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

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**Form 10-Q**

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-7677

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**LSB Industries, Inc.**

Exact name of Registrant as specified in its charter

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Delaware  
State or other jurisdiction of  
incorporation or organization

73-1015226  
I.R.S. Employer  
Identification No.

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

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

None  
Former name, former address and former fiscal year, if  
changed since last report.

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares outstanding of the Registrant's voting common stock, as of April 30, 2015 was 22,733,357 shares, excluding 4,320,462 shares held as treasury stock.

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FORM 10-Q OF LSB INDUSTRIES, INC.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Information at March 31, 2015 is unaudited)**

	March 31, 2015	December 31, 2014
	(In Thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 161,558	\$ 186,811
Restricted cash and cash equivalents	396	365
Short-term investments	24,500	14,500
Accounts receivable, net	90,402	88,074
Inventories:		
Finished goods	27,558	28,218
Work in progress	3,061	2,763
Raw materials	29,077	25,605
Total inventories	59,696	56,586
Supplies, prepaid items and other:		
Prepaid insurance	10,008	13,752
Precious metals	11,541	12,838
Supplies	16,430	15,927
Prepaid and refundable income taxes	2,754	7,387
Other	5,237	5,438
Total supplies, prepaid items and other	45,970	55,342
Deferred income taxes	16,934	17,204
Total current assets	399,456	418,882
Property, plant and equipment, net	687,047	619,205
Other assets:		
Noncurrent restricted cash and cash equivalents	—	45,969
Noncurrent restricted investments	25,000	25,000
Other, net	29,066	27,949
Total other assets	54,066	98,918
	<u>\$1,140,569</u>	<u>\$1,137,005</u>

(Continued on following page)

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**  
**(Information at March 31, 2015 is unaudited)**

	March 31, 2015	December 31, 2014
	(In Thousands)	
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 92,544	\$ 81,456
Short-term financing	8,389	11,955
Accrued and other liabilities	37,696	51,166
Current portion of long-term debt	25,499	10,680
Total current liabilities	164,128	155,257
Long-term debt	430,237	446,638
Noncurrent accrued and other liabilities	18,234	17,934
Deferred income taxes	86,034	83,128
Commitments and contingencies (Note 9)		
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, 27,044,903 shares issued (26,968,212 shares at December 31, 2014)	2,704	2,697
Capital in excess of par value	172,069	170,537
Retained earnings	292,537	286,188
	470,310	462,422
Less treasury stock, at cost:		
Common stock, 4,320,462 shares	28,374	28,374
Total stockholders' equity	441,936	434,048
	<u>\$1,140,569</u>	<u>\$1,137,005</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**Three Months Ended March 31, 2015 and 2014**

	2015	2014
	(In Thousands, Except Per Share Amounts)	
Net sales	\$ 193,858	\$ 178,525
Cost of sales	151,499	129,803
Gross profit	42,359	48,722
Selling, general and administrative expense	28,191	27,658
Provision for (recovery of) losses on accounts receivable	22	(159)
Property insurance recoveries in excess of losses incurred	—	(5,147)
Other expense (income), net	(77)	509
Operating income	14,223	25,861
Interest expense, net	3,398	6,708
Non-operating other income, net	(35)	(77)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	10,860	19,230
Provisions for income taxes	4,181	7,654
Equity in earnings of affiliate	—	(67)
Income from continuing operations	6,679	11,643
Net loss from discontinued operations	30	2
Net income	6,649	11,641
Dividends on preferred stocks	300	300
Net income applicable to common stock	\$ 6,349	\$ 11,341
Weighted-average common shares:		
Basic	22,675	22,533
Diluted	23,047	23,640
Income per common share:		
Basic	\$ 0.28	\$ 0.50
Diluted	\$ 0.28	\$ 0.49

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**Three Months Ended March 31, 2015**

	Common Stock Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value (In Thousands)	Retained Earnings	Treasury Stock- Common	Total
Balance at December 31, 2014	26,968	\$ 3,000	\$ 2,697	\$ 170,537	\$286,188	\$(28,374)	\$434,048
Net income					6,649		6,649
Dividends paid on preferred stocks					(300)		(300)
Stock-based compensation				619			619
Exercise of stock options	75		7	735			742
Common stock issued for services	2			49			49
Excess income tax benefit associated with stock-based compensation				129			129
Balance at March 31, 2015	<u>27,045</u>	<u>\$ 3,000</u>	<u>\$ 2,704</u>	<u>\$ 172,069</u>	<u>\$292,537</u>	<u>\$(28,374)</u>	<u>\$441,936</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**Three Months Ended March 31, 2015**

	2015	2014
	(In Thousands)	
<b>Cash flows from continuing operating activities</b>		
Net income	\$ 6,649	\$ 11,641
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Deferred income taxes	3,176	5,999
Gains on property insurance recoveries associated with property, plant and equipment	—	(5,147)
Depreciation, depletion and amortization of property, plant and equipment	9,001	8,679
Other	(795)	(111)
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):		
Accounts receivable	(2,348)	(9,876)
Inventories	(1,477)	150
Prepaid insurance	3,744	3,772
Prepaid and accrued income taxes	4,640	8,247
Other supplies, prepaid items and other	932	3,540
Accounts payable	1,629	8,179
Accrued interest	(8,086)	(7,547)
Customer deposits	(3,003)	(322)
Other current and noncurrent liabilities	(1,459)	(5,515)
Deferred gain on insurance recoveries	—	(1,383)
Net cash provided by continuing operating activities	12,603	20,306
<b>Cash flows from continuing investing activities</b>		
Expenditures for property, plant and equipment	(66,837)	(45,308)
Proceeds from property insurance recovery associated with property, plant and equipment	—	5,147
Purchases of short-term investments	(10,000)	—
Proceeds from noncurrent restricted cash and cash equivalents	45,969	—
Deposits of current and noncurrent restricted cash and cash equivalents	(31)	(165,106)
Proceeds from noncurrent restricted investments	—	209,990
Other investing activities	(1,049)	386
Net cash provided (used) by continuing investing activities	(31,948)	5,109
<b>Cash flows from continuing financing activities</b>		
Payments on long-term debt	(2,881)	(2,322)
Payments on short-term financing	(3,566)	(4,073)
Proceeds from exercises of stock options	742	78
Excess income tax benefit associated with stock-based compensation	129	300
Dividends paid on preferred stocks	(300)	(300)
Net cash used by continuing financing activities	(5,876)	(6,317)
Cash flows of discontinued operations:		
Operating cash flows	(32)	(65)
Net increase (decrease) in cash and cash equivalents	(25,253)	19,033
Cash and cash equivalents at beginning of period	186,811	143,750
Cash and cash equivalents at end of period	<u>\$161,558</u>	<u>\$ 162,783</u>

See accompanying notes.

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

**Note 1: Summary of Significant Accounting Policies**

For a complete discussion of our significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”) on February 27, 2015.

**Basis of Consolidation and Presentation** - LSB Industries, Inc. (“LSB”) and its subsidiaries (the “Company”, “We”, “Us”, or “Our”) are consolidated in the accompanying condensed consolidated financial statements. We are involved in manufacturing and marketing operations. We are primarily engaged in the manufacture and sale of chemical products (the “Chemical Business”) and the manufacture and sale of water source and geothermal heat pumps and air handling products (the “Climate Control Business”). LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. Our Chemical Business’ 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 are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of March 31, 2015 and for the three-month periods ended March 31, 2015 and 2014 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 Form 10-Q pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in connection with our audited consolidated financial statements and notes thereto included in our 2014 Form 10-K.

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

**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 consist of certificates of deposit with an original maturity no more than 26 weeks, are considered short-term investments. These investments are carried at cost which approximates fair value.

**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 consist of investment balances that are designated by us for specific purposes relating to capital projects. The balance includes investments in certificates of deposits with an original maturity no longer than approximately 26 weeks. The investments in certificates of deposits are carried at cost, which approximates fair value.

**Concentration of Credit Risks for Cash, Cash Equivalents, and Investments at Financial Institutions** – Financial instruments relating to cash, cash equivalents, and investments (certificates of deposits) potentially subject us to concentrations of credit risk. At March 31, 2015, the total balance of these financial instruments exceeded the FDIC-insured limits by approximately \$49.0 million. All of these financial instruments were held by financial institutions within the U.S.



