ 499	$ 499	$ —	— %

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

Product (tons sold)	2015	2014	Change	Percentage Change
Nitric acid	554,832	528,347	26,485	5 %
LDAN/HDAN	70,660	77,313	(6,653)	(9) %
AN Solution	76,071	94,229	(18,158)	(19) %
Ammonia	36,235	38,147	(1,912)	(5) %
Total	737,798	738,036	(238)	— %

Net Sales

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

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

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

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

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

Gross Profit

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

Selling General and Administrative Expense

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

Impairment of Long-Lived Assets

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

Other Expense (Income), net

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

Interest Expense, net

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

Provision (benefit) for Income Taxes

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

Income from Discontinued Operations, including taxes

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

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

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

	2014	2013	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$ 230,046	$ 180,763	$ 49,283	27.3%
Industrial acids and other chemical products	173,876	150,497	23,379	15.5%
Mining products	67,484	63,286	4,198	6.6%
Other products	24,482	21,677	2,805	12.9%
Total net sales	$ 495,888	$ 416,223	$ 79,665	19.1%
Gross profit	$ 65,465	$ 46,836	$ 18,629 0	39.8%
Gross profit percentage (1)	13.2%	11.3%	1.9%	
Selling, general and administrative expense, including provision for (recovery of) losses on accounts receivable	38,991	35,828	3,163	8.83%
Property insurance recoveries in excess of losses incurred	(5,147)	(66,255)	61,108	(92.23)%
Other expense, net	1,044	3,524	(2,480)	(70.37)%
Operating income	30,577	73,739	(43,162)	(58.53)%
Interest expense, net	21,599	13,301	8,298	62.39%
Non-operating other expense (income), net	(281)	23	(304)	(1321.74)%
Loss on extinguishment of debt	—	1,296	(1,296)	(100.00)%
Provisions for income taxes	4,251	23,955	(19,704)	(82.25)%
Equity in earnings of affiliate	(79)	(436)	357	(81.88)%
Income from continuing operations	5,087	35,600	(30,513)	(85.71)%
Additions to property, plant and equipment:	$ 238,245	$ 161,279	$ 76,966	47.72%
Depreciation, depletion and amortization of property, plant and equipment:	$ 30,987	$ 24,000	$ 6,987	29.1%

(1) As a percentage of net sales

Net Sales

Our sales in the agricultural markets primarily were at the spot market price in effect at the time of sale or at a negotiated future price. Most of our sales in the industrial and mining markets were pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass through component in the sales price. Our 2014 production and sales volumes were higher in all three of our primary markets due to consistent customer demand and improved on-stream production rates at the El Dorado, Pryor and Cherokee Facilities, partially offset by an extended Turnaround in the third quarter and the approximately 30 days of downtime in the fourth quarter to complete certain unplanned maintenance at our Cherokee Facility.

- Agricultural products comprised approximately 46.4% and 43.4% of our net sales for 2014 and 2013, respectively. Agricultural products sales increased in 2014 as more product was available to sell resulting from the increased on-stream rates of our facilities partially offset by lower average selling prices for nitrogen fertilizers. Compared to 2013, the 2014 average agricultural products selling prices per ton were lower by 8%, 5%, and 10% for ammonia, UAN and AN, respectively. The decrease in selling prices for the nitrogen fertilizers was due largely to record exports of urea from China combined with lower commodity prices.
- Industrial acids and other chemical products sales increased in 2014 as a result of more product available to sell due to the improved on-stream rates of our chemical facilities.
- Mining products sales increased in 2014 primarily as a result of more product available to sell due to the improved on-stream rates of our chemical facilities.
- Other products consist of natural gas sales from our working interests in certain natural gas properties and sales of industrial machinery from related components. The increase in other products is primarily due to higher production volume property development partially offset by lower net selling prices.

Gross Profit

- Our gross profit increased $18.6 million in 2014 when compared to 2013. Excluding business interruption insurance recoveries of $22.9 million and $28.6 million in 2014 and 2013, respectively, and $4.5 million of precious metals recovery in 2013, the increase in gross profit was $28.8 million. The increase of $28.8 million was due to the higher sales level resulting in improved fixed overhead absorption made possible by the improved on-stream production rates of our chemical facilities. The improved gross profit was partially offset by a decline in the margin per ton of nitrogen fertilizers due to lower selling prices and higher feedstock costs. Natural gas feedstock cost increased approximately 12% partially offset by a 7% decrease in ammonia feedstock costs, while AN prices decreased 10% and UAN selling prices decreased 5%, negatively affecting gross profit margins on our nitrogen fertilizer sales.
- Unrealized losses related to forward contracts on natural gas purchases decreased 2014 gross profit by $2.1 million compared to a minimal unrealized gain in 2013.
- Purchased UAN that was sold at a loss to honor forward sales commitments in excess of available production due to unplanned downtime reduced gross profit by $1.2 million in 2014.

Selling General and Administrative

Our SG&A expenses were $39 million for 2014, an increase of $3.2 million compared to 2013. The increase was the result of incurring approximately $4.8 million in fees and expenses primarily related to evaluating and analyzing proposals from and settling with certain activist shareholders partially offset by a decrease in consulting fees and services of $1.5 million primarily relating to our Pryor Facility.

Property Insurance Recoveries in Excess of Losses Incurred

In 2014, a property insurance recovery of $5.1 million was recognized. In 2013, property insurance recoveries of $66.3 million were recognized.

Other Expense, net

Net other expenses were $2.5 million lower in 2014 compared to 2013 primarily as a result of incurring dismantling and demolition expenses at our El Dorado Facility.

Interest Expense, net

Interest expense for 2014 was $21.6 million compared to $13.3 million for 2013. The increase is due primarily to the issuance of the 7.75% Senior Secured Notes during 2013, partially offset by $14.1 million of capitalized interest on capital projects under development and construction during 2014 compared to $4.0 million capitalized during 2013.

Loss on Extinguishment of Debt

As the result of the payoff of a secured term loan facility in 2013, we incurred a loss on extinguishment of debt of $1.3 million, consisting of a prepayment premium and writing off unamortized debt issuance costs.

Provisions for Income Taxes

The provision for income taxes from continuing operations for 2014 was approximately $4.3 million compared to $24 million for 2013. The resulting effective tax rate was 46% for 2014 and 40% for 2013.

Income from Discontinued Operations, including taxes

As discussed above, the results of operations of the Climate Control Business have been presented as discontinued operations. For 2014, income from discontinued operations was $14.6 million, net of a tax provision of $8.1 million. For 2013, income from discontinued operations was $19.4 million, net of a tax provision of $11.4 million.

LIQUIDITY AND CAPITAL RESOURCES

The following summarizes our cash flow for all continuing activities:

Cash Flow from Continuing Operating Activities

For 2015, net cash used by continuing operating activities was $5.1 million primarily as the result of a net loss from continuing operations of $46.1 million plus an adjustment of $27.4 million for deferred income taxes partially offset by adjustments of $43.2 million for the impairment of long-lived assets (primarily natural gas properties) and $35.9 million for depreciation, depletion and amortization of PP&E and net cash used from working capital of $15.2 million.

Cash Flow from Continuing Investing Activities

For 2015, net cash used by continuing investing activities was $350.7 million consisting primarily of $438.9 million used for expenditures for PP&E partially offset by net proceeds of $85.5 million from restricted cash and cash equivalents and investments primarily representing funds designated by management for specific capital projects.

Cash Flow from Continuing Financing Activities

For 2015, net cash provided by continuing financing activities was $264.3 million and primarily consisted of net proceeds from the issuance of preferred stock and warrants of $198.6 million and net proceeds from long-term financing of $79.0 million, partially offset by net payments on short-term financing and payment of long-term debt of $15.0 million.

Liquidity Needs for 2016

As discussed below under "Capitalization", our primary cash needs relate to completing our current capital projects in addition to our scheduled debt and preferred dividend and redemption requirements. Our cash requirements are primarily dependent on credit agreements, various forms of financing, and through internally generated cash flows. See "Key Capital Expenditure, Financing and Other Developments - 2015."

During 2016, we will complete the construction of and begin operations at the new ammonia plant being constructed at our El Dorado Facility. We plan to fund our remaining cash needs to complete this project along with our annual interest payments on our outstanding debt, our dividend payments on our outstanding preferred stock and the repayment of the Secured Promissory Note due 2016 through funds received in connection with the $260 million in financing completed in December 2015, cash flow from operations, the funding of the cogeneration facility equipment at our El Dorado Facility and the use of our revolving credit facility. We have the ability to accrue the dividend payments on our preferred stock should we need to elect that option.

Our Senior Secured Notes mature in 2019 and the holders of our Series E Redeemable Preferred and Series F Redeemable Preferred have the right to have the Company redeem that preferred stock in 2019, including accumulated dividends, if any. We intend to seek refinancing on or before the maturity date in 2019 of the Senior Secured Notes. If the holders of our Series E Redeemable Preferred and Series F Redeemable Preferred require us to redeem the preferred stock in 2019, we may be required to seek additional financing.

Capitalization

The following is our total current and noncurrent cash and investments, long-term debt and stockholders' equity:

	December 31, 2015	December 31, 2014
	(In Millions)	
Cash and cash equivalents and short-term investments	$ 127.2	$ 185.0
Noncurrent restricted cash and cash equivalents and investments	—	71.0
Total current and noncurrent cash and investments	$ 127.2	$ 256.0
Long-term debt:		
7.75% Senior Secured Notes due 2019	$ 425.0	$ 425.0
12% Senior Secured Notes due 2019	$ 50.0	—
Secured Promissory Note due 2016	$ 15.9	22.8
Secured Promissory Note due 2021	$ 16.1	—
Secured Promissory Note due 2022,	$ 15.0	—
Other	$ 7.1	9.5
Unamortized discount and debt issuance costs	$ (8.7)	(6.4)
Total long-term debt, including current portion, net	$ 520.4	$ 450.9
Series E and F redeemable preferred stock	$ 177.3	—
Total stockholders' equity	$ 421.6	$ 434.0

As of December 31, 2015, our cash and cash equivalents were $127.2 million. In addition, our $100 million revolving credit facility was undrawn and available to fund operations as discussed below, if needed, subject to the amount of our eligible collateral and outstanding letters of credit.

As discussed in "Key Capital Expenditure, Financing and Other Developments - 2015," over the course of 2015, management in conjunction with the owner's representative, the engineering, procurement and construction contractor and other consultants determined that the total cost to complete the El Dorado Expansion would exceed what we previously projected compared to earlier estimates. We have now determined that the total cost to complete the El Dorado Expansion is estimated to be in the range of $831 million to $855 million ($705 million spent as of December 31, 2015 and $126 million to $150 million to be spent in 2016).

In order to finance these additional costs, and for the reasons discussed in "Key Capital Expenditure, Financing and Other Developments - 2015," during the fourth quarter of 2015, we obtained additional financing totaling $260 million in the form of debt, preferred stock, and common stock warrants. We believe that the funding provided by the financing, together with our other sources of liquidity, will be sufficient for our anticipated liquidity needs through completion of the El Dorado Expansion.

In February 2016, we received financing of $10 million related to the cogeneration facility equipment in connection with the El Dorado Expansion projects. Our agreement allows us to secure up to an additional $10 million in financing on the cogeneration facility equipment.

We are party to the Senior Secured Notes Indenture governing the 7.75% Senior Secured Notes and the Senior Secured Note Purchase Agreement governing the 12% Senior Secured Notes. The Senior Secured Notes Indenture and the Senior Secured Note Purchase Agreement contain covenants that, among other things, limit LSB's ability, with certain exceptions and as defined in the Senior Secured Notes Indenture and the Senior Secured Note Purchase Agreement, to enter certain transactions.

We and certain of our subsidiaries are party to the Amended Working Capital Revolver Loan. Pursuant to the terms of the facility, the principal amount LSB and certain of its subsidiaries ("the Borrowers") may borrow is up to $100.0 million, based on specific percentages of eligible accounts receivable and inventories. At December 31, 2015, there were no outstanding borrowings under the Amended Working Capital Revolver Loan and the net credit available for borrowings was approximately $64.4 million, based on our eligible collateral, including collateral related to our discontinued operations, less outstanding letter of credit as of that date.

Capital Additions

Capital Additions - 2015

Capital additions during 2015 were $475.8 million, which included $443.0 million for expansion projects at our El Dorado Facility (which capital additions include equipment associated with maintaining compliance with environmental laws, regulations and guidelines), $19.1 million for various major renewal and improvement projects, $6.0 million relating to the new enterprise resource planning system (ERP), $3.7 million for the development of natural gas leaseholds, and an additional $3.7 million associated with

maintaining compliance with environmental laws, regulations and guidelines not associated with the El Dorado Expansion. The capital additions were funded primarily from noncurrent restricted cash and investments, third-party financing and working capital. Due to the increase in the amount of capital additions incurred and planned, our depreciation, depletion and amortization expenses have increased and are expected to increase in 2016.

Planned Capital Additions

	Planned Capital Additions 2016 (In Millions)	
	Low	High
El Dorado Expansion	$ 126	$ 150
Other (1)	44	54
Total	$ 170	$ 204

(1) Includes cost associated with renewal and improvement projects, environmental projects, the development of natural gas leaseholds, ERP and other capital projects, some of which may be deferred.

Included in planned capital expenditures is capitalized interest of approximately $12 million for 2016.

Planned capital expenditures are presented as a range to provide for engineering estimates, the status of bidding, variable material costs, unplanned delays in construction, and other contingencies. As the engineering, design, and bidding processes progress and project construction proceeds, the estimated costs are more certain and the range of estimates narrows. The planned capital expenditures include investments that we anticipate making for expansion and development projects, environmental requirements, and major renewal and improvement projects. Beyond the completion of the expansion projects, specific capital projects are less identified but are expected to include between $40 million to $60 million per year at our chemical facilities for ongoing capital maintenance, including environmental compliance, major renewal and improvement projects, and other capital projects, and approximately $19 million from 2016-2019 to fully develop our natural gas working interests.

The El Dorado Expansion

The El Dorado Facility has certain expansion projects underway, of which a portion of these have been completed. These expansion projects include an ammonia production plant; a new 65% strength nitric acid plant and concentrator; and other support infrastructure, all of which were analyzed and evaluated based on their forecasted return on investment. The expected costs of these projects are outlined below, and their planned amounts are included in the table above.

	Planned Capital Additions				
	Capitalized To Date	For the Remainder of the Project		Total	
	(In Millions)				
Ammonia Plant	$ 428	$ 48	$ 62	$ 476	$ 490
Nitric Acid Plant and Concentrator	122	1	2	123	124
Other Support Infrastructure	113	20	28	133	141
Capitalized Interest	42	11	12	53	54
Contingency	—	46	46	46	46
	$ 705	$ 126	$ 150	$ 831	$ 855

Our El Dorado Facility produces nitric acid, HDAN and LDAN from purchased ammonia, which is currently at a cost disadvantage compared to products produced from natural gas. The El Dorado Facility historically purchased 600-700 tons of ammonia per day when operating at full capacity. We are constructing a 1,150 ton per day ammonia production plant at the El Dorado Facility, which we believe will eliminate the cost disadvantage, increase capacity, and improve efficiency of the El Dorado Facility. This plant is expected to be operational early in the second quarter of 2016.

During 2015, we have completed the construction of a new 1,100 ton per day, 65% strength nitric acid plant and concentrator that replaces the concentrated nitric acid capacity lost in 2012. The nitric acid plant and concentrator are designed to be more efficient and provide increased nitric acid production capacity.

As a result of the increased production capacity at the El Dorado Facility, it is necessary to expand and improve certain support infrastructure, including utility capacity, control room facilities, inventory storage and handling, and ammonia distribution. Also,

other cost reduction and cost recovery equipment, including an electric cogeneration plant, are being added to improve efficiency and lower the cost of production.

As the result of the completion/expected completion of the various capital projects included in the El Dorado Expansion (ending the capitalization of interest to these capital projects) and the issuance of the 12% Senior Secured Notes, our future operating results will be impacted by an increase in interest expense.

Expenses Associated with Environmental Regulatory Compliance

We are subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, we incurred expenses of $5.5 million in 2015 in connection with environmental projects. For 2016, we expect to incur expenses ranging from $4.5 million to $5.5 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. However, our Board has not made a decision whether or not to pay such dividends on our common stock in 2016**.** Also see discussion below concerning certain limitations relating to paying dividends on our common stock.

During the first quarter of 2015, annual dividends totaling $300,000 were declared on our outstanding 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") and subsequently paid in 2015 using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our Board, payable 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.

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.

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually, commencing May 1, 2016, in arrears at the annual rate of 14% of the liquidation value of $1,000 per share. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, only when declared by our Board, of $70.00 per share for the aggregate semi-annual dividend of $14.7 million. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the annual rate of 14%. We also must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the Purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of December 31, 2015, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately $2.3 million.

Compliance with Long - Term Debt Covenants

As discussed below under "Loan Agreements", the Amended Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. Currently, our forecast is that we will be able to meet all financial covenant requirements for the next twelve months. We plan to use our revolving credit facility to fund operational needs though out 2016 and believe that even with this additional borrowing that we will meet the minimum fixed charge coverage ratio during 2016.

Loan Agreements and Redeemable Preferred Stock

Senior Secured Notes - In 2013, LSB sold $425 million aggregate principal amount of the 7.75% Senior Secured Notes due 2019. The 7.75% Senior Secured Notes bear interest at the rate of 7.75% per year and mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st.

On November 9, 2015, LSB sold $50 million aggregate principal amount of the 12% Senior Secured Notes due 2019 in a private placement exempt from registration under the Securities Act of 1933, as amended. The 12% Senior Secured Notes bear interest at the annual rate of 12% and mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st, which began February 1, 2016. The 12% Senior Secured Notes are secured on a pari passu basis with the same collateral securing LSB's existing $425 million aggregate principal amount of 7.75% Senior Secured Notes issued in 2013. The 12% Senior Secured Notes have covenants and events of default that are substantially similar to those applicable to the 7.75% Senior Secured Notes.

See footnote (B) under Note 9 to Consolidated Financial Statements included in Exhibit 99.3 attached to this Form 8-K for additional information on these Senior Secured Notes.

Amended Working Capital Revolver Loan – LSB and certain of its subsidiaries are party to the Amended Working Capital Revolver Loan, by which the Borrowers may borrow on a revolving basis up to $100.0 million, based on specific percentages of eligible accounts receivable and inventories. The Amended Working Capital Revolver Loan will mature on April 13, 2018.

The Amended Working Capital Revolver Loan accrues interest at a base rate (generally equivalent to the prime rate) plus 0.50% if borrowing availability is greater than $25.0 million, otherwise plus 0.75% or, at our option, accrues interest at LIBOR plus 1.50% if borrowing availability is greater than $25.0 million, otherwise LIBOR plus 1.75%. At December 31, 2015, the interest rate was 4.0% based on LIBOR. Interest is paid monthly, if applicable.

At December 31, 2015, there were no outstanding borrowings under the Amended Working Capital Revolver Loan. At December 31, 2015, the net credit available for borrowings under our Amended Working Capital Revolver Loan was approximately $64.4 million, based on our eligible collateral including collateral related to our discontinued operations, less outstanding letters of credit as of that date.

The Amended Working Capital Revolver Loan requires the Borrowers to meet a minimum fixed charge coverage ratio of not less than 1.10 to 1, if at any time the excess availability (as defined by the Amended Working Capital Revolver Loan), under the Amended Working Capital Revolver Loan, is less than or equal to $12.5 million. If applicable, this ratio will be measured monthly on a trailing twelve-month basis and as defined in the agreement. As of December 31, 2015, as defined in the agreement, the fixed charge coverage ratio was 2.3 to 1 (which includes our discontinued operations). See footnote (A) under Note 9 of Notes to Consolidated Financial Statements included in Exhibit 99.3 attached to this Form 8-K for additional information on this loan**.**

Secured Promissory Note due 2016 - On February 1, 2013, Zena Energy L.L.C. (“Zena”), one of our subsidiaries, entered into a loan (the “Secured Promissory Note”) with a lender in the original principal amount of $35 million. The Secured Promissory Note followed the original acquisition by Zena of working interests (“Working Interests”) in certain natural gas properties during October 2012. The proceeds of the Secured Promissory Note effectively financed $35 million of the approximately $50 million purchase price of the Working Interests previously paid out of LSB’s working capital. The Secured Promissory Note maturity date was amended on January 5, 2015 from February 1, 2016 to April 1, 2016.

Principal and interest are payable in two monthly installments totaling approximately $1.3 million with interest based on the LIBOR rate plus 300 basis points with a final balloon payment of approximately $14.0 million due at maturity. The interest rate at December 31, 2015 was 3.42%. The loan is secured by the Working Interests and related properties and proceeds.

Secured Promissory Note due 2019 - On February 5, 2016, EDC entered into a secured promissory note due 2019 for an original principal amount of $10.0 million. The secured promissory note due 2019 bears interest at the rate of 5.73% per annum and matures on June 29, 2019. Principal and interest are payable in 40 equal monthly installments with a final balloon payment of approximately $6.7 million. The Secured Promissory Note due 2019 is secured by the cogeneration facility equipment and is guaranteed by LSB.

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

Secured Promissory Note due 2022 - On September 16, 2015, El Dorado Ammonia L.L.C. (“EDA”), one of our subsidiaries, entered into a secured promissory note due 2022 for the construction financing of an ammonia storage tank and related systems with an initial funding received of $15.0 million and a maximum principal note amount of $19.8 million. The remainder of the funding under the Secured Promissory Note due 2022 is expected to be drawn upon completion of the ammonia storage tank, but in any event by May 2016 (the “Loan Conversion Date”). Up to the Loan Conversion Date, EDA will make monthly interest payments on the outstanding principal borrowed.

On the Loan Conversion Date, the outstanding principal balance will be converted to a seven year secured term loan requiring equal monthly principal and interest payments. In addition, a final balloon payment equal to the remaining outstanding principal (or 30% of the outstanding principal balance on the Loan Conversion Date) is required on the maturity date. The Secured Promissory Note due 2022 bears interest at a rate that is based on the monthly LIBOR rate plus 4.0% and matures in May 2022. At December 31, 2015, the interest rate was 4.24%. The Secured Promissory Note due 2022 is secured by the ammonia tank and related systems and is guaranteed by LSB.

Redemption of Series E Redeemable Preferred - At any time on or after August 2, 2019, each Series E Holder has the right to elect to have such holder's shares redeemed by LSB at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. The Series E Redeemable Preferred has a liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value (the "Liquidation Preference"). Additionally, LSB, at its option, 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, LSB 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.

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) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder, this accretion has and will continue to impact income (loss) per common share.

Seasonality

See discussion under "Part I-Item 1 Business" for seasonality trends of our Annual Report on Form 10-K filed with the SEC on February 29, 2016.

Off-Balance Sheet Arrangements

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

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2015, we have agreed to indemnify the sureties for payments, up to $12.4 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2016.

Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2015 are summarized in the following table (1):

Contractual Obligations	Total	Payments Due in the Year Ending December 31,					Thereafter
		2016	2017	2018	2019	2020	
		(In Thousands)					
Long-term debt:							
Senior Secured Notes	$ 475,000	$ —	$ —	$ —	$ 475,000	$ —	$ —
Capital leases	194	106	62	26	—	—	—
Other	53,954	22,367	5,464	8,147	5,325	5,507	7,144
Total long-term debt	529,148	22,473	5,526	8,173	480,325	5,507	7,144
Interest payments on long-term debt (2)	143,539	40,836	40,536	40,193	20,411	677	886
Series E redeemable preferred stock (3)	210,000	—	—	—	210,000	—	—
Dividends earned Series E redeemable preferred stock (3)	105,513	29,400	29,400	29,400	17,313	—	—
Interest rate contract (4)	126	126	—	—	—	—	—
El Dorado Expansion (5)	150,000	150,000	—	—	—	—	—
Other capital expenditures (6)	54,000	54,000	—	—	—	—	—
Operating leases	26,709	6,109	5,855	5,591	5,083	2,406	1,665
Natural gas pipeline commitment (7)	20,013	2,327	2,507	2,507	2,507	2,507	7,658
Firm purchase commitments	19,522	19,210	312	—	—	—	—
Other contractual obligations	20,949	5,023	2,392	1,220	1,220	1,220	9,874
Other contractual obligations included in noncurrent accrued and other liabilities (8)	7,859	—	49	50	3,359	51	4,350
Total	$ 1,287,378	$ 329,504	$ 86,577	$ 87,134	$ 740,218	$ 12,368	$ 31,577

(1) The table does not include amounts relating to future purchases of ammonia by EDC pursuant to a supply agreement through the earlier of December 31, 2016 or the date on which the new ammonia plant comes on stream. The terms of this supply agreement do not include minimum volumes or take-or-pay provisions.

(2) The estimated interest payments relating to variable interest rate debt are based on interest rates at December 31, 2015.

(3) The dividends on our Series E redeemable preferred stock are assumed to be paid annually and redeemed on the earliest possible redemption date by the holder, August 2, 2019.

(4) The estimated future cash flows are based on the estimated fair value of these contracts at December 31, 2015.

(5) Capital expenditures are based on estimates (high end of range) at December 31, 2015.

(6) Other capital expenditures include only the estimated committed amounts (high end of range) at December 31, 2015 but exclude amounts relating to the El Dorado Expansion.

(7) Our proportionate share of the minimum costs to ensure capacity relating to a gathering and pipeline system.

(8) The future cash flows relating to executive and death benefits are based on estimates at December 31, 2015. The participation rights value associated with embedded derivative of our Series E redeemable preferred stock is based the value of our common stock at December 31, 2015 and in included in the table above on the earliest possible redemption date by the holder, August 2, 2019.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies and fair values. It is reasonably possible that the estimates and assumptions utilized as of December 31, 2015 could change in the near term. The more critical areas of financial reporting impacted by management's judgment, estimates and assumptions include the following:

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

During September 2015, we recognized an impairment charge of $39.7 million to write-down the carrying value of our working interest in natural gas properties in the Marcellus Shale region to their estimated fair value of $22.5 million. The impairment charge represented the amount by which the carrying value of these natural gas properties exceeded the estimated fair value and was therefore not recoverable. The estimated fair value was determined based on estimated future discounted net cash flows, a Level 3 input, using estimated production and prices at which we reasonably expect natural gas will be sold, including the Evaluation provided by our independent consulting petroleum engineer in October 2015. The impairment was due to the decline in prices for natural gas futures, large natural gas price differentials in the Marcellus Shale region and changes in the drilling plans of these natural gas properties that caused certain of these properties to be reclassified from the "proved undeveloped reserves" category to the "probable undeveloped resources" category included in the Evaluation because those properties are no longer likely to be developed within five years.

In addition, during December 2015, we recognized an impairment charge of $3.5 million to write down the carrying value of certain plant assets related to certain ammonia production equipment at our Pryor Facility. The estimated fair value was determined based on an offer received from a possible buyer less estimated costs that would be incurred if the equipment is sold (Level 3 inputs).

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

We are involved in various legal matters that require management to make estimates and assumptions, including costs relating to the lawsuit styled City of West, Texas v CF Industries, Inc., et al, discussed under "Other Pending, Threatened or Settled Litigation" of Note 11 to Consolidated Financial Statements included in Exhibit 99.3 attached to this Form 8-K. It is possible that the actual costs could be significantly different than our estimates.

Regulatory Compliance – As discussed under "Environmental, Health and Safety Matters" in Item 1 of our Annual Report on Form 10-K filed with the SEC on February 29, 2016, we are subject to specific federal and state regulatory compliance laws and guidelines. We have developed policies and procedures related to regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our chemical facilities should we discontinue the operations of a facility. However, certain conditions exist which may result in a loss but which will only be resolved when future events occur relating to these matters. We are involved in various environmental matters that require management to make estimates and assumptions, including our current inability to develop a meaningful and reliable estimate (or range of estimate) as to the costs relating to a corrective action study work plan approved by the KDHE discussed under footnote 3 – Other Environmental Matters of Note 11 in Exhibit 99.3 attached to this Form 8-K. At December 31, 2015, liabilities totaling $0.4 million have been accrued relating to these issues as discussed. This liability is included in current accrued and other liabilities and is based on current estimates that may be revised in the near term. At the time that cost estimates for any corrective action are received, we will adjust our accrual accordingly. It is possible that the adjustment to the accrual and the actual costs could be significantly different than our current estimates.

Redeemable Preferred Stocks and Warrants – On December 4, 2015, we issued the Series E and F Redeemable Preferred and Warrants. The redeemable preferred stocks are redeemable outside of our control and are classified as temporary/mezzanine equity on our consolidated balance sheet. In addition, certain embedded features (the “embedded derivative”) included in the Series E Redeemable Preferred required bifurcation and are classified as derivative liabilities. The Warrants issued in conjunction with our redeemable preferred stocks are standalone instruments, indexed to our common stock, and do not include provisions requiring liability classification. As a result, these warrants are classified as equity.

The Series E and Series F Redeemable Preferred and Warrants were recorded at fair value upon issuance, net of issuance costs or discounts. The valuations are classified as Level 3. The Warrants were valued based on a Black-Scholes-Merton option pricing model and a Finnerty model to determine the estimated discount for lack of marketability resulting in an estimated fair value of $22.3 million. The Series E Redeemable Preferred was valued at an estimated fair value of $187.7 million (before issuance costs), with discounted cash flow models that calculates the present value of future cash flows using possible redemption scenarios and using published market yields for publicly traded unsecured fixed income securities with a similar credit ratings. No valuation input adjustments were considered necessary relating to the nonperformance risk for the Warrants or Series E Redeemable Preferred. Based on the terms of the Series F Redeemable Preferred, we determined that this share had minimal economic value.

For the embedded derivative, the derivative was valued at the date of issuance and at December 31, 2015, with changes in fair value recorded in our statement of operations. The embedded derivative was valued using the underlying number of shares as defined in the terms of the Series E Redeemable Preferred and included the market price of our common stock on the date of valuation. The valuation is classified as Level 2. At December 4, 2015 and December 31, 2015, the embedded derivative was valued at an estimated fair value of $2.8 million and $3.3 million, respectively. No valuation input adjustments were considered necessary relating to nonperformance risk for the embedded derivative.

The carrying value of the Series E Redeemable Preferred is being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder. At December 31, 2015, the carrying value of these redeemable preferred stocks was $177.3 million. Approximately $3 million of accretion was recorded to retained earnings in 2015.