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

**Note 1: Summary of Significant Accounting Policies (continued)**

**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.

**Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standard Update 2014-09-Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The standard'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. The original effective date for us of this standard is January 1, 2017. However, the FASB has proposed a one-year deferral of the effective date to January 1, 2018 with the option to early adopt using the original effective date. The standard 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.

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

**Note 2: Income Per Common Share**

	Three Months Ended March 31,	
	2015	2014
(Dollars In Thousands, Except Per Share Amounts)		
<b>Numerator:</b>		
Net income:	\$ 6,649	\$ 11,641
Dividends on Series B Preferred	(240)	(240)
Dividends on Series D Preferred	(60)	(60)
Total dividends on preferred stocks	<u>(300)</u>	<u>(300)</u>
Numerator for basic net income per common share - net income applicable to common stock	6,349	11,341
Dividends on preferred stocks assumed to be converted, if dilutive	60	300
Numerator for diluted net income per common share	<u>\$ 6,409</u>	<u>\$ 11,641</u>
<b>Denominator:</b>		
Denominator for basic net income per common share - weighted- average shares	22,674,739	22,532,522
Effect of dilutive securities:		
Convertible preferred stocks	250,000	916,666
Stock options	121,763	190,519
Dilutive potential common shares	<u>371,763</u>	<u>1,107,185</u>
Denominator for dilutive net income per common share - adjusted weighted-average shares and assumed conversions	<u>23,046,502</u>	<u>23,639,707</u>
Basic net income per common share	<u>\$ 0.28</u>	<u>\$ 0.50</u>
Diluted net income per common share	<u>\$ 0.28</u>	<u>\$ 0.49</u>

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

	Three Months Ended March 31,	
	2015	2014
Convertible preferred stocks	666,666	—
Stock options	700,388	280,000
	<u>1,367,054</u>	<u>280,000</u>

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

**Note 3: Accounts Receivable**

	March 31, 2015	December 31, 2014
	(In Thousands)	
Trade receivables	\$88,927	\$ 86,402
Other	2,335	2,498
	<u>91,262</u>	<u>88,900</u>
Allowance for doubtful accounts	(860)	(826)
	<u>\$90,402</u>	<u>\$ 88,074</u>

One of our subsidiaries, El Dorado Chemical Company is party to an agreement with Bank of America, N.A. to sell our accounts receivables generated from product sales to a certain customer. We agreed to enter into this agreement as a courtesy to this customer. The term of this agreement matures in August 2015, with renewal options, but either party has an option to terminate the agreement pursuant to the terms of the agreement. In addition, we amended our sales agreement with the customer to offer extended payment terms under the condition that they pay an extended payment terms premium equal to the discount taken by the Bank when the accounts receivables are sold. Thus, there is no gain or loss from the sale of these receivables to the Bank. We have no continuing involvement or risks associated with the transferred accounts receivable. Pursuant to the terms of the agreement, EDC is to receive payment from the Bank no later than one business day after the Bank's acceptance of EDC's offer to sell the accounts receivables. As of March 31, 2015, EDC has been paid by the Bank for the accounts receivables sold to the Bank. We account for these transfers as sales under ASC 860 – Transfers and Servicing.

**Note 4: Inventories**

At March 31, 2015 and December 31, 2014, inventory reserves for certain slow-moving inventory items (Climate Control products) were \$1,775,000 and \$1,653,000, respectively. In addition, because cost exceeded the net realizable value, inventory adjustments for certain nitrogen-based inventories provided by our Chemical Business were \$221,000 and \$1,976,000 at March 31, 2015 and December 31, 2014, respectively.

**Note 5: Current and Noncurrent Accrued and Other Liabilities**

	March 31, 2015	December 31, 2014
	(In Thousands)	
Accrued warranty costs	\$ 9,034	\$ 8,817
Deferred revenue on extended warranty contracts	7,923	7,806
Accrued payroll and benefits	7,075	8,743
Accrued interest	5,802	13,888
Customer deposits	3,830	6,833
Other	22,266	23,013
	<u>55,930</u>	<u>69,100</u>
Less noncurrent portion	18,234	17,934
Current portion of accrued and other liabilities	<u>\$37,696</u>	<u>\$ 51,166</u>

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

**Note 6: Accrued Warranty Costs**

Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, which extends over several years. As such, we provide warranties after equipment shipment/start-up covering defects in materials and workmanship. Generally for commercial/institutional products, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start-up, whichever is shorter, and to ninety days for spare parts. For residential products, the base warranty coverage for manufactured equipment in the Climate Control Business is limited to ten years from the date of shipment for material and to five years from the date of shipment for labor associated with the repair. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase, or a specific product may be sold with, an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

Changes in our product warranty obligation (accrued warranty costs) are as follows:

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
Balance at beginning of period	\$ 8,817	\$ 7,297
Amounts charged to SG&A	2,099	2,227
Costs incurred	(1,882)	(1,946)
Balance at end of period	<u>\$ 9,034</u>	<u>\$ 7,578</u>

**Note 7: Asset Retirement Obligations**

Currently, we have various legal requirements related to operations of our Chemical Business facilities, including the disposal of wastewater generated at certain of these facilities. Additionally, we have certain facilities in our Chemical Business 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. 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, our Chemical Business owns 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 March 31, 2015 and December 31, 2014, our accrued liability for AROs was \$368,000 and \$340,000, respectively.

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

**Note 8: Long-Term Debt**

Our long-term debt consists of the following:

	March 31, 2015	December 31, 2014
	(In Thousands)	
Working Capital Revolver Loan (A)	\$ —	\$ —
7.75% Senior Secured Notes due 2019 (B)	425,000	425,000
Secured Promissory Note due 2016, with a current interest rate of 3.26%	21,091	22,814
Other, with a current weighted-average interest rate of 4.34%, most of which is secured primarily by machinery and equipment	9,645	9,504
	<u>455,736</u>	<u>457,318</u>
Less current portion of long-term debt	25,499	10,680
Long-term debt due after one year	<u>\$430,237</u>	<u>\$ 446,638</u>

- (A) Pursuant to the terms of the 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. As of March 31, 2015, the amount available for borrowing under the Working Capital Revolver Loan was approximately \$75.6 million. In addition, the Working Capital Revolver Loan and the Senior Secured Notes are cross collateralized as discussed in (B) below. The Working Capital Revolver Loan will mature on April 13, 2018.
- (B) The 7.75% Senior Secured Notes due 2019 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. 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 two, being senior secured guarantees and two being senior unsecured guarantees. 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.

**Note 9: Commitments and Contingencies**

**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 with an annual minimum of 240,000 tons of industrial grade AN produced at our El Dorado Facility. The agreement included a provision for Orica to pay for product not taken. The agreement also included 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.

**Planned Capital Additions** – A subsidiary of EDC is party to various agreements with Leidos Constructors, LLC and others to engineer, procure and construct an ammonia plant and certain support facilities. The estimated cost for this project ranges from \$275 million to \$300 million, of which \$172 million has been incurred and capitalized at March 31, 2015.

EDC is party to an agreement with Weatherly Inc. for the licensing, engineering, and procurement of major manufacturing equipment for a new 65% strength nitric acid plant to be constructed at our El Dorado Facility. EDC is also party to various agreements with Leidos Constructors, LLC and others to engineer, procure and construct the Nitric Acid Plant, a nitric acid concentrator and certain support facilities at the El Dorado Facility. The estimated cost for this project ranges from \$125 million to \$130 million, of which \$105 million has been incurred and capitalized at March 31, 2015.

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

**Note 9: 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. In particular, the manufacture, production and distribution of products by our Chemical Business are activities that entail environmental and public health risks and impose obligations under the Environmental Laws and the 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 Laws and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our Chemical Business 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 Laws and Health Laws is controlled by others, with our Chemical Business being responsible for its proportionate share of the costs involved. As of March 31, 2015, our accrued liabilities for environmental matters totaled \$514,000 relating primarily to 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 7 - Asset Retirement Obligations.

**1. Discharge Water Matters**

Each of our chemical 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 by the United States Environmental Protection Agency, subject to oversight by the EPA. These permits limit the type and amount of effluents that can be discharged and controls the method of such discharge. The following are discharge water matters in relation to the respective permits.

The El Dorado Facility is subject to a state National Pollutant Discharge Elimination System discharge water permit issued by the Arkansas Department of Environmental Quality. 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 limits, but has, from time to time, had difficulty demonstrating consistent compliance with the more restrictive dissolved minerals permit levels. We do not believe this matter regarding meeting the permit requirements as to the dissolved minerals is a continuing issue 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.

During 2012, EDC paid a penalty of \$100,000 to settle an Administrative Complaint issued by the EPA, and thereafter handled by the United States Department of Justice, relating to certain alleged violations of EDC's 2004 NPDES permit for alleged violations through 2010. The DOJ advised that some action would 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, 2015.

In addition, the El Dorado Facility is currently operating under a consent administrative order 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. The final

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

**Note 9: Commitments and Contingencies (continued)**

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, 2015, in connection with this matter.

**2. Air Matters**

One of our subsidiaries, PCC, within our Chemical Business, has been advised that the Oklahoma Department of Environmental Quality is conducting an investigation into whether the chemical production facility located in Pryor, Oklahoma was in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions relating primarily to 2011 were intentionally reported incorrectly to the ODEQ. PCC has cooperated with the ODEQ in connection with this investigation. As of March 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 May 2014, the EPA conducted a Risk Management inspection of our Cherokee Facility. During October 2014, our Cherokee Facility received a notice of violation from the EPA as a result of the inspection listing eleven alleged violations. Our Cherokee Facility has had numerous conference calls and provided the EPA with written responses. During a March 2015 conference call with the EPA, the EPA provided our Cherokee Facility with some preliminary penalties as a result of the alleged violations. We anticipate receiving a formal notice of violation during 2015 from the EPA, which notice will state the amount of the penalty that the EPA will assert against the Cherokee Facility. As a result, we have accrued an estimated amount for penalties of approximately \$112,000, which is included in our accrued liabilities for environmental matters discussed above.

In 2002, two subsidiaries within our Chemical Business sold substantially all of their operating assets relating to a Kansas chemical 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 Hollowell 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 Hollowell Facility as discontinued operations.

The successor of a prior owner of the Hollowell Facility 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 Environmental Quality, subject to reallocation.

Our subsidiary and Chevron are pursuing with the state of Kansas, including the Kansas Department of Health and Environmental, a corrective action strategy relating to the Hollowell Facility. This strategy currently includes a long-term surface and groundwater monitoring to track the natural decline in contamination. During December 2014, the KDHE approved a corrective action study work plan, and the KDHE is to consider and recommend restoration or replacement pursuant to the work plan and/or whether to seek compensation. The KDHE will consider the recommendations in its evaluation. Currently, it is unknown what remediation and damages the KDHE would require, if any, but we believe that certain remediation activities will be required to begin during 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 Hollowell Facility, which study is not scheduled to be completed until the end of 2015. We have been advised by our consultant that until the study has been completed there are too many unknowns to have a meaningful and reliable estimate as to the cost of the remediation. We have accrued for 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 relating to the study during 2015, our estimated accrual will be refined.

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

**Note 9: Commitments and Contingencies (continued)**

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

In 2013, an explosion and fire occurred at the West Fertilizer Co. located in West, Texas, causing death, bodily injury and substantial property damage. West Fertilizer is not owned or controlled by us, but West Fertilizer had been a customer of EDC, purchasing AN from EDC from time to time. LSB and EDC previously received letters from counsel purporting to represent subrogated insurance carriers, personal injury claimants and persons who suffered property damages informing them 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. Other manufacturers of AN also supplied AN to West Fertilizer. Initially, the lawsuits that had been filed named West Fertilizer and another supplier of AN as defendants. There have been certain responses to discovery in connection with the pending lawsuits that possibly some of the AN products at West Fertilizer at the time of the explosion may have been produced by EDC. 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. Plaintiffs are alleging, 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 has 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 have 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. Our legal counsel in this matter has represented to us that while it is extremely early in this litigation, they believe our chances of ultimately confirming the merits of EDC's legal position are probable. However, if there is an adverse outcome in this matter as to EDC, we are unable to estimate a possible range of loss at this time. As of March 31, 2015, no liability has been established in connection with this matter, but we have incurred professional fees up to our self-insured retention amount.

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of \$250,000 or \$500,000 per claim, depending on the policy period. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible. At March 31, 2015, our accrued general liability insurance claims were \$576,000 and are included in accrued and other liabilities. 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 10: 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 Bayer. 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 Bayer are accounted for on a fair value basis (as discussed below) unless we enter into a firm sales commitment to sell the carbon credits. 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, 2015, the valuations of contracts classified as Level 2 related to certain futures/forward natural gas contracts, a foreign exchange contract and an interest rate swap contract.

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, 2015, the valuation inputs included the contractual weighted-average cost of \$3.09 per MMBtu and the estimated weighted-average market value of \$2.73 per MMBtu.



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

**Note 10: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)**

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 1.27 and the total estimated market exchange rate of 1.07 (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 March 31, 2015, the valuation inputs included the contractual weighted-average pay rate of 3.23% and the estimated market weighted-average receive rate of 0.44%. 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, 2015 and December 31, 2014, the valuations (\$2.50 per carbon credit, for both periods) 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 and associated contractual obligations.

**Commodities Contracts**

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and natural gas and platinum used by our Chemical Business. 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, 2015, our futures/forward copper contracts include 1,950,000 pounds of copper and extend through December 2015 at a weighted-average cost of \$2.96 per pound. At December 31, 2014, our futures/forward copper contracts include 1,750,000 pounds of copper, extend through May 2015 at a weighted-average cost of \$2.98 per pound. At March 31, 2015, our futures/forward natural gas contracts (accounted for on a mark-to-market basis) include approximately 6,406,000 MMBtu of natural gas and extend through June 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of \$3.09 per MMBtu. At December 31, 2014, our futures/forward natural gas contracts include 8,279,000 MMBtu of natural gas and extend through June 2016 at a weighted-average cost of \$3.24 per MMBtu. At March 31, 2015, our futures/forward platinum contracts include 3,000 ounces of platinum and extend through July 2015 at a weighted-average cost of \$1,120.87 per ounce. At December 31, 2014, our futures/forward platinum contracts include 3,000 ounces of platinum and extend 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 business operations 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, 2015, our foreign exchange contract was for the receipt of approximately 648,000 Euros through May 2015 at the contractual exchange rate of 1.27 (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.

**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 the three months ended March 31, 2015 and 2014, 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.

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

**Note 10: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)**

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 performed at the Baytown Facility. Pursuant to the terms of the agreement with Bayer, 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 Bayer and EDN. We have no obligation to reimburse Bayer 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, 2015 and December 31, 2014, we had approximately 1,086,000 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.

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

Description	Total Fair Value at March 31, 2015	Fair Value Measurements at March 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)					
<b>Assets - Supplies, prepaid items and other:</b>					
Commodities contracts	\$ 68	\$ 68	\$ —	\$ —	\$ —
Carbon credits	2,716	—	—	2,716	2,779
Total	<u>\$ 2,784</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 2,716</u>	<u>\$ 2,779</u>
<b>Liabilities - Current and noncurrent accrued and other liabilities:</b>					
Commodities contracts	\$ 2,696	\$ 421	\$ 2,275	\$ —	\$ 2,440
Contractual obligations - carbon credits	2,716	—	—	2,716	2,779
Interest rate contracts	551	—	551	—	671
Foreign exchange contracts	129	—	129	—	44
Total	<u>\$ 6,092</u>	<u>\$ 421</u>	<u>\$ 2,955</u>	<u>\$ 2,716</u>	<u>\$ 5,934</u>

None of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications for the three months ended March 31, 2015. 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):

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

**Note 10: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)**

	Assets		Liabilities	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014
	(In Thousands)			
Beginning balance	\$2,779	\$ 1,284	\$(2,779)	\$(1,284)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total realized and unrealized gains (losses) included in earnings	(30)	1,925	30	(1,634)
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	(33)	(1,536)	—	—
Settlements	—	—	33	1,245
Ending balance	<u>\$2,716</u>	<u>\$ 1,673</u>	<u>\$(2,716)</u>	<u>\$(1,673)</u>
Total gains (losses) for the period included in earnings attributed to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	<u>\$ —</u>	<u>\$ 1,004</u>	<u>\$ —</u>	<u>\$(1,004)</u>

Net gains (losses) included in earnings and the income statement classifications are as follows:

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
<b>Total net gains (losses) included in earnings:</b>		
Cost of sales - Undesignated commodities contracts	\$(1,978)	\$ 2,216
Cost of sales - Undesignated foreign exchange contracts	\$ (93)	\$ —
Other income - Carbon credits	(30)	1,925
Other expense - Contractual obligations relating to carbon credits	30	(1,634)
Interest expense - Undesignated interest rate contracts	(31)	(20)
	<u>\$(2,102)</u>	<u>\$ 2,487</u>

At March 31, 2015 and December 31, 2014, we did not have any financial instruments with fair values significantly different from their carrying amounts, except for the Senior Secured Notes. At March 31, 2015 and December 31, 2014, the estimated fair value of the Senior Secured Notes exceeded the carrying value by approximately \$17 million based on a quoted price of 104.0. These valuations are 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 7 - Asset Retirement Obligations.