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

Exhibit 99.3

This exhibit does not reflect events occurring after the filing date of LSB Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, other than to give effect to the classification of our business operation of our Climate Control Business, as discontinued operations and to retrospectively revise our segment information, and does not modify or update the disclosures therein in anyway, other than described above.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a) (2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 29, 2016, except for the impact of the matters discussed in Note 2 pertaining to discontinued operations, as to which the date is August 26, 2016

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 127,195**	$ 184,996
Restricted cash and cash equivalents	**—**	365
Short-term investments	**—**	14,500
Accounts receivable, net	**49,601**	43,740
Inventories	**24,457**	24,844
Supplies, prepaid items and other:		
Prepaid insurance	**10,563**	13,752
Precious metals	**12,918**	12,838
Supplies	**18,681**	15,927
Prepaid and refundable income taxes	**6,811**	7,387
Other	**4,701**	4,965
Total supplies, prepaid items and other	**53,674**	54,869
Deferred income taxes	**4,774**	17,204
Current assets held for sale	**72,996**	78,364
Total current assets	**332,697**	418,882
Property, plant and equipment, net	**978,709**	588,124
Other assets:		
Noncurrent restricted cash and cash equivalents	**—**	45,969
Noncurrent restricted investments	**—**	25,000
Intangible and other, net	**16,640**	20,071
Total other assets	**16,640**	91,040
Noncurrent assets held for sale	**33,781**	32,526
	$ 1,361,827	$ 1,130,572

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 2015	December 31, 2014
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 87,999**	$ 68,645
Short-term financing	**9,119**	11,955
Accrued and other liabilities	**39,808**	36,426
Current portion of long-term debt	**22,468**	10,680
Current liabilities held for sale	**32,526**	27,551
Total current liabilities	**191,920**	155,257
Long-term debt, net	**497,954**	440,205
Noncurrent accrued and other liabilities	**8,786**	6,649
Noncurrent liabilities held for sale	**12,136**	11,285
Deferred income taxes	**52,179**	83,128
Commitments and contingencies (Note 11)		
Redeemable preferred stocks:		
Series E 14% cumulative, redeemable Class C preferred stock, no par value, 210,000 shares issued and outstanding (none at December 31, 2014); aggregate liquidation preference of $212,287,000	**177,272**	—
Series F redeemable Class C preferred stock, no par value, 1 share issued and outstanding (none at December 31, 2014); aggregate liquidation preference of $100	—	—
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	**2,000**	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	**1,000**	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 27,131,724 shares issued (26,968,212 shares at December 31, 2014)	**2,713**	2,697
Capital in excess of par value	**192,249**	170,537
Retained earnings	**248,150**	286,188
	446,112	462,422
Less treasury stock, at cost:		
Common stock, 3,735,503 shares (4,320,462 shares at December 31, 2014)	**24,532**	28,374
Total stockholders' equity	**421,580**	434,048
	$ 1,361,827	**$ 1,130,572**

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations

	Year Ended December 31,		
	2015	2014	2013
	(In Thousands, Except Per Share Amounts)		
Net sales	**$ 437,695**	$ 495,888	$ 416,223
Cost of sales	**417,647**	430,423	369,387
Gross profit	**20,048**	65,465	46,836
Selling, general and administrative expense	**49,589**	38,840	35,867
Provisions for losses (recovery of) on accounts receivable	**224**	151	(39)
Impairment of long-lived assets	**43,188**	—	—
Property insurance recoveries in excess of losses incurred	**—**	(5,147)	(66,255)
Other expense (income), net	**(1,787)**	1,044	3,524
Operating income (loss)	**(71,166)**	30,577	73,739
Interest expense, net	**7,371**	21,599	13,301
Loss on extinguishment of debt	**—**	—	1,296
Non-operating other expense (income), net	**129**	(281)	23
Income (loss) from continuing operations before provisions (benefit)for income taxes and equity in earnings of affiliate	**(78,666)**	9,259	59,119
Provisions (benefit) for income taxes	**(32,520)**	4,251	23,955
Equity in earnings of affiliate	**—**	(79)	(436)
Income (loss) from continuing operations	**(46,146)**	5,087	35,600
Income from discontinued operations, including taxes	**11,381**	14,547	19,362
Net income (loss)	**(34,765)**	19,634	54,962
Dividends on convertible preferred stocks	**300**	300	300
Dividends on Series E redeemable preferred stock	**2,287**	—	—
Accretion of Series E redeemable preferred stock	**686**	—	—
Net income (loss) attributable to common stockholders	**$ (38,038)**	$ 19,334	$ 54,662
Income (loss) per common share:			
Basic:			
Income (loss) from continuing operations	**$ (2.17)**	$ 0.21	$ 1.57
Income from discontinued operations, including taxes	**$ 0.50**	0.65	0.86
Net income (loss)	**$ (1.67)**	$ 0.86	$ 2.43
Diluted:			
Income (loss) from continuing operations	**$ (2.17)**	$ 0.21	$ 1.51
Income from discontinued operations, including taxes	**$ 0.50**	0.64	0.82
Net income (loss)	**$ (1.67)**	$ 0.85	$ 2.33

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Common Stock 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, 2012	26,731	$ 3,000	$ 2,673	$ 165,006	$ 212,192	$ (28,374)	$ 354,497
Net income					54,962		54,962
Dividends paid on convertible preferred stocks					(300)		(300)
Stock-based compensation				1,542			1,542
Exercise of stock options	115		12	1,002			1,014
Balance at December 31, 2013	26,846	3,000	2,685	167,550	266,854	(28,374)	411,715
Net income					19,634		19,634
Dividends paid on convertible preferred stocks					(300)		(300)
Stock-based compensation				1,925			1,925
Exercise of stock options	122		12	1,062			1,074
Balance at December 31, 2014	26,968	3,000	2,697	170,537	286,188	(28,374)	434,048
Net loss					**(34,765)**		**(34,765)**
Dividends paid on convertible preferred stocks					**(300)**		**(300)**
Dividend accrued on redeemable preferred stock					**(2,287)**		**(2,287)**
Accretion of redeemable preferred stocks					**(686)**		**(686)**
Stock-based compensation				**2,346**			**2,346**
Exercise of stock options	**160**		**16**	**1,769**			**1,785**
Common stock issued for services	**4**			**156**			**156**
Restricted stock granted from treasury stock				**(3,842)**		**3,842**	**—**
Common stock warrants issued				**22,300**			**22,300**
Common stock warrants issuance costs				**(1,613)**			**(1,613)**
Excess income tax benefit associated with stock-based compensation				**596**			**596**
Balance at December 31, 2015	**27,132**	**$ 3,000**	**$ 2,713**	**$ 192,249**	**$ 248,150**	**$ (24,532)**	**$ 421,580**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2015	2014	2013
	(In Thousands)		
Cash flows from continuing operating activities			
Net income (loss)	**$ (34,765)**	$ 19,634	$ 54,962
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:			
Income from discontinued operations, including taxes	**(11,381)**	(14,547)	(19,362)
Deferred income taxes	**(27,436)**	5,376	24,070
Gains on property insurance recoveries associated with property, plant and equipment	**—**	(5,147)	(66,246)
Impairment of long-lived assets	**43,188**	—	—
Depreciation, depletion and amortization of property, plant and equipment	**35,930**	30,987	24,000
Other	**4,552**	4,000	3,130
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Accounts receivable	**3,677**	(8,218)	3,225
Inventories	**(468)**	(993)	9,148
Prepaid insurance	**2,500**	1,697	(5,037)
Prepaid and accrued income taxes	**576**	3,505	(13,278)
Other supplies, prepaid items and other	**(3,717)**	(20)	(4,905)
Accounts payable	**(10,825)**	1,154	(3,654)
Accrued interest	**(709)**	(37)	13,356
Customer deposits	**(3,433)**	236	(2,637)
Other current and noncurrent liabilities	**(2,799)**	1,033	1,504
Net cash provided (used) by continuing operating activities	**(5,110)**	38,660	18,276
Cash flows from continuing investing activities			
Expenditures for property, plant and equipment	**(438,944)**	(217,485)	(152,222)
Acquisition of working interests in natural gas properties	**—**	—	(9,205)
Proceeds from property insurance recovery associated with property, plant and equipment	**—**	5,147	66,247
Software and software development costs	**(423)**	(2,801)	—
Proceeds from sales of property and equipment	**87**	569	662
Proceeds from short-term investments	**39,500**	14,500	—
Purchases of short-term investments	**(25,000)**	(29,000)	—
Proceeds from noncurrent restricted cash and cash equivalents	**45,969**	200,111	—
Deposits of current and noncurrent restricted cash and cash equivalents	**—**	(165,471)	(80,943)
Proceeds from noncurrent restricted investments	**25,000**	259,990	—
Purchases of noncurrent restricted investments	**—**	(75,000)	(209,990)
Other investing activities	**3,132**	25	962
Net cash used by continuing investing activities	**(350,679)**	(9,415)	(384,489)

(Continued on following page)

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31, 2015	2014	2013
	(In Thousands)		
Cash flows from continuing financing activities			
Proceeds from revolving debt facility	**$ 47,438**	$ —	$ —
Payments on revolving debt facility	**(47,438)**	—	—
Proceeds from 12% senior secured notes, net of discount and fees	**47,889**	—	—
Proceeds from 7.75% senior secured notes, net of pay off of secured term loan and fees	**—**	—	350,957
Proceeds from other long-term debt, net of fees	**31,047**	—	39,825
Payments on other long-term debt	**(12,923)**	(10,439)	(8,678)
Payments of debt issuance costs	**(1,200)**	—	(1,872)
Proceeds from loans secured by cash value of life insurance policies	**1,288**	—	—
Proceeds from short-term financing	**10,273**	12,965	15,242
Payments on short-term financing	**(12,399)**	(14,996)	(10,755)
Proceeds from issuance of redeemable preferred stocks, net of discount and fees	**180,013**	—	—
Proceeds from issuance of common stock warrants, net of discount and fees	**21,018**	—	—
Payments of issuance costs relating to preferred stocks and warrants	**(2,472)**	—	—
Proceeds from exercises of stock options	**1,785**	1,074	1,014
Excess income tax benefit associated with stock-based compensation	**330**	—	—
Dividends paid on convertible preferred stocks	**(300)**	(300)	(300)
Net cash provided (used) by continuing financing activities	**264,349**	(11,696)	385,433
Cash flows of discontinued operations:			
Net cash provided by operating activities	**38,313**	26,377	35,424
Net cash used by investing activities	**(3,382)**	(2,442)	(5,105)
Net cash used by financing activities	**(1,292)**	206	(3,957)
Net cash provided by discontinued operations	33,639	24,141	26,362
Net increase (decrease) in cash and cash equivalents	**(57,801)**	41,690	45,582
Cash and cash equivalents at beginning of year	**184,996**	143,306	97,724
Cash and cash equivalents at end of year	**$ 127,195**	$ 184,996	$ 143,306

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Consolidation - LSB Industries, Inc. ("LSB") and its subsidiaries (the "Company", "We", "Us", or "Our") are consolidated in the accompanying consolidated financial statements. We are engaged in the manufacture and sale of chemical products. LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. Our ownership of working interests in natural gas properties is accounted for as an undivided interest, whereby we reflect our proportionate share of the underlying assets, liabilities, revenues and expenses. Our working interest represents our share of the costs and expenses incurred primarily to develop the underlying leaseholds and to produce natural gas while our net revenue interest represents our share of the revenues from the sale of natural gas. The net revenue interest is less than our working interest as the result of royalty interest due to others. We are not the operator of these natural gas properties. Entities that were 20% to 50% owned and for which we had significant influence were accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

On May 11, 2016, LSB, Consolidated Industries L.L.C., a direct, wholly owned subsidiary of LSB ("Consolidated"), and Climate Control Group, Inc., a direct, wholly owned subsidiary of Consolidated and an indirect subsidiary of LSB (the "Climate Control Group"), entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with NIBE Industrier AB (publ), and NIBE Energy Systems Inc., an indirect wholly owned subsidiary of NIBE Industrier AB (together as "NIBE") pursuant to which LSB, through Consolidated, agreed to sell to NIBE all of the outstanding shares of stock of the Climate Control Group for a total of approximately $364 million, subject to closing and post-closing adjustments which, was completed on July 1, 2016. The Climate Control Group conducts LSB's Climate Control Business (the "Climate Control Business"). The assets and liabilities of Climate Control Business have been reclassified and reported as held for sale. Furthermore, the operating activities of Climate Control Business have been reclassified and reported as discontinued operations for all periods presented. Our financial statements and footnotes reflect our results from continuing operations unless otherwise noted. See Note 2 **–** Discontinued Operations.

Use of Estimates - The preparation of consolidated financial statements in conformity with United States ("U.S.") generally accepted accounting principles ("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.

Cash and Cash Equivalents – Investments, which consist of highly liquid investments with original maturities of three months or less, are considered cash equivalents.

Short-Term Investments - Investments, which consisted of certificates of deposit with an original maturity of 26 weeks, were considered short-term investments. These investments were carried at cost which approximated fair value.

Accounts Receivable - Our accounts receivable are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on accounts receivable balances. Our estimate is based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts that are past due (based upon the terms of the sale). Our periodic assessment of our accounts receivable is based on our best estimate of amounts that are not recoverable.

Inventories - Inventories are stated at the lower of cost (determined using the first-in, first-out ("FIFO") basis) or market (net realizable value). Finished goods include material, labor, and manufacturing overhead costs.

Precious Metals - Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed. Occasionally, during major maintenance or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within the manufacturing equipment. Recoveries of precious metals are recognized at historical FIFO costs. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals.

1. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment - Property, plant and equipment (“PP&E”) are stated at cost, net of accumulated depreciation, depletion and amortization (“DD&A”). Leases meeting capital lease criteria are capitalized in PP&E. Major renewals and improvements that increase the life, value, or productive capacity of assets are capitalized in PP&E while maintenance, repairs and minor renewals are expensed as incurred. In addition, maintenance, repairs and minor renewal costs relating to planned major maintenance activities (“Turnarounds”) are expensed as they are incurred.

As it relates to natural gas properties, leasehold costs, intangible drilling and other costs of successful wells and development dry holes are capitalized in PP&E based on successful efforts accounting. The costs of exploratory wells are initially capitalized in PP&E, but expensed if and when the well is determined to be nonproductive. During 2015, we incurred no natural gas property acquisition costs and $6.2 million of natural gas development costs.

Fully depreciated assets are retained in PP&E and accumulated DD&A accounts until disposal. When PP&E are retired, sold, or otherwise disposed, the asset’s carrying amount and related accumulated DD&A are removed from the accounts and any gain or loss is included in other income or expense.

For financial reporting purposes, depreciation of the costs of PP&E is primarily computed using the straight-line method over the estimated useful lives of the assets. No provision for depreciation is made on construction in progress or capital spare parts until such time as the relevant assets are put into service. DD&A of the costs of producing natural gas properties are computed using the units of production method primarily on a field-by-field basis using total proved or proved developed reserves, as applicable, as estimated by our independent consulting petroleum engineer. No provision for DD&A is made on nonproducing leasehold costs and exploratory wells in progress until such time as the relevant assets relate to proven reserves.

Our natural gas reserves are based on estimates and assumptions, which affect our DD&A calculations. Our independent consulting petroleum engineer, with our assistance, prepares estimates of natural gas reserves based on available relevant data and information. For DD&A purposes, and as required by the guidelines and definitions established by the Securities and Exchange Commission (“SEC”), the reserve estimates are based on average natural gas prices during the 12-month period, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset (asset group) exceeds the estimated undiscounted future cash flows expected to result from the use of the asset (asset group) and its eventual disposition. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. In general, assets held for sale are reported at the lower of the carrying amounts of the assets or fair values less costs to sell. At December 31, 2015 and 2014, long-lived assets classified as assets held for sale relate to the Climate Control Business as discussed above and in Note 2 – Discontinued Operations.

As it relates to natural gas properties, proven natural gas properties are reviewed for impairment on a field-by-field basis and nonproducing leasehold costs are reviewed for impairment on a property-by-property basis. During 2015, we recognized non-cash impairment charges totaling $43.2 million including $39.7 million to write-down the carrying value of our working interest in natural gas properties in the Marcellus Shale region to their estimated fair value of $22.5 million and $3.5 million to write down the carrying value of certain plant assets related to certain ammonia production equipment at our Pryor Facility. These impairment charges represented the amount by which the carrying value of these long-lived assets exceeded the estimated fair values and were therefore not recoverable. For the natural gas properties, the estimated fair value was determined based on estimated future discounted net cash flows. The discounted cash flow method estimates future cash flows based on management’s estimates of future natural gas production, commodity prices based on commodity futures price strips, operating and development costs, and a risk-adjusted discount rate (10%). The fair value of proved natural gas properties is calculated using significant unobservable inputs (Level 3). The impairment was due to the decline in forward prices for natural gas, large natural gas price differentials in the Marcellus Shale region and changes in the drilling plans of these natural gas properties. For the ammonia production equipment, the estimated fair value was determined based on an offer received from a possible buyer less estimated costs that would be incurred if the equipment is sold (Level 3 inputs).

1. Summary of Significant Accounting Policies (continued)

The non-cash impairment charges were included in the consolidated statements of operations line item titled impairment of long-lived assets.

Noncurrent Restricted Cash and Cash Equivalents - Noncurrent restricted cash and cash equivalents consisted of balances that were designated by us for specific purposes relating to capital projects.

Noncurrent Restricted Investments - Noncurrent restricted investments consisted of investment balances that were designated by us for specific purposes relating to capital projects.

Concentration of Credit Risks for Cash and Cash Equivalents – Financial instruments relating to cash and cash equivalents potentially subject us to concentrations of credit risk. All of these financial instruments were held by financial institutions within the U.S. and none of these financial instruments were in excess of the federally insured limits.

Capitalized Software – Intangible and other noncurrent assets includes capitalized software that primarily relate to implementing a new enterprise resource planning software ("ERP") for internal use and is stated at cost, net of accumulated amortization. For 2015 and 2014 our carrying value relating to continuing operations was $12.8 million and $11.7 million, and accumulated amortization of $1.8 million and $0.4 million, respectively. Capitalized software costs include software purchase costs and internal and external costs for implementing software. For financial reporting purposes, amortization of capitalized software costs is computed using the straight-line method over the estimated useful lives of the software, which is primarily eight years. During 2015, 2014 and 2013, interest cost capitalized in capitalized software was $0.3 million, $0.5 million and $0.1 million, respectively. No provision for amortization is made until such time as the relevant assets are placed into service. Amortization expense related to capitalized software used by our continuing operations was $1.0 million and $0.3 million for 2015 and 2014, respectively and minimal in 2013. Estimated amortization related to capitalized software used by continuing operations is $1.6 million for each of the subsequent five years, 2016 through 2020. The estimated amortization is based on management's expected ERP implementation completion during 2016.

Capitalized Interest - Interest cost on borrowings incurred during a significant construction or development project is capitalized. Capitalized interest is added to the underlying asset and amortized over the estimated useful lives of the assets. For 2015, 2014 and 2013, interest expense is net of capitalized interest of $30.6 million, $14.1 million and $4.0 million, respectively.

Goodwill - Goodwill relates to a business acquisition in prior periods. At December 31, 2015 and 2014, the amount for goodwill was $1.6 million. Goodwill is reviewed for impairment at least annually. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Reporting units are one level below the business segment level. No impairments of goodwill were incurred in 2015, 2014, or 2013.

Accrued Insurance Liabilities - We are self-insured up to certain limits for group health, workers' compensation and general liability claims. Above these limits, we have commercial stop-loss insurance coverage for our contractual exposure on group health claims and statutory limits under workers' compensation obligations. We also carry umbrella insurance of $100 million for most general liability and auto liability risks. We have a separate $50 million insurance policy covering pollution liability at our chemical facilities. Additional pollution liability coverage for our other facilities is provided in our general liability and umbrella policies. As it relates to our natural gas properties that we do not operate but only own a working interest, insurance policies are maintained by the operator, which we are responsible for our proportionate share of the costs involved.

Our accrued self-insurance liabilities are based on estimates of claims, which include the reported incurred claims amounts plus the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any, up to the amount of our self-insurance limits. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims based on historical claims experience. The determination of such claims and the appropriateness of the related liability is periodically reviewed and revised, if needed. Changes in these estimated liabilities are charged to operations. Potential legal fees and other directly related costs associated with insurance claims are not accrued but rather are expensed as incurred. Accrued insurance claims are included in accrued and other liabilities. It is reasonably possible that the actual development of claims could be different than our estimates.

Executive Benefit Agreements - We have entered into benefit agreements with certain key executives. Costs associated with these individual benefit agreements are accrued based on the estimated remaining service period when such benefits become probable they will be paid. Total costs accrued equal the present value of specified payments to be made after benefits become payable.

1. Summary of Significant Accounting Policies (continued)

Income Taxes - We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to net operating loss (“NOL”) carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary 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 income in the period that includes the enactment date.

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 taxing authority 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. We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

For transactions structured as a sale of assets, the deferred taxes associated with those individual assets and liabilities, as well as any deferred taxes associated with the outside basis difference, would continue to be classified with our other deferred tax assets and liabilities rather than in the assets and liabilities held for sale balance sheet line items as such deferred taxes are not transferred with the sale. For transactions structured as a sale of stock, the deferred taxes associated with outside basis differences are classified with our other deferred tax assets and liabilities as such deferred taxes are not transferred with the sale.

We reduce income tax expense for investment tax credits in the year the credit arises and is earned. Income tax benefits associated with amounts that are deductible for income tax purposes but that do not affect earnings are credited to equity. These benefits are principally generated from exercises of non-qualified stock options.

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

Asset Retirement Obligations - In general, we record the estimated fair value of an asset retirement obligation (“ARO”) associated with tangible long-lived assets in the period it is incurred and when there is sufficient information available to estimate the fair value. An ARO associated with long-lived assets is a legal obligation under existing or enacted law, statute, written or oral contract or legal construction. AROs, which are initially recorded based on estimated discounted cash flows, are accreted to full value over time through charges to cost of sales. In addition, we capitalize the corresponding asset retirement cost as PP&E, which cost is depreciated or depleted over the related asset’s respective useful life. We do not have any assets restricted for the purpose of settling our AROs.

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) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder. The amount of accretion was recorded to retained earnings.

Warrants - The common stock warrants issued in conjunction with our redeemable preferred stocks are standalone instruments, indexed to our common stock, and do not include provisions requiring liability classification. As a result, these warrants are classified as equity. The warrants were recorded at fair value upon issuance, net of issuance costs or discounts. When such warrants are exercised, we may issue new shares of common stock and use treasury shares.

1. Summary of Significant Accounting Policies (continued)

Equity Awards - Equity award transactions with employees are measured based on the estimated fair value of the equity awards issued. For equity awards with only service conditions that have a graded vesting period, we recognize compensation cost on a straight-line basis over the requisite service period for the entire award. In addition, historically we issue new shares of common stock upon the exercise of stock options but treasury shares may be used.

Revenue Recognition - We recognize revenue for substantially all of our operations at the time title to the goods transfers to the buyer and there remain no significant future performance obligations by us. Revenue associated with construction contracts relates to our discontinued operations and is recognized using the percentage-of-completion method based primarily on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Sales of extended warranty contracts also relates to our discontinued operations and are recognized as revenue ratably over the life of the contract.

Recognition of Insurance Recoveries - If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. Amounts recoverable from our insurance carriers, if any, are included in accounts receivable. An insurance recovery in excess of recoverable costs relating to a business interruption claim, if any, is a reduction to cost of sales. An insurance recovery in excess of recoverable costs relating to a property insurance claim, if any, is included in property insurance recoveries in excess of losses incurred.

Cost of Sales - Cost of sales includes materials, labor and overhead costs to manufacture the products sold plus inbound freight, purchasing and receiving costs, inspection costs, internal transfer costs, loading and handling costs, warehousing costs, railcar lease costs and outbound freight. Maintenance, repairs and minor renewal costs relating to Turnarounds are included in cost of sales as they are incurred. Precious metals used as a catalyst and consumed during the manufacturing process are included in cost of sales. Recoveries and gains from precious metals and business interruption insurance claims are reductions to cost of sales. Provisions for (realization of) losses associated with inventory reserves, gains and losses (realized and unrealized) from our commodities and foreign currency futures/forward contracts, and provision for losses, if any, on firm sales commitments are included in cost of sales.

Selling, General and Administrative Expense - Selling, general and administrative expense ("SG&A") includes costs associated with the sales, marketing and administrative functions. Such costs include personnel costs, including benefits, professional fees, office and occupancy costs associated with the sales, marketing and administrative functions.

Derivatives, Hedges, Financial Instruments and Carbon Credits - 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.

The fair value amounts recognized for our derivative contracts executed with the same counterparty under a master netting arrangement may be offset. We have the choice to offset or not, but that choice must be applied consistently. A master netting arrangement exists if the reporting entity has multiple contracts with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract. Offsetting the fair values recognized for the derivative contracts outstanding with a single counterparty results in the net fair value of the transactions being reported as an asset or a liability in the balance sheet. We have chosen to present the fair values of our derivative contracts under master netting agreements using a gross fair value presentation as there were no derivatives with fair values that were eligible to be offset as of December 31, 2015 and 2014.

1. Summary of Significant Accounting Policies (continued)

The assets for climate reserve tonnes ("carbon credits") are recognized in the balance sheet and are measured at fair value. Changes in fair value of carbon credits are recorded in results of operations. The liabilities for contractual obligations associated with carbon credits are recognized in the balance sheet and are measured at fair value unless we enter into a firm sales commitment to sell the associated carbon credits. When we enter into a firm sales commitment, the sales price, pursuant to the terms of the firm sales commitment, establishes the amount of the liability for the contractual obligation. Changes in fair value of contractual obligations associated with carbon credits are recorded in results of operations.

Income (Loss) per Common Share - Net income (loss) attributable to common stockholders is computed by adjusting net income (loss) by the amount of dividends and dividend requirements on preferred stocks and the accretion of redeemable preferred stocks, if applicable. Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. For periods we earn net income, a proportional share of net income is allocated to participating securities, if applicable, determined by dividing total weighted average participating securities by the sum of the total weighted average common shares and participating securities (the "two-class method"). The Series E cumulative redeemable Class C preferred stock (the "Series E Redeemable Preferred") issued in 2015 participate in dividends declared on our common stock and are therefore considered to be participating securities. Participating securities have the effect of diluting both basic and diluted income per common share during periods of net income. For periods we incur a net loss, no loss is allocated to participating securities because they have no contractual obligation to share in our losses. Diluted loss per common share is computed after giving consideration to the dilutive effect of our potential common stock instruments that are outstanding during the period, except where such non-participating securities would be anti-dilutive.

Recently Issued Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede nearly all existing revenue recognition guidance under GAAP. ASU 2014-19's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB approved a one-year deferral of the effective date of this ASU with the option to early adopt but not before the original effective date. As a result, the effective date of this ASU for us is January 1, 2018, with the option to adopt a year earlier. This ASU allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are currently evaluating the transition method that will be elected.

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* In August 2015, the FASB also issued ASU 2015-15 *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* ASU 2015-03 amends previous guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts or premiums. ASU 2015-15 allows an entity to defer and present debt issuance costs (related to line-of-credit arrangements) as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs would not be affected by the amendments in these ASUs. Effective December 31, 2015, we early adopted these ASUs as allowed and applied the standards retrospectively as required, which resulted in the reclassification of approximately $6.4 million of debt issuance costs from other assets to long-term debt in our consolidated balance sheet as of December 31, 2014. Also see discussion included in Note – 9 to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies (continued)

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, rather than the lower of cost or market in the previous guidance. This amendment applies to inventory that is measured using first-in, first-out (FIFO). This amendment is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those years. A reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of this guidance, if any, on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by eliminating the need for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We currently do not expect a significant impact from adopting this ASU.

Correction of Immaterial Error and Reclassifications – Certain corrections and reclassifications made to our consolidated balance sheet at December 31, 2014 and consolidated statements of operations for the year ended December 31, 2014 and 2013 are as follows:

The impact of this balance sheet reclassification is summarized in the table below.

	As Previously Reported	Adjustments / Reclassifications (1)	Adjustments / Reclassifications (2)	As Adjusted
	(In Thousands)			
Consolidated Balance Sheet at December 31, 2014				
Total other assets	$ 98,918	$ (6,433)	$ (1,445)	$ 91,040
Total assets	$ 1,137,005	$ (6,433)	$ —	$ 1,130,572
Long term debt	$ 457,318	$ (6,433)	$ —	$ 450,885
Total liabilities and stockholders' equity	$ 1,137,005	$ (6,433)	$ —	$ 1,130,572
Consolidated Statement of Operations - For the year ended December 31, 2014				
Net sales	$ 732,510	$ 28,736	$ (265,358)	$ 495,888
Cost of sales	$ 579,155	$ 34,217	$ (182,949)	$ 430,423
Gross profit	$ 153,355	$ (5,481)	$ (82,409)	$ 65,465
Selling, general, and administrative expense	$ 103,886	$ (5,481)	$ (59,565)	$ 38,840
Consolidated Statement of Operations - For the year ended December 31, 2013				
Net sales	$ 679,287	$ 21,954	$ (285,018)	$ 416,223
Cost of sales	$ 535,731	$ 27,391	$ (193,735)	$ 369,387
Gross profit	$ 143,556	$ (5,437)	$ (91,283)	$ 46,836
Selling, general, and administrative expense	$ 100,674	$ (5,437)	$ (59,370)	$ 35,867

1. Summary of Significant Accounting Policies (continued)

1. **Correction of Immaterial Error and Reclassification** – Based on a recent internal review of the classification of our costs and expenses in the fourth quarter of 2015, we concluded that certain shipping and handling costs associated were incorrectly classified in our consolidated statement of operations, with a portion of these costs classified as net sales and a portion of these costs classified as SG&A. As a result, we have retrospectively adjusted the amounts to reflect these costs within cost of sales, where a portion of shipping and handling costs historically had been presented. In accordance with ASU 250, *Accounting Changes and Error Corrections*, we evaluated the materiality of this change from quantitative and qualitative perspectives and concluded that the change in presentation was not material to any of our prior period financial statements and in particular, this change had no impact on operating income (loss) or income (loss) per share. In addition, the amount and classification of our shipping and handling costs included in net sales and SG&A have historically been disclosed. We revised our consolidated statement of operations for the years ended December 31, 2014 and 2013 to conform to the current presentation as summarized in the table above.

   In addition, a reclassification has been made in our consolidated balance sheet at December 31, 2014 to conform to our consolidated balance sheet at December 31, 2015, as the result of the adoption of ASU 2015-03 and ASU 2015-15 as discussed above.

2. ***Discontinued Operation Reclassifications*** – As discussed in Note 2 **–** Discontinued Operations, the Climate Control Business met the criteria to be reported as held for sale during the second quarter of 2016. As a result, the activities of the Climate Control Business have been reclassified from continuing operations and reported as discontinued operations for all periods presented. In the table above, we included the reclassifications associated with discontinued operations for the line items impacted by item (1) above.

2. Discontinued Operations

As discussed in Note 1, on May 11, 2016, LSB and Consolidated entered into a definitive agreement with NIBE to sell all of the common stock of the Climate Control Group. Therefore, the assets and liabilities of the Climate Control Group are classified as held for sale at December 31, 2015 and 2014.