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

**Note 11: Income Taxes**

Provisions for income taxes are as follows:

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
<b>Current:</b>		
Federal	\$ 158	\$ 980
State	847	675
Total Current	<u>\$1,005</u>	<u>\$ 1,655</u>
<b>Deferred:</b>		
Federal	\$2,846	\$ 5,393
State	330	606
Total Deferred	<u>\$3,176</u>	<u>\$ 5,999</u>
Provisions for income taxes	<u>\$4,181</u>	<u>\$ 7,654</u>

For the three months ended March 31, 2015 and 2014, the current provisions 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, 2015 and 2014, the current provisions for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions.

Our annual estimated effective rate for 2015 includes the impact of permanent tax differences, such as energy tax credits and other permanent items.

The tax provision for the three months ended March 31, 2015 and 2014 was \$4.2 million (39% of pre-tax income) and \$7.7 million (40% of pre-tax income), respectively.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2011-2013 years remain open for all purposes of examination by the U.S. Internal Revenue Service and other major tax jurisdictions.

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

**Note 12: Segment Information**

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
<b>Net sales:</b>		
Chemical (1)	\$126,814	\$115,221
Climate Control	65,198	60,349
Other	1,846	2,955
	<u>\$193,858</u>	<u>\$178,525</u>
<b>Gross profit: (2)</b>		
Chemical (1) (3)	\$ 21,830	\$ 28,426
Climate Control	19,962	19,264
Other	567	1,032
	<u>\$ 42,359</u>	<u>\$ 48,722</u>
<b>Operating income (loss): (4)</b>		
Chemical (1) (3)	\$ 16,660	\$ 28,813
Climate Control	4,312	4,332
Other	(2)	387
General corporate expenses (5)	<u>(6,747)</u>	<u>(7,671)</u>
	14,223	25,861
Interest expense, net (6)	3,398	6,708
Non-operating expense (income), net:		
Chemical	(33)	(77)
Corporate and other business operations	(2)	—
Provisions for income taxes	4,181	7,654
Equity in earnings of affiliate - Climate Control	—	(67)
<b>Income from continuing operations</b>	<u>\$ 6,679</u>	<u>\$ 11,643</u>

- (1) During the first quarter of 2014, our Chemical Business experienced downtime at the Pryor Facility resulting in lost production and adverse effect on operating results.
- (2) Gross profit by business segment represents net sales less cost of sales. Gross profit classified as "Other" relates to the sales of industrial machinery and related components.
- (3) During the first quarter of 2014, we recognized business interruption and property insurance recoveries totaling \$28.0 million, of which approximately \$22.9 million was recognized as a reduction to cost of sales.
- (4) Our chief operating decision makers use operating income (loss) by business segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income (loss) by business segment represents gross profit (loss) by business segment less selling, general and administrative expense ("SG&A") incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses.

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

**Note 12: Segment Information (continued)**

(5) General corporate expenses consist of the following:

	Three Months Ended March 31,	
	2015	2014
(In Thousands)		
Selling, general and administrative:		
Personnel costs	\$(2,602)	\$(1,715)
Fees and expenses relating to shareholders (A)	(1,679)	(4,200)
Professional fees	(1,544)	(1,188)
All other	(897)	(591)
Total selling, general and administrative	(6,722)	(7,694)
Other income	24	23
Other expense	(49)	—
Total general corporate expenses	<u>\$(6,747)</u>	<u>\$(7,671)</u>

(A) These fees and expenses include costs associated with evaluating and analyzing proposals received from certain activist shareholders and dealing, negotiating and settling with those shareholders in order to avoid proxy contests.

(6) During the three months ended March 31, 2015 and 2014, interest expense is net of capitalized interest of \$5.6 million and \$2.3 million, respectively.

Information about our total assets by business segment is as follows:

	March 31, 2015	December 31, 2014
	(In Thousands)	
Chemical	\$ 945,147	\$ 929,745
Climate Control	130,784	133,183
Other	5,995	5,960
Corporate assets	58,643	68,117
Total assets	<u>\$1,140,569</u>	<u>\$1,137,005</u>

**Note 13: Related Party Transactions****Golsen Group**

During the first quarter of 2015 and 2014, we paid dividends totaling \$300,000, respectively, 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 Group.

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

**Note 14: Supplemental Cash Flow Information**

The following provides additional information relating to cash flow activities:

	Three Months Ended March 31,	
	2015	2014
	(In Thousands)	
Cash refunds for income taxes, net	\$ (3,786)	\$ (6,895)
Noncash investing and financing activities:		
Accounts payable and long-term debt associated with additions of property, plant and equipment	\$44,618	\$13,601
Accounts payable, long-term debt associated with additions of capitalized internal-use software and software development	\$ 1,299	\$ 1,239

**Note 15: Subsequent Event**

On April 30, 2015, a class action lawsuit was filed against our subsidiary, ClimateMaster, Inc. ("CM"), in the case styled Emmert, et al. v. ClimateMaster, Inc., in the United States District Court, Western District of Oklahoma. CM is a subsidiary within our Climate Control Business. The lawsuit alleges that a manufacturing defect in the air conditioning and heat pump equipment manufactured by CM has caused failures in certain valves used in such equipment resulting in damages sustained by consumers and the contractors, and further alleges that CM sold the equipment despite knowing of these defects. The plaintiffs are alleging that there are more than 100 class members and that the aggregate amount in controversy exceeds \$5 million, exclusive of interest and costs. Plaintiffs seek actual and punitive damages, together with recovery of certain expenses. Because we have just been notified of this lawsuit, we have not had an opportunity to investigate the claims contained therein, but intend to vigorously defend this matter. We are also investigating whether such claims come within our insurance coverage, and, as of the date hereof, have not determined if the claims alleged in the lawsuit are covered under our insurance policy.

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### **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 should be read in conjunction with a review of the other Items included in this Form 10-Q including our March 31, 2015 condensed consolidated financial statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

#### **Overview**

##### **General**

LSB is a manufacturing and marketing company operating through our subsidiaries. LSB and its wholly-owned subsidiaries own the following core businesses:

- Chemical Business manufactures and sells nitrogen-based chemical products for the agricultural, industrial, and mining markets it produces from four facilities located in El Dorado, Arkansas; Cherokee, Alabama; Pryor, Oklahoma; and Baytown, Texas.
- Climate Control Business manufactures and sells a broad range of HVAC products that include water source and geothermal heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers, and other related products and services. These products are primarily used in commercial/institutional and residential new buildings construction, renovation of existing buildings and replacement of existing systems. Our Climate Control Business manufactures and distributes its products from seven facilities located in Oklahoma City, Oklahoma.

#### **Items Affecting Comparability of Results**

##### **Chemical Business**

###### ***Property and Business Interruption Insurance Claims and Recoveries***

In January 2014, we settled a claim with our insurance carriers for the aggregate amount of approximately \$43.5 million related to business interruption and property damage at our Cherokee Facility. In the first quarter of 2014, we recognized the remaining \$28.0 million of this claim, of which approximately \$22.9 million was recognized as a reduction to cost of sales and \$5.1 million was recognized as property insurance recoveries in excess of losses incurred.

###### ***Debt and Interest Expense***

During August 2013, in connection with a major expansion of our El Dorado Facility, LSB sold \$425 million of 7.75% Senior Secured Notes. During the first quarter of 2014 and 2015, interest expense was \$6.7 million and \$3.4 million, respectively net of capitalized interest of \$2.3 million and \$5.6 million, respectively. Interest was capitalized based upon construction in progress of the El Dorado expansion and certain other capital projects.

##### **Key Industry Factors**

##### **Chemical Business**

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

###### **Agricultural**

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.