The carrying amounts of the assets and liabilities of the Climate Control Group, are as follows:

	December 31, 2015	December 31, 2014
	(In Thousands)	
Cash and cash equivalents	**$ 119**	$ 1,815
Accounts receivable, net	**43,001**	44,334
Inventories, net	**28,780**	31,742
Other current assets	**1,096**	473
Property, plant and equipment, net	**26,779**	31,081
Intangible and other, net	**7,002**	1,445
Total assets classified as held for sale	**106,777**	110,890
Less noncurrent assets classified as held for sale	**33,781**	32,526
Current assets classified as held for sale	**$ 72,996**	$ 78,364
Accounts payable	**20,003**	12,811
Current and noncurrent accrued and other liabilities	**24,659**	26,025
Total liabilities classified as held for sale	**44,662**	38,836
Less noncurrent liabilities classified as held for sale	**12,136**	11,285
Current liabilities classified as held for sale	**$ 32,526**	$ 27,551

2. Discontinued Operations (continued)

Summarized results of discontinued operations are as follows for:

	Year Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Net sales	**$ 274,086**	$ 265,358	$ 285,018
Cost of sales	**190,426**	182,949	193,735
Selling, general and administrative expense	**62,728**	59,548	59,887
Interest expense	**10**	—	685
Other expense (income), net	**608**	219	(8)
Income from operations of discontinued operations	**20,314**	22,642	30,719
Provision for income taxes	**8,933**	8,095	11,357
Income from discontinued operations, including taxes	**$ 11,381**	$ 14,547	$ 19,362

Summarized condensed cash flow information of discontinued operations is as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Deferred income taxes	$ 8,917	$ 7,463	$ 11,219
Depreciation and amortization of property, plant and equipment	$ 4,566	$ 4,677	$ 4,310
Stock-based compensation	$ 634	$ 1,140	$ 1,093
Expenditures for property, plant and equipment	$ 863	$ 2,357	$ 5,155
Software and software development costs	$ 2,466	$ 360	$ 966

3. Income (loss) per Common Share

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	2015	2014	2013
	(Dollars In Thousands, Except Per Share Amounts)		
Numerator:			
Net (loss) income:	**$ (34,765)**	$ 19,634	$ 54,962
Dividend requirements on Series E Redeemable Preferred	**(2,287)**	—	—
Dividends on Series B Preferred	**(240)**	(240)	(240)
Dividends on Series D Preferred	**(60)**	(60)	(60)
Accretion of Series E Redeemable Preferred	**(686)**	—	—
Total dividends, dividend requirements and accretion on preferred stocks	**(3,273)**	(300)	(300)
Numerator for basic net income (loss) per common share - net income (loss) attributable to common stockholders	**(38,038)**	19,334	54,662
Dividends on convertible preferred stocks assumed to be converted, if dilutive	**300**	—	300
Numerator for diluted net income (loss) per common share	**$ (37,738)**	$ 19,334	$ 54,962
Denominator:			
Denominator for basic net income (loss) per common share - weighted- average shares	**22,758,873**	22,575,053	22,465,176
Effect of dilutive securities:			
Convertible preferred stocks	**—**	—	916,666
Unvested restricted stock	—	—	—
Warrants	**—**	—	—
Stock options	**—**	175,753	215,124
Dilutive potential common shares	**—**	175,753	1,131,790
Denominator for dilutive net income (loss) per common share - adjusted weighted-average shares and assumed conversions	**22,758,873**	22,750,806	23,596,966
Basic net income (loss) per common share:			
Loss from continuing operations	**$ (2.17)**	$ 0.21	$ 1.57
Income from discontinued operations, including taxes	**$ 0.50**	0.65	0.86
Net income (loss)	**$ (1.67)**	$ 0.86	$ 2.43
Diluted net income (loss) per common share:			
Loss from continuing operations	**$ (2.17)**	$ 0.21	$ 1.51
Income from discontinued operations, including taxes	**$ 0.50**	0.64	0.82
Net income (loss)	**$ (1.67)**	$ 0.85	$ 2.33

3. Income (loss) per Common Share (continued)

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

	2015	2014	2013
Convertible preferred stocks	**916,666**	916,666	—
Stock options	**898,582**	392,314	246,391
Warrants	**314,808**	—	—
Series E redeemable preferred stock - embedded derivative	**34,998**	—	—
Restricted stock	**1,448**	—	—
	2,166,502	1,308,980	246,391

4. Accounts Receivable

	December 31, 2015	December 31, 2014
	(In Thousands)	
Trade receivables and other	**$ 50,126**	$ 44,424
Allowance for doubtful accounts	**(525)**	(684)
	$ 49,601	$ 43,740

Sales to our customers are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Concentrations of credit risk with respect to trade receivables are monitored and this risk is reduced due to payment terms of 15 days or less relating to most of our significant customers. Six customers (including their affiliates) account for approximately 40% of our total net receivables at December 31, 2015.

5. Inventories

	Finished Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
December 31, 2015:	**$ 19,030**	**$ —**	**$ 5,427**	**$ 24,457**
December 31, 2014:	$ 22,697	$ —	$ 2,147	$ 24,844

Because cost exceeded the net realizable value, inventory adjustments were $2,832,000 and $1,976,000 at December 31, 2015 and 2014, respectively.

6. Property, Plant and Equipment

	Useful lives in years	December 31, 2015	2014
		(In Thousands)	
Machinery, equipment and automotive	3 - 30	$ 540,315	$ 311,920
Proved natural gas properties	*	76,277	72,529
Buildings and improvements	10 - 30	40,372	34,022
Furniture, fixtures and store equipment	3 - 10	2,409	2,294
Assets under capital leases	3	425	240
Land improvements	10 - 40	7,183	6,875
Construction in progress	N/A	506,205	291,034
Capital spare parts	N/A	18,047	8,722
Land	N/A	8,974	8,974
		1,200,207	736,610
Less accumulated depreciation, depletion and amortization		221,498	148,486
		$ 978,709	$ 588,124

Machinery, equipment and automotive primarily includes the categories of property and equipment and estimated useful lives as follows: processing plants and plant infrastructure (15-30 years); certain processing plant components (3-10 years); and trucks, automobiles, trailers, and other rolling stock (3-7 years). At December 31, 2015 and 2014, assets capitalized under capital leases consist of machinery and equipment. Accumulated amortization for assets capitalized under capital leases were $98,000 and $28,000 at December 31, 2015 and 2014, respectively. During 2015 and 2014, interest cost capitalized in PP&E was $30,348,000 and $13,586,000, respectively.

* See information concerning natural gas properties included in PP&E in Note 1– Summary of Significant Accounting Policies.

7. Current and Noncurrent Accrued and Other Liabilities

	December 31, 2015	2014
	(In Thousands)	
Accrued interest	$ 14,784	$ 13,888
Accrued death and other executive benefits	4,604	5,417
Accrued payroll and benefits	4,521	3,592
Series E redeemable preferred - embedded derivative	3,308	—
Accrued health and worker compensation insurance claims	2,996	2,933
Customer deposits	2,130	5,564
Other	16,251	11,681
	48,594	43,075
Less noncurrent portion	8,786	6,649
Current portion of accrued and other liabilities	$ 39,808	$ 36,426

8. Asset Retirement Obligations

Currently, we have various legal requirements related to operations at our chemical facilities, including the disposal of wastewater generated at certain of these facilities. Additionally, we have certain chemical facilities that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Currently, there is insufficient information to estimate the fair value for most of our AROs. In addition, we currently have no plans to discontinue the use of these facilities, and the remaining life of the facilities is indeterminable. As a result, a liability for only a minimal amount relating to AROs associated with certain facilities has been established. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made. In addition, we own working interests in certain natural gas properties. We recognized AROs associated with the obligation to plug and abandon wells when the natural gas reserves in the wells are depleted. At December 31, 2015 and 2014, our accrued liability for AROs was $281,000 and $340,000, respectively.

9. Long-Term Debt

	December 31, 2015	December 31, 2014
	(In Thousands)	
Working Capital Revolver Loan, with a current interest rate of 4.00% (A)	**$ —**	$ —
7.75% Senior Secured Notes due 2019 (B)	**425,000**	425,000
12.0% Senior Secured Notes due 2019 (B)	**50,000**	—
Secured Promissory Note due 2016, with a current interest rate of 3.42% (C)	**15,856**	22,814
Secured Promissory Note due 2021, with a current interest rate of 5.25% (D)	**16,189**	—
Secured Promissory Note due 2022, with a current interest rate of 4.24% (E)	**15,000**	—
Other, with a current weighted-average interest rate of 4.34%, most of which is secured primarily by machinery and equipment	**7,103**	9,504
Unamortized discount and debt issuance costs	**(8,726)**	(6,433)
	520,422	450,885
Less current portion of long-term debt (F)	**22,468**	10,680
Long-term debt due after one year, net (F)	**$ 497,954**	$ 440,205

(A) LSB and certain of its wholly-owned subsidiaries (the "Borrowers") are parties to a senior secured revolving credit facility, as amended (the "Amended Working Capital Revolver Loan"). Pursuant to the terms of the Amended Working Capital Revolver Loan, the Borrowers may borrow on a revolving basis up to $100.0 million, based on specific percentages of eligible accounts receivable and inventories.

During 2015, the terms of this revolving credit facility were amended, pursuant to an amendment, dated as of June 11, 2015 (the "First Amendment") and an amendment, dated as of November 9, 2015 (the "Second Amendment"). Pursuant to the First Amendment, the lender released its second-priority security interest and liens in collateral that also secures, on a first priority basis, the Senior Secured Notes discussed in (B) below. In addition, the First Amendment amends the revolving credit facility to more closely align the following provisions with the terms of the Senior Secured Notes discussed in (B) below:

- The definition of Permitted Investments is modified to (a) permit LSB to make investments to the extent that the Consolidated Leverage Ratio (as defined in the Amendment) does not exceed 2.50 to 1.00 over a trailing twelve month period from the measurement date; (b) permit investments in an amount not to exceed 50% of the consolidated net earnings of LSB and its subsidiaries since August 7, 2013, less consolidated net losses and other investments during the same period; and (c) permit $ 50 million in investments in Zena Energy, L.L.C.
- LSB is permitted to incur indebtedness without restriction if (i) the Fixed Charge Coverage Ratio (as defined by the Amended Working Capital Revolver Loan) is greater than 2.0 to 1.0, (ii) there is no default under the Amended Working

9. Long-Term Debt (continued)

- Capital Revolver Loan and (iii) at least 20% of the maximum revolver commitment or $20 million, whichever is greater, is available.

The Second Amendment amends the revolving credit facility in the following respects, among other things:

- Expands the scope of and increases the basket of Permitted Purchase Money Indebtedness to the greater of (x) $35,000,000 and (y) 5.5% of the total consolidated assets of LSB and its subsidiaries as reflected on their consolidated balance sheet in accordance with GAAP, and permits the prepayment of Permitted Purchase Money Indebtedness;
- Excludes from the debt and lien covenants the financing of insurance premiums in the ordinary course of business, not in excess of the amount of such premiums; and
- Reduces the frequency of collateral reporting in the event that excess availability under the revolving credit facility falls below $30,000,000 from daily to weekly.

In addition, the Amended Working Capital Revolver Loan and the Senior Secured Notes are cross collateralized as discussed in (B) below, other than with respect to the liens that the lender released in connection with the First Amendment, as discussed above. The Amended Working Capital Revolver Loan will mature on April 13, 2018.

The Amended Working Capital Revolver Loan accrues interest at a base rate (generally equivalent to the prime rate) plus 0.50% if borrowing availability is greater than $25.0 million, otherwise plus 0.75% or, at our option, accrues interest at LIBOR plus 1.50% if borrowing availability is greater than $25.0 million, otherwise LIBOR plus 1.75%. At December 31, 2015, the interest rate was 4.0% based on LIBOR. Interest is paid monthly, if applicable.

The Amended Working Capital Revolver Loan provides for up to $15.0 million of letters of credit. All letters of credit outstanding reduce availability under the Amended Working Capital Revolver Loan. As of December 31, 2015, the amount available for borrowing under the Amended Working Capital Revolver Loan was approximately $64.4 million, which includes eligible accounts receivable and inventories relating to our discontinued operations. Under the Amended Working Capital Revolver Loan, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .25% per annum for the excess amount available under the Amended Working Capital Revolver Loan not drawn and various other audit, appraisal and valuation charges.

The lender has the ability to, upon an event of default, as defined, terminate the Amended Working Capital Revolver Loan and make the balance outstanding, if any, due and payable in full.

The Amended Working Capital Revolver Loan requires the Borrowers to meet a minimum fixed charge coverage ratio of not less than 1.10 to 1, if at any time the excess availability (as defined by the Amended Working Capital Revolver Loan), under the Amended Working Capital Revolver Loan, is less than or equal to $12.5 million. This ratio will be measured monthly on a trailing twelve month basis and as defined in the agreement. The Amended Working Capital Revolver Loan contains covenants that, among other things, limit the Borrowers' ability, without consent of the lender and with certain exceptions, to:

- incur additional indebtedness;
- create liens on, sell or otherwise dispose of our assets;
- engage in certain fundamental corporate changes or changes to our business activities;
- make certain material acquisitions;
- make other restricted payments, including investments;
- repay certain indebtedness;
- engage in certain affiliate transactions;

9. Long-Term Debt (continued)

- declare dividends and distributions;
- engage in mergers, consolidations or other forms of recapitalization; or
- dispose assets.

The Amended Working Capital Revolver Loan allows the Borrowers and subsidiaries under the Senior Secured Notes to guarantee those notes. So long as (i) there is no default under the Amended Working Capital Revolver Loan and (ii) both immediately before and after giving effect to any of the following, excess availability as defined by the Amended Working Capital Revolver Loan is equal to or greater than the greater of (x) 20% of the maximum revolver commitment or (y) $20 million, the Amended Working Capital Revolver will allow each of the Borrowers under the Amended Working Capital Revolver Loan to make:

- distributions and pay dividends by LSB with respect to amounts in excess of $0.5 million during each fiscal year;
- acquisitions of treasury stock by LSB with respect to amounts in excess of $0.5 million during each fiscal year;
- certain hedging agreements and;
- certain investments, including, among others, investments in joint ventures and certain subsidiaries of LSB in an aggregate amount not exceeding $35.0 million and other investments in an aggregate amount not exceeding $50.0 million at any one time outstanding.

The Amended Working Capital Revolver Loan includes customary events of default, including events of default relating to nonpayment of principal and other amounts owing under the Amended Working Capital Revolver Loan from time to time, any material misstatement or misrepresentation and breaches of representations and warranties made, violations of covenants, cross-payment default to indebtedness in excess of $2.5 million, cross-acceleration to indebtedness in excess of $2.5 million, bankruptcy and insolvency events, certain unsatisfied judgments, certain liens, and certain assertions of, or actual invalidity of, certain loan documents.

(B) On August 7, 2013, LSB sold $425 million aggregate principal amount of the 7.75% Senior Secured Notes due 2019 in a private transaction to qualified institutional buyers under Rule 144A and, outside of the United States, pursuant to Regulation S of the Securities Act of 1933 (as amended, the “Securities Act”). In accordance with the registration rights agreement entered into at the time of the issuance of the 7.75% Senior Secured Notes, LSB and the guarantor subsidiaries completed an exchange offer to exchange the 7.75% Senior Secured Notes for substantially identical notes registered under the Securities Act. The registration statement for the exchange offer was declared effective by the SEC in May 2014, and the exchange offer was completed in June 2014. The 7.75% Senior Secured Notes bear interest at the rate of 7.75% per year and mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st.

On November 9, 2015, LSB sold $50 million aggregate principal amount of the 12% Senior Secured Notes due 2019 in a private placement exempt from registration under the Securities Act to certain private investors.

The 12% Senior Secured Notes bear interest at the annual rate of 12% and mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st, beginning February 1, 2016. The 12% Senior Secured Notes are secured on a pari passu basis with the same collateral securing the 7.75% Senior Secured Notes. The 12% Senior Secured Notes have covenants and events of default that are substantially similar to those applicable to the 7.75% Senior Secured Notes. The discussion below relates to both the 7.75% Senior Secured Notes and the 12% Senior Secured Notes (collectively, the “Senior Secured Notes”).

The Senior Secured Notes are general senior secured obligations of LSB. The Senior Secured Notes are jointly and severally and fully and unconditionally guaranteed by all of LSB’s current wholly-owned subsidiaries, with all of the guarantees, except one, being senior secured guarantees and one being a senior unsecured guarantee. The Senior Secured Notes rank equally in right of payment to all of LSB and the guarantors’ existing and future senior secured debt, including the Amended Working Capital Revolver Loan discussed above, and are senior in right of payment to all of LSB and the guarantors’ future subordinated indebtedness. LSB does not have independent assets or operations.

9. Long-Term Debt (continued)

Those subsidiaries that provided guarantees of the Senior Secured Notes will be released from such guarantees upon the occurrence of certain events, including the following:

- the designation of such guarantor as an unrestricted subsidiary;
- the release or discharge of any guarantee or indebtedness that resulted in the creation of the guarantee of the Senior Secured Notes by such guarantor;
- the sale or other disposition, including by way of merger or otherwise, of its capital stock or of all or substantially all of the assets, of such guarantor (see Note – 2 Discontinued Operations); or
- LSB's exercise of its legal defeasance option or its covenant defeasance option as described in the Indenture with LSB's obligations under the Indenture discharged in accordance with the Indenture.

The Senior Secured Notes will be effectively senior to all existing and future unsecured debt of LSB and the guarantors to the extent of the value of the property and assets subject to liens ("Collateral") and will effectively be senior to all existing and future obligations under the Amended Working Capital Revolver Loan and other debt to the extent of the value of the certain collateral ("Priority Collateral").

The Senior Secured Notes are secured on a first-priority basis by the Priority Collateral owned by LSB and the guarantors (other than the one unsecured guarantor) and on a second-priority basis by the certain collateral securing the Amended Working Capital Revolver Loan owned by LSB and the guarantors (other than the one unsecured guarantor), in each case subject to certain liens permitted under the Indenture. The Senior Secured Notes will be equal in priority as to the Priority Collateral owned by LSB and the guarantor with respect to any obligations under any equally ranked lien obligations subsequently incurred. At December 31, 2015, the carrying value of the assets secured on a first-priority basis was approximately $1.0 billion (which includes assets classified as held for sale) and the carrying value of the assets secured on a second-priority basis was approximately $139.4 million (which includes assets classified as held for sale).

The Senior Secured Notes are subordinated to all of LSB and the guarantors' existing and future obligations under the Amended Working Capital Revolver Loan and other debt to the extent of the value of the certain collateral securing such debt and to any of LSB and the guarantors' existing and future indebtedness that is secured by liens that are not part of the Collateral. The Senior Secured Notes will be structurally subordinated to all of the existing and future indebtedness, preferred stock obligations and other liabilities, including trade payables, of our subsidiaries that do not guarantee the Senior Secured Notes in the future.

Except under certain conditions, the Senior Secured Notes are not redeemable before August 1, 2016. On or after such date, LSB may redeem the Senior Secured Notes at its option, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as percentages of the principal amount thereof), plus accrued and unpaid interest to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on August 1st of the year set forth below:

Year	7.75% Senior Secured Notes	12% Senior Secured Notes
2016	103.875%	106.000%
2017	101.938%	103.000%
2018 and thereafter	100.000%	100.000%

Upon the occurrence of a change of control, as defined in the Indenture, each holder of the Senior Secured Notes will have the right to require that LSB purchase all or a portion of such holder's notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

9. Long-Term Debt (continued)

The Indenture contains covenants that, among other things, limit LSB's ability, with certain exceptions and as defined in the Indenture, to:

- incur additional indebtedness;
- pay dividends;
- repurchase LSB common and preferred stocks;
- make investments;
- repay certain indebtedness;
- create liens on, sell or otherwise dispose of our assets;
- engage in mergers, consolidations or other forms of recapitalization;
- engage in sale-leaseback transactions; or
- engage in certain affiliate transactions.

In connection with the 12% Senior Secured Notes, LSB entered into a registration rights agreement (the "Registration Rights Agreement-Notes"). Pursuant to the Registration Rights Agreement-Notes, we have agreed to use our reasonable best efforts to file with the SEC a registration statement on an appropriate form with respect to a registered offer to exchange the notes for new notes with terms substantially identical in all material respects to the notes, cause the registration statement to be declared effective under the Securities Act, and complete the exchange within 180 days after the effective date of such registration statement. We are also obligated to update the registration statement by filing a post-effective amendment. If the exchange offer is not completed on or prior to the expiration of 365 days from November 9, 2015 (the date of closing) and under certain other conditions, the annual interest rate on the notes will be increased by 0.25% (or approximately $350 per day) for the first 90 day period immediately following such default and an additional 0.25% with respect to each subsequent 90 day period, in each case until and including the date such default ends, up to a maximum increase of 1.00% (or approximately $1,400 per day).

In 2013, approximately $67.2 million of the proceeds from 7.75% Senior Secured Notes was used to pay all outstanding borrowings, including a prepayment premium, under a secured term loan facility. As a result of the payoff of the secured term loan facility, we incurred a loss on extinguishment of debt of $1.3 million in 2013, consisting of the prepayment premium and writing off unamortized debt issuance costs.

(C) See discussion under Secured Promissory Note Amendment in Note 22 – Subsequent Events.

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

(E) On September 16, 2015, El Dorado Ammonia L.L.C. ("EDA"), one of our subsidiaries, entered into a secured promissory note due 2022 (the "Secured Promissory Note due 2022") for the construction financing of an ammonia storage tank and related systems with an initial funding received of $15 million and a maximum principal note amount of $19.8 million. The remainder of the funding under the Secured Promissory Note due 2022 is expected to be drawn upon completion of the ammonia storage tank, but in any event by May 2016 (the "Loan Conversion Date"). Up to the Loan Conversion Date, EDA will make monthly interest payments on the outstanding principal borrowed.

9. Long-Term Debt (continued)

On the Loan Conversion Date, the outstanding principal balance will be converted to a seven year secured term loan requiring equal monthly principal and interest payments. In addition, a final balloon payment equal to the remaining outstanding principal (or 30% of the outstanding principal balance on the Loan Conversion Date) is required on the maturity date. The Secured Promissory Note due 2022 bears interest at a rate that is based on the monthly LIBOR rate plus 4.0% and matures in May 2022. The Secured Promissory Note due 2022 is secured by the ammonia tank and related systems and is guaranteed by LSB.

EDA may prepay all of the principal amount of the Secured Promissory Note due 2022 from the day following the first anniversary date of the Loan Conversion Date. A prepayment premium is required from the day following the first anniversary date of the Loan Conversion Date beginning at 1.114% and ending at 0.031%, a month prior to the maturity date.

(F) Maturities of long-term debt for each of the five years after December 31, 2015 are as follows (in thousands):

2016	$	22,473
2017		5,526
2018		8,172
2019		480,325
2020		5,507
Thereafter		7,145
Less: Discount and debt issuance costs		8,726
	$	520,422

10. Income Taxes

Provisions (benefit) for income taxes are as follows:

		2015		2014		2013
				(In Thousands)		
Current:						
Federal	**$**	**(4,655)**	$	(1,831)	$	(871)
State		**(429)**		706		756
Total Current	**$**	**(5,084)**	$	(1,125)	$	(115)
Deferred:						
Federal	**$**	**(25,958)**	$	5,159	$	21,975
State		**(1,478)**		217		2,095
Total Deferred	**$**	**(27,436)**	$	5,376	$	24,070
Provisions (benefit) for income taxes	**$**	**(32,520)**	$	4,251	$	23,955

The current benefit for federal income taxes shown above includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. The current provision for state income taxes includes regular state income tax and provisions for uncertain income tax positions

The deferred tax provision (benefit) results from the recognition of changes in our prior year deferred tax assets and liabilities, and the utilization of state NOL carryforwards and other temporary differences. We reduce income tax expense for tax credits in the year they arise and are earned. At December 31, 2015, our gross amount of the investment tax credits available to offset state income taxes was minimal. These investment tax credits do not expire and carryforward indefinitely. The gross amount of federal tax credits was $5.1 million. These credits carryforward for 20 years and begin expiring in 2034.

10. Income Taxes (continued)

We utilized approximately $9.6 million, $5.9 million and $0.1 million of state NOL carryforwards to reduce tax liabilities in 2015, 2014 and 2013, respectively to reduce future tax liabilities. At December 31, 2015, we have remaining federal and state tax NOL carryforwards of $47.7 million and $85.7 million, respectively, which amounts exclude the NOL carryforwards that are related to unrecognized tax benefits and stock compensation that have not been recognized in accordance with GAAP. The federal NOL carryforwards begin expiring in 2033 and the state NOL carryforwards began expiring in 2015.

We experienced a cumulative change in ownership of more than 50% over the three year testing period upon the issuance of the preferred stock and warrants on December 4, 2015. Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the net operating losses and tax credits is subject to an estimated limitation of $3.7 million per year.

We considered both positive and negative evidence in our determination of the need for valuation allowances for the deferred tax assets associated with federal and state NOLs and federal credits and in conjunction with the IRC Section 382 limitation and determined that it was more-likely-than-not that NOL's and credits would be utilized before expiration. For 2015, 2014 and 2013, we determined it was more-likely-than-not that approximately $34.5 million, $8.1 million and $8.3 million, respectively, of the state NOL carryforwards would not be able to be utilized before expiration and a valuation allowance was maintained for the deferred tax assets associated with these state NOL carryforwards, net of federal benefit of approximately $1.2 million in 2015 and $0.3 million in 2014 and 2013.

When non-qualified stock options ("NSOs") are exercised, the grantor of the options is permitted to deduct the spread between the fair market value of the stock issued and the exercise price of the NSOs as compensation expense in determining taxable income. Income tax benefits related to stock-based compensation deductions in excess of the compensation expense recorded for financial reporting purposes are not recognized in earnings as a reduction of income tax expense for financial reporting purposes. As a result, the stock-based compensation deduction recognized in our income tax return will exceed the stock-based compensation expense recognized in earnings. The excess tax benefit realized (i.e., the resulting reduction in the current tax liability) related to the excess stock-based compensation tax deduction of $0.6 million in 2015 (none in 2014 and 2013), which is included in the net change in capital in excess of par value rather than an increase in the benefit for income taxes.

In addition, if the grantor of NSOs will not currently reduce its tax liability from the excess tax benefit deduction taken at the time of the taxable event (option exercised) because it has a NOL carryforward that is increased by the excess tax benefit, then the tax benefit should not be recognized until the deduction actually reduces current taxes payable. The amounts included in the federal and state NOL carryforwards but not reflected in deferred tax assets at December 31, 2015 totaled $3.0 million and $2.9 million, respectively. At December 31, 2015 and 2014, we had $1.2 million and $1.1 million, respectively of unrecognized federal and state tax benefits resulting from the exercise of NSOs.

10. Income Taxes (continued)

Deferred tax assets and liabilities include temporary differences and carryforwards as follows:

	December 31, 2015	2014
	(In Thousands)	
Deferred tax assets		
Allowance for doubtful accounts	**$ 722**	$ 823
Asset impairment	**—**	226
Inventory	**2,331**	2,447
Deferred compensation	**4,525**	3,914
Other accrued liabilities	**8,084**	7,195
Hedging	**54**	1,218
Net operating loss and tax credit carryforwards	**19,769**	13,874
Other	**6,429**	3,700
Total deferred tax assets	**41,914**	33,397
Less valuation allowance on deferred tax assets	**(1,242)**	(292)
Net deferred tax assets	**$ 40,672**	$ 33,105
Deferred tax liabilities		
Property, plant and equipment	**$ 82,760**	$ 92,962
Prepaid and other insurance reserves	**4,904**	5,452
Investment in unconsolidated affiliate	**—**	64
Other	**413**	551
Total deferred tax liabilities	**$ 88,077**	$ 99,029
Net deferred tax liabilities	**$ (47,405)**	$ (65,924)
Consolidated balance sheet classification:		
Net current deferred tax assets	**$ 4,774**	$ 17,204
Net noncurrent deferred tax liabilities	**(52,179)**	(83,128)
Net deferred tax liabilities	**$ (47,405)**	$ (65,924)
Net deferred tax liabilities by tax jurisdiction:		
Federal	**$ (43,055)**	$ (60,696)
State	**(4,350)**	(5,228)
Net deferred tax liabilities	**$ (47,405)**	$ (65,924)

All of our income (loss) before taxes relates to domestic operations. Detailed below are the differences between the amount of the provision (benefit) for income taxes and the amount which would result from the application of the federal statutory rate to “Income (loss) from continuing operations before provisions (benefit) for income taxes”.

	2015	2014	2013
		(In Thousands)	
Provisions (benefit) for income taxes at federal statutory rate	**$ (27,512)**	$ 3,383	$ 20,843
State current and deferred income taxes	**(2,184)**	639	2,462
Energy credit	**(2,846)**	—	—
Valuation allowance	**918**	—	—
Other	**(896)**	229	650
Provisions (benefit) for income taxes	**$ (32,520)**	$ 4,251	$ 23,955

10. Income Taxes (continued)

A reconciliation of the beginning and ending amount of uncertain tax positions is as follows:

	2015	2014	2013
		(In Thousands)	
Balance at beginning of year	**$ 657**	$ 2,409	$ 2,292
Additions based on tax positions related to the current year	**70**	**45**	**97**
Additions based on tax positions of prior years	**13**	367	255
Reductions for tax positions of prior years	**(443)**	(1,411)	(123)
Settlements	**(38)**	(753)	(112)
Balance at end of year	**$ 259**	$ 657	$ 2,409

We expect that the amount of unrecognized tax benefits may change as the result of ongoing operations, the outcomes of audits, and the expiration of statute of limitations. This change is not expected to have a significant impact on our results of operations or financial condition. For 2015, 2014, and 2013 there would be no impact on the effective tax rate from unrecognized tax benefits, if recognized.

We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense. During 2014, we recognized a recovery of $522,000 in interest expense and penalties associated with the reduction of unrecognized tax positions (minimal in 2015). During 2013, we recognized $133,000 in interest and penalties associated with unrecognized tax benefits. At December 31, 2015 and 2014, the amounts accrued for interest and penalties were minimal.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2012-2014 years remain open for all purposes of examination by the U.S. Internal Revenue Service ("IRS") and other major tax jurisdictions. During 2014, we settled the examination with the IRS for the tax years 2008-2010 with no material changes to our financial position, results of operations and cash flow.

11. Commitments and Contingencies

Operating Leases - We lease certain PP&E under non-cancelable operating leases. Future minimum payments on operating leases associated with our continuing operations with initial or remaining terms of one year or more at December 31, 2015, are as follows:

	Operating Leases
2016	$ 6,109
2017	5,855
2018	5,591
2019	5,083
2020	2,406
Thereafter	1,665
Total minimum lease payments	$ 26,709

Expenses associated with our operating lease agreements, including month-to-month leases, were $9,845,000 in 2015, $7,002,000 in 2014, and $5,898,000 in 2013. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts.

Purchase and Sales Commitments - We have the following significant purchase and sales commitments.

Covestro agreement – El Dorado Nitric Company and its subsidiaries ("EDN") and EDC, are party to an agreement (the "Covestro Agreement") with Covestro AG, formerly Bayer MaterialScience LLC ("Covestro"). EDN operates the nitric acid plant (the "Baytown Facility") located within Covestro's chemical manufacturing complex. Under the terms of the Covestro Agreement, Covestro purchases from EDN all of Covestro's requirements for nitric acid for use in Covestro's chemical manufacturing complex

11. Commitments and Contingencies (continued)

located in Baytown, Texas that provides a pass-through of certain costs plus a profit. In addition, EDN is responsible for the maintenance and operation of the Baytown Facility. If there is a change in control of EDN, Covestro has the right to terminate the Covestro Agreement upon payment of certain fees to EDN. The Covestro Agreement expires in June 2021, with options for renewal.

Ammonia supply agreement – On November 2, 2015, EDC and Koch Fertilizer, LLC ("Koch Fertilizer") entered into an ammonia purchase and sale agreement under which Koch Fertilizer agrees to purchase, with minimum purchase requirements, the ammonia that (a) will be produced at the El Dorado Facility and (b) that is in excess of El Dorado's needs. The initial term of the agreement is for three years, which term begins once the new ammonia plant is completed, and automatically continues for one or more additional one-year terms unless terminated by either party by delivering a notice of termination at least nine months prior to the end of term in effect. However, if the new ammonia plant is not in production by July 31, 2016, either party may provide notice of termination on or before October 31, 2016.