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As reported in Green Markets and based upon the January USDA release of its 2014 Crop Production Summary and the WASDE Report dated April 9, 2015, for the 2014/2015 corn season, production is estimated at 14.2 billion bushels or 351 million metric tons, 3% above the prior season. Additionally, the average U. S. yield for the 2014/2015 corn season was an estimated record of 171.0 bushels per acre compared to 158.1 bushels per acre in the prior season. WASDE also estimated the ending U.S. corn stocks to be 46.4 million metric tons compared to 31.3 million metric tons at the same time last season for the same period. Due to the expectation of the abundant supply, corn prices are low relative to pricing over the last three years; most recently reported at \$3.81 per bushel. 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 and demand which likely will drive ammonia, UAN and urea prices. Current WASDE estimates are for 88-89 million acres of corn to be planted in 2015 compared to approximately 91 million planted in 2014. However with fewer acres, farmers will expect better yields requiring increased nitrogen fertilizers. Notwithstanding the current conditions, the fundamentals continue to be positive for nitrogen fertilizer products we produce and sell and gross margins still continue to be favorable, with the current exception of AN produced at the El Dorado Facility from purchased ammonia, which is one of the reasons for the current construction project of an ammonia plant at our El Dorado Facility. Additionally, while unfavorable weather conditions were experienced during the quarter, mainly excessive rain and cooler temperatures that has delayed nitrogen applications, the demand for nitrogen during the second quarter should be strong.

### Industrial

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. 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

Our mining products are industrial grade AN and AN solutions. The primary uses are as ammonium nitrate fuel oil, specialty emulsions primarily in surface mining of coal and for usage in quarries and the construction industry. As reported by the U.S. Energy Information Administration, annual coal production for 2014 was up 1% over 2013. EIA is forecasting a 7% decline in coal production for 2015, before growing 2% in 2016 with the Appalachia region expected to drive the decline in coal production with expected declines of approximately 13% in 2015. For 2015, the Powder River Basin and the Illinois Basin regions are estimated to decline 6% and 2%, respectively. We believe that coal production in the U.S. will face significant challenges assuming that natural gas prices remain at current levels and given that export demand could be lower due to the current strong 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 industrial grade AN.

### *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. 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 America with a cost advantage over certain imports. As a result, we believe that 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. We historically 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 fluctuations, which has have an impact on our cost of producing nitrogen fertilizer. The following table shows the first quarter volume of natural gas we purchased and the average cost per MMBtu:

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	<u>2015</u>	<u>2014</u>
Natural gas volumes (MMBtu in millions)	3.3	2.5
Natural gas average cost per MMBtu	<u>\$3.32</u>	<u>\$4.61</u>

Beginning in December 2014, Henry Hub natural gas prices have trended below \$4.00 averaging approximately \$2.90 in the first quarter of 2015.

### ***Ammonia Prices***

Ammonia is the primary feedstock for the production of agricultural and industrial grade AN at our El Dorado Facility. Ammonia pricing is based on a published Tampa, Florida market index. The Tampa index is commonly used in annual contracts for both the agricultural and 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. Additionally, the El Dorado Facility's cost to produce agricultural grade AN from purchased ammonia can periodically exceed our selling price (a cost disadvantage as compared to producing ammonia from natural gas) as discussed below. Subject to availability, the El Dorado Facility has the ability to source a portion of its ammonia requirements from our Pryor Facility, which cost is significantly lower than current market prices. Once our new ammonia production plant at the El Dorado Facility commences production (expected to begin in the first quarter of 2016), we believe this cost disadvantage will be eliminated. Over the past several years, ammonia prices have experienced large fluctuations. The table below shows the El Dorado Facility's first quarter volume of ammonia purchased and the average cost per short ton:

	<u>2015</u>	<u>2014</u>
Ammonia volumes (tons in thousands)	38	40
Ammonia average cost per short ton	<u>\$488</u>	<u>\$419</u>

Based upon full plant production, the El Dorado Facility would normally purchase 200,000 to 220,000 tons per year of ammonia feedstock. In the first quarters of 2015 and 2014, the purchased ammonia was less than the amount required for full production due to tons paid for but not taken by Orica, normal seasonal first quarter agricultural AN demand and lower nitric acid capacity in both periods due to the loss of the DSN plant in 2012. It is expected that this trend will continue in 2015 as El Dorado marketing continues to rebuild sales volumes after the Orica contract expiration, negatively impacted our operating results.

As mentioned above, our El Dorado Facility produces agricultural grade AN, nitric acid and industrial grade AN from purchased ammonia, which is currently at a cost disadvantage compared to products produced from natural gas. During the first quarter of 2015, the spread difference per ton between the ammonia purchased by the El Dorado Facility as compared to the cost had the facility produced ammonia using natural gas was approximately \$290 per ton. This cost disadvantage resulted in an operating loss for the facility during the period of approximately \$4 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 was imported. Therefore, nitrogen fertilizer prices in the U.S. are influenced by the cost to transport product from exporting countries, giving domestic producers that transport shorter distances an advantage.

## **Climate Control Business**

### ***Construction Markets***

Our Climate Control Business serves the new and renovation commercial/institutional and residential construction sectors, and we believe the majority of our business is associated with the construction of new facilities. Information available from the CMFS forecast indicates that construction activity in the commercial/institutional markets we serve (including multi-family residential structures) is expected to increase 7% in aggregate during 2015 and is near 2007 pre-recession levels and single-family residential construction is expected to grow 15% during 2015, however, still well below pre-recession levels. In particular, the hospitality, education and multi-family vertical end markets of the commercial/institutional sector are expected to grow faster than other vertical end markets we serve.

We expect the Climate Control Business to experience sales growth in the short-term. Although a part of the Climate Control Business' commercial/institutional sales are products that are used for renovation and replacement applications, sales increases in the medium-term and long-term are expected to be primarily driven by growth in new construction, as well as the introduction of new products specifically in the hospitality, education and healthcare verticals end markets. Our expectations for our residential products, which are all GHPs, are that they will experience minimal growth due to the higher relative total system purchase cost of our higher efficiency GHP product offerings as compared to traditional HVAC systems creating a longer payback period in most regions due to low natural gas prices than in previous years with higher natural gas prices. We continue to focus our sales and marketing efforts to increase our share of the existing market for our products as well as expand the markets for and application of our products, especially utilizing high efficiency/"green" technology.

## **Key Operational Factors**

### **Chemical Business**

#### ***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 the market, 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. Going forward, we anticipate that Turnarounds at our Cherokee Facility typically will be performed every two years, expecting to last 25 to 30 days. Turnarounds at our Pryor Facility currently are performed every year, and typically last between 20 to 25 days. We are currently anticipating a Turnaround at our Pryor Facility in July of 2015. At our El Dorado Facility, since we are able to perform Turnaround projects on individual plants without shutting down the entire facility, we believe that the impact of lost production will be less significant. Upon completion of the new ammonia plant at our El Dorado Facility, that facility is expected to begin with annual Turnarounds that will typically 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 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.

## **Climate Control Business**

### ***Product Orders, Sales and Ending Backlog***

Our Climate Control Business' first quarter 2015 total new product bookings were \$66.5 million, an increase of 5% and 15% over the first and fourth quarters of 2014, respectively. Despite the loss of Carrier's heat pump contracts as previously reported, our commercial bookings increased 7% over the first quarter 2014, whereas our residential product bookings declined 7%.

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Excluding Carrier heat pump activity, commercial and residential bookings increased 19% and 15%, respectively. Our backlog significantly improved in 2015 over 2014 due to increased orders for our hydronic fan coils and larger custom air handlers as a result of increase quote activity in the vertical markets we serve.

The following table shows information relating to our product order intake level, net sales and backlog of confirmed customer product orders of our Climate Control Business:

	New Orders (1)		Net Sales		Ending Backlog (1)	
	2015	2014	2015	2014	2015	2014
	(In Millions)					
First Quarter	\$66.5	\$ 63.2	\$65.2	\$ 60.3	\$ 68.6	\$ 44.7
Second Quarter		\$ 83.1		\$ 62.8		\$ 68.1
Third Quarter		\$ 74.1		\$ 73.5		\$ 73.5
Fourth Quarter		\$ 58.0		\$ 68.8		\$ 64.9
Fiscal Year		<u>\$278.4</u>		<u>\$265.4</u>		

- (1) Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval. Our backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we typically expect to ship substantially all of these orders within the next twelve months. However, the March 31, 2015 backlog includes two orders totaling approximately \$4.3 million expected to ship in twelve to fifteen months. It is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms. Product orders and backlog, as reported, generally do not include amounts relating to shipping and handling charges, service orders or service contract orders. In addition, product orders and backlog, as reported, exclude contracts related to our construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.