UAN supply agreement – One or our subsidiaries, Pryor Chemical Company ("PCC"), is party to a contract with Koch Nitrogen Company, LLC ("Koch Nitrogen") under which Koch Nitrogen agrees to purchase and distribute at market prices substantially all of the urea ammonium nitrate ("UAN") produced at the Pryor Facility through June 30, 2016, but either party has an option to terminate the agreement pursuant to the terms of the contract (PCC's required notice of termination is three months and Koch Nitrogen's required notice of termination is six months).

Ammonia purchase agreement – EDC is party to an ammonia purchase agreement, as amended, with Koch Nitrogen International Sarl ("Koch"), under which Koch agrees to supply certain of the El Dorado Facility's ammonia requirements. Under an amended agreement, the El Dorado Facility will purchase a majority of its ammonia requirement from Koch through the earlier of December 31, 2016 or the date on which the new ammonia plant comes on stream at the El Dorado Facility.

Natural gas gathering agreements – Zena owns an approximately 12% working interest in certain natural gas properties but is not the operator of these properties. The operator of the natural gas wells developed on these properties has contractually agreed to deliver a minimum daily quantity of natural gas to a certain gathering and pipeline system through December 2026 to ensure capacity availability on that system. This gathering agreement effectively requires a daily minimum demand charge. As a result, Zena's proportionate share of the annual minimum demand charges is approximately $1.8 million for each of the next five years and approximately $3.9 million thereafter for a total of approximately $12.9 million.

Other purchase and sales commitments - See Note 12 **–** Derivatives, Hedges, Financial Instruments and Carbon Credits for our commitments relating to derivative contracts and carbon credits at December 31, 2015. During 2015, certain subsidiaries entered into contracts to purchase natural gas for anticipated production needs at certain of our facilities. Since 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 and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2015, our natural gas contracts, which are exempt from mark-to-market accounting, included the firm purchase commitments of approximately 5.1 million MMBtu of natural gas. These contracts extend through December 2016 at a weighted-average cost of $2.91 per MMBtu ($14.9 million) and a weighted-average market value of $2.47 per MMBtu ($12.7 million). In addition, we had standby letters of credit outstanding of approximately $2.8 million at December 31, 2015. We also had deposits from customers of $2.1 million for forward sales commitments at December 31, 2015.

Termination of Sales Commitment - Ammonium nitrate supply agreement—Pursuant to a long-term cost-plus supply agreement, EDC agreed to supply Orica International Pte Ltd ("Orica") with an annual minimum of 240,000 tons of industrial grade ammonium nitrate ("AN") produced at our El Dorado Facility. The agreement includes a provision for Orica to pay for product not taken. The agreement also includes a required notice of termination of one year, with the termination date to be no sooner than April 9, 2015. On March 31, 2014, EDC sent to Orica the required one-year notice that EDC would not renew the agreement. As a result, the agreement was terminated on April 9, 2015.

11. Commitments and Contingencies (continued)

Wastewater Pipeline Operating Agreement – EDC is party to an operating agreement for the right to use a pipeline to dispose its wastewater. EDC is contractually obligated to pay a portion of the operating costs of the pipeline, which portion is estimated to be $100,000 to $150,000 annually. The initial term of the operating agreement is through December 2053.

Performance and Payment Bonds – We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by certain subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2015, we have agreed to indemnify the sureties for payments, up to $12.4 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2016.

Employment and Severance Agreements - We have employment and severance agreements with several of our officers. The agreements, as amended, provide for annual base salaries, bonuses and other benefits commonly found in such agreements. In the event of termination of employment due to a change in control (as defined in the agreements), the agreements provide for payments aggregating $8.9 million at December 31, 2015.

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”). In particular, the manufacture, production and distribution of chemical products are activities that entail environmental and public health risks and impose obligations under the Environmental and Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. 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. 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 chemical facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on their operations and our 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. We do not operate the natural gas wells where we own a working interest and compliance with Environmental and Health Laws is controlled by others. We are responsible for our working interest proportionate share of the costs involved. As of December 31, 2015, our accrued liabilities for environmental matters totaled $439,000 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. Also, see discussion in Note 8 – Asset Retirement Obligations.

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 (rain water inside the facility area that picks up contaminants) 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 (the “EPA”). These permits limit the type and amount of effluents that can be discharged and control the method of such discharge. The following are discharge water matters in relation to the respective state discharge water permits.

11. Commitments and Contingencies (continued)

Our facility located in Pryor, Oklahoma (the "Pryor Facility") holds a permit to inject wastewater into an on-site well that is valid until 2018. The Oklahoma Department of Environmental Quality ("ODEQ") has indicated that the permit may not be renewed and PCC may have to find an alternative means of disposal after the permit expires. PCC is continuing to discuss disposal possibilities both internally and with the ODEQ.

The El Dorado Facility is subject to a state National Pollutant Discharge Elimination System ("NPDES") discharge water permit issued by the Arkansas Department of Environmental Quality ("ADEQ"). The El Dorado Facility is currently operating under an NPDES discharge water permit, which became effective in 2004. In 2010, a preliminary draft of a discharge water permit renewal for the El Dorado Facility, which contains more restrictive limits, was issued by the ADEQ.

EDC believes that the El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit levels, but has, from time to time, had difficulty meeting the more restrictive dissolved minerals permit levels, primarily related to storm-water runoff. We do not believe this matter regarding meeting the permit requirements as to the dissolved minerals is a continuing issue for the process wastewater as the result of the El Dorado Facility disposing its wastewater (beginning in September 2013) via a pipeline constructed by the City of El Dorado, Arkansas. We believe that the issue with the storm-water runoff should be resolved if and when the ADEQ issues a new NPDES discharge water permit, which we have been advised that the ADEQ is currently processing.

During 2012, EDC paid a penalty of $100,000 to settle an administrative complaint issued by the EPA, and thereafter handled by the U.S. Department of Justice ("DOJ"), relating to certain alleged violations through 2010 of EDC's 2004 NPDES discharge water permit. The DOJ advised that action would also be taken for alleged violations occurring after 2010. As of the date of this report, no action has been filed by the DOJ against EDC. As a result, the cost (or range of costs) cannot currently be reasonably estimated regarding this matter. Therefore, no liability has been established at December 31, 2015.

In addition, the El Dorado Facility is currently operating under a consent administrative order (the "CAO") that recognizes the presence of nitrate contamination in the shallow groundwater. The 2006 CAO required EDC to continue semiannual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ relating to the El Dorado Facility. 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. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to a new consent administrative order and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment, of which cost (or range of costs) cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2015, in connection with this matter.

2. Air Matters

One of our subsidiaries, PCC has been advised that the ODEQ is conducting an investigation into whether the chemical production facility located in Pryor, Oklahoma is in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions primarily in 2011 were intentionally reported incorrectly to the ODEQ. PCC has cooperated with the ODEQ in connection with this investigation. As of December 31, 2015, we are not aware of any recommendations made or to be made by the ODEQ with respect to legal action to be taken or recommended as a result of this ongoing investigation.

3. Other Environmental Matters

During 2013, the EPA conducted a risk management inspection of our Cherokee Facility. During 2014, our Cherokee Facility received a notice of violation from the EPA as a result of the inspection, which listed eleven alleged violations. Our Cherokee Facility has provided the EPA with written responses. During May 2015, our Cherokee Facility received a settlement letter from the EPA, which terms have been accepted by the Cherokee Facility, and we are awaiting the final consent decree from the EPA. Under the proposed settlement agreement, we agreed to pay a penalty in the form of providing approximately $100,000 to purchase emergency response equipment for the local first responders plus a civil penalty to the EPA of approximately $26,000. A final consent decree to settle this matter was issued and signed by CNC in December 2015. The consent decree will become final upon signing by the EPA and filing with the court. As a result, we have accrued for the amount of this settlement, which is included in our accrued liabilities for environmental matters discussed above.

11. Commitments and Contingencies (continued)

In 2002, two 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. Even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. 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. Based on the assessment discussed above, we account for transactions associated with the Hallowell Facility as discontinued operations.

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 are pursuing with the state of Kansas, including the KDHE, a corrective action strategy relating to the Hallowell Facility. This strategy currently includes long-term surface and groundwater monitoring to track the natural decline in contamination. During 2014, the KDHE approved a corrective action study work plan and will consider and recommend restoration or replacement pursuant to the work plan and/or whether to seek compensation in its evaluation. Currently, it is unknown what remediation and damages the KDHE may require, if any, but it is reasonably possible that certain remediation activities could be required to begin in 2016. The ultimate required remediation, if any, is currently unknown. Our subsidiary and Chevron have retained an environmental consultant to perform the corrective action study work plan as to the appropriate method to remediate the Hallowell Facility. The resulting study was submitted to the KDHE for review. We are advised by our consultant that until the study is completed there is not sufficient information to develop a meaningful and reliable estimate (or range of estimate) as to the cost of the remediation. 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 April 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, purchasing 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 v 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, which 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. 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 a confidential settlement agreements with several plaintiffs that had claimed wrongful death and bodily injury. A portion of this settlement was paid by the insurer during 2015 and in January 2016. While these settlements resolve the claims of what we believe were the highest risk cases 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 intend to 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 December 31, 2015, no liability reserve has been established in connection with this matter, except for the unpaid portion of the settlement agreement discussed above, but we have incurred professional fees up to our self-insured retention amount.

11. Commitments and Contingencies (continued)

In May of 2015, our subsidiary, EDC, was sued in the matter styled BAE Systems Ordinance Systems, Inc. ("BAE"), et al. vs. El Dorado Chemical Company, in the United States District Court, Western District of Arkansas, for an alleged breach of a supply agreement to provide BAE certain products. It is EDC's position, among other things, that its inability to deliver to BAE was due to a *force majeure* event caused by a fire and explosion at EDC's nitric acid plant, and that a *force majeure* clause in the supply agreement therefore excuses EDC's performance under the supply agreement. BAE's pre-litigation demand indicated a claim of approximately $18 million. EDC intends to vigorously defend this matter. The cost (or range of costs), if any, EDC would incur relating to this matter cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2015.

In September 2015, a case styled *Dennis Wilson vs. LSB Industries, Inc*., et al., was filed in the United States District Court for the Southern District of New York. The plaintiff purports to represent a class of our shareholders and asserts that we violated federal securities laws by allegedly making material misstatements and omissions about delays and cost overruns at our El Dorado Chemical Company manufacturing facility and about our financial well-being and prospects. The lawsuit, which also names certain current and former officers, seeks an unspecified amount of damages. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

In September 2015, we and El Dorado Ammonia L.L.C ("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 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 in July 2015 and Global claims it is entitled to payment for certain work prior to its termination in the sum of approximately $18 million. Leidos reports that it made an estimated $6 million payment to Global on or about September 11, 2015, and EDA paid Leidos approximately $3.5 million relating to work performed by subcontractors of Global. Leidos has not approved certain payments to Global pending the result of on-going audits and investigation undertaken to quantify the financial impact of Global's work. EDA intends to monitor the Leidos audit, and conduct its own investigation, in an effort to determine whether any additional payment should be released to Global for any work not in dispute. LSB and EDA intend to pursue recovery of any damage or loss caused by Global's work performed at our El Dorado Facility. In January 2016, El Dorado, Leidos and Global reached an agreement whereby the approximately $3.6 million claims of Leidos' remaining unpaid subcontracts, vendors and suppliers will be paid (and these suppliers and subcontractors will in turn issue releases of their respective claims and liens. In addition, Global will reduce the value of its claim as against Leidos, and its lien amount as against the Project by a like amount. After all such lower tier supplier and subcontractors are satisfied, the Global claim and lien amount will be reduced to approximately $5 million. No liability has been established in connection with the remaining $5.0 million claim. In addition, LSB and EDA intend to pursue recovery of any damage or loss caused by Global's work performed at our El Dorado Facility.

We are also involved in various other claims and legal actions. 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.

12. Derivatives, Hedges, Financial Instruments and Carbon Credits

Periodically, we have three classes of contracts that are accounted for on a fair value basis, which are commodities futures/forward contracts ("commodities contracts"), foreign exchange contracts and interest rate contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. In addition as discussed below, we are issued climate reserve tonnes ("carbon credits"), of which a certain portion of the carbon credits are to be sold and the proceeds given to Covestro. The assets for carbon credits are accounted for on a fair value basis as discussed below. Also, the contractual obligations to give the related proceeds to Covestro are accounted for on a fair value basis (as discussed below) unless we enter into a firm sales commitment to sell the carbon credits as discussed in Note 1 – Summary of Significant Accounting Policies. In addition, certain embedded features ("embedded derivative") included in the Series E Redeemable Preferred required bifurcation and are discussed Note 13. The valuations of these assets and liabilities were determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values.

12. Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The 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. At December 31, 2015 and 2014, the valuations of contracts classified as Level 2 related to certain futures/forward natural gas contracts, a foreign exchange contract, an interest rate swap contract and an embedded derivative. For the natural gas contracts, these contracts are valued using the prices pursuant to the terms of the contracts and using market information for futures/forward natural gas prices. At December 31, 2015, the valuation inputs included the contractual weighted-average cost of $2.35 per MMBtu and the estimated weighted-average market value of $2.35 per MMBtu.

For foreign exchange contracts, these contracts are valued using the foreign currency exchange rates pursuant to the terms of the contract and using market information for foreign currency exchange rates. The valuation inputs included the total contractual exchange rate of 1.12 and the total estimated market exchange rate of 1.09 (U.S. Dollar/Euro). For interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. At December 31, 2015, the valuation inputs included the contractual weighted-average pay rate of 3.23% and the estimated market weighted-average receive rate of 0.61%. For the embedded derivative, the derivative is valued using the underlying number of shares as defined in the terms of the Series E Redeemable Preferred and the market price of our common stock. At December 31, 2015, the valuation inputs included the market price of our common stock, which was $7.25 per share. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts as discussed above.

The 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. At December 31, 2015 and 2014, the valuations ($2.35 and $2.50 per carbon credit, respectively) of the carbon credits and the contractual obligations associated with these carbon credits are classified as Level 3 and are based on the most recent sales transaction and reevaluated for market changes, if any, and on the range of ask/bid prices obtained from a broker adjusted for minimal market volume activity, respectively. The valuations are using undiscounted cash flows based on management's assumption that the carbon credits would be sold and the associated contractual obligations would be extinguished in the near term. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the carbon credits or the associated contractual obligations.

Commodities Contracts

Raw materials for use in our manufacturing processes include natural gas and platinum. As part of our raw material price risk management, we periodically enter into futures/forward contracts for these materials, which contracts may be required to be accounted for on a mark-to-market basis. At December 31, 2015, our futures/forward natural gas contracts included 1,820,000 MMBtu of natural gas, extend through December 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of $2.35 per MMBtu. At December 31, 2014, our futures/forward natural gas contracts (accounted for on a mark-to-market basis) included approximately 8,279,000 MMBtu of natural gas, extend through June 2016 at a weighted-average cost of $3.24 per MMBtu. At December 31, 2015, we did not have any futures/forward platinum contracts. At December 31, 2014, our futures/forward platinum contracts included 3,000 ounces of platinum, extended through April 2015 at a weighted-average cost of $1,224.26 per ounce. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our subsidiaries purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts, which set the U.S. Dollar/Euro exchange rates. At December 31, 2015, our foreign exchange contract was for the receipt of approximately 280,000 Euros through February 2017 at the contractual exchange rate of 1.12 (U.S. Dollar/Euro. At December 31, 2014, our foreign exchange contract was for the receipt of approximately 819,000 Euros through May 2015 at the contractual exchange rate of 1.27 (U.S. Dollar/Euro. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

12. Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In February 2011, we entered into an interest rate swap at no cost, which sets a fixed three-month LIBOR rate of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning in April 2012 through March 2016. This contract is a free-standing derivative and is accounted for on a mark-to-market basis. During each of the three years ended December 31, 2015, no cash flows occurred relating to the purchase or sale of interest rate contracts. The cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

Carbon Credits and Associated Contractual Obligation

Periodically, we are issued carbon credits by the Climate Action Reserve in relation to a greenhouse gas reduction project ("Project") performed at the Baytown Facility. Pursuant to the terms of the agreement with Covestro, a certain portion of the carbon credits are to be used to recover the costs of the Project, and any balance thereafter to be allocated between Covestro and EDN. We have no obligation to reimburse Covestro for their costs associated with the Project, except through the transfer or sale of the carbon credits when such credits are issued to us. The assets for carbon credits are accounted for on a fair value basis and the contractual obligations associated with these carbon credits are also accounted for on a fair value basis (unless we enter into a sales commitment to sell the carbon credits). At December 31, 2015 and 2014, we had approximately 495,000 and 1,112,000 carbon credits, respectively, all of which were subject to contractual obligations. The cash flows associated with the carbon credits and the associated contractual obligations are included in cash flows from continuing investing activities.

Embedded Derivative

As discussed in Note 13, the Series E Redeemable Preferred included the embedded derivative that required bifurcation. At December 31, 2015 the fair value of the embedded derivative was based on the equivalent of 456,225 shares of our commons stock at $7.25 per share.

The following details our assets and liabilities associated with continuing operations that are measured at fair value on a recurring basis at December 31, 2015 and 2014:

Description	Total Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015 Using			Total Fair Value at December 31, 2014
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In Thousands)				
Assets - Supplies, prepaid items and other:					
Commodities contracts (1)	**$ 195**	**$ —**	**$ 195**	**$ —**	$ —
Carbon credits	**1,154**	**—**	**—**	**1,154**	2,779
Total	**$ 1,349**	**$ —**	**$ 195**	**$ 1,154**	$ 2,779
Liabilities - Current and noncurrent accrued and other liabilities:					
Commodities contracts (1)	**$ 202**	**$ —**	**$ 202**	**$ —**	$ 2,169
Contractual obligations - carbon credits	**1,154**	**—**	**—**	**1,154**	2,779
Embedded derivative	**3,308**	**—**	**3,308**	**—**	—
Interest rate contracts	**126**	**—**	**126**	**—**	671
Foreign exchange contracts	**6**	**—**	**6**	**—**	44
Total	**$ 4,796**	**$ —**	**$ 3,642**	**$ 1,154**	$ 5,663

(1) The $195,000 is subject to an agreement that allows net settlement of contracts; however, we have chosen to present the fair values of our commodities contracts under master netting agreements using a gross fair value presentation.

12. Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

None of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications for the periods presented below except for certain futures/forward natural gas contracts (an asset with an estimated fair value of $31,000 at December 31, 2013) that were transferred from Level 1 to Level 2 since a portion of these contracts were expected to be settled on dates that quoted prices were not available. As a result, we are utilizing observable market data other than quoted prices to value these contracts. The classification transfer of the contracts was deemed to occur in the first quarter of 2014. In addition, the following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Assets			Liabilities		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
	(In Thousands)					
Beginning balance	**$ 2,779**	$ 1,284	$ 91	**$ (2,779)**	$ (1,284)	$ (91)
Transfers into Level 3	**—**	—	—	**—**	—	—
Transfers out of Level 3	**—**	—	—	**—**	—	—
Total realized and unrealized gains (losses) included in continuing operating results	**2,351**	3,089	1,233	**(1,447)**	(2,799)	(1,233)
Purchases	**—**	—	—	**—**	—	—
Issuances	**—**	—	—	**—**	—	—
Sales	**(3,976)**	(1,594)	(40)	**—**	—	—
Settlements	**—**	—	—	**3,072**	1,304	40
Ending balance	**$ 1,154**	$ 2,779	$ 1,284	**$ (1,154)**	$ (2,779)	$ (1,284)
Total gains (losses) for the period included in continuing operating results attributed to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	**$ 1,143**	$ 2,110	$ 1,193	**$ (1,143)**	$ (2,110)	$ (1,193)

Net gains (losses) included in continuing operating results and the statement of operations classifications are as follows:

	2015	**2014**	**2013**
	(In Thousands)		
Total net gains (losses) included in continuing operating results:			
Cost of sales - Undesignated commodities contracts	**$ (3,376)**	$ (947)	$ 31
Cost of sales - Undesignated foreign exchange contracts	**(72)**	(49)	—
Other income - Carbon credits	**3,663**	3,089	1,233
Other expense - Contractual obligations relating to carbon credits	**(2,759)**	(2,799)	(1,233)
Non-operating other expense - embedded derivative	**(520)**	—	—
Interest expense - Undesignated interest rate contracts	**(47)**	(71)	(33)
Total net losses included in continuing operating results	**$ (3,111)**	$ (777)	$ (2)

12. Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

At December 31, 2015 and 2014, 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 7.75% Senior Secured Notes as shown below.

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
7.75% Senior Secured Notes (1)	**$ 425**	**$ 355**	$ 425	$ 442

(1) Based on a quoted price of 83.65 at December 31, 2015 and 104 at December 31, 2014.

The Senior Secured Notes valuations are classified as Level 2. In addition, the valuation of the 12% Senior Secured Notes is also classified as Level 2. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurement of our 12% Senior Secured Notes are valued utilizing the current estimated yield of our 7.75% Senior Secured Notes which have similar terms. The fair value measurements of our other long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities. Also see discussions concerning certain assets and liabilities initially accounted for on a fair value basis under Note 8 – Asset Retirement Obligations.

13. Securities Financing Including Redeemable Preferred Stocks

Securities Purchase Agreement Including Redeemable Preferred Stocks

On December 4, 2015, LSB entered into a securities purchase agreement (the “Securities Purchase Agreement”) with, LSB Funding LLC, a Delaware limited liability company (the “Purchaser”), and Security Benefit Corporation, a Kansas corporation (the “Purchaser Guarantor”) both of which are unrelated third parties, pursuant to which LSB agreed to sell to the Purchaser, in a private placement (the “Private Placement”) exempt from registration under the Securities Act,

- $210,000,000 of the Series E Redeemable Preferred,
- warrants to purchase 4,103,746 shares of common stock, par value $0.10, which is equal to 17.99% of the outstanding shares of our common stock before the completion of the Private Placement (the “Warrants”), and
- one share of Series F redeemable Class C preferred stock (the “Series F Redeemable Preferred,” and together with the Series E Redeemable Preferred and the Warrants, the “Securities”). The Private Placement closed on December 4, 2015 (the “Closing Date”).

In connection with the closing of the Private Placement (the “Closing”), LSB entered into

- the Certificate of Designations setting forth the rights, preferences, privileges and restrictions applicable to the Series E Redeemable Preferred, as filed with the Secretary of State of the State of Delaware (the “Series E COD”);
- the Certificate of Designations setting forth the rights, preferences, privileges and restrictions applicable to the Series F Redeemable Preferred, as filed with the Secretary of State of the State of Delaware (the “Series F COD”);
- a Registration Rights Agreement by and between LSB and LSB Funding (the “Registration Rights Agreement Notes”); and
- an Amendment to Renewed Rights Agreement, (the “Rights Agreement Amendment”), which amended the Renewed Rights Agreement by and between LSB and UMB Bank, n.a., as rights agent (“UMB”), dated as of December 4, 2008 (the “Renewed Rights Agreement”)

13. Securities Financing Including Redeemable Preferred Stocks (continued)

The Series E and Series F Redeemable Preferred and Warrants were recorded at fair value upon issuance, net of issuance costs or discounts. The valuations are classified as (Level 3). The Warrants were valued based on a Black-Scholes-Merton option pricing model and a Finnerty model to determine the estimated discount for lack of marketability resulting in an estimated fair of $22.3 million. The Series E Redeemable Preferred was valued at an estimated fair value of $187.7 million, with discounted cash flow models that calculates the present value of future cash flows using possible redemption scenarios and using published market yields for publicly traded unsecured fixed income securities with a similar credit ratings. No valuation input adjustments were considered necessary relating to the nonperformance risk for the Warrants or Series E Redeemable Preferred. Based on the terms of the Series F Redeemable Preferred, we determined that this share had minimal economic value. See additional discussion below under Series E Redeemable Preferred relating to the bifurcation of certain embedded derivatives.

Series E Redeemable Preferred

The Series E COD authorizes 210,000 shares of Series E Redeemable Preferred. With respect to the distribution of assets upon liquidation, dissolution or winding up of LSB, whether voluntary or involuntary, the Series E Redeemable Preferred ranks (i) senior to the common stock, the Series B 12% Cumulative Convertible Preferred Stock, the Series D 6% Cumulative Convertible Class C Preferred Stock, the Series 4 Junior Participating Class C Preferred Stock and any other class or series of stock of LSB (other than Series E Redeemable Preferred) that ranks junior to the Series E Redeemable Preferred either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation (the “Junior Stock”); (ii) on a parity with the other shares of Series E Redeemable Preferred and any other class or series of stock of LSB (other than Series E Redeemable Preferred) created after the date of the Series E COD (that specifically ranks pari passu to the Series E Redeemable Preferred) and (iii) junior to any other class or series of stock of LSB created after the date of the Series E COD that specifically ranks senior to the Series E Redeemable Preferred.

The Series E Redeemable Preferred has a 14% annual dividend rate and a participating right in dividends and liquidating distributions equal to 456,225 shares of common stock, which is equal to 2% of LSB’s outstanding common stock before the transaction was completed. Generally, the holders of the Series E Redeemable Preferred Shares (the “Series E Holders”) will not have any voting rights or powers, and consent of the Series E Holders will not be required for taking of any action by LSB. However, the Series E Holders’ consent is required for

- amendments to increase or decrease the authorized amount of Series E Redeemable Preferred,
- the creation or increase of any shares of any class or series of capital stock of LSB ranking pari passu with or senior to the Series E Redeemable Preferred, or
- any amendment that adversely affect the powers, preferences or special rights of the Series E Redeemable Preferred.

Dividends accrue semi-annually in arrears and are compounded. Dividends are payable only when and if declared by the Board of Directors (the “Board”).

Additionally, LSB must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with the common stock. As long as LSB Funding holds at least 10% of the Series E Redeemable Preferred, LSB may only declare dividends on Junior Stock unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. The Series E Redeemable Preferred has a liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value (the “Liquidation Preference”). The participation rights value is the product of the pro rata number of Series E Redeemable Preferred shares being redeemed and the price of our common stock as of such date.

At any time on or after August 2, 2019, each Series E Holder has the right to elect to have such holder’s shares redeemed by LSB at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. Additionally, LSB, at its option, 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, LSB 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.

13. Securities Financing Including Redeemable Preferred Stocks (continued)

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, the Company must make an offer to purchase all of the shares of Series E Redeemable Preferred outstanding.

The Series E Redeemable Preferred is redeemable outside of our control and is therefore classified as temporary/mezzanine equity. As a result of an analysis performed on the embedded derivatives within the Series E Redeemable Preferred, the redemption features were determined to not be clearly and closely related to the debt-like host and also did not meet any other scope exceptions for derivative accounting. Therefore, these redemption features are being accounted for as derivative instruments and the fair value of these derivative instruments were bifurcated from the Series E Redeemable Preferred and recorded as a liability. See discussion in Note 12.

Series F Redeemable Preferred

The Series F COD authorizes one (1) shares of Series F Redeemable Preferred. The Series F Redeemable Preferred has voting rights (the “Series F 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 4,559,971 shares of our common stock, which is equal to 19.99% of the number of outstanding shares of our common stock before the completion of the Private Placement; provided however, the number of votes that may be cast by the Series F Redeemable Preferred will be reduced automatically upon the occurrence of the following specified events:

- upon any exercise of the Warrants, the Series F Voting Rights shall be reduced by a number of votes equal to the number of shares of our common stock into which the Warrants are exercised,
- upon the redemption or exchange of each share of Series E for our common stock, the Series F Voting Rights shall be reduced by a number of shares of common stock equal to the amount specified in clauses (i) and (ii) of Participation Rights Value as specified in the Series E COD, and
- upon (A) expiration of the exercise period set forth in the Warrants or exercise in full of the Warrants and (B) redemption or exchange in full of all shares of Series E Redeemable Preferred for our common stock, cash or otherwise, the Series F Voting Rights shall be reduced to zero.

With respect to the distribution of assets upon liquidation, dissolution or winding up of LSB, whether voluntary or involuntary, the Series F Redeemable Preferred ranks (i) senior to our common stock and (ii) ranks junior to LSB’s Series B 12% Cumulative Convertible Preferred Stock, Series D 6% Cumulative Convertible Class C Preferred Stock, Series 4 Junior Participating Class C Preferred Stock, Series E Redeemable Preferred and any other class or series of stock of LSB after the date of the Series F COD that specifically ranks senior to the Series F Redeemable Preferred.

The Series F Redeemable Preferred will be automatically redeemed by LSB, in whole and not in part, for $0.01 immediately following the date upon which the Series F Voting Rights have been reduced to zero.

In the event of liquidation, the Series F Redeemable Preferred is entitled to receive its liquidation preference of $100 before any such distribution of assets or proceeds is made to or set aside for the holders of our common stock and any other stock junior to the Series F Redeemable Preferred.

	Series E Redeemable Preferred		Series F Redeemable Preferred	
	Shares	Amount	Shares	Amount
	(Dollars In Thousands)			
Balance at December 31, 2014	—	$ —	—	$ —
Issuance of redeemable preferred stock, net of discount and issuance costs of $10.6 million	210,000	174,299	1	—
Accretion relating to liquidation preference on preferred stock	—	467	—	—
Accretion for discount and issuance costs on preferred stock	—	219	—	—
Accumulated dividends	—	2,287	—	—
Balance at December 31, 2015	210,000	$ 177,272	1	$ —

13. Securities Financing Including Redeemable Preferred Stocks (continued)

Warrants

In connection with the Closing, LSB issued a Warrant to purchase our common stock (the "Warrant Agreement") to LSB Funding to purchase 4,103,746 shares of common stock. Each warrant affords the holder the opportunity to purchase one share of common stock at a warrant exercise price of $0.10. The Warrants expire on December 4, 2025.

The number of shares of our common stock for which a Warrant is exercisable, and the exercise price per share of such Warrant are subject to adjustment from time to time pursuant to Section 2 of the Warrant Agreement upon the occurrence of certain events, including the subdivision or combination of common stock or the issuance of a dividend to all holders of our common stock.

Upon the occurrence of certain events constituting a Fundamental Transaction (as defined therein) as a result of which the common stock would be converted into, changed into or exchanged for, stock, securities or other assets (including cash or any combination thereof), each holder of a Warrant will have the right to receive, upon exercise of a Warrant, an amount of securities, stock, securities or other assets received in connection with such event with respect to or in exchange for the number of shares of our common stock for which such Warrant is exercisable immediately prior to such event.

Registration Rights Agreement- Warrants

On December 4, 2015 (the date of closing), LSB entered into a registration rights agreement (the "Registration Rights Agreement-Warrants") relating to the registered resale of the common stock issuable upon exercise of the Warrants and certain other common stock. Pursuant to the Registration Rights Agreement-Warrants, we are required to file a registration statement for such registered resale within nine months from the date of closing, to permit the public resale of registrable securities then outstanding from time to time as permitted by Rule 415 under the Securities Act. We are required to use commercially reasonable efforts to cause the registration statement to become effective as soon as practicable thereafter.

Furthermore, the registration statement must be declared effective within twelve months after the date of closing by filing a post-effective amendment. If the exchange offer is not completed on or prior to the expiration of twelve months from the date of closing, LSB Funding is entitled to liquidated damages of 0.25% of the liquidated damages multiplier (the closing price of LSB's common stock as of the date of the calculation multiplied by the number of LSB's common stock issued upon the exercise of the Warrants, and other issuance events if applicable, and held by LSB Funding that may not be disposed of without restriction and without the need for current public pursuant to Rule 144 under the Securities Act) for the first 30 day period immediately following such default and an additional 0.25% with respect to each subsequent 30 day period, up to a maximum increase of 1.00%. In no event will the aggregate of all liquidated damages exceed 3.0% of the aggregate purchase price (the closing price of LSB's common stock as of the date of the calculation multiplied by the number of LSB's common stock issued upon the exercise of the Warrants, and other issuance events if applicable).

If such liquidated damages cannot be paid in cash, because such action would constitute a default under a credit facility or other debt instrument, then payment consisting of as much cash as possible in compliance with the aforementioned conditions would be required. The balance of any compensatory liquidated damages would be paid in full in the form of the issuance of additional common stock.

In certain circumstances, the warrants' purchaser(s) may have piggyback registration rights and rights to request an underwritten offering. Such parties will cease to have registration rights on the later of the tenth anniversary of the closing date or the date on which the registrable securities cease to be registrable securities.

Amendment to Renewed Rights Agreement

Pursuant to the Securities Purchase Agreement, on December 4, 2015, LSB and UMB Bank, as rights agent, entered into an amendment to the renewed rights agreement as discussed under "Preferred Share Rights Plan" in Note 14 – Stockholders Equity.

14. Stockholders' Equity

2008 Stock Incentive Plan - During 2014, our stockholders approved an amendment to our Incentive Stock Plan (the "2008 Plan"). As amended, the total number of shares of our common stock for which awards may be granted under the 2008 Plan is 1,975,000 shares, subject to adjustment. Under the 2008 Plan, awards may be made to any employee, officer or director of the Company and its affiliated companies. An award may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to the Company or any affiliate (as defined in the 2008 Plan), subject to certain conditions. The 2008 Plan is being administered by the compensation and stock option committee (the "Committee") of our Board.

Our Board or the Committee may amend the 2008 Plan, except that if any applicable statute, rule or regulation requires shareholder approval with respect to any amendment of the 2008 Plan, then to the extent so required, shareholder approval will be obtained. Shareholder approval will also be obtained for any amendment that would increase the number of shares stated as available for issuance under the 2008 Plan. Unless sooner terminated by our Board, the 2008 Plan expires on June 5, 2018.

The following may be granted by the Committee under the 2008 Plan:

Stock Options - The Committee may grant either incentive stock options or non-qualified stock options. The Committee sets option exercise prices and terms, except that the exercise price of a stock option may be no less than 100% of the fair market value, as defined in the 2008 Plan, of the shares on the date of grant. At the time of grant, the Committee will have sole discretion in determining when stock options are exercisable and when they expire, except that the term of a stock option cannot exceed 10 years.

Stock Appreciation Rights ("SARs") - The Committee may grant SARs as a right in tandem with the number of shares underlying stock options granted under the 2008 Plan or on a stand-alone basis. SARs are the right to receive payment per share of the SAR exercised in stock or in cash equal to the excess of the share's fair market value, as defined in the 2008 Plan, on the date of exercise over its fair market value on the date the SAR was granted. Exercise of a SAR issued in tandem with stock options will result in the reduction of the number of shares underlying the related stock option to the extent of the SAR exercise.

Stock Awards, Restricted Stock, Restricted Stock Units, and Other Awards - The Committee may grant awards of restricted stock, restricted stock units, and other stock and cash-based awards, which may include the payment of stock in lieu of cash (including cash payable under other incentive or bonus programs) or the payment of cash (which may or may not be based on the price of our common stock).

Outside Director Stock Option Plan - In addition to the 2008 Plan discussed above, we have an Outside Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of our Board who is not an officer or employee of LSB or its subsidiaries.

The Outside Director Plan also provides that each outside director may elect to receive all or any portion of his or her director fee for services rendered as a director of LSB in shares of LSB's common stock, provided that the outside director elects to receive shares in payment of his or her director fee each calendar quarter.

Stock Incentive Plans - At December 31, 2015, we have options outstanding under the 2008 Plan as discussed above. As it relates to stock options, exercise price of the outstanding options granted under the 2008 Plan was equal to the market value of our common stock at the date of grant.

14. Stockholders' Equity (continued)

Amounts disclosed within this note include amounts attributable to our discontinued operations, unless otherwise noted.

The following information relates to our stock option plans:

	December 31, 2015	
	2008 Plan	Outside Director Plan
Maximum number of securities for issuance	1,975,000	400,000
Number of awards available to be granted	797,890	278,456
Number of options outstanding (1)	802,780	—
Number of options exercisable (2)	232,925	—

(1) Includes 211,025 options associated with employees in our discontinued operations.

(2) Includes 80,240 options associated with employees in our discontinued operations.

In addition to our stock option plans, in 2006 our stockholders approved the grant of 450,000 shares of stock options (the "2006 Options") to certain Climate Control Business employees. The exercise price of the 2006 Options is $8.01 per share. At December 31, 2015, there were 40,000 options outstanding related to the 2006 Options, of which 20,000 are exercisable.

Restricted Stock - On December 31, 2015 the Committee approved the grants under the 2008 Plan of 584,959 shares of restricted stock ("2015 Restricted Stock") to certain executives, of which a portion of these awards immediately vested as of the grant date. The non-vested 2015 Restricted Stock carry dividend and voting rights. Sales of these shares are restricted prior to the date of vesting. Excluding the shares that immediately vested, the 2015 Restricted Stock vest at the end of each one-year period at the rate of one-third per year for three years. The fair value of the 2015 Restricted Stock was $4,200,000, or $7.18 per share, which was the market value of our common stock at the date of grant. Pursuant to the terms of the 2015 Restricted Stock agreements, unvested restricted shares will immediately vest upon the occurrence of a change in control (as defined by agreement), termination without cause or death. In 2015, stock-based compensation expense (SG&A) related to restricted stock was $405,000 (not applicable for 2014 and 2013), which was also the fair value of the restricted stock that vested. The total income tax benefit related to these grants was approximately $156,000.

The following information relates to our restricted stock:

	2015 Shares
Unvested restricted stock outstanding at beginning of year	—
Granted	584,959
Vested	(56,406)
Cancelled or forfeited	—
Unvested restricted stock outstanding at end of year	528,553

Stock-Options - During 2015, the Committee approved the grants under the 2008 Plan of 135,000 shares of stock options (the "2015 Options") to certain employees, which grants included 5,000 shares of stock options related to discontinued operations. During 2014, the Committee approved the grants under the 2008 Plan of 489,000 shares of stock options (the "2014 Options") to certain employees, which grants included 119,000 shares of stock options related to discontinued operations. The exercise price of the 2015 Options and the 2014 Options was equal to the market value of our common stock at the date of grant. The 2015 Options and 2014 Options vest at the end of each one-year period at the rate of 16.5% per year for the first five years and the remaining unvested options will vest at the end of the sixth year. The 2015 Options and the 2014 Options expire in 2025 and 2024, respectively. The fair value for the 2015 Options and the 2014 Options was estimated, using an option pricing model, as of the date of the grant, which date was also the service inception date. During 2013, the Committee did not grant any awards under the 2008 Plan.

14. Stockholders' Equity (continued)

The fair value for the 2015 Options and the 2014 Options was estimated using a Black-Scholes-Merton option pricing model with the following assumptions:

- risk-free interest rate based on an U.S. Treasury zero-coupon issue with a term approximating the estimated expected life as of the grant date;
- a dividend yield based on historical data;
- volatility factors of the expected market price of our common stock based on historical volatility of our common stock primarily over approximately six years from the date of grant; and
- a weighted-average expected life of the options based on the historical exercise behavior of these employees and outside director, if applicable.

The following table summarizes information about these granted stock options:

	2015	2014	2013
Weighted-average risk-free interest rate	**1.73%**	1.83%	N/A
Dividend yield	**—**	—	N/A
Weighted-average expected volatility	**38.32%**	45.18%	N/A
Total weighted-average expected forfeiture rate	**0.00%**	7.88%	N/A
Weighted-average expected life (years)	**5.11**	5.90	N/A
Total weighted-average remaining vesting period in years (1)	**6.53**	5.83	2.45
Total fair value of options granted for continuing operations (2)	**$ 1,853,000**	$ 5,518,000	N/A
Stock-based compensation expense - Cost of sales for continuing operations (1) (3)	**$ 303,000**	$ 139,000	$ 111,000
Stock-based compensation expense - SG&A for continuing operations (1) (4)	**$ 1,410,000**	$ 636,000	$ 338,000
Income tax benefit for continuing operations (1) (5)	**$ (662,000)**	$ (302,000)	$ (175,000)

(1) Information relates to stock options granted since 2006.

(2) Approximately $62,000 and $1,744,000 for 2015 and 2014, respectively is included in discontinued operations.

(3) Approximately $126,000, $116,000, and $116,000, for 2015, 2014 and 2013, respectively is included in discontinued operations.

(4) Approximately $508,000, $1,024,000, and $977,000, for 2015, 2014 and 2013, respectively is included in discontinued operations.

(5) Approximately $(244,000), $(445,000), and $(426,000), for 2015, 2014 and 2013, respectively is included in discontinued operations.

At December 31, 2015, the total stock-based compensation expense not yet recognized is $11,626,000, (of which $2,027,000 relates to discontinued operations), relating to non-vested restricted stock and stock options, which we will be amortizing (subject to adjustments for forfeitures) through the respective remaining vesting periods.

14. Stockholders' Equity (continued)

The following information relates to our stock options:

	2015	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**955,848**	**$ 27.09**
Granted	**135,000**	**$ 38.73**
Exercised	**(159,348)**	**$ 11.20**
Forfeited or expired	**(88,720)**	**$ 27.29**
Outstanding at end of year	**842,780**	**$ 31.93**
Exercisable at end of year	**252,925**	**$ 28.13**

	2015	2014	2013
Weighted-average fair value per option granted during year	**$ 14.19**	$ 14.85	N/A
Total intrinsic value of options exercised during the year	**$ 4,292,000**	$ 3,461,000	$ 2,970,000
Total fair value of options vested during the year	**$ 2,411,000**	$ 1,502,000	$ 1,565,000

	Stock Options Outstanding At December 31, 2015				
Exercise Prices	Shares Outstanding		Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding (A)
$ 7.86 - $ 8.01	**57,525**	**(B)**	**1.41**	**$ 7.96**	**—**
$ 9.69 - $ 9.97	**19,920**	**(C)**	**2.83**	**$ 9.70**	**—**
$ 29.99 - $ 34.50	**655,335**	**(D)**	**7.90**	**$ 33.45**	**—**
$ 36.78 - $ 42.65	**110,000**		**9.55**	**$ 39.45**	**—**
$ 7.86 - $ 42.65	**842,780**		**7.55**	**$ 31.93**	**$ —**

	Stock Options Exercisable At December 31, 2015				
Exercise Prices	Shares Outstanding		Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding (A)
$ 7.86 - $ 8.01	**37,525**	**(E)**	**1.76**	**$ 7.94**	**$ —**
$ 9.69 - $ 9.97	**19,920**	**(F)**	**2.83**	**$ 9.70**	**—**
$ 29.99 - $ 34.50	**195,480**	**(G)**	**6.95**	**$ 33.88**	**—**
$ 36.78 - $ 42.65	**—**		**—**	**$ —**	**—**
$ 7.86 - $ 42.65	**252,925**		**5.85**	**$ 28.13**	**$ —**

(A) The exercise price of all stock options exceeded the market value of our common stock as of December 31, 2015.

(B) Includes 40,000 options associated with discontinued operations.

(C) Includes 6,215 options associated with discontinued operations.

(D) Includes 164,810 options associated with discontinued operations.

(E) Includes 20,000 options associated with discontinued operations.

(F) Includes 6,215 options associated with discontinued operations.

(G) Includes 54,025 options associated with discontinued operations.

14. Stockholders' Equity (continued)

Preferred Share Rights Plan - On January 5, 2009, a renewed shareholder rights plan (the "Renewed Rights Agreement") became effective upon the expiration of our previous shareholder rights plan. Pursuant to the Securities Purchase Agreement as discussed in Note 13 **–** Securities Financing, on December 4, 2015, LSB and UMB, as rights agent, entered into an amendment (the "Amendment") to the Renewed Rights Agreement. The Amendment amends the definition of "Acquiring Person" to exclude the Purchaser and its Affiliates and Associates (as defined therein) in order to permit the issuance of the Securities discussed in Note 13, and additional securities issuable to the Purchaser as contemplated by the terms of the Securities, without triggering the issuance of Series 4 Junior Participating Class C Preferred Stock. The Renewed Rights Agreement will impact a potential acquirer unless the acquirer negotiates with our Board and the Board approves the transaction. Pursuant to the renewed plan, one preferred share purchase right (a "Right") is attached to each currently outstanding or subsequently issued share of our common stock. Prior to becoming exercisable, the Rights trade together with our common stock. In general, if a person or group acquires or announces a tender or exchange offer for 15% or more of our common stock (except for the Golsen Holders and certain other limited excluded persons, as amended), then the Rights become exercisable. Each Right entitles the holder (other than the person or group that triggers the Rights being exercisable) to purchase from us one one-hundredth of a share of Series 4 Junior Participating Preferred Stock, no par value (the "Preferred Stock"), at an exercise price of $47.75 per one one-hundredth of a share, subject to adjustment. If a person or group acquires 15% or more of our common stock, each Right will entitle the holder (other than the person or group that triggered the Rights being exercisable) to purchase shares of our common stock (or, in certain circumstances, cash or other securities) having a market value of twice the exercise price of a Right at such time. Under certain circumstances, each Right will entitle the holder (other than the person or group that triggered the Rights being exercisable) to purchase the common stock of the acquirer having a market value of twice the exercise price of a Right at such time. In addition, under certain circumstances, our Board may exchange each Right (other than those held by the acquirer) for one share of our common stock, subject to adjustment. Our Board may redeem the Rights at a price of $0.01 per Right generally at any time before 10 days after the Rights become exercisable. Our Board may exchange all or part of the Rights (except to the person or group that triggered the Rights being exercisable) for our common stock at an exchange ratio of one common share per Right until the person triggering the Right becomes the beneficial owner of 50% or more of our common stock.

Other – As of December 31, 2015, we have reserved 6.4 million shares of common stock issuable upon potential conversion of preferred stocks, equity awards and warrants pursuant to their respective terms.

15. Non-Redeemable Preferred Stock

Series Non-Redeemable B Preferred - The 20,000 shares of Series B 12% cumulative, convertible preferred stock ("Series B Preferred"), $100 par value, are convertible, in whole or in part, into 666,666 shares of our common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitle the holder to one vote per share. The Series B Preferred provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. All of the outstanding shares of the Series B Preferred are owned by the Golsen Holders.

Series Non-Redeemable D Preferred - The 1,000,000 shares of Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") have no par value and are convertible, in whole or in part, into 250,000 shares of our common stock (1 share of common stock for 4 shares of preferred stock) at any time at the option of the holder. Dividends on the Series D Preferred are cumulative and payable annually in arrears at the rate of 6% per annum of the liquidation preference of $1.00 per share. Each holder of the Series D Preferred shall be entitled to .875 votes per share. All of the outstanding shares of Series D Preferred are owned by the Golsen Holders.

Cash Dividends Paid – During 2015, 2014 and 2013, we paid the following annual cash dividends on our non-redeemable preferred stock in each of the respective year:

- $240,000 on the Series B Preferred ($12.00 per share) and
- $60,000 on the Series D Preferred ($0.06 per share).

At December 31, 2015, the amount of accumulated dividends on the Series B and Series D Preferred totaled approximately $78,000.

Other - At December 31, 2015, we are authorized to issue an additional 230,000 shares of $100 par value preferred stock and an additional 3,790,000 shares of no par value preferred stock. Upon issuance, our Board will determine the specific terms and conditions of such preferred stock.

16. Executive Benefit Agreements and Employee Savings Plans

We are party to individual benefit agreements ("1992 Agreements") with certain key current and former executives, death benefit agreements ("1981 Agreements") with certain key executives, and a death benefit agreement ("2005 Agreement") with our Executive Chairman. The 1992 Agreements provide for annual benefit payments for life (in addition to salary) payable in monthly installments when the employee reaches age 65. In addition, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement a monthly amount as specified in the agreement over a ten-year period. These benefits are forfeited if the respective executive's employment is terminated prior to age 65 for any reason other than death. The 1992 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

The 1981 Agreements provide for death benefits should the executive die while employed. Upon such of an event, we will pay the beneficiary named in the agreement a monthly amount as specified in the agreement over a ten-year period. These benefits are forfeited if the respective executive's employment is terminated for any reason prior to death. The 1981 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

The 2005 Agreement provides that, upon our Executive Chairman's death, we will pay to our Executive Chairman's designated beneficiary, a lump-sum payment of $2,500,000 to be funded from the net proceeds received by us under certain life insurance policies on our Executive Chairman's life that are owned by us. We are obligated to keep in existence life insurance policies with a total face amount of no less than $2,500,000 of the stated death benefit. The benefit under the 2005 Agreement is not contingent upon continued employment and may be amended at any time by written agreement executed by the Executive Chairman and the Company.

The following table includes information about these agreements:

	December 31, 2015	December 31, 2014
	(In Thousands)	
Total undiscounted death benefits	**$ 4,501**	$ 6,417
Total accrued death benefits	**$ 4,040**	$ 4,054
Total undiscounted executive benefits	**$ 913**	$ 1,900
Total accrued executive benefits	**$ 564**	$ 1,363

	2015	December 31, 2014	2013
		(In Thousands)	
Costs (recovery of costs) associated with executive benefits included in SG&A, net (1)	**$ (561)**	$ 166	$ (2)

(1) During 2015, the employment of certain executives, subject to the provisions of the 1981 and 1992 Agreements, were terminated, resulting in the forfeiture of the respective benefits. As a result of these events, the accrual for these estimated benefits was derecognized resulting in a net recovery of costs associated with executive benefits.

Accrued death and executive benefits under the above agreements are included in current and noncurrent accrued and other liabilities. We accrue for such liabilities when they become probable and discount the liabilities to their present value.

To assist us in funding the benefit agreements discussed above and for other business reasons, we purchased life insurance policies on various individuals in which we are the beneficiary. Some of these life insurance policies have cash surrender values that we have borrowed against. The net cash surrender values of these policies are included in other assets.

16. Executive Benefit Agreements and Employee Savings Plans (continued)

The following table summarizes certain information about these life insurance policies.

	December 31, 2015	December 31, 2014
	(In Thousands)	
Total face value of life insurance policies	**$ 21,242**	$ 26,242
Total cash surrender values of life insurance policies	**$ 5,007**	$ 6,936
Loans on cash surrender values	**(1,288)**	—
Net cash surrender values	**$ 3,719**	$ 6,936

	2015	2014	2013
		(In Thousands)	
Cost of life insurance premiums	**$ 1,040**	$ 1,077	$ 1,006
Increases in cash surrender values	**(586)**	(714)	(681)
Net cost of life insurance premiums included in SG&A	**$ 454**	$ 363	$ 325

Employee Savings Plans - We sponsor a savings plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. We do not presently contribute to this plan except for certain employees, which amounts were not material for each of the three years ended December 31, 2015.

Collective Bargaining Agreements - As of December 31, 2015, we employed 669 persons, 197 of whom are represented by unions under agreements, which will expire in November of 2016 through October of 2018.

17. Other Expense, Income and Non-Operating Other Income, net

	2015	2014	2013
		(In Thousands)	
Other expense:			
Realized and unrealized losses on contractual obligations associated with carbon credits	**2,759**	2,799	1,233
Losses on sales and disposals of property and equipment	**11**	1,327	728
Dismantle and demolition expense (1)	**—**	559	2,578
Miscellaneous penalties	**130**	10	818
Miscellaneous expense	**493**	14	257
Total other expense	**$ 3,393**	$ 4,709	$ 5,614
Other income:			
Realized and unrealized gains on carbon credits	**$ 3,663**	$ 3,089	$ 1,233
Settlements of litigation and potential litigation (2)	**311**	—	545
Miscellaneous income	**1,206**	576	312
Total other income	**$ 5,180**	$ 3,665	$ 2,090
Other expense (income), net	**$ (1,787)**	$ 1,044	$ 3,524
Non-operating other expense (income), net:			
Interest income	**$ (391)**	$ (301)	$ (42)
Miscellaneous income	**—**	—	(1)
Loss on embedded derivative and other expense	**520**	20	66
Total non-operating other expense (income), net	**$ 129**	$ (281)	$ 23

(1) Amounts relate to the dismantling and demolition of certain plant and equipment at our facilities.

(2) Amount relates primarily to settlements reached with certain of our vendors.

18. Segment Information

Given that the operations of our Climate Control Business have been reclassified from continuing operations and reported as discontinued operations, we operate in one reportable segment – our Chemical Business. The chemical products we primarily manufacture, market and sell are as follows:

- ammonia, fertilizer grade AN, UAN, and AN ammonia solution for agricultural applications,
- high purity and commercial grade ammonia, high purity AN, sulfuric acids, concentrated, blended and regular nitric acid, mixed nitrating acids, carbon dioxide, and diesel exhaust fluid for industrial applications, and
- industrial grade AN and solutions for the mining industry.

Our chemical facilities are located in El Dorado, Arkansas; Cherokee, Alabama; Pryor, Oklahoma; and Baytown, Texas. Sales to customers include farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the United States; industrial users of acids throughout the United States and parts of Canada; and explosive manufacturers in the United States.

Our other products consist of natural gas sales from our working interests in certain natural gas properties and sales of industrial machinery and related components. For 2015, 2014 and 2013, these sales totaled $12.9 million, $24.5 million and $21.7 million, respectively. For 2015, we incurred a net loss of $42.8 million from our working interests in natural gas properties. This net loss consisted of $3.4 million in net sales less $6.3 million of cost of sales (DD&A of $5.2 million and production costs of $1.1 million), $0.2 million of SG&A and a non-cash impairment charge of $39.7 million.

All net sales and long-lived assets relate to domestic operations for the periods presented and our net sales are to U.S. customers.

Net sales to unaffiliated customers are to U.S. customers except foreign export sales as follows:

Geographic Area	2015	2014	2013
		(In Thousands)	
Canada	**$ 2,711**	$ 1,358	$ 2,299
Other	**1,006**	798	685
	$ 3,717	$ 2,156	$ 2,984

In general, foreign export sales are attributed based upon the location of the customer.

Major Customers

Net sales to one customer, Covestro represented approximately 15%, 14% and 15% of our total net sales for 2015, 2014 and 2013, respectively. Net sales to one customer, Koch represented approximately 12%, 7% and 7% of our total net sales for 2015, 2014 and 2013, respectively.

19. Related Party Transactions

In 2015, 2014 and 2013, we paid annual dividends totaling $300,000 on our Series B Preferred and our Series D Preferred. The Series B Preferred and Series D Preferred are non-redeemable preferred stocks issued in 1986 and 2001, respectively, of which all outstanding shares are owned by the Golsen Holders.

20. Supplemental Cash Flow Information

The following provides additional information relating to cash flow activities:

	2015	2014	2013
		(In Thousands)	
Cash payments (refunds) for:			
Interest on long-term debt and other, net of capitalized interest	**$ 5,389**	$ 21,063	$ 429
Income taxes, net	**$ (5,845)**	$ (3,999)	$ 13,320
Noncash investing and financing activities:			
Accounts receivable, accounts payable, other liabilities, and long-term debt associated with additions of property, plant and equipment	**$ 65,471**	$ 34,631	$ 14,374
Accounts payable, long-term debt associated with additions of capitalized internal-use software and software development	**$ 2,242**	$ 5,303	$ 4,011
Equity issuance costs, including amounts in accounts payable	**$ 9,754**	$ —	$ —
Dividend accrued on redeemable preferred stock	**$ 2,287**	$ —	$ —
Accretion of redeemable preferred stock	**$ 686**	$ —	$ —
Debt issuance costs incurred associated with senior secured notes, including amounts in accounts payable	**$ 2,566**	$ —	$ 6,498
Secured term loan extinguished	**$ —**	$ —	$ 66,563
Prepayment premium incurred associated with secured term loan	**$ —**	$ —	$ 666
Debt issuance costs written off associated with secured term loan	**$ —**	$ —	$ 630
Insurance claims receivable associated with property, plant and equipment	**$ —**	$ —	$ 249

21. Property and Business Interruption Insurance Claims and Recoveries

El Dorado Facility

On May 15, 2012, the El Dorado Facility suffered significant damage when a reactor in its 98% strength nitric acid plant ("DSN plant") exploded. No employees or individuals in the surrounding area were seriously injured as a result of the explosion. In addition, several other plants and infrastructure within the El Dorado Facility sustained various degrees of damage. Our insurance policy provided for repair or replacement cost coverage relating to property damage with a $1.0 million deductible and provided for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period. We concluded that due to the extensive damage, the DSN plant should not be repaired but should be replaced with a new 65% strength nitric acid plant and a separate nitric acid concentrator.

In October 2013, we settled these claims with our insurance carriers for the aggregate amount of $113 million. For financial reporting purposes, we allocated $90.7 million to our property insurance claim and $22.3 million to our business interruption claim primarily based on negotiations with our insurance carriers concerning our claims.

The $90.7 million allocated to the property insurance claim was partially applied against the recoverable costs totaling $24.7 million. The insurance recovery in excess of the recoverable costs of $66.0 million was recognized as property insurance recoveries in excess of losses incurred in 2013.

The insurance recovery of $22.3 million allocated to the business interruption claim was recognized as a reduction to cost of sales ($15.0 million in 2013 and $7.3 million in 2012) consisting of recoverable costs (primarily relating to additional expenses associated with purchased product sold to our customers while certain of our nitric and sulfuric acid plants were being repaired) and certain lost profits.

Cherokee Facility

On November 13, 2012, a pipe ruptured within our Cherokee Facility causing damage primarily to the heat exchanger portion of its ammonia plant. No serious injuries or environmental impact resulted from the pipe rupture. As a result of the damage, the Cherokee Facility could only produce, on a limited basis, nitric acid and AN solution from purchased ammonia until the repairs were completed. Our insurance policy provided, for the policy period covering this claim, for repair or replacement cost coverage relating to property damage with a $2.5 million deductible and provided for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period. As a result of this event, a notice of insurance claims for property damage and business interruption was filed with the insurance carriers.

In 2013, we received business interruption insurance recovery of $15 million and was applied against recoverable costs (primarily relating to additional expenses associated with purchased product sold or used in products sold to our customers while our facility was being repaired) totaling $13.6 million as a reduction to cost of sales. The insurance recovery in excess of recoverable costs of $1.4 million was deferred (included in deferred gain on insurance recoveries at December 31, 2013) since this amount relates to lost profits, which is considered a gain contingency.

In January 2014, we settled the claim with our insurance carriers for the aggregate amount of approximately $43.5 million (of which approximately $36.5 million relates to the business interruption claim), comprised of $15 million previously paid to us in 2013 and $28.5 million paid to us in 2014. The $43.5 million settlement amount is net of our $2.5 million property insurance deductible. As a result, an insurance recovery of approximately $28 million was recognized as income associated with this settlement in 2014.

22. Subsequent Events

Secured Promissory Note Amendment - On February 1, 2013, Zena Energy L.L.C. ("Zena"), one of our subsidiaries, entered into a loan (the "Secured Promissory Note") with a lender in the original principal amount of $35 million. The Secured Promissory Note followed the original acquisition by Zena of working interests ("Working Interests") in certain natural gas properties during October 2012. The proceeds of the Secured Promissory Note effectively financed $35 million of the approximately $50 million purchase price of the Working Interests previously paid out of LSB's working capital. The Secured Promissory Note maturity date was amended on January 5, 2016 from February 1, 2016 to April 1, 2016.

Principal and interest are payable in two monthly installments totaling approximately $1.3 million with interest based on the LIBOR rate plus 300 basis points with a final balloon payment of $14.0 million due at maturity. The interest rate at December 31, 2015 was 3.42%. The loan is secured by the Working Interests and related properties and proceeds.

Secured Promissory Note due 2019 - On February 5, 2016, El Dorado Chemical Company, one of our subsidiaries, entered into a secured promissory note due 2019 for an original principal amount of $10.0 million. The secured promissory note due 2019 bears interest at the rate of 5.73% per annum and matures on June 29, 2019. Principal and interest are payable in 40 equal monthly installments with a final balloon payment of approximately $6.7 million. The Secured Promissory Note due 2019 is secured by the cogeneration facility equipment and is guaranteed by LSB. Our agreement allows us to secure up to an additional $10 million in financing on the cogeneration facility equipment.

LSB Industries, Inc.

Supplementary Information

Quarterly Financial Data (unaudited)

Summarized unaudited quarterly financial data for 2015 and 2014 are as follows. Previously reported quarterly amounts have been revised to reflect the retrospective application of the classification of the Climate Control Business as a discontinued operation. See Note – 2 Discontinued Operations for additional information.

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Amounts)			
2015 (1) (2) (3)				
Net sales	$ 133,600	$ 125,503	$ 88,567	$ 90,025
Gross profit (loss) (4)	$ 20,799	$ 12,616	$ (11,798)	$ (1,569)
Income (loss) from continuing operations (4) (5) (6)	$ 4,237	$ (2,874)	$ (36,421)	$ (11,088)
Income from discontinued operations, including taxes	2,412	3,291	2,658	3,020
Net income (loss)	$ 6,649	$ 417	$ (33,763)	$ (8,068)
Net income (loss) attributable to common stockholders	$ 6,349	$ 417	$ (33,763)	$ (11,041)
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.17	$ (0.13)	$ (1.60)	$ (0.61)
Income from discontinued operations, including taxes	0.11	0.15	0.12	0.13
Net income (loss)	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
Diluted:				
Income (loss) from continuing operations	$ 0.17	$ (0.13)	$ (1.60)	$ (0.61)
Income from discontinued operations, including taxes	0.11	0.15	0.12	0.13
Net income (loss)	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
2014 (1) (2) (3)				
Net sales	$ 125,033	$ 147,995	$ 104,375	$ 118,485
Gross profit (loss) (4)	$ 28,177	$ 28,950	$ (912)	$ 9,250
Income (loss) from continuing operations (4) (5) (6)	$ 8,851	$ 8,110	$ (9,157)	$ (2,717)
Income from discontinued operations, including taxes	2,790	3,003	5,380	3,374
Net income (loss)	$ 11,641	$ 11,113	$ (3,777)	$ 657
Net income (loss) attributable to common stockholders	$ 11,341	$ 11,113	$ (3,777)	$ 657
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.38	$ 0.36	$ (0.41)	$ (0.12)
Income from discontinued operations, including taxes	0.12	0.13	0.24	0.15
Net income (loss)	$ 0.50	$ 0.49	$ (0.17)	$ 0.03
Diluted:				
Income (loss) from continuing operations	$ 0.37	$ 0.34	$ (0.41)	$ (0.12)
Income from discontinued operations, including taxes	0.12	0.13	0.24	0.15
Net income (loss)	$ 0.49	$ 0.47	$ (0.17)	$ 0.03

(1) As discussed in Note - 1 to Consolidated Financial Statements contained in this exhibit, prior periods have been adjusted relating to certain shipping and handling costs. The following table in footnote (2) reconciles net sales and gross profit as previously reported (these adjustments did not impact income (loss) from continuing operations).

(2) As discussed in Notes 1 and 2 to Consolidated Financial Statements contained in this exhibit, previously reported amounts have been adjusted to reclassify our Climate Control Business as discontinued operations.