For April 2015, our new orders received were approximately \$22.0 million and our backlog was approximately \$69.8 million at April 30, 2015.

### ***Operational Excellence Activities***

We are in the second full year of our operational excellence initiatives to become a world class company in terms of safety, quality, delivery and cost. We believe world class performance will benefit our Climate Control Business through a high level of customer satisfaction, enhanced employee engagement, faster growth and improved margins. During the past two years, we completed value analysis/value engineering activities that are part of our operational excellence initiatives at each of our companies within our Climate Control Business. In addition, we have laid the foundation for the continuous improvement culture desired in our organization. Key metrics include measurements and targets for sales volume, material, direct labor, safety, quality, delivery and asset management.

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### **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, 2015 and 2014 and accompanying notes and the discussions under “Overview” and “Liquidity and Capital Resources” included in this MD&A.

We present the following information about our results of operations for our two core business segments: the Chemical Business and the Climate Control Business. The business operation classified as “Other” primarily sells industrial machinery and related components to machine tool dealers and end users. Net sales by business segment include net sales to unaffiliated customers as reported in the consolidated financial statements. Intersegment net sales are not significant. Gross profit by business segment represents net sales less cost of sales. In addition, our chief operating decision makers use operating income by business segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income by business segment represents gross profit by business segment less SG&A incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses. General corporate expenses consist of SG&A, other income and other expense that are not allocated to one of our business segments.

The following table contains certain information about our continuing operations in different business segments on a consolidated basis for the three months ended March 31,

	2015	2014
	(In Thousands)	
Net sales:		
Chemical	\$ 126,814	\$ 115,221
Climate Control	65,198	60,349
Other	1,846	2,955
	<u>\$ 193,858</u>	<u>\$ 178,525</u>
Gross profit:		
Chemical	\$ 21,830	\$ 28,426
Climate Control	19,962	19,264
Other	567	1,032
	<u>\$ 42,359</u>	<u>\$ 48,722</u>
Operating income (loss):		
Chemical	\$ 16,660	\$ 28,813
Climate Control	4,312	4,332
Other	(2)	387
General corporate expenses	<u>(6,747)</u>	<u>(7,671)</u>
	14,223	25,861
Interest expense, net	3,398	6,708
Non-operating expense (income), net:		
Chemical	(33)	(77)
Corporate and other business operations	(2)	—
Provisions for income taxes	4,181	7,654
Equity in earnings of affiliate - Climate Control	—	(67)
Income from continuing operations	<u>\$ 6,679</u>	<u>\$ 11,643</u>
Additions to property, plant and equipment:		
Chemical	\$ 76,689	\$ 43,444
Climate Control	113	483
Other	24	4
Corporate	—	69
	<u>\$ 76,826</u>	<u>\$ 44,000</u>
Depreciation, depletion and amortization of property, plant and equipment:		
Chemical	\$ 7,679	\$ 7,389
Climate Control	1,167	1,137
Other	9	8
Corporate	146	145
	<u>\$ 9,001</u>	<u>\$ 8,679</u>

**Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014**

**Chemical Business**

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for the three months ended March 31,

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
<b>Net sales:</b>				
Agricultural products	\$ 68,355	\$ 59,523	\$ 8,832	14.8%
Industrial acids and other chemical products	40,508	37,189	3,319	8.9%
Mining products	16,867	14,433	2,434	16.9%
Other products	1,084	4,076	(2,992)	(73.4)%
Total Chemical	<u>\$126,814</u>	<u>\$115,221</u>	<u>\$ 11,593</u>	10.1%
Gross profit - Chemical	<u>\$ 21,830</u>	<u>\$ 28,426</u>	<u>\$ (6,596)</u>	(23.2)%
Gross profit percentage - Chemical (1)	17.2%	24.7%	(7.5)%	
Operating income - Chemical	<u>\$ 16,660</u>	<u>\$ 28,813</u>	<u>\$ (12,153)</u>	(42.2)%

(1) As a percentage of net sales

**Net Sales – Chemical**

Our Chemical Business sales in the agricultural markets were primarily at the spot market price in effect at the time of sale or at a negotiated future price. Most of our Chemical Business 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 first quarter 2015 production and sales volumes were higher in the agricultural products market and stable in our other two primary markets due to consistent customer demand and improved on-stream production rates at the Pryor and Cherokee Facilities.

- Agricultural products comprised approximately 54% and 52% of the Chemical Business' net sales for the first quarter 2015 and 2014, respectively. Agricultural products sales increased during the first quarter of 2015 as more product was available to sell resulting from the increased on-stream rate of our Pryor and Cherokee Facilities and a higher average selling price for sales of nitrogen fertilizers. Compared to the first quarter of 2014, the 2015 overall average agricultural products selling prices per ton increased by 2%, driven by a 22% increase in ammonia prices and a 2% increase in AN prices partially offset by a 4% decrease in UAN prices. The decrease in selling prices for UAN fertilizers was attributable to lower commodity prices coupled with lower urea prices due to the large amount of imports.
- Industrial acids and other chemical products sales increased as a result of higher prices from the pass-through of increased ammonia costs to contractual customers partially offset by lower volumes at our Baytown Facility.
- Mining products sales increased primarily as a result of higher prices from the pass-through of increased ammonia costs to our contractual customers partially offset by lower volumes at our Cherokee Facility.
- Other products relates to natural gas sales from our working interests in certain natural gas properties. The decrease in natural gas sales is due to lower sales prices and lower production volumes as the operator of these properties is delaying development due to the current low net selling prices of natural gas in the Marcellus Shale region.

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### Gross Profit - Chemical

- Our gross profit decreased \$6.6 million during the first quarter of 2015 as compared to the first quarter of 2014. The first quarter of 2014 included a business interruption insurance recovery of \$22.9 million. Excluding the business interruption insurance recovery, gross profit increased \$16.3 million quarter over quarter. The increase of \$16.3 million was due to the higher sales level made possible by the improved on-stream production rate of our Pryor and Cherokee Facilities and higher average sales prices coupled with lower feedstock costs. Natural gas feedstock costs decreased approximately 28% partially offset by a 16% increase in ammonia feedstock costs.
- Unrealized losses related to forward contracts on natural gas purchases decreased 2015 gross profit by \$1.2 million for the first quarter of 2015 compared to a \$0.7 million unrealized gain in the same period in 2014.

### Operating Income - Chemical

- Our Chemical Business' operating income was \$16.7 million, a decrease of \$12.2 million. In addition to the business interruption insurance recovery included in gross profit discussed above, a property insurance recovery of \$5.1 million was recognized in the first quarter of 2014. Excluding the total insurance recoveries of \$28.0 million in the first quarter of 2014, operating income increased \$15.8 million primarily as the result of the items discussed above.

### Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for the three months ended March 31,

	2015	2014	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Water source and geothermal heat pumps	\$37,494	\$38,482	\$ (988)	(2.6)%
Hydronic fan coils	16,475	15,279	1,196	7.8%
Other HVAC products	11,229	6,588	4,641	70.4%
Total Climate Control	<u>\$65,198</u>	<u>\$60,349</u>	<u>\$4,849</u>	8.0%
Gross profit - Climate Control	<u>\$19,962</u>	<u>\$19,264</u>	<u>\$ 698</u>	3.6%
Gross profit percentage - Climate Control (1)	<u>30.6%</u>	<u>31.9%</u>	<u>(1.3)%</u>	
Operating income - Climate Control	<u>\$ 4,312</u>	<u>\$ 4,332</u>	<u>\$ (20)</u>	(0.5)%

- (1) As a percentage of net sales

### Net Sales – Climate Control

- Net sales of our water source and geothermal heat pump products decreased in the first quarter of 2015 primarily as a result of the loss of the Carrier heat pump contracts. Excluding Carrier heat pump sales, sales increased from \$32.2 million in the first quarter of 2014 to \$37.3 million in the first quarter of 2015, or 16%, with commercial/institutional product sales up 14% and residential product sales up approximately 22%. Overall, the number of units sold declined but the unit average unit selling price increased due to lower Carrier sales. From a commercial/institutional market perspective, gains were seen in the retail and multi-family sectors with a slight decline in the education sector. Incoming orders, excluding Carrier, for commercial/institutional products and residential products increased 11% and 15%, respectively.
- Net sales of our hydronic fan coils increased as a result of an increase number of units sold and favorable product mix. We experienced only minor fluctuations in the vertical markets served.

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- Net sales of our other HVAC products increased primarily due to increased sales of our large custom air handlers and modular chillers, up 95% and 50%, respectively. In both areas, incoming order levels and customer requested product delivery dates during 2014 resulted in higher beginning backlogs in 2015 and facilitated higher sales during 2015. From a vertical market perspective, there were no significant shifts in the sectors served.

### **Gross Profit - Climate Control**

- The increase in gross profit in our Climate Control Business was primarily the result of the higher sales discussed above. The lower gross profit as a percentage of sales was primarily the result of product mix as residential products, which carry a higher gross margin declined in proportion to commercial/institutional products and as margins on large custom air handlers are lower than those of other product lines.

### **Operating Income - Climate Control**

- Operating income in the first quarter of 2015 was basically flat compared to the same period of 2014. The increase in gross profit was offset by higher variable selling expenses. The higher variable selling expenses were caused primarily by a change in product, distribution channel and customer mix with lower OEM sales at CM causing freight and commissions to increase as a percentage of sales partially offset by lower warranty expenses in the first quarter of 2015. Fixed expenses for the first quarter of 2015 were consistent with the same period of 2014.

### **Interest Expense, net**

Interest expense for the first quarter of 2015 was \$3.4 million compared to \$6.7 million for the same period in 2014. The decrease is due primarily to capitalized interest on capital projects under development and construction during 2015 of \$5.6 million compared to \$2.3 million capitalized during 2014.

### **Provision for Income Taxes**

The provision for income taxes for the first quarter of 2015 was approximately \$4.2 million compared to \$7.7 million for the same period in 2014. The resulting effective tax rate for the first quarters of 2015 and 2014 was 39% and 40%.

### **Liquidity and Capital Resources**

Historically, our primary cash needs have been for operating expenses, working capital and capital expenditures. We have financed our cash requirements primarily through internally generated cash flow and various forms of financing. See additional discussions concerning cash flow relating to our Chemical and Climate Control Businesses under "Overview" and "Results of Operations included in this MD&A. Before discussing our capitalization and capital projects in detail, the following summarizes our cash flow activities for the three months ended March 31, 2015:

#### **Cash Flow from Continuing Operating Activities**

Net cash provided by continuing operating activities was \$12.6 million primarily as the result of net income of \$6.6 million plus adjustments of \$9.0 million for depreciation, depletion and amortization of PP&E.

#### **Cash Flow from Continuing Investing Activities**

Net cash used by continuing investing activities was \$31.9 million that consisted primarily of \$66.8 million used for expenditures for PP&E primarily for the benefit of our Chemical Business and purchases of short-term investments of \$10.0 million, partially offset by proceeds of \$46.0 million from restricted cash and cash equivalents primarily representing cash designated by management for specific capital projects relating to our Chemical Business.

#### **Cash Flow from Continuing Financing Activities**

Net cash used by continuing financing activities was \$5.9 million that primarily related to payments on short-term financing and long-term debt.



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### **Capitalization**

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

	March 31, 2015	December 31, 2014
	(In Millions)	
Cash and cash equivalents and short-term investments	\$ 186.1	\$ 201.3
Noncurrent restricted cash and cash equivalents and investments (1)	25.0	71.0
<b>Total current and noncurrent cash and investments</b>	<b>\$ 211.1</b>	<b>\$ 272.3</b>
Long-term debt:		
Senior Secured Notes	\$ 425.0	\$ 425.0
Secured Promissory Note	21.1	22.8
Other	9.6	9.5
<b>Total long-term debt, including current portion</b>	<b>\$ 455.7</b>	<b>\$ 457.3</b>
<b>Total stockholders' equity</b>	<b>\$ 441.9</b>	<b>\$ 434.0</b>

- (1) At March 31, 2015, this balance includes a certificate of deposit with an original maturity no longer than approximately 26 weeks. We have designated this balance for specific purposes relating to capital projects. All of these investments were held by financial institutions within the U.S.

As of March 31, 2015, our current and noncurrent cash and investments totaled \$211.1 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.

For the remainder of 2015, we have extensive planned capital expenditures. Our primary cash needs for this period of time will be to fund our planned capital spending program, as well as our operations, our general obligations, and our interest payment requirements. Based upon our projections for 2015, we expect to fund these cash needs from working capital, the noncurrent restricted investments (provided from the proceeds from the Senior Secured Notes), internally generated cash flows, and third-party financing. In April 2015, we received approximately \$16 million to finance a natural gas pipeline being constructed at our El Dorado Facility. We are currently in discussion with certain lenders to finance two other separately identifiable pieces of equipment that are included in the planned expansion project. We are in final discussions regarding financing \$21 million related to the construction of a cogeneration facility and \$20 million related to the construction of an ammonia storage tank at our El Dorado Facility, subject to the terms of our existing loan agreements, including the Senior Secured Notes. We believe that neither the Senior Secured Notes nor the Amended Working Capital Revolver Loan will preclude us from entering into the additional borrowings. See additional discussions below under "Capital Additions". Our internally generated cash flows and liquidity have been, and could be, affected by possible declines in sales volumes resulting from the uncertainty regarding current economic conditions and production inefficiency of our facilities.

We are party to an Indenture governing the Senior Secured Notes. The Indenture contains covenants that, among other things, limit LSB's ability, with certain exceptions and as defined in the Indenture, to certain transactions.

We and certain of our subsidiaries are party to an amended and restated revolving credit facility. Pursuant to the terms of the Amended Working Capital Revolver Loan, the principal amount the Borrowers may borrow is up to \$100.0 million, based on specific percentages of eligible accounts receivable and inventories. At March 31, 2015, there were no outstanding borrowings under the Amended Working Capital Revolver Loan and the net credit available for borrowings was approximately \$75.6 million, based on our eligible collateral, less outstanding letters of credit as of that date.

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### **Capital Additions**

#### Capital Additions – First Quarter of 2015

Capital additions during the first quarter of 2015 were \$78.5 million, including \$76.7 million for the benefit of our Chemical Business. The Chemical Business capital additions included \$69.1 million for expansion projects at our El Dorado Facility, approximately \$5.0 million associated with maintaining compliance with environmental laws, regulations and guidelines, approximately \$3.8 million for various major renewal and improvement projects, and \$1.3 million for the development of natural gas leaseholds. The capital additions were funded primarily from noncurrent restricted cash and investments 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 during 2015 and future years.

#### Planned Capital Additions

	Planned Capital Additions For the Remainder of 2015 (In Millions)		
Chemical:			
El Dorado Facility Expansion Projects	\$162	–	\$187
Development of Natural Gas Leaseholds	2	–	4
Environmental Projects	14	–	18
Major Renewal and Improvement Projects	19	–	22
Other (1)	20	–	25
Total Chemical	\$217	–	\$256
Climate Control	5	–	10
Corporate and Other	5	–	10
	\$227	–	\$276

(1) Includes cost associated with savings initiatives, new market development, and other capital projects.

Included in planned capital expenditures is capitalized interest of approximately \$14.9 million for the remainder of 2015. The planned capital expenditures for Corporate and Other are primarily for the replacement of our enterprise resource planning, financial and operations management system. The new ERP system replaces our legacy systems, which are out-of-date and largely unsupported, and will improve our access to operational and financial information utilized to manage the business and improve our security and regulatory compliance capability. This project began in 2013 and is expected to be fully implemented in 2016 at a total cost of \$25.0 million to \$27.0 million.

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. These capital expenditures are subject to economic conditions, which are continually reviewed by us, and may increase or decrease as new information is obtained or circumstances change. We plan to fund the planned capital expenditures from working capital, noncurrent cash and investments, internally generated cash flows, and third-party financing.

As discussed below, the construction of the El Dorado Expansion projects are expected to be completed by the end of 2015. Beyond 2015, specific capital projects are less identified but are expected to include approximately \$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 \$28 million from 2016-2019 to fully develop our natural gas working interests. We plan to fund these expenditures from working capital, internally generated cash flows, and possibly third-party financing.

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### El Dorado Facility Expansion Projects

The El Dorado Facility has certain expansion projects underway. 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, which planned amounts are included in the table above.

	Capitalized To Date	Planned Capital Additions For the Remainder of 2015 (In Millions)			Total		
Ammonia Plant	\$ 172	\$ 113	–	\$ 128	\$285	–	\$300
Nitric Acid Plant and Concentrator	105	20	–	25	125	–	130
Other Support Infrastructure	56	29	–	34	85	–	90
	<u>\$ 333</u>	<u>\$ 162</u>	<u>–</u>	<u>\$ 187</u>	<u>\$495</u>	<u>–</u>	<u>\$520</u>

Our El Dorado Facility produces nitric acid and agricultural and industrial grade AN 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 should eliminate the cost disadvantage, increase capacity, and improve efficiency of the El Dorado Facility. The construction of this project is expected to be complete in late 2015 and operational in early 2016.