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Net sales:				
2015:				
As previously reported	$ 193,858	$ 182,659	$ 157,685	$ 157,021
Adjustments (1)	$ 4,940	$ 9,686	$ 5,932	$ —
Adjustments (2)	$ (65,198)	$ (66,842)	$ (75,050)	$ (66,996)
As adjusted	$ 133,600	$ 125,503	$ 88,567	$ 90,025
2014:				
As previously reported	$ 178,525	$ 201,662	$ 171,046	$ 181,277
Adjustments (1)	$ 6,857	$ 9,084	$ 6,814	$ 5,981
Adjustments (2)	$ (60,349)	$ (62,751)	$ (73,485)	$ (68,773)
As adjusted	$ 125,033	$ 147,995	$ 104,375	$ 118,485
Gross profit:				
2015:				
As previously reported	$ 42,359	$ 34,882	$ 13,279	$ 19,070
Adjustments (1)	$ (1,598)	$ (2,185)	$ (2,099)	$ —
Adjustments (2)	$ (19,962)	$ (20,081)	$ (22,978)	$ (20,639)
As adjusted	$ 20,799	$ 12,616	$ (11,798)	$ (1,569)
2014:				
As previously reported	$ 48,722	$ 48,869	$ 24,386	$ 31,378
Adjustments (1)	$ (1,289)	$ (1,424)	$ (1,444)	$ (1,324)
Adjustments (2)	$ (19,256)	$ (18,495)	$ (23,854)	$ (20,804)
As adjusted	$ 28,177	$ 28,950	$ (912)	$ 9,250
Income (loss) from discontinued operations:				
2015:				
As previously reported	$ (30)	$ (3)	$ (4)	$ (21)
Adjustments (2)	$ 2,442	$ 3,294	$ 2,662	$ 3,041
As adjusted	$ 2,412	$ 3,291	$ 2,658	$ 3,020
2014:				
As previously reported	$ (2)	$ (21)	$ (5)	$ (61)
Adjustments (2)	$ 2,792	$ 3,024	$ 5,385	$ 3,435
As adjusted	$ 2,790	$ 3,003	$ 5,380	$ 3,374

(3) We have encountered a number of significant issues that impacted 2015 and 2014, including the impact on production relating to an explosion in one of our nitric acid plants at the El Dorado Facility in May 2012, which replacement construction was completed during 2015, unplanned downtime at the Cherokee Facility, and numerous mechanical issues at the Pryor Facility, all resulting in lost production and significant adverse effect on 2015 and 2014 operating results.

(4) The following income (expense) items impacted gross profit and income (loss) from continuing operations:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Business interruption insurance recoveries:				
2014	$ 22,836	$ —	$ —	$ —
Undesignated commodities contracts:				
2015	$ (1,829)	$ 185	$ (1,014)	$ (718)
2014	$ 2,216	$ (105)	$ (214)	$ (2,844)
Turnaround costs: (A)				
2015	$ (152)	$ —	$ (2,101)	$ (55)
2014	$ (330)	$ (840)	$ (5,215)	$ (105)

(5) The following income items impacted income (loss) from continuing operations:

	March 31	June 30	September 30	December 31
Property insurance recoveries:				
2014	$ 5,147	$ —	$ —	$ —

(6) The following expense items impacted income (loss) from continuing operations:

	March 31	June 30	September 30	December 31
Impairment of long lived assets				
2015	$ —	$ —	$ 39,670	$ 3,518
Shareholder related fees and expenses primarily relating to certain activist shareholders' proposals:				
2015	$ 1,679	$ 2,655	$ 113	$ 155
2014	$ 4,200	$ 262	$ 230	$ 151
Interest expense, net:				
2015	$ 3,397	$ 2,229	$ 872	$ 873
2014	$ 6,708	$ 5,671	$ 5,079	$ 4,141
Severance agreements with certain former executives				
2015	$ —	—	$ 1,789	$ 224

(A) Turnaround costs do not include the impact on operating results relating to lost absorption or reduced margins due to the associated plants being shut down.

Supplemental Natural Gas Disclosures

During 2015 we did not have any exploratory wells or related costs.

The following unaudited information regarding our gas reserves has been prepared and is presented pursuant to requirements of the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB).

One of our subsidiaries owns working interests in certain natural gas properties, all of which are located in Wyoming County, Pennsylvania, within the Marcellus Shale. Our ownership of working interests in natural gas properties is accounted for as an undivided interest, whereby we reflect our proportionate share of the underlying assets, liabilities, revenues and expenses. Our working interest represents our share of the costs and expenses incurred primarily to develop the underlying leaseholds and to produce natural gas while our net revenue interest represents our share of the revenues from the sale of natural gas. The net revenue interest is less than our working interest as the result of royalty interest due to others. We are not the operator of these natural gas properties. We purchase a significant amount of natural gas as a feedstock for the production of ammonia. Management considers this acquisition as an economic hedge against a potential rise in natural gas prices in the future for a portion of our future natural gas production requirements.

Our natural gas reserves are based on estimates and assumptions, which affect our DD&A calculations. Our independent consulting petroleum engineer, with our assistance, prepares estimates of natural gas reserves based on available relevant data and information. For DD&A purposes, and as required by the guidelines and definitions established by the SEC, the reserve estimates are based on average natural gas prices during the 12-month period, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month.

Our proven natural gas properties are reviewed for impairment on a field-by-field basis and nonproducing leasehold costs are reviewed for impairment on a property-by-property basis.

During September 2015, we recognized an impairment charge of $39.7 million to write-down the carrying value of our working interest in natural gas properties in the Marcellus Shale region to their estimated fair value of $22.5 million. The impairment charge represented the amount by which the carrying value of these natural gas properties exceeded the estimated fair value and was therefore deemed impaired. The estimated fair value was determined based on estimated future discounted net cash flows, a Level 3 input, using estimated production and prices at which we reasonably expect natural gas will be sold, including information provided by our independent consulting petroleum engineer. The impairment was due to the decline in forward prices for natural gas, large natural gas price differentials in the Marcellus Shale region and changes in the drilling plans of these natural gas properties.

The independent consulting petroleum engineering firm of Pinnacle Energy Services of Oklahoma City, Oklahoma calculated the Company's natural gas reserves as of December 31, 2015 using volumetric analysis of the reservoir and rate decline analysis for existing producers. (See exhibit 23.2 and exhibit 99.1 included in this report). The process of estimating proved reserves and future net cash flows is complex involving decisions and assumptions in evaluating the available engineering and geologic data and prices natural gas and the cost to produce these reserves and other factors, many of which are beyond our control. As a result, these estimates are imprecise and should be expected to change as future information becomes available. These changes could be significant. In addition, this information should not be construed as being the current fair market value of our proved reserves.

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

Supplemental Natural Gas Disclosures (continued)

Capitalized costs related to our oil and gas producing activities are as follows:

Capitalized Costs Relating to
Natural Gas Producing Activities
At December 31, 2015
(In thousands)

Proved natural gas properties	$	76,277
Accumulated depreciation, depletion and amortization and valuation allowances		(54,071)
Net capitalized costs	$	22,206

Estimated Quantities of Proved Natural Gas Reserves

Estimated quantities of proved natural gas reserves are summarized as follows:

	Proved Developed Reserves Natural Gas (MMcf)	Proved Undeveloped Reserves Natural Gas (MMcf)
Year-end 2014	27,000	32,193
Revisions of previous estimates	1,549	(24,097)
Production	(3,742)	—
Year-end 2015	24,807	8,096

The revisions of previous estimates for proved undeveloped reserves is primarily attributable to 25,812 MMcf of reserves which are no longer projected to be developed within five years from the date they were added to the proved undeveloped reserves due to low commodity prices and a delayed timing of the development plan put in place by the operator. There were no transfers of PUD reserves to proved developed during 2015. There are only four locations that remain in the PUD category at the end of 2015 and we anticipate that all of these locations will be drilled and converted to PDP within five years from the date they were added based on the operator’s current development plan.

We do not have any estimated reserves of crude oil, synthetic oil, synthetic gas or products of other non-renewable natural resources that are intended to be upgraded into synthetic oil and synthetic gas.

In 2015 reserve additions from new wells drilled and completed during the year are shown accounted for using the successful efforts method for our share of working interest wells applying industry practices for new well classifications. There were 4 new well additions in 2015.

Estimates of future cash flows from proved natural gas reserves are shown in the following table. Estimated income taxes are calculated by applying the appropriate tax rates to the estimated future pre-tax net cash flows less depreciation of the tax basis of properties and the statutory depletion allowance.

		2015
		(In thousands)
Future cash inflows	$	32,476
Future production and development costs		(11,345)
Future income tax expenses		—
Future net cash flows		21,131
10% annual discount for estimated timing of cash flows		(9,069)
Standardized measure of discounted future net cash flows		12,062

Supplemental Natural Gas Disclosures (continued)

Future net cash flows were computed using prices used in estimating proved natural gas reserves, year-end costs, and statutory tax rates (adjusted for tax deductions) that relate to proved natural gas reserves.

Changes in the standardized measure of discounted future net cash flow follows:

	For the Year 2015 (In thousands)
Net change in sales prices and production costs	$ (49,562)
Net change in future development costs	15,563
Sales of natural gas, net of production costs	(10,088)
Net change due to revisions of quantity estimates	(9,705)
Accretion of discount	(6,346)
Net change in income taxes	14,207
Other	3,818
Aggregate change for the year	$ (42,113)

Our working interests and the associated net revenue interests are contractually defined and based on a percentage of production at prevailing market prices. We receive our percentage of production in cash. Similarly, our working interests and the associated net revenue interests are contractually defined and we pay our proportionate share of the capital and operating costs for the development and operation of the well. Our revenues fluctuate based on changes in the market prices for natural gas, the decline in production from existing wells, and other factors affecting natural gas exploration and production activities, including the cost of development and production.

Our average sales price of gas produced during the year was $1.01 per Mcf and our average production costs were $0.23 per Mcf. Our gross productive natural gas wells as of December 31, 2015 were 34 and our net productive gas wells when applying our working interests were 4.08. We do not operate any wells and there were no wells in process of drilling at December 31, 2015.

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2015, 2014, and 2013

(In Thousands)

Description (1)	Balance at Beginning of Year	Additions- Charges to (Recovery of) Costs and Expenses	Deductions- Write- offs/Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts:				
2015	$ 684	$ 224	$ 383	$ 525
2014	$ 262	$ 422	$ —	$ 684
2013	$ 304	$ (40)	$ 2	$ 262
Supplies-reserve for slow-moving items:				
2015	$ 928	$ —	$ —	$ 928
2014	$ 721	$ 379	$ 172	$ 928
2013	$ 722	$ —	$ 1	$ 721
Notes receivable - allowance for doubtful accounts:				
2015	$ 970	$ —	$ —	$ 970
2014	$ 970	$ —	$ —	$ 970
2013	$ 970	$ —	$ —	$ 970
Deferred tax assets - valuation allowance:				
2015	$ 292	$ 950	$ —	$ 1,242
2014	$ 298	$ —	$ 6	$ 292
2013	$ 273	$ 25	$ —	$ 298

(1) Deducted in the consolidated balance sheet from the related assets to which the reserve applies.

Other valuation and qualifying accounts are detailed in our notes to consolidated financial statements.

Exhibit 99.4

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Form 8-K.

(a) (1) Financial Statements

	(1) Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at December 31, 2015 and 2014	F-2
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2015	F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2015	F-5
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2015	F-6
Notes to Consolidated Financial Statements	F-8
Quarterly Financial Data (Unaudited)	F-52
Supplemental Natural Gas Disclosures (Unaudited)	F-55

(a) (2) Financial Statement Schedule

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts	F-58

(1) Page numbers listed herein refer to the respective pages in Exhibit 99.3 attached to this Form 8-K.

Exhibit 99.5

This exhibit does not reflect events occurring after the filing date of LSB Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, other than to give effect to the classification of our business operation of our Climate Control Business, as discontinued operations and to retrospectively revise our segment information, and does not modify or update the disclosures therein in anyway, other than described above.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at March 31, 2016 is unaudited)

	March 31, 2016	December 31, 2015
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 39,334	$ 127,195
Accounts receivable, net	39,148	49,601
Inventories:		
Finished goods	21,054	19,029
Raw materials	2,483	5,428
Total inventories	23,537	24,457
Supplies, prepaid items and other:		
Prepaid insurance	7,959	10,563
Precious metals	12,669	12,918
Supplies	20,003	18,681
Prepaid and refundable income taxes	5,954	6,811
Other	4,064	4,701
Total supplies, prepaid items and other	50,649	53,674
Deferred income taxes	4,588	4,774
Current assets held for sale	74,026	72,996
Total current assets	231,282	332,697
Property, plant and equipment, net	1,062,115	978,709
Intangible and other, net	16,133	16,640
Noncurrent assets held for sale	33,766	33,781
	$ 1,343,296	$ 1,361,827

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(Information at March 31, 2016 is unaudited)

	March 31, 2016	December 31, 2015
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 91,740	$ 87,999
Short-term financing	6,399	9,119
Accrued and other liabilities	27,788	39,808
Current portion of long-term debt	16,836	22,468
Current liabilities held for sale	29,375	32,526
Total current liabilities	172,138	191,920
Long-term debt, net	511,678	497,954
Noncurrent accrued and other liabilities	11,267	8,786
Noncurrent liabilities held for sale	12,486	12,136
Deferred income taxes	50,715	52,179
Commitments and contingencies (Note 8)		
Redeemable preferred stocks:		
Series E 14% cumulative, redeemable Class C preferred stock, no par value, 210,000 shares issued and outstanding; aggregate liquidation preference of $219,637,000 ($212,287,000 at December 31, 2015)	186,865	177,272
Series F redeemable Class C preferred stock, no par value, 1 share issued and outstanding; aggregate liquidation preference of $100	—	—
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	1,000	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 27,137,599 shares issued (27,131,724 shares at December 31, 2015)	2,714	2,713
Capital in excess of par value	190,378	192,249
Retained earnings	223,616	248,150
	419,708	446,112
Less treasury stock, at cost:		
Common stock, 3,283,081 shares (3,735,503 shares at December 31, 2015)	21,561	24,532
Total stockholders' equity	398,147	421,580
	$ 1,343,296	$ 1,361,827

See accompanying notes.

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

	Three Months Ended March 31,	
	2016	2015
	(In Thousands, Except Per Share Amounts)	
Net sales	$ 98,972	$ 133,600
Cost of sales	105,136	112,801
Gross profit (loss)	(6,164)	20,799
Selling, general and administrative expense	10,894	11,200
Other expense (income), net	251	(158)
Operating income (loss)	(17,309)	9,757
Interest expense, net	1,350	3,397
Non-operating other expense (income), net	1,956	(35)
Income (loss) from continuing operations before provision (benefit) for income taxes	(20,615)	6,395
Provision (benefit) for income taxes	(4,850)	2,158
Income (loss) from continuing operations	(15,765)	4,237
Income from discontinued operations, including taxes	824	2,412
Net income (loss)	(14,941)	6,649
Dividends on convertible preferred stocks	75	300
Dividend on Series E redeemable preferred stock	7,350	—
Accretion of Series E redeemable preferred stock	2,243	—
Net income (loss) attributable to common stockholders	$ (24,609)	$ 6,349
Income (loss) per common share:		
Basic and diluted:		
Income (loss) from continuing operations	$ (1.11)	$ 0.17
Income from discontinued operations, including taxes	0.03	0.11
Net income (loss)	$ (1.08)	$ 0.28

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Unaudited)
Three Months Ended March 31, 2016

	Common Stock 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, 2015	27,132	$ 3,000	$ 2,713	$ 192,249	$ 248,150	$ (24,532)	$ 421,580
Net loss					(14,941)		(14,941)
Dividend accrued on redeemable preferred stock					(7,350)		(7,350)
Accretion of redeemable preferred stock					(2,243)		(2,243)
Stock-based compensation				1,103			1,103
Exercise of stock options	6		1	48			49
Restricted stock granted from treasury stock				(2,971)		2,971	—
Excess income tax detriment associated with stock-based compensation				(51)			(51)
Balance at March 31, 2016	27,138	$ 3,000	$ 2,714	$ 190,378	$ 223,616	$ (21,561)	$ 398,147

See accompanying notes.

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

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Cash flows from continuing operating activities		
Net income (loss)	$ (14,941)	$ 6,649
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:		
Income from discontinued operations, including taxes	(824)	(2,412)
Deferred income taxes	(4,937)	1,339
Depreciation, depletion and amortization of property, plant and equipment	10,590	7,834
Other	1,766	(1,294)
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):		
Accounts receivable	3,436	(2,055)
Inventories	3,562	367
Prepaid insurance	2,405	3,272
Prepaid and accrued income taxes	858	4,640
Other supplies, prepaid items and other	(372)	883
Accounts payable	15,273	(156)
Accrued interest	(8,078)	(8,086)
Customer deposits	938	(2,051)
Other current and noncurrent liabilities	1,981	(1,067)
Net cash provided by continuing operating activities	11,657	7,863
Cash flows from continuing investing activities		
Expenditures for property, plant and equipment	(104,137)	(66,724)
Purchases of short-term investments	—	(10,000)
Proceeds from noncurrent restricted cash and cash equivalents	—	45,969
Other investing activities	(37)	(295)
Net cash used by continuing investing activities	(104,174)	(31,050)
Cash flows from continuing financing activities		
Proceeds from revolving debt facility	25,000	—
Payments on revolving debt facility	(25,000)	—
Proceeds from other long-term debt, net of fees	9,951	—
Payments on other long-term debt	(2,313)	(2,881)
Payments of debt issuance costs	(476)	—
Payments of issuance costs relating to preferred stocks and warrants	(785)	—
Payments on short-term financing	(2,520)	(3,154)
Proceeds from exercises of stock options	49	742
Excess income tax benefit associated with stock-based compensation	—	129
Dividends paid on convertible preferred stocks	—	(300)
Net cash provided (used) by continuing financing activities	3,906	(5,464)
Cash flows of discontinued operations:		
Net cash provided by operating activities	2,276	6,469
Net cash used by investing activities	(625)	(1,016)
Net cash used by financing activities	(901)	(412)
Net cash provided by discontinued operations	750	5,041
Net decrease in cash and cash equivalents	(87,861)	(23,610)
Cash and cash equivalents at beginning of period	127,195	184,996
Cash and cash equivalents at end of period	$ 39,334	$ 161,386

See accompanying notes.

<u>Note 1: Summary of Significant Accounting Policies</u>

For a complete discussion of our significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Current Report on Form 8-K in Exhibit 99.3 for the year ended December 31, 2015, filed with the Securities and Exchange Commission ("SEC") on August 26, 2016.

Basis of Consolidation - LSB Industries, Inc. ("LSB") and its subsidiaries (the "Company", "We", "Us", or "Our") are consolidated in the accompanying condensed consolidated financial statements. We are engaged in the manufacture and sale of chemical products. LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. Our ownership of working interests in natural gas properties is accounted for as an undivided interest, whereby we reflect our proportionate share of the underlying assets, liabilities, revenues and expenses. Our working interest represents our share of the costs and expenses incurred primarily to develop the underlying leaseholds and to produce natural gas while our net revenue interest represents our share of the revenues from the sale of natural gas. The net revenue interest is less than our working interest as the result of royalty interest due to others. We are not the operator of these natural gas properties. All material intercompany accounts and transactions have been eliminated.

On May 11, 2016, LSB, Consolidated Industries L.L.C., a direct, wholly owned subsidiary of LSB ("Consolidated"), and Climate Control Group, Inc., a direct, wholly owned subsidiary of Consolidated and an indirect subsidiary of LSB (the "Climate Control Group"), entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with NIBE Industrier AB (publ), and NIBE Energy Systems Inc., an indirect wholly owned subsidiary of NIBE Industrier AB (together as "NIBE") pursuant to which LSB, through Consolidated, agreed to sell to NIBE all of the outstanding shares of stock of the Climate Control Group for a total of approximately $364 million, subject to closing and post-closing adjustments which, was completed on July 1, 2016. The Climate Control Group conducts LSB's Climate Control Business (the "Climate Control Business"). The assets and liabilities of Climate Control Business have been reclassified and reported as held for sale. Furthermore, the operating activities of Climate Control Business have been reclassified and reported as discontinued operations for all periods presented. Our financial statements and footnotes reflect our results from continuing operations unless otherwise noted. See Note 2 **–** Discontinued Operations.

In our opinion, the unaudited condensed consolidated financial statements of the Company as of March 31, 2016 and for the three month period ended March 31, 2016 and 2015 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 United States ("U.S.") generally accepted accounting principles ("GAAP") have been condensed or omitted in this exhibit 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 Exhibit 99.3 in this Current Report on Form 8-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.

Concentration of Credit Risks for Cash and Cash Equivalents – Financial instruments relating to cash and cash equivalents potentially subject us to concentrations of credit risk. All of these financial instruments were held by financial institutions within the U.S. and none of these financial instruments were in excess of the federally insured limits.

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 cumulative, redeemable Class C preferred stock (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) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder. The amount of accretion was recorded to retained earnings.

Note 1: Summary of Significant Accounting Policies (continued)

Equity Awards - Equity award transactions with employees are measured based on the estimated fair value of the equity awards issued. For equity awards with only service conditions that have a graded vesting period, we recognize compensation cost on a straight-line basis over the requisite service period for the entire award. In addition, historically we issue new shares of common stock upon the exercise of stock options but treasury shares may be used.

During the three months ended March 31, 2016, the compensation committee of our Board of Directors (the “Board”) approved the grants under the 2008 Incentive Stock Plan of 452,422 shares of restricted stock (“2016 Restricted Stock”) to certain employees. The 2016 Restricted Stock carry dividend and voting rights. Sales of these shares are restricted prior to the date of vesting. Most of the 2016 Restricted Stock vest 100% at the end of three years. Pursuant to the terms of the 2016 Restricted Stock agreements, unvested restricted shares will immediately vest upon the occurrence of certain events (such as a change in control), as defined by the agreements.

In addition, certain employees surrendered a total of 280,000 shares of stock options previously granted under the 2008 Incentive Stock Plan. These employees were also granted shares of restricted stock. For financial reporting purposes, these transactions were accounted for as modifications of stock awards. The total incremental fair value of these modified awards (additional compensation cost) will be recognized on a straight-line basis over the requisite service period of three years, but the recognition of these costs could be accelerated if the unvested restricted shares immediately vest.

For the three months ended March 31, 2016 and 2015, the total stock-based compensation expense associated with our continuing operations was $0.9 million and $0.3 million, respectively.

Income (Loss) per Common Share - Net income (loss) attributable to common stockholders is computed by adjusting net income (loss) by the amount of dividends and dividend requirements on preferred stocks and the accretion of redeemable preferred stocks, if applicable. Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding, excluding contingently returnable common shares (unvested restricted stock), if applicable. For periods we earn net income, a proportional share of net income is allocated to participating securities, if applicable, determined by dividing total weighted average participating securities by the sum of the total weighted average common shares and participating securities (the “two-class method”). The Series E Redeemable Preferred participate in dividends declared on our common stock and are therefore considered to be participating securities. Participating securities have the effect of diluting both basic and diluted income per common share during periods of net income. For periods we incur a net loss, no loss is allocated to participating securities because they have no contractual obligation to share in our losses. Diluted loss per common share is computed after giving consideration to the dilutive effect of our potential common stock instruments that are outstanding during the period, except where such non-participating securities would be anti-dilutive.

Recently Issued Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede nearly all existing revenue recognition guidance under GAAP. This ASU’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB approved a one-year deferral of the effective date of this ASU with the option to early adopt but not before the original effective date. As a result, the effective date of this ASU for us is January 1, 2018, with the option to adopt a year earlier. This ASU allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are currently evaluating the transition method that will be elected.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, rather than the lower of cost or market in the previous guidance. This amendment applies to inventory that is measured using first-in, first-out (“FIFO”). This ASU is effective for us on January 1, 2017. A reporting entity should apply the amendments in this ASU prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We are currently evaluating the impact of this guidance, if any, on our consolidated financial statements and related disclosures.

Note 1: Summary of Significant Accounting Policies (continued)

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)*, which simplifies the presentation of deferred income taxes by eliminating the need for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. This ASU is effective for us on January 1, 2017 but earlier application is permitted as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We currently do not expect a significant impact from adopting this ASU.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, creates Topic 842, *Leases*, and supersedes the lease requirements in Topic 840, *Leases*. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. This ASU is effective for us on January 1, 2017 but early adoption is permitted. This ASU must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are currently evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

In March 2016, the FASB issues ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which amends the guidance in ASU 2014-09 discussed above on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. This ASU has the same effective date and transition requirements as ASU 2014-09.

The FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting*. This ASU includes multiple provisions intended to simplify various aspects of the accounting for share based payments. This ASU is effective for us on January 1, 2017 but early adoption will be permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of this guidance, if any, on our consolidated financial statements and related disclosures.

Correction and Reclassifications

A previously reported correction and certain reclassifications made to our condensed consolidated statement of operations for the three months ended March 31, 2015 are as follows:

	Condensed Consolidated Statement of Operations Three Months Ended March 31, 2015			
	As Previously Reported	Adjustments / Reclassifications **(1)**	Adjustments / Reclassifications **(2)**	As Adjusted
	(In Thousands)			
Net sales	$ 193,858	$ 4,940	$ (65,198)	$ 133,600
Cost of sales	$ 151,499	$ 6,538	$ (45,236)	$ 112,801
Gross profit	$ 42,359	$ (1,598)	$ (19,962)	$ 20,799
Selling, general and administrative expense	$ 28,191	$ (1,576)	$ (15,415)	$ 11,200
Provision for losses on accounts receivable	$ 22	$ (22)	$ —	$ —

(1) *Previously Reported Correction and Reclassification* – As discussed in our significant accounting policies note to our audited consolidated financial statements included in Exhibit 99.3 of this Current Report on Form 8-K, in the fourth quarter of 2015, we corrected and reclassified certain shipping and handling costs. In addition, we reclassified the provision for losses on accounts receivable to selling, general and administrative expenses ("SG&A"). We revised our condensed consolidated statement of operations for the three months ended March 31, 2015 to conform to the current presentation as summarized in the table above.

Note 1: Summary of Significant Accounting Policies (continued)

(2) *Discontinued Operation Reclassifications* – As discussed in Note 2 – Discontinued Operations, the Climate Control Business met the criteria to be reported as held for sale during the second quarter of 2016. As a result, the activities of the Climate Control Business have been reclassified from continuing operations and reported as discontinued operations for the period presented. In the table above, we included the reclassifications associated with discontinued operations for the line items impacted by item (1) above.

Note 2: Discontinued Operations

As discussed in Note 1, on May 11, 2016, LSB and Consolidated entered into a definitive agreement with NIBE to sell all of the common stock of the Climate Control Group. Therefore, the assets and liabilities of the Climate Control Group are classified as held for sale at March 31, 2016 and December 31, 2015.

The carrying amounts of the assets and liabilities of the Climate Control Group, are as follows:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Cash and cash equivalents	$ 195	$ 119
Accounts receivable, net	48,348	43,001
Inventories, net	25,102	28,780
Other current assets	381	1,096
Property, plant and equipment, net	25,839	26,779
Intangible and other, net	7,927	7,002
Total assets classified as held for sale	107,792	106,777
Less noncurrent assets classified as held for sale	33,766	33,781
Current assets classified as held for sale	$ 74,026	$ 72,996
Accounts payable	15,113	20,003
Current and noncurrent accrued and other liabilities	26,748	24,659
Total liabilities classified as held for sale	41,861	44,662
Less noncurrent liabilities classified as held for sale	12,486	12,136
Current liabilities classified as held for sale	$ 29,375	$ 32,526

Note 2: Discontinued Operations (continued)

Summarized results of discontinued operations are as follows for:

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Net sales	$ 66,627	$ 65,198
Cost of sales	45,454	45,236
Selling, general and administrative expense	15,968	15,415
Interest expense	—	1
Other expense, net	143	131
Income from operations of discontinued operations	5,062	4,415
Provision for income taxes	4,238	2,003
Income from discontinued operations, including taxes	$ 824	$ 2,412

Summarized condensed cash flow information of discontinued operations is as follows:

	March 31,	
	2016	2015
	(In Thousands)	
Deferred income taxes	$ 3,608	$ 1,837
Depreciation and amortization of property, plant and equipment	$ 1,089	$ 1,167
Stock-based compensation	$ 230	$ 321
Expenditures for property, plant and equipment	$ 153	$ 113
Software and software development costs	$ 477	$ 785

Note 3: Income (Loss) Per Common Share

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(Dollars In Thousands, Except Per Share Amounts)	
Numerator:		
Net (loss) income:	$ (14,941)	$ 6,649
Dividend requirements on Series E Redeemable Preferred	(7,350)	—
Dividend and dividend requirements on Series B Preferred	(60)	(240)
Dividend and dividend requirements on Series D Preferred	(15)	(60)
Accretion of Series E Redeemable Preferred	(2,243)	—
Total dividends, dividend requirements and accretion on preferred stocks	(9,668)	(300)
Numerator for basic net income (loss) per common share - net income (loss) attributable to common stockholders	(24,609)	6,349
Dividends on convertible preferred stocks assumed to be converted, if dilutive	—	—
Numerator for diluted net income (loss) per common share	$ (24,609)	$ 6,349
Denominator:		
Denominator for basic net income (loss) per common share - weighted- average shares (1)	22,868,307	22,674,739
Effect of dilutive securities:		
Stock options	—	121,763
Dilutive potential common shares	—	121,763
Denominator for dilutive net income (loss) per common share - adjusted weighted-average shares and assumed conversions	22,868,307	22,796,502
Income (loss) per common share:		
Basic and diluted:		
Income (loss) from continuing operations	$ (1.11)	$ 0.17
Income from discontinued operations, including taxes	0.03	0.11
Net income (loss)	$ (1.08)	$ 0.28

(1) Excludes the weighted-average shares of unvested restricted stock that are contingently returnable during the first quarter of 2016.

Note 3: Income (Loss) Per Common Share (continued)

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

	Three Months Ended March 31,	
	2016	2015
Convertible preferred stocks	916,666	916,666
Stock options	559,167	700,388
Warrants	4,103,746	—
Restricted stock	833,642	—
Series E Redeemable Preferred - embedded derivative	456,225	—
	6,869,446	1,617,054

Note 4: Inventories

At March 31, 2016 and December 31, 2015, because costs exceeded the net realizable value, inventory adjustments were $189,000 and $2,832,000, respectively.

Note 5: Current and Noncurrent Accrued and Other Liabilities

	March 31, 2016	December 31, 2015
	(In Thousands)	
Accrued interest	$ 6,705	$ 14,784
Series E Redeemable Preferred - embedded derivative	5,817	3,308
Accrued payroll and benefits	5,551	4,521
Accrued death and other executive benefits	4,492	4,604
Customer deposits	3,068	2,130
Accrued health and worker compensation insurance claims	2,924	2,996
Other	10,498	16,251
	39,055	48,594
Less noncurrent portion	11,267	8,786
Current portion of accrued and other liabilities	$ 27,788	$ 39,808

Note 6: Asset Retirement Obligations

Currently, we have various legal requirements related to operations of our facilities, including the disposal of waste water generated at certain of these facilities. Additionally, we have certain facilities that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Currently, there is insufficient information to estimate the fair value for most of our asset retirement obligations ("ARO"). In addition, we currently have no plans to discontinue the use of these facilities, and the remaining life of the facilities is indeterminable. As a result, a liability for only a minimal amount relating to AROs associated with these facilities has been established. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made. In addition, we own working interests in certain natural gas properties. We recognized AROs associated with the obligation to plug and abandon wells when the obligation is incurred which is typically when the well is completed. At March 31, 2016 and December 31, 2015, our accrued liability for AROs was $284,000 and $281,000, respectively.

Note 7: Long-Term Debt

Our long-term debt consists of the following:

	March 31, 2016	December 31, 2015
	(In Thousands)	
Working Capital Revolver Loan, with a current interest rate of 4.00% (A)	$ —	$ —
7.75% Senior Secured Notes due 2019 (B)	425,000	425,000
12% Senior Secured Notes due 2019 (B)	50,000	50,000
Secured Promissory Note due 2016, with a current interest rate of 3.63% (C)	14,090	15,856
Secured Promissory Note due 2019, with a current interest rate of 5.73% (D)	9,917	—
Secured Promissory Note due 2021, with a current interest rate of 5.25% (E)	16,189	16,189
Secured Promissory Note due 2023, with a current interest rate of 4.44% (F)	15,000	15,000
Other, with a current weighted-average interest rate of 4.43%, most of which is secured primarily by machinery and equipment	6,584	7,103
Unamortized discount and debt issuance costs	(8,266)	(8,726)
	528,514	520,422
Less current portion of long-term debt	16,836	22,468
Long-term debt due after one year, net	$ 511,678	$ 497,954

(A) The Working Capital Revolver Loan, which matures on April 13, 2018, provides advances up to $100.0 million, based on specific percentages of eligible accounts receivable and inventories and up to $15.0 million of letters of credit, the outstanding amount of which reduces the available for borrowing under the Working Capital Revolver Loan. As of March 31, 2016, the amount available for borrowing under the Working Capital Revolver Loan was approximately $69.3 million, including collateral related to our discontinued operations.

(B) The Senior Secured Notes mature on August 1, 2019. Interest is to be paid semiannually on February 1st and August 1st. The Senior Secured Notes are general senior secured obligations of LSB. The Senior Secured Notes are jointly and severally and fully and unconditionally guaranteed by all of LSB's current wholly-owned subsidiaries, with all of the guarantees, except one, being senior secured guarantees and one being a senior unsecured guarantee. The Senior Secured Notes rank equally in right of payment to all of LSB and the guarantors' existing and future senior secured debt, including the Working Capital Revolver Loan discussed above, and are senior in right of payment to all of LSB and the guarantors' future subordinated indebtedness. LSB does not have independent assets or operations.

(C) See discussion under Secured Promissory Note Amendment in Note 15-Subsequent Events.

(D) On February 5, 2016, El Dorado Chemical Company ("EDC"), one of our subsidiaries, entered into a secured promissory note (the "Secured Promissory Note due 2019") for an original principal amount of $10.0 million. This note matures on June 29, 2019. Principal and interest are payable in 40 equal monthly installments with a final balloon payment of approximately $6.7 million. The Secured Promissory Note due 2019 is secured by the cogeneration facility equipment and is guaranteed by LSB.

(E) EDC's Secured Promissory Note due 2021 matures on March 26, 2021. This note requires interest only monthly payments for the first 12 months of the term (through April 2016) and then principal and interest monthly payments through the remaining term. This note is secured by a natural gas pipeline constructed at the El Dorado Facility and is guaranteed by LSB.

Note 7: Long-Term Debt (continued)

(F) On September 16, 2015, El Dorado Ammonia L.L.C. ("EDA"), one of our subsidiaries, entered into a secured promissory note (the "Secured Promissory Note due 2023") for the construction financing of an ammonia storage tank and related systems with an initial funding received of $15 million and a maximum principal note amount of $19.8 million. The remainder of the funding under this note is expected to be drawn upon completion of the ammonia storage tank, but in any event by May 2016 (the "Loan Conversion Date"). Up to the Loan Conversion Date, the note requires monthly interest payments on the outstanding principal borrowed.

On the Loan Conversion Date, the outstanding principal balance will be converted to a seven year secured term loan requiring equal monthly principal and interest payments. In addition, a final balloon payment equal to the remaining outstanding principal (or 30% of the outstanding principal balance on the Loan Conversion Date) is required on the maturity date. The Secured Promissory Note due 2023 bears interest at a rate that is based on the monthly LIBOR rate plus 4.0% and matures in May 2023. The Secured Promissory Note due 2023 is secured by the ammonia storage tank and related systems and is guaranteed by LSB.

Note 8: Commitments and Contingencies

Termination of UAN supply agreement – One of our subsidiaries, Pryor Chemical Company ("PCC"), is party to a contract with Koch Nitrogen Company, LLC ("Koch Nitrogen") under which Koch Nitrogen agrees to purchase and distribute at market prices substantially all of the urea ammonium nitrate ("UAN") produced at the Pryor Facility through June 30, 2016 (the "Koch Purchase Agreement"). On March 1, 2016, PCC provided notice of termination under the Koch Purchase Agreement, which termination will be effective as of May 31, 2016. Under the Koch Purchase Agreement, Koch had the exclusive right to purchase substantially all of the UAN produced at the Pryor Facility and the limited first right to purchase additional amounts. PCC did not incur any early termination penalties in connection with the termination of the Koch Purchase Agreement. PCC elected to terminate the Koch Purchase Agreement to pursue alternative marketing arrangements for the UAN produced at the Pryor Facility.

New UAN supply agreement – On March 3, 2016, PCC entered into a UAN Purchase and Sale Agreement with Coffeyville Resources Nitrogen Fertilizers, LLC ("CVR"), which is effective as of June 1, 2016 (the "CVR Purchase Agreement").

Under the CVR Purchase Agreement, CVR will have the exclusive right (but not the obligation) to purchase all the tons of UAN that are produced by PCC in excess of the needs of PCC or its affiliates, which shall be no more than 30,000 tons per year and no more than 10,000 tons in any calendar quarter.

If CVR fails to take delivery of certain tons of UAN produced at the PCC and such failure causes PCC's storage capacity to be more than 75% utilized or the production unit at the PCC to be slowed down, shut-down or idled, PCC may immediately sell such unpurchased product to a third-party without restriction.

The initial term of the CVR Purchase Agreement is for three years and automatically continues for one or more additional one-year terms unless terminated by either party by delivering a notice of termination at least twelve months prior to the end of term in effect. However, CVR may unilaterally terminate the CVR Purchase Agreement upon 180 days advance written notice of termination to PCC; provided, however, that each party's rights and obligations pertaining to UAN that CVR committed to purchase before such advance notice will survive termination. Additionally, PCC can terminate the CVR Purchase agreement upon 90 days advance written notice of termination to CVR; provided, however, that each party's rights and obligations pertaining to UAN that PCC committed to sell prior to such advance notice will survive termination.

Natural Gas Purchase Commitments – See Note 9 – Derivatives, Hedges, Financial Instruments and Carbon Credits for our commitments relating to derivative contracts and carbon credits (accounted for on a mark-to-market basis). At March 31, 2016, our natural gas contracts, which are exempt from mark-to-market accounting, included the firm purchase commitments of approximately 5.4 million MMBtu of natural gas. These contracts extend through December 2016 at a weighted-average cost of $2.68 per MMBtu ($14.4 million) and a weighted-average market value of $2.29 per MMBtu ($12.3 million).

Note 8: Commitments and Contingencies (continued)

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"). In particular, the manufacture, production and distribution of products activities that entail environmental and public health risks and impose obligations under the Environmental and Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. 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. 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 expenditures have been incurred by our subsidiaries in order to comply with the Environmental and Health Laws, and significant 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. We do not operate the natural gas wells where we own a working interest and compliance with Environmental and Health Laws is controlled by others. We are responsible for our working interest proportionate share of the costs involved. As of March 31, 2016, our accrued liabilities for environmental matters totaled $372,000 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. Also, see discussion in Note 6 - Asset Retirement Obligations.

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 (rain water inside the facility area that may pick up contaminants) 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 (the "EPA"). These permits limit the type and amount of effluents that can be discharged and control the method of such discharge. The following are discharge water matters in relation to the respective state discharge water permits.

Our facility located in Pryor, Oklahoma (the "Pryor Facility") holds a permit to inject wastewater into an on-site well that is valid until 2018. The Oklahoma Department of Environmental Quality ("ODEQ") has indicated that the permit may not be renewed and PCC may have to find an alternative means of disposal after the permit expires. PCC is continuing to discuss disposal possibilities both internally and with the ODEQ.

The El Dorado Facility is subject to a state National Pollutant Discharge Elimination System ("NPDES") discharge water permit issued by the Arkansas Department of Environmental Quality ("ADEQ"). The El Dorado Facility is currently operating under an NPDES discharge water permit, which became effective in 2004. In 2010, a preliminary draft of a discharge water permit renewal for the El Dorado Facility, which contains more restrictive limits, was issued by the ADEQ.

EDC believes that the El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit levels, but has, from time to time, had difficulty meeting the more restrictive dissolved minerals permit levels, primarily related to storm-water runoff. We do not believe this matter regarding meeting the permit requirements as to the dissolved minerals is a continuing issue for the process wastewater as the result of the El Dorado Facility disposing its wastewater (beginning in September 2013) via a pipeline constructed by the City of El Dorado, Arkansas. We believe that the issue with the storm-water runoff should be resolved if and when the ADEQ issues a new NPDES discharge water permit, which we have been advised that the ADEQ is currently processing.

During 2012, EDC paid a penalty of $100,000 to settle an administrative complaint issued by the EPA, and thereafter handled by the U.S. Department of Justice ("DOJ"), relating to certain alleged violations through 2010 of EDC's 2004 NPDES discharge water permit. The DOJ advised that action would also be taken for alleged violations occurring after 2010. As of the date of this report, no action has been filed by the DOJ against EDC. As a result, the cost (or range of costs) cannot currently be reasonably estimated regarding this matter. Therefore, no liability has been established at March 31, 2016.

Note 8: Commitments and Contingencies (continued)

In addition, the El Dorado Facility is currently operating under a consent administrative order (the "CAO") that recognizes the presence of nitrate contamination in the shallow groundwater. The 2006 CAO required EDC to continue semiannual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ relating to the El Dorado Facility. 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. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to a new consent administrative order and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment, of which cost (or range of costs) cannot currently be reasonably estimated. Therefore, no liability has been established at March 31, 2016, in connection with this matter.

2. Air Matters

PCC has been advised that the ODEQ is conducting an investigation into whether the Pryor Facility is in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions primarily in 2011 were intentionally reported incorrectly to the ODEQ. PCC has cooperated with the ODEQ in connection with this investigation. As of March 31, 2016, we are not aware of any recommendations made or to be made by the ODEQ with respect to legal action to be taken or recommended as a result of this ongoing investigation.

3. Other Environmental Matters

During 2013, the EPA conducted a risk management inspection of our Cherokee Facility. During 2014, our Cherokee Facility received a notice of violation from the EPA as a result of the inspection, which listed eleven alleged violations. Under the final consent order received in March 2016 approving the settlement agreement, we agreed to pay a penalty in the form of providing approximately $100,000 to purchase emergency response equipment for the local first responders plus a civil penalty to the EPA of approximately $26,000, which civil penalty has been paid. As a result, the penalty relating to the emergency response equipment is included in our accrued liabilities for environmental matters discussed above.

In 2002, two 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. Even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. 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. Based on the assessment discussed above, we account for transactions associated with the Hallowell Facility as discontinued operations.

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 are pursuing a corrective action strategy relating to the Hallowell Facility with the state of Kansas, including the KDHE. This strategy currently includes long-term surface and groundwater monitoring to track the natural decline in contamination. During 2014, the KDHE approved a corrective action study work plan and will consider and recommend restoration or replacement pursuant to the work plan and/or whether to seek compensation in its evaluation. Currently, it is unknown what remediation and damages the KDHE may require, if any, but it is reasonably possible that certain remediation activities could be required to begin in 2016. The ultimate required remediation, if any, is currently unknown. Our subsidiary and Chevron have retained an environmental consultant to perform the corrective action study work plan as to the appropriate method to remediate the Hallowell Facility. The resulting study was submitted to the KDHE for review. We are advised by our consultant that until the study is completed there is not sufficient information to develop a meaningful and reliable estimate (or range of estimate) as to the cost of the remediation. 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.

Note 8: Commitments and Contingencies (continued)

B. Other Pending, Threatened or Settled Litigation

In April 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, purchasing 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, which 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. 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 a confidential settlement agreements with several plaintiffs that had claimed wrongful death and bodily injury. A portion of these settlements were paid by the insurer during 2015 and in the first quarter of 2016. While these settlements resolve the claims of what we believe were the highest risk cases 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 intend to 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, 2016, no liability reserve has been established in connection with this matter, except for the unpaid portion of the settlement agreement discussed above, but we have incurred professional fees up to our self-insured retention amount.

In May 2015, our subsidiary, EDC, was sued in the matter styled *BAE Systems Ordinance Systems, Inc.* ("BAE"), *et al. vs. El Dorado Chemical Company*, in the United States District Court, Western District of Arkansas, for an alleged breach of a supply agreement to provide BAE certain products. It is EDC's position, among other things, that its inability to deliver to BAE was due to a *force majeure* event caused by a fire and explosion at EDC's nitric acid plant, and that a *force majeure* clause in the supply agreement therefore excuses EDC's performance under the supply agreement. BAE's pre-litigation demand indicated a claim of approximately $18 million. EDC intends to vigorously defend this matter. The cost (or range of costs), if any, EDC would incur relating to this matter cannot currently be reasonably estimated. Therefore, no liability has been established at March 31, 2016.

In September 2015, a case styled *Dennis Wilson vs. LSB Industries, Inc*., et al., was filed in the United States District Court for the Southern District of New York. The plaintiff purports to represent a class of our shareholders and asserts that we violated federal securities laws by allegedly making material misstatements and omissions about delays and cost overruns at our El Dorado Chemical Company manufacturing facility and about our financial well-being and prospects. The lawsuit, which also names certain current and former officers, seeks an unspecified amount of damages. Given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

In September 2015, we and El Dorado Ammonia L.L.C. ("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 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 in July 2015 and Global claims it is entitled to payment for certain work prior to its termination in the sum of approximately $18 million. Leidos reports that it made an estimated $6 million payment to Global on or about September 11, 2015, and EDA paid Leidos approximately $3.5 million relating to work performed by subcontractors of Global. Leidos has not approved certain payments to Global pending the result of on-going audits and investigation undertaken to quantify the financial impact of Global's work. EDA intends to monitor the Leidos audit, and conduct its own investigation, in an effort to determine whether any additional payment should be released to Global for any work not in dispute. LSB and EDA intend to pursue recovery of any damage or loss caused by Global's work performed at our El Dorado Facility. In January 2016, El Dorado, Leidos and Global reached

Note 8: Commitments and Contingencies (continued)

an agreement whereby the approximately $3.6 million claims of Leidos' remaining unpaid subcontracts, vendors and suppliers will be paid (and these suppliers and subcontractors will in turn issue releases of their respective claims and liens. In addition, Global will

reduce the value of its claim as against Leidos, and its lien amount as against the Project by a like amount. After all such lower tier supplier and subcontractors are satisfied, the Global claim and lien amount will be reduced to approximately $5 million. 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.*, where in Global seeks damages under breach of contract and other claims. We have requested indemnifications from Leidos under the terms of our contracts and we intend to vigorously defend against the allegation made by Global. No liability has been established in connection with the remaining $5 million claim. In addition, LSB and EDA intend to pursue recovery of any damage or loss caused by Global's work performed at our El Dorado Facility.

We are also involved in various other claims and legal actions. 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.

Note 9: Derivatives, Hedges, Financial Instruments and Carbon Credits

Periodically, we have three classes of contracts that are accounted for on a fair value basis, which are commodities futures/forward contracts ("commodities contracts") foreign exchange contracts and interest rate contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. In addition, as discussed below, we are issued climate reserve tonnes ("carbon credits"), of which a certain portion of the carbon credits are to be sold and the proceeds given to Covestro. The assets for carbon credits are accounted for on a fair value basis as discussed below. Also, the contractual obligations to give the related proceeds to Covestro are accounted for on a fair value basis (as discussed below) unless we enter into a firm sales commitment to sell the carbon credits. In addition, certain embedded features ("embedded derivative") relating to the redemption of the Series E Redeemable Preferred required bifurcation and are being accounted for as derivative instruments and recorded as a liability. The valuations of these assets and liabilities were determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values.

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The 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. At March 31, 2016 the valuations of contracts classified as Level 2 related to certain futures/forward natural gas contracts, a foreign exchange contract, and an embedded derivative. For the natural gas contracts, these contracts are valued using the prices pursuant to the terms of the contracts and using market information for futures/forward natural gas prices. At March 31, 2016, the valuation inputs included the contractual weighted-average cost of $1.99 per MMBtu and the estimated weighted-average market value of $1.96 per MMBtu.

For foreign exchange contracts, these contracts are valued using the foreign currency exchange rates pursuant to the terms of the contract and using market information for foreign currency exchange rates. At March 31, 2016, the valuation inputs included the total contractual exchange rate of 1.12 and the total estimated market exchange rate of 1.14 (U.S. Dollar/Euro). For the embedded derivative, the derivative is valued using the underlying number of shares as defined in the terms of the Series E Redeemable Preferred and the market price of our common stock. At March 31, 2016, the valuation inputs included the market price of our common stock, which was $12.75 per share. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts as discussed above.

The 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. At March 31, 2016 and December 31, 2015, the valuations ($2.35 per carbon credit) of the carbon credits and the contractual obligations associated with these carbon credits are classified as Level 3. At March 31, 2016, the valuation was based on a recent price offered by one of our customers. The valuations are using undiscounted cash flows based on management's assumption that the carbon credits would be sold and the associated contractual obligations would be extinguished in the near term. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the carbon credits or the associated contractual obligations.

Note 9: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

Commodities Contracts

Raw materials for use in our manufacturing processes include natural gas. As part of our raw material price risk management, we periodically enter into futures/forward contracts for these materials, which contracts may be required to be accounted for on a mark-to-market basis. At March 31, 2016, our futures/forward natural gas contracts included 611,000 MMBtu of natural gas, extend through December 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of $1.99 per MMBtu. At December 31, 2015, our futures/forward natural gas contracts included 1,820,000 MMBtu of natural gas, extend through December 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of $2.35 per MMBtu. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our subsidiaries purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts, which set the U.S. Dollar/Euro exchange rates. At March 31, 2016 and December 31, 2015, our foreign exchange contract was for the receipt of approximately 228,000 Euros and 280,000 Euros, respectively, through February 2017 at the contractual exchange rate of 1.12 (U.S. Dollar/Euro). These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In February 2011, we entered into an interest rate swap at no cost, which set a fixed three-month LIBOR rate of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning in April 2012 through March 31, 2016. This contract was a free-standing derivative and was accounted for on a mark-to-market basis. During the three months ended March 31, 2016 and 2015, no cash flows occurred relating to the purchase or sale of interest rate contracts. The cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

Carbon Credits and Associated Contractual Obligation

Periodically, we are issued carbon credits by the Climate Action Reserve in relation to a greenhouse gas reduction project (“Project”) performed at the Baytown Facility. Pursuant to the terms of the agreement with Covestro, a certain portion of the carbon credits are to be used to recover the costs of the Project, and any balance thereafter to be allocated between Covestro and EDN. We have no obligation to reimburse Covestro for their costs associated with the Project, except through the transfer or sale of the carbon credits when such credits are issued to us. The assets for carbon credits are accounted for on a fair value basis and the contractual obligations associated with these carbon credits are also accounted for on a fair value basis (unless we enter into a sales commitment to sell the carbon credits). At March 31, 2016 and December 31, 2015, we had approximately 516,000 and 495,000 carbon credits, respectively, all of which were subject to contractual obligations. The cash flows associated with the carbon credits and the associated contractual obligations are included in cash flows from continuing investing activities.

Embedded Derivative

The embedded derivative, which includes the participation rights value, relating to the redemption of the Series E Redeemable Preferred has been bifurcated from the Series E Redeemable Preferred and recorded as a liability. At March 31, 2016 and December 31, 2015 the fair value of the embedded derivative was based on the equivalent of 456,225 shares of our commons stock at $12.75 and $7.25 per share, respectively.

Note 9: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

The following details our assets and liabilities that are measured at fair value on a recurring basis at March 31, 2016 and December 31, 2015:

Description	Total Fair Value at March 31, 2016	Fair Value Measurements at March 31, 2016 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at December 31, 2015
			(In Thousands)		
Assets - Supplies, prepaid items and other:					
Commodities contracts (1)	$ 320	$ —	$ 320	$ —	$ 195
Carbon credits	1,214	—	—	1,214	1,154
Foreign exchange contracts	7	—	7	—	—
Total	$ 1,541	$ —	$ 327	$ 1,214	$ 1,349
Liabilities - Current and noncurrent accrued and other liabilities:					
Commodities contracts (1)	$ (320)	$ —	$ (320)	$ —	$ (202)
Contractual obligations - carbon credits	(1,214)	—	—	(1,214)	(1,154)
Embedded derivative	(5,817)	—	(5,817)	—	(3,308)
Interest rate contracts	—	—	—	—	(126)
Foreign exchange contracts	—	—	—	—	(6)
Total	$ (7,351)	$ —	$ (6,137)	$ (1,214)	$ (4,796)

(1) At March 31, 2016 and December 31, 2015, $320,000 and $195,000, respectively, are subject to an agreement that allows net settlement of contracts; however, we have chosen to present the fair values of our commodities contracts under master netting agreements using a gross fair value presentation.

Note 9: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

None of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications for the periods presented below. In addition, the following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Assets		Liabilities	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
	(In Thousands)			
Beginning balance	$ 1,154	$ 2,779	$ (1,154)	$ (2,779)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total realized and unrealized gains (losses) included in operating results	60	(30)	(60)	30
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	—	(33)	—	—
Settlements	—	—	—	33
Ending balance	$ 1,214	$ 2,716	$ (1,214)	$ (2,716)
Total gains (losses) for the period included in operating results attributed to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	$ 60	$ —	$ (60)	$ —

Net gains (losses) included in continuing operating results and the statement of operations classifications are as follows:

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Total net gains (losses) included in continuing operating results:		
Cost of sales - Undesignated commodities contracts	$ (17)	$ (1,829)
Cost of sales - Undesignated foreign exchange contracts	13	(93)
Other income - Carbon credits	60	(30)
Other expense - Contractual obligations relating to carbon credits	(60)	30
Non-operating other expense - embedded derivative	(2,509)	—
Interest expense - Undesignated interest rate contracts	—	(31)
Total net losses included in continuing operating results	$ (2,513)	$ (1,953)

Note 9: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

At March 31, 2016 and December 31, 2015, we did not have any financial instruments with fair values significantly different from their carrying amounts, except for the 7.75% Senior Secured Notes as shown below.

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
7.75% Senior Secured Notes (1)	$ 425	$ 392	$ 425	$ 355

(1) Based on a quoted price of 92.25 at March 31, 2016 and 83.65 at December 31, 2015.

The 7.75% Senior Secured Notes valuation is classified as Level 2. In addition, the valuation of the 12% Senior Secured Notes is also classified as Level 2. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurements of our other long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

Also see discussions concerning certain assets and liabilities initially accounted for on a fair value basis under Note 6 - Asset Retirement Obligations.

Note 10: Income Taxes

Provision (benefit) for income taxes from continuing operations are as follows:

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Current:		
Federal	$ —	$ 18
State	87	801
Total Current	$ 87	$ 819
Deferred:		
Federal	$ (5,259)	$ 1,181
State	322	158
Total Deferred	$ (4,937)	$ 1,339
Provision (benefit) for income taxes	$ (4,850)	$ 2,158

For the three months ended March 31, 2016 and 2015, the current provision (benefit) for federal income taxes shown above includes regular federal income tax provision after the consideration of permanent and temporary differences between income for GAAP and tax purposes. For the three months ended March 31, 2016 and 2015, the current provision for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions.

Note 10: Income Taxes (continued)

Our annual estimated effective rate for 2016 includes the impact of permanent tax differences, such as a loss on embedded derivatives, valuation allowances, and other permanent items.

We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more-likely-than-not that we will not realize some portion or all of the deferred tax assets. We consider relevant evidence, both positive and negative, to determine the need for a valuation allowance. 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. We determined it was more-likely-than-not that a portion of the state NOL carryforwards would not be able to be utilized before expiration and we established a $4.1 million valuation allowance associated with these state NOL carryforwards during the first quarter.

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, 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 from continuing operations for the three months ended March 31, 2016 was $4.9 million (24% of pre-tax loss) and the tax provision for the three months ended March 31, 2015 was $2.2 million (34% of pre-tax income).

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2012-2014 years remain open for all purposes of examination by the U.S. Internal Revenue Service and other major tax jurisdictions

Note 11. Securities Financing Including Redeemable Preferred Stocks

Securities Purchase Agreement Including Redeemable Preferred Stocks

In December 2015 and pursuant to a securities purchase agreement between LSB and LSB Funding LLC (the “Purchaser”) and Security Benefit Corporation, a Kansas corporation (the “Purchaser Guarantor”), both of which are unrelated third parties, LSB sold to the Purchaser

- $210,000,000 of the Series E Redeemable Preferred,
- warrants to purchase 4,103,746 shares of common stock (the “Warrants”), and
- one share of Series F redeemable Class C preferred stock (the “Series F Redeemable Preferred”).

Series E Redeemable Preferred

The Series E Redeemable Preferred are redeemable outside of our control and is therefore classified as temporary/mezzanine equity. The Series E Redeemable Preferred has a 14% annual dividend rate and a participating right in dividends and liquidating distributions equal to 456,225 shares of common stock, which is equal to 2% of our outstanding common stock before the transaction was completed. Dividends accrue semi-annually in arrears and are compounded. Dividends are payable only when and if declared by our Board. Additionally, we must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with the common stock. As long as LSB Funding holds at least 10% of the Series E Redeemable Preferred, we may only declare dividends on Junior Stock unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. The Series E Redeemable Preferred has a liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value (the “Liquidation Preference”). The participation rights value is the product of the pro rata number of Series E Redeemable Preferred shares being redeemed and the price of our common stock as of such date.

Note 11. Securities Financing Including Redeemable Preferred Stocks (continued)

At any time on or after August 2, 2019, each Series E Holder has the right to elect to have such holder's shares redeemed by us at a redemption price per share equal to the Liquidation Preference of such share as of the redemption date. Additionally, we may redeem the Series E Redeemable Preferred at our option, 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.

As discussed in Note 9, the embedded derivative, which includes the participation rights value, relating to the redemption of the Series E Redeemable Preferred has been bifurcated from the Series E Redeemable Preferred and recorded as a liability.

Series F Redeemable Preferred

The Series F Redeemable Preferred has voting rights (the "Series F 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 4,559,971 shares of our common stock, however, the number of votes that may be cast by the Series F Redeemable Preferred will be reduced automatically upon the occurrence of certain specified events.

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

	Series E Redeemable Preferred		Series F Redeemable Preferred	
	Shares	Amount	Shares	Amount
	(Dollars In Thousands)			
Balance at December 31, 2015	210,000	$ 177,272	1	$ —
Accretion relating to liquidation preference on preferred stock	—	725	—	—
Accretion for discount and issuance costs on preferred stock	—	1,518	—	—
Accumulated dividend	—	7,350	—	—
Balance at March 31, 2016	210,000	$ 186,865	1	$ —

Warrants

As discussed above, we issued Warrants to LSB Funding to purchase 4,103,746 shares of common stock. Each warrant affords the holder the opportunity to purchase one share of common stock at a warrant exercise price of $0.10. The Warrants expire on December 4, 2025.

Registration Rights Agreement- Warrants

Pursuant to a registration rights agreement (the "Registration Rights Agreement-Warrants") relating to the registered resale of the common stock issuable upon exercise of the Warrants and certain other common stock, we are required to file a registration statement by September 3, 2016 to permit the public resale of registrable securities then outstanding. We are required to use commercially reasonable efforts to cause the registration statement to become effective as soon as practicable thereafter.

Note 11. Securities Financing Including Redeemable Preferred Stocks (continued)

Furthermore, the registration statement must be declared effective by December 3, 2016. If the registration statement is not declared effective on or prior to December 3, 2016, LSB Funding is entitled to liquidated damages of 0.25% of the liquidated damages multiplier (the closing price of our common stock as of the date of the calculation multiplied by the number of our common stock issued or issuable upon the exercise of the Warrants and other issuance events, if applicable, and held by LSB Funding and as described in the agreement) for the first 30 day period immediately following such default and an additional 0.25% with respect to each subsequent 30 day period, up to a maximum increase of 1.00%. In no event will the aggregate of all liquidated damages exceed 3.0% of the aggregate purchase price (the closing price of our common stock as of the date of the calculation multiplied by the number of our common stock issued or issuable upon the exercise of the Warrants and other issuance events, if applicable).

If such liquidated damages cannot be paid in cash, because such action would constitute a default under a credit facility or other debt instrument, then payment consisting of as much cash as possible in compliance with the aforementioned conditions would be required. The balance of any compensatory liquidated damages would be paid in full in the form of the issuance of additional common stock.

Note 12: Segment and Other Information

Given that the operations of our Climate Control Business have been reclassified from continuing operations and reported as discontinued operations, we operate in one reportable segment – our Chemical Business. The chemical products we primarily manufacture, market and sell are as follows:

- ammonia, fertilizer grade AN, UAN, and AN ammonia solution for agricultural applications,
- high purity and commercial grade ammonia, high purity AN, sulfuric acids, concentrated, blended and regular nitric acid, mixed nitrating acids, carbon dioxide, and diesel exhaust fluid for industrial applications, and
- industrial grade AN and solutions for the mining industry.

During the first quarter of 2016, we incurred a $12.1 million fee (included in cost of sales) related to one-time consulting services associated with the reduction of assessed property tax values for the El Dorado projects real and personal property for both the nitric acid plant, nitric acid concentrator plant and the ammonia plant at our El Dorado Facility.

During the three months ended March 31, 2016 and 2015, interest expense is net of capitalized interest of $10.0 million and $5.6 million, respectively.

Note 13: Related Party Transactions

Golsen Group

During the first quarter of 2015, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred. No dividends were declared during the first quarter of 2016. The Series B Preferred and Series D Preferred are non-redeemable preferred stocks issued in 1986 and 2001, respectively, of which all outstanding shares are owned by the Golsen Group.

Note 14: Supplemental Cash Flow Information

The following provides additional information relating to cash flow activities:

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Cash refunds for:		
Income taxes, net	$ (122)	$ (3,786)
Noncash investing and financing activities:		
Accounts receivable and accounts payable associated with additions of property, plant and equipment	$ 54,237	$ 44,618
Long-term debt associated with additions of capitalized internal-use software and software development	$ 153	$ 1,299
Dividend accrued on Series E Redeemable Preferred	$ 7,350	$ —
Accretion of Series E Redeemable Preferred	$ 2,243	$ —

Note 15: Subsequent Event

Secured Promissory Note Amendment - On February 1, 2013, Zena Energy L.L.C. (“Zena”), one of our subsidiaries, entered into a loan (the “Secured Promissory Note”) with a lender in the original principal amount of $35 million. The Secured Promissory Note followed the original acquisition by Zena of working interests (“Working Interests”) in certain natural gas properties. Effective April 1, 2016, Zena entered into the second amended and restated note (the “Amended Note”) with the original lender. Principal and interest are payable in 20 monthly installments beginning with the May 1st installment. Interest is based on the LIBOR rate plus 300 basis points and the terms of which were not changed by this amendment. The interest rate at April 1, 2016 was 3.63%. The Amended Note matures on December 1, 2017. The Amended Note continues to be secured by the Working Interests and related properties and proceeds. At March 31, 2016, Zena’s outstanding principal amount of approximately $14.1 million due to lender was reclassified to consist of a current portion of $8.8 million and a long-term portion of $5.3 million.

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 exhibit and our March 31, 2016 condensed consolidated financial statements included elsewhere in this exhibit. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements" included in our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission ("SEC") on May 4, 2016. This MD&A discusses the results of our continuing operations which is our chemical business.

Overview

General

We manufacture and sell 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 a global chemical company in Baytown, Texas. Our products are sold through distributors and directly to end customers throughout the United States.

Key Initiatives for 2016

We believe our future results of operations and financial condition will depend significantly on our ability to successfully implement the following key initiatives in 2016:

- *Complete the El Dorado ammonia plant.* The new ammonia plant at the El Dorado Facility was mechanically complete in February 2016 and is expected to begin production early in the second quarter of 2016. We believe that we will complete this project within the latest budget estimates we have provided as discussed further in "Liquidity and Capital Resources". It will likely take us a few months to ramp up to full name plate production of 1,150 tons per day.
- *Improve the on-stream rates of our chemical plants.* During 2015, some of our chemical plants experienced unplanned outages and downtimes in addition to planned turnarounds, which adversely affected our financial results. We have made and continue to make changes in the teams at our chemical plants and continue to upgrade the plants in order to reduce unplanned outages, unplanned downtimes, and the frequency of planned turnarounds and thereby to improve our financial results.
- *Enhance our capital structure.* Once we recognize improved operating results from the initiatives mentioned above, we anticipate that our next significant initiative will be to refinance our secured debt and preferred stock to obtain a lower cost of capital. We hope this will be accomplished towards the end of 2016 or in 2017.

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

Recent Developments

El Dorado Expansion

The new ammonia plant at the El Dorado Facility was mechanically complete in February 2016. We are currently in the start-up phase of our ammonia plant and expect to begin production early in the second quarter of 2016.

As discussed in detail below under "Liquidity and Capital Resources", the total cost to complete the El Dorado expansion is estimated to be in the range of $825 million to $855 million, of which $796 million was spent as of March 31, 2016 with $29 million to $59 million estimated to be spent in the second quarter of 2016.

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

New Contracts

One of our subsidiaries, Pryor Chemical Company ("PCC"), is currently party to a contract with Koch Nitrogen Company, LLC ("Koch Nitrogen") under which Koch Nitrogen agrees to purchase and distribute at market prices substantially all of the urea ammonium nitrate ("UAN") produced at the Pryor Facility through June 30, 2016. On March 1, 2016, PCC provided notice of termination under the Urea Ammonium Nitrate Purchase Agreement. The termination will be effective as of May 31, 2016.

On March 3, 2016, PCC entered into a Urea Ammonium Nitrate Purchase and Sale Agreement with Coffeyville Resources Nitrogen Fertilizers, LLC ("CVR"), which is effective as of June 1, 2016 (the "CVR Purchase Agreement"). We expect a significant reduction in distribution fees associated with this new contract.

Key Industry Factors

Supply and Demand

Agricultural

Sales of our agricultural products were approximately 50% of our total net sales for the first quarter of 2016. The price at which our agricultural products are ultimately sold depends on numerous factors, including the supply and demand for nitrogen fertilizers, which, in turn, depends upon, among other factors, world grain demand and production levels, the cost and availability of transportation, storage, weather conditions, competitive pricing and the availability of imports. An expansion or upgrade of competitors' facilities, international political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and product margins.

Corn prices affect the number of acres of corn planted in a given year, and the number of acres planted will impact nitrogen fertilizer consumption, likely effecting ammonia, UAN and urea prices. Weather also will have an impact on fertilizer consumption. The latest World Agricultural Supply and Demand Estimates Report dated April 14, 2016 estimates record world ending stocks and that the USDA is estimating that U.S. growers will plant 93.6 million acres of corn in 2016 compared to 88.0 million in 2015. Following poor fall 2015 nitrogen fertilizer application, spring nitrogen fertilizer application has been strong, led by increased demand for ammonia as farmers prepare for the upcoming corn planting season. Demand for UAN and other nitrogen products has also been strong as dealers rush to position product in expectation of the increased demand due to higher estimated planted corn acres in 2016. The impact of stronger demand, coupled with lower imports of nitrogen products, has resulted in improved market prices and tighter inventory levels. We believe nitrogen fertilizer prices will stay at current levels through the remainder of the spring application season since fertilizer will need to be applied to maintain the desired yields. The strong U.S. dollar and higher world stocks have both resulted in lower grain prices, which means that farmers will need stronger yields to improve farm economics.

Industrial

Sales of our industrial products were approximately 37% of our total net sales for the first quarter of 2016. Our industrial product sales volumes are dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemistry Council, the U.S. economic indicators continue to be mostly positive. Our sales prices generally vary with the market price of our feedstock (ammonia, natural gas or sulfur, as applicable) in our pricing arrangements with customers.

Mining

Sales of our mining products were approximately 10% of our total net sales for the first quarter of 2016. Our mining products are industrial grade AN ("LDAN") and AN solutions. The primary uses are as AN fuel oil and specialty emulsions primarily in surface mining of coal and for usage in quarries and the construction industry. Coal mining is expected to decline further in 2016 after substantial decreases in 2015. Three of the top four major U.S. coal companies have filed for chapter 11 bankruptcy, representing 40% of U.S. coal production. Coal production in the U.S. affects our ability to sell LDAN, which is used in the explosive's industry. We have executed contracts with customers with purchase requirements of 150,000 tons per year however with the downturn in the mining industry, we do not believe we will reach these sales levels in 2016. We believe that coal production in the U.S. will continue to face significant challenges assuming that natural gas prices remain at current and near term projected levels and that export demand could be lower due to the current strength of U.S. currency. While we believe our plants are strategically located to support the various regions around the country, our current mining sales volumes are being significantly impacted by overall lower customer demand for LDAN.

Farmer Economics

The demand for fertilizer is affected by aggregate crop planting and fertilizer application rates of individual farmers. Each farmer makes 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. Corn prices, variability in fertilizer costs and expected yield can all play a part in the amount and types of fertilizer farmers choose to apply.

Natural Gas Prices

Natural gas is the primary feedstock for the production of nitrogen fertilizers at our Cherokee and Pryor Facilities and will be the primary feedstock at our El Dorado Facility beginning in the second quarter. Over the last five years, U.S. natural gas reserves have increased significantly due to, among other factors, advances in extracting shale gas, which have reduced and stabilized natural gas prices, providing North American plants manufacturing ammonia from natural gas with a cost advantage over certain imports. As a result, we believe that our competitive position (related to our Pryor, Cherokee and El Dorado Facilities) and that of other North American nitrogen fertilizer producers have been positively impacted.

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

	Three Months Ended March 31,	
	2016	2015
Natural gas volumes (MMBtu in millions)	3	3
Natural gas average cost per MMBtu	$ 2.21	$ 3.32

Electricity and Other Variable Costs

Costs for electricity, precious metals and additives are a significant portion of our variable cost per ton and can vary depending on the plant and specific products produced. For example, for each ton of ammonia produced in 2016, we expect these costs to be in the range of 35%-45% of the total variable cost of ammonia, based on current natural gas pricing. For UAN and HDAN/LDAN, we expect these costs to be in the range of 40%-50% and 25%-35%, respectively, following the completion of the El Dorado project. The remaining variable costs primarily relate to the cost of natural gas.

Ammonia Prices

Currently, ammonia is the primary feedstock for the production of HDAN and LDAN at our El Dorado Facility, but will end when the new ammonia plant is fully operational which will be during the second quarter of 2016. Pursuant to the current ammonia purchase agreement with Koch, ammonia pricing is based on a published Tampa, Florida market index. The Tampa index is commonly used in annual contracts for the industrial sectors, and is based on the most recent major industry transactions in the Tampa market. Pricing considerations for ammonia incorporate international supply and demand, ocean freight and production factors. Subject to availability, we have the ability to source a portion of El Dorado's ammonia requirements from our Pryor Facility, which costs are significantly less than current market prices. Once our new ammonia plant is fully operational, we believe this cost disadvantage will be eliminated. Over the past several years, ammonia prices have fluctuated significantly. Additionally, the El Dorado Facility's cost to produce HDAN from purchased ammonia can at times exceed our selling price (a cost disadvantage as compared to producing ammonia from natural gas) as discussed below.

At full production, the El Dorado Facility will require 200,000 to 220,000 tons per year of ammonia feedstock to upgrade to other products. During the first quarter of 2016, the purchased ammonia was less than the amount required for full production due to lower production of LDAN from factors previously discussed.

The table below shows the El Dorado Facility's volume of ammonia purchased and the average cost per short ton:

	Three Months Ended March 31,	
	2016	2015
Ammonia volumes (tons in thousands)	38	38
Ammonia average cost per short ton	$ 328	$ 488

We expect the cost disadvantage will continue into the second quarter of 2016 until we begin operating our new ammonia plant at the El Dorado Facility and will negatively impact our operating results until that point. As discussed above, we have executed certain

contracts with customers with expected purchase requirements for LDAN. With the recent downturn in the mining industry, we do not believe we will reach those sales volumes.

As mentioned above, our El Dorado Facility is currently at a cost disadvantage since it purchases ammonia instead of producing it. This cost disadvantage combined with the impact of the expiration of the Orica Agreement contributed to an operating loss for the facility during the first quarter of 2016 of approximately $22 million compared to an operating loss of approximately $4 million in the first quarter of 2015. As previously discussed, the $22 million loss includes the $12 million fee incurred relating to one-time consulting services. Excluding this fee, the El Dorado Facility's operating loss in the first quarter of 2016 was $10 million.

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 has been imported. Therefore, nitrogen fertilizer prices in the U.S. are influenced by the cost to transport product from exporting countries, giving domestic producers who transport shorter distances an advantage.

Key Operational Factors

Facility Reliability

Consistent, reliable and safe operations at our chemical plants are critical to our financial performance and results of operations. Unplanned downtime of the plants typically results in lost contribution margin, increased maintenance expense and decreased inventory for sale. The financial impact of planned downtime, including Turnaround maintenance, is mitigated through a diligent planning process that takes into account the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Our Cherokee Facility is on a two-year Turnaround cycle while our Pryor Facility is on an annual Turnaround cycle. A Turnaround was not performed at our Cherokee Facility in 2015. We are anticipating a Turnaround at our Cherokee and Pryor Facilities in the third quarter of 2016, both of which are expected to last 20 to 25 days. At our El Dorado Facility, we are able to perform Turnaround projects on individual plants without shutting down the entire facility and the impact of lost production is not significant. However, upon completion of the new ammonia plant at our El Dorado Facility, the facility will begin to schedule annual Turnarounds that are also expected to last 20 to 25 days. All Turnarounds result in lost fixed overhead absorption and additional maintenance costs, which costs are expensed as incurred.

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 we propose. We use this program to varying degrees during the year depending on market conditions and our view of the 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 2016

Our consolidated net sales for the first quarter of 2016 were $99.0 million compared to $133.6 million for the same period in 2015, a decrease of $34.6 million. Our consolidated operating loss was $17.3 million compared to a consolidated operating income of $9.8 million for the same period in 2015 an increase in our operating loss of $27.1 million. 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

On-Stream Rates

The Pryor Facility's ammonia plant reported an on-stream factor in the first quarter of 2016 in excess of 90% in spite of a 5 day outage resulting from a rupture in a process airline compared to an on-stream factor of 75% for the full year 2015 and a 97% on-stream factor in the first quarter of 2015. The Cherokee Facility reported on-stream rates in its ammonia plant at 96% for the first quarter of 2016 and 2015, respectfully. Cherokee reported an on-stream factor of 93% for the full year 2015.

Consulting Fee Related to EDC Property Taxes

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

Orica Agreement

As previously reported, EDC's LDAN sales agreement with Orica expired on April 9, 2015. The Orica Agreement included a provision for Orica to pay for fixed overhead costs and gross profit on the portion of the annual minimum of product not taken. The annual fixed overhead and gross profit associated with the 240,000 tons was approximately $20 million. As a result, during the first quarter of 2016, our El Dorado Facility had approximately $3.4 million less contribution margin compared to the same period in 2015, due to the expiration of this agreement.

Subsequent to the expiration of the Orica Agreement, we continue selling LDAN to other customers including Orica but at a lower volume given that we are currently a high cost producer due to purchasing ammonia as the feedstock. We believe we will continue to experience lower volumes until the El Dorado ammonia plant construction is in production which is expected to begin early in the second quarter of 2016.

We have signed contracts with customers, which began in January 2016 and provide for the sale of approximately 150,000 tons of LDAN annually under various cost plus pricing arrangements. With the recent downturn in the mining industry, we do not believe we will reach these sales volumes. Unlike the Orica Agreement, which contained take-or-pay provisions, certain of these contracts include minimum annual volume levels with penalty payments if minimum volumes are not met. However, as discussed in more detail above under "Key Industry Factors," our LDAN sales volumes are being impacted by the decline in coal production in the U.S.

Debt and Interest Expense

In August 2013, in connection with a major expansion of our El Dorado Facility, we sold $425 million of the 7.75% Senior Secured Notes and in November 2015, we sold $50 million of the 12% Senior Secured Notes. During the first quarter of 2016 and 2015, interest expense was $1.4 million and $3.4 million, net of capitalized interest of $10.0 million and $5.6 million, respectively. Interest was capitalized based upon construction in progress of the El Dorado expansion and certain other capital projects.

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, 2016 and 2015 and accompanying notes and the discussions under "Overview" and "Liquidity and Capital Resources" included in this MD&A.

We present the following information about our results of operations. Net sales include net sales to unaffiliated customers as reported in the condensed consolidated financial statements. Gross profit (loss) represents net sales less cost of sales.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

The following table contains certain financial information:

	Three Months Ended 2016	2015	Change	Percentage Change
	(In Thousands)			
Net sales:				
Agricultural products	$ 49,774	$ 71,050	$ (21,276)	(30.0)%
Industrial acids and other chemical products	36,868	42,651	(5,783)	(13.6)%
Mining products	9,827	16,969	(7,142)	(42.1)%
Other products	2,503	2,930	(427)	(14.6)%
Total net sales	$ 98,972	$ 133,600	$ (34,628)	(25.9)%
Gross profit (loss)	$ (6,164)	$ 20,799	$ (26,963)	(129.6)%
Gross profit percentage (1)	(6.2)%	15.6%	(21.8)%	
Selling, general and administrative expense	10,894	11,200	(306)	(2.7)%
Other expense (income), net	251	(158)	409	(258.9)%
Operating income (loss)	(17,309)	9,757	(27,066)	(277.4)%
Interest expense, net	1,350	3,397	(2,047)	(60.3)%
Non-operating other expense (income), net	1,956	(35)	1,991	(5688.6)%
Provision (benefit) for income taxes	(4,850)	2,158	(7,008)	(324.8)%
Income (loss) from continuing operations	(15,765)	4,237	(20,002)	(472.1)%
Additions to property, plant and equipment:	$ 94,147	$ 76,710	17,437	22.7%
Depreciation, depletion and amortization of property, plant and equipment:	$ 10,590	$ 7,834	2,756	35.2%

(1) As a percentage of net sales

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

Product (tons sold)	Three Months Ended March 31, 2016	2015	Change	Percentage Change
UAN	94,306	116,922	(22,616)	(19) %
HDAN	54,548	64,000	(9,452)	(15) %
Ammonia	36,644	30,766	5,878	19 %
Other	4,738	3,406	1,332	39 %
Total	190,236	215,094	(24,858)	(12) %

Average Selling Prices (price per ton)	Three Months Ended March 31, 2016	2015	Change	Percentage Change
UAN	$ 192	$ 269	$ (77)	(29) %
HDAN	$ 281	$ 360	$ (79)	(22) %
Ammonia	$ 342	$ 526	$ (184)	(35) %

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

Product (tons sold)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Change	Percentage Change
Nitric acid	140,530	130,737	9,793	7 %
LDAN/HDAN	19,562	27,153	(7,591)	(28) %
AN Solution	22,427	23,256	(829)	(4) %
Ammonia	7,673	8,418	(745)	(9) %
Total	190,192	189,564	628	— %

Net Sales

In general, our first quarter 2016 agricultural sales were lower due to lower selling prices for HDAN, UAN and ammonia, and lower sales volumes for HDAN and UAN, which were partially offset by higher sales volumes for ammonia. Industrial and mining sales were lower due to lower product prices tracking the lower published ammonia indices, which were partially offset by higher sales volumes. In addition, natural gas sales prices and volumes declined in the first quarter of 2016 compared to 2015.

- Agricultural products comprised approximately 50% of our net sales for the first quarter 2016 compared to 53% for the same period of 2015. Agricultural products sales decreased primarily due to lower prices for nitrogen based fertilizers. Compared to 2015 first quarter, the 2016 average agriculture product selling prices per ton were lower by 35%, 29% and 22% for ammonia, UAN and HDAN respectfully. Sales volumes were lower for HDAN and UAN which were partially offset by higher ammonia sales volumes in the first quarter of 2016 compared to the first quarter of 2015. HDAN sales volumes were lower because buyers built inventories early in the first quarter of 2015 as compared to the first quarter of 2016. UAN sales volumes were lower as we sold more favorably priced ammonia at our Pryor Facility.
- Industrial acids and other chemical products sales decreased as the result of lower product selling prices. This decrease was partially offset by higher sales volume as more product was available to sell resulting from the production from our nitric acid plant at El Dorado beginning in November 2015.
- Mining products sales decreased primarily due to the expiration of the Orica Agreement in April 2015, which resulted in lower volumes and lower sales prices from the pass-through of lower ammonia costs to our contractual customers partially offset by increased volumes at our Cherokee Facility.
- Other products consist of natural gas sales from our working interests in certain natural gas properties and sales of industrial machinery and related components. The decrease in other products is mainly due to lower realized selling prices out of the Marcellus Shale region combined with lower production volumes in the first quarter of 2016 compared to the same period in 2015 as the operator of these properties has slowed development due to the decline in natural gas sales prices.

Gross Profit (Loss)

As noted in the table above, we incurred a gross loss of $6.2 million for the first quarter of 2016 compared to gross profit of $20.8 million in the first quarter of 2015. The decrease in gross profit of $27.0 million was primarily due to a one-time cost of $12.1 million relating to consulting services for the El Dorado project, the loss of the margin contribution relating to the expiration of the Orica Agreement, increased operating costs, lower average selling prices and lower agricultural sales volumes. The decrease was partially offset by lower overall feedstock costs. The increase in operating costs relates primarily to start-up and commissioning costs incurred at the El Dorado Facility relating to the expansion project. Natural gas and ammonia feedstock costs both decreased approximately 33%. The positive impact from lower natural gas prices was partially offset by operating losses incurred from our working interests in certain natural gas properties.

Selling General and Administrative

Our SG&A expenses were $10.9 million for the first quarter of 2016, a decrease of $0.3 million compared to the same period in 2015. The decrease was primarily driven by a decrease in shareholder related expenses partially offset by higher legal and outside services fees compared to the same period in 2015.

Interest Expense, net

Interest expense for the first quarter of 2016 was $1.4 million compared to $3.4 million for the same period in 2015. The decrease is due primarily to capitalized interest on capital projects under development and construction, of which $10.0 million capitalized in the first quarter of 2016 compared to $5.6 million capitalized during first quarter of 2015, partially offset by interest expense of approximately $2.0 million associated with additional financing entered into subsequent to the first quarter of 2015.

Non-operating Other Expense, net

Non-operating other expense for the first quarter of 2016 was $2 million (minimal income for the same period in 2015). The change is primarily due to the unrealized loss from the change in fair value associated with the embedded derivative included in the Series E Preferred.

Provision (Benefit) for Income Taxes

The benefit for income taxes from continuing operations for the first quarter of 2016 was $4.9 million compared to a provision of approximately $2.2 million for the same period in 2015. The resulting effective tax rate for the first quarters of 2016 and 2015 was 24% and 34%, respectively.

Income from Discontinued Operations, including taxes

As discussed above, the results of operations of the Climate Control Business have been presented as discontinued operations. For the first quarter of 2016, income from discontinued operations was $0.8 million, net of a tax provision of $4.2 million. For the first quarter of 2015, income from discontinued operations was $2.4 million, net of a tax provision of $2 million.

LIQUIDITY AND CAPITAL RESOURCES

Our continuing operating activities generated positive cash flows through March 31, 2016. Before discussing our capitalization and capital projects in detail, the following summarizes our cash flow activities for the first quarter of 2016:

Cash Flow from Continuing Operating Activities

Net cash provided by continuing operating activities was $11.7 million primarily as the result of a net loss of $14.9 million plus an adjustment of $10.6 million for depreciation, depletion and amortization of PP&E and net cash provided of $20.0 million primarily from our working capital.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities was $104.2 million primarily for expenditures for PP&E.

Cash Flow from Continuing Financing Activities

Net cash provided by continuing financing activities was $3.9 million and primarily related to net proceeds from long-term financing of $10.0 million partially offset by payments on short-term financing and long-term debt of $4.8 million and payments of debt and equity issuance costs of $1.3 million.

Capitalization

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

	March 31, 2016	December 31, 2015
	(In Millions)	
Cash and cash equivalents	$ 39.3	$ 127.3
Long-term debt:		
Working Capital Revolver Loan	$ —	$ —
7.75% Senior Secured Notes due 2019	425.0	425.0
12% Senior Secured Notes due 2019	50.0	50.0
Secured Promissory Note due 2016 (1)	14.1	15.9
Secured Promissory Note due 2019	9.9	—
Secured Promissory Note due 2021	16.1	16.1
Secured Promissory Note due 2023	15.0	15.0
Other	6.6	7.1
Unamortized discount and debt issuance costs	(8.2)	(8.7)
Total long-term debt, including current portion, net	$ 528.5	$ 520.4
Series E and F redeemable preferred stock	$ 186.9	$ 177.3
Total stockholders' equity	$ 398.1	$ 421.6

(1) In April 2016, this note was amended under which $12.0 million of $14.1 million was refinanced. The amended note matures on December 1, 2017.

As of March 31, 2016, our cash totaled $39.3 million. As discussed in detail below, the total cost to complete the El Dorado expansion is estimated to be in the range of $825 million to $855 million, of which $796 million was spent as of March 31, 2016 with $29 million to $59 million estimated to be spent in the second quarter of 2016.

In February 2016, we received financing of $10 million related to the cogeneration facility equipment in connection with the El Dorado expansion projects. We are currently in discussions with several parties for further financing as it relates to the cogeneration facilities.

We believe that the combination of our cash, the availability on our revolving credit facility, the additional borrowings discussed above and our cash from operations will be sufficient to fund our anticipated liquidity needs for the remainder of 2016. Over the long term, we will need to address the liquidity demands that will result on August 1, 2019, when our Senior Secured Notes mature and on August 2, 2019, when our Series E Redeemable Preferred will be redeemable at the election of the holders. Once we recognize improved operating results from the initiatives discussed in this MD&A (see "Key Initiatives for 2016" above), we anticipate that our next significant initiative will be to refinance our Senior Secured Notes and our Series E Redeemable Preferred to obtain a lower cost of capital. We hope this will be accomplished towards the end of 2016 or in 2017.

Compliance with Long - Term Debt Covenants

As discussed below under "Loan Agreements," the Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. Currently, our forecast is that we will be able to meet all financial covenant requirements for the next twelve months. When needed, we plan to use our revolving credit facility to fund operational needs though the remainder of 2016 and believe that even with this additional borrowing, we will meet the minimum fixed charge coverage ratio during the next twelve months.

Loan Agreements and Redeemable Preferred Stock

Senior Secured Notes due 2019 - LSB has $425 million aggregate principal amount of the 7.75% Senior Secured Notes and $50 million aggregate principal amount of the 12% Senior Secured Notes currently outstanding. Interest is to be paid semiannually on February 1st and August 1st.

Working Capital Revolver Loan – LSB and certain of its subsidiaries are party to the Working Capital Revolver Loan, by which the Borrowers may borrow on a revolving basis up to $100 million, based on specific percentages of eligible accounts receivable and inventories. The Working Capital Revolver Loan will mature on April 13, 2018.

At March 31, 2016, there were no outstanding borrowings under the Working Capital Revolver Loan and the net credit available for borrowings under our Working Capital Revolver Loan was approximately $69.3 million, based on our eligible collateral including collateral related to our discontinued operations, less outstanding letters of credit as of that date.

The Working Capital Revolver Loan requires the Borrowers to meet a minimum fixed charge coverage ratio of not less than 1.10 to 1, if at any time the excess availability (as defined by the Working Capital Revolver Loan), under the Working Capital Revolver Loan, is less than or equal to $12.5 million. If applicable, this ratio will be measured monthly on a trailing twelve month basis and as defined in the agreement. As of March 31, 2016, as defined in the agreement, the fixed charge coverage ratio was 2.0 to 1 (which includes our discontinued operations).

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

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

Since carrying values of the redeemable preferred stocks are being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder, this accretion has and will continue to impact income (loss) per common share.

Capital Additions

Capital Additions – First Quarter of 2016

Capital additions during the first quarter of 2016 were $95.9 million, which included $90.8 million for expansion projects at our El Dorado Facility (which capital additions include equipment associated with maintaining compliance with environmental laws, regulations and guidelines), $3.4 million for various major renewal and improvement projects, $0.2 million for the development of natural gas leaseholds, and an additional $0.3 million associated with maintaining compliance with environmental laws, regulations and guidelines not associated with the El Dorado expansion. Additionally, we incurred $1.0 million in relation to our new enterprise resource planning system ("ERP"). The capital additions were funded primarily from cash, third-party financing and working capital. Due to the increase in the amount of capital additions incurred and planned, our depreciation, depletion and amortization expenses have increased and are expected to continue to increase in 2016.

Planned Capital Additions – For the Remainder of 2016

	Planned Capital Additions for the Remainder of 2016 (In Millions)	
	Low	High
El Dorado Expansion	$ 29	$ 59
Other (1)	39	49
Total	$ 68	$ 108

(1) Includes cost associated with renewal and improvement projects, environmental projects, the development of natural gas leaseholds and ERP, some of which may be deferred.

Included in planned capital expenditures for the remainder of 2016 is capitalized interest of approximately $4.1 million.

The planned capital expenditures include investments that we anticipate making for expansion and development projects, environmental requirements, and major renewal and improvement projects. Beyond the completion of our El Dorado expansion projects, specific capital projects are less identifiable but, beginning in 2017, are expected to range between $40 million to $60 million per year at our chemical facilities for ongoing capital maintenance, including environmental compliance, major renewal and improvement projects, and other capital projects, and approximately $21 million for the remainder of 2016 through 2019 to fully develop our natural gas working interests.

Our El Dorado Expansion

Our El Dorado Facility has certain expansion projects underway, of which a portion has been completed. These expansion projects include an ammonia plant; a new 65% strength nitric acid plant and concentrator; and other support infrastructure, all of which were analyzed and evaluated based on their forecasted return on investment. The expected costs of these projects are outlined below, and their planned amounts are included in the table above.

	Planned Capital Additions				
	Capitalized To Date	For the Remainder of the Project		Total	
		(In Millions)			
Ammonia Plant	$ 496	$ 14		$510	
Nitric Acid Plant and Concentrator	124	—		124	
Other Support Infrastructure	124	11		135	
Capitalized Interest	52	4		56	
Contingency	—	$ —	$ 30	$ —	$ 30
	$ 796	$ 29	$ 59	$ 825	$ 855

Our El Dorado Facility produces nitric acid, HDAN and LDAN from purchased ammonia, which is currently at a cost disadvantage compared to products produced from natural gas. The El Dorado Facility historically purchased 600-700 tons of ammonia per day when operating at full capacity. We are constructing a 1,150 ton per day ammonia plant at the El Dorado Facility, which we believe will eliminate the cost disadvantage, increase capacity, and improve efficiency of the El Dorado Facility. This plant is expected to be operational in May of 2016.

As a result of the increased production capacity at the El Dorado Facility, it is necessary to expand and improve certain support infrastructure, including utility capacity, control room facilities, inventory storage and handling, and ammonia distribution. Also, other cost reduction and cost recovery equipment, including an electric cogeneration plant, are being added to improve efficiency and lower the cost of production.

As the result of the completion of the various capital projects included in the El Dorado expansion, the capitalization of interest to these capital projects will cease. That combined with the issuance of the 12% Senior Secured Notes, will increase interest expense and impact our future operating results.

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 $1.1 million during the first quarter of 2016 in connection with maintaining environmental regulatory compliance. For the remainder of 2016, we expect to incur an additional $3.6 million to $4.1 million of these expenses. 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. However, our Board has not made a decision whether or not to pay such dividends on our common stock in 2016**.** Also see the discussion below concerning certain limitations related to paying dividends on our common stock.

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually, commencing May 1, 2016, in arrears at the annual rate of 14% of the liquidation value of $1,000 per share. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, when approved by our Board, of $70.00 per share for the aggregate semi-annual dividend of $14.7 million. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the annual rate of 14%. We also must declare

a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of March 31, 2016, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately $9.6 million.

Dividends on the Series D 6% cumulative convertible Class C preferred stock (the "Series D Preferred") and the 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, 2016, the amount of accumulated dividends on the Series D Preferred and Series B Preferred totaled approximately $0.1 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 our products sold to the agricultural industry are seasonal while sales into the industrial and mining sectors generally are not. The selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, we typically increase our inventory of HDAN prior to the beginning of each planting season. 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, 2016, we have agreed to indemnify the sureties for payments, up to $10 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2016.

Critical Accounting Policies and Estimates

See "Critical Accounting Policies and Estimates," included in Exhibit 99.2 of this Current Report on Form 8-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 3 – Other Environmental Matters of Note 8 to Condensed Consolidated Financial Statements included in this exhibit and the lawsuit styled *City of West, Texas vs. CF Industries, Inc., et al.*, discussed under "Other Pending, Threatened or Settled Litigation" of Note 8 included in this exhibit. It is reasonably possible that the estimates and assumptions utilized as of March 31, 2016 could change in the near-term.

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.

Aggregate Contractual Obligations

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in Exhibit 99.2 of this Current Report on Form 8-K, we had certain contractual obligations as of December 31, 2015, with various maturity dates, showing payments due for the next five years and thereafter related to the following:

- long-term debt,
- Series E Redeemable Preferred,
- dividends accrued on Series E Redeemable Preferred,
- interest payments on long-term debt,

- El Dorado facility expansion projects,
- other capital expenditures,
- operating leases,
- natural gas pipeline commitment,
- firm purchase commitments and,
- other contractual obligations.

During the first quarter of 2016, we entered into contracts to purchase 1.1 million MMBtu of natural gas through December 2016, which contracts are included in the discussion in Note 8 included in this exhibit, and we entered into new and amended loan agreements as discussed above under “Liquidity and Capital Resources”.

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, changes in market interest rates, and changes in market currency exchange rates.

Forward Sales Commitments Risk

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

Commodity Price Risk

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. We are exposed to commodity price risk as we generally do not use derivative financial instruments to manage risks related to changes in prices of commodities. We periodically enter into contracts to purchase natural gas for anticipated production needs. Generally, these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At March 31, 2016, approximately 611,000 MMBtus’ of natural gas derivatives did not meet the definition of a normal purchase and sale and therefore a $0.10 change in natural gas price would have a minimal impact on income from continuing operations.

Interest Rate Risk

Generally, we are exposed to variable interest rate risk with respect to our revolving credit facility. As of March 31, 2016, we did not have any 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 $29 million. We currently do not hedge our interest rate risk associated with these variable interest loans.