In addition, we are constructing a new 1,100 ton per day, 65% strength nitric acid plant and concentrator to replace the concentrated nitric acid capacity lost in May 2012. These plants are scheduled to begin production in the third quarter of 2015 and 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.

### **Plant Turnarounds**

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 result in lost contribution margin, increased maintenance expense and decreased inventory for sale. The financial impact of planned downtime, such as major Turnaround maintenance, is mitigated through a diligent planning process that takes into consideration the market, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Based on our current plan for Turnarounds for the remainder of 2015, we estimate that we will incur approximately \$1.8 million to \$2.3 million of these Turnaround costs. However, it is possible that the actual costs could be significantly different from our estimates.

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

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of \$1.3 million in the first quarter of 2015 in connection with environmental projects. For the remainder of 2015, we expect to incur expenses ranging from \$3.6 million to \$4.1 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates, including costs relating to a corrective action study work plan approved by the KDHE discussed under footnote 3 – Other Environmental Matters of Note 9 of Notes to Condensed Consolidated Financial Statements.

### **Fees and Expenses Related to Shareholders**

For the first quarter of 2015 and 2014, we incurred shareholder-related fees and expenses of \$1.7 million and \$4.2 million, respectively. These fees and expenses include costs associated with evaluating and analyzing proposals received from certain

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activist shareholders and dealing, negotiating and settling with those shareholders in order to avoid proxy contests. For the second quarter of 2015, we currently estimate that these expenses will range between \$1.5 million to \$2.0 million.

### **Dividends**

LSB is a holding company and, accordingly, its ability to pay cash dividends on its preferred stock and common stock depends in large part on its ability to obtain funds from its subsidiaries. Payment of dividends by LSB is limited under certain limited conditions under the terms of the Amended Working Capital Loan Agreement and the Senior Secured Notes.

Holders of our common stock and preferred stocks are entitled to receive dividends only when and if declared by our Board of Directors. 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 of Directors has not made a decision whether or not to pay such dividends on our common stock in 2015.

During the first quarter of 2015, dividends totaling \$300,000 were declared and paid on our outstanding preferred stock using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our Board of Directors, 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 Group. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

### **Compliance with Long - Term Debt Covenants**

The Amended Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants, including 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. As of March 31, 2015, as defined in the agreement, the fixed charge coverage ratio was 3.7 to 1. Currently, our forecast is that we will be able to meet all financial covenant requirements for the next twelve months.

### **Seasonality**

We believe chemical products sold by our Chemical Business to the agricultural industry are seasonal while sales into the industrial and mining sectors 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, our Chemical Business typically increases its inventory of AN 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.

### **Related Party Transactions**

See discussion above under "Liquidity and Capital Resources-Dividends" relating to the Golsen Group.

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

See our discussion on critical accounting policies and estimates in Item 7 of our 2014 Form 10-K. In addition, 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. For the first quarter of 2015, we did not experience a material change in accounting estimates. However, it is reasonably possible that the estimates and assumptions utilized as of March 31, 2015 could change in the near-term.

### **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

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performance of our subsidiaries. As of March 31, 2015, we have agreed to indemnify the sureties for payments, up to \$11.0 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2015.

### Off-Balance Sheet Arrangements

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

### Aggregate Contractual Obligations

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in our 2014 Form 10-K, we had certain contractual obligations as of December 31, 2014, with various maturity dates, showing payments due for the next five years and thereafter related to the following:

- long-term debt,
- interest payments on long-term debt,
- interest rate contracts,
- El Dorado facility expansion projects,
- other capital expenditures,
- operating leases,
- natural gas pipeline commitment,
- firm purchase commitments and,
- other contractual obligations.

## **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 copper, steel, ammonia and natural gas, changes in market interest rates, and changes in market currency exchange rates.

### Forward Sales Commitments Risk

Periodically, our Chemical and Climate Control Businesses 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, 2015, we had a minimal amount of embedded losses associated with sales commitments with firm sales prices relating to our Chemical Business.

### Commodity Price Risk

Our Chemical Business buys substantial quantities of natural gas (as a feedstock) and platinum (as a catalyst in the manufacturing process) generally at market prices and our Climate Control Business buys substantial quantities of copper for use in manufacturing processes. As part of our raw material price risk management, periodically, our Chemical Business enters into firm purchase commitments and/or futures/forward contracts for natural gas and our Climate Control Business enters into futures contracts for copper. Our Chemical Business has also acquired working interests in natural gas properties to serve as an economic hedge against potential higher natural gas prices for a portion of our future natural gas requirements.

Certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs. A portion of these contracts are considered derivatives and are accounted for on a mark-to-market basis and a portion of 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 March 31, 2015, the natural gas contracts accounted for on a mark-to-market basis were for approximately 6.4 million MMBtu of natural gas. These contracts extend through June 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of \$3.09 per MMBtu (\$19.8 million) and a weighted-average market value of \$2.73 per MMBtu (\$17.5 million).

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At March 31, 2015, our futures/forward natural gas contracts which are exempt from mark-to-market accounting included the firm purchase commitments of approximately 2.4 million MMBtu of natural gas. These contracts extend through December 2015 at a weighted-average cost of \$3.20 per MMBtu (\$7.6 million) and a weighted-average market value of \$2.78 per MMBtu (\$6.6 million).

At March 31, 2015, our platinum contracts, which are accounted for on a mark-to-market basis, included 3,000 ounces of platinum, extend through July 2015 at a weighted-average cost of \$1,120.87 per ounce (\$3.36 million) and a weighted-average market value of \$1,143.40 per ounce (\$3.43 million).

At March 31, 2015, our futures/forward copper contracts, which are accounted for on a mark-to-market basis, included 1,950,000 pounds of copper, extend through December 2015 at a weighted-average cost of \$2.96 per pound (\$5.8 million) and a weighted-average market value of \$2.74 per pound (\$5.3 million).

### **Interest Rate Risk**

Our interest rate risk exposure results from our debt portfolio that is impacted by short-term rates, primarily variable-rate borrowings from commercial banks, and long-term rates, primarily fixed-rate notes, some of which prohibit prepayment or require a substantial premium payment with the prepayment.

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. At March 31, 2015, we have an interest rate swap, which sets a fixed three-month LIBOR of 3.23% on a declining balance (from \$23.8 million to \$18.8 million) for the period beginning April 2012 through March 2016. This contract is a free-standing derivative and is accounted for on a mark-to-market basis. At March 31, 2015, the fair value of these contracts (unrealized loss) was \$0.6 million.

At March 31, 2015, we did not have any financial instruments with fair values significantly different from their carrying amounts, except for the Senior Secured Notes. At March 31, 2015, the estimated fair value of the Senior Secured Notes exceeded the carrying value by approximately \$17 million based on a quoted price of 104.0. This valuation is classified as Level 2. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurement of our long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

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

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the third quarter of 2014, we began implementing a new enterprise resource planning system. We are implementing this system in discreet phases during the next few years. As a result, this implementation requires us to monitor and maintain appropriate internal control over financial reporting during this transition. While we expect that our internal controls over financial reporting will remain largely similar or unchanged, it is possible that during each future phase of the implementation, we may make changes to our internal control over financial reporting that could materially affect our internal control over financial reporting. In addition, it is possible that during each phase of the implementation, we may make changes to our internal control over financial reporting that did not materially affect our internal control over financial reporting, but, when fully implemented, the cumulative effect of the changes made may be considered material.

**SPECIAL NOTE REGARDING  
FORWARD-LOOKING STATEMENTS**

Certain statements contained within this report may be deemed “Forward-Looking Statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words “believe”, “expect”, “anticipate”, “intend”, and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein include, but not limited to, the following:

- requirements for purchased ammonia;
- estimated shareholders-related expenses;
- the construction and sales outlook for the markets we serve and the products we sell in the Climate Control Business;
- the outlook of our chemical products and related markets;
- demand for our geothermal products;
- outlook for the coal industry;
- shipment of backlog;
- the impact from the ongoing Operational Excellence activities;
- the results of our strategy for our Climate Control Business;
- eliminating our external ammonia purchase requirements;
- changes in domestic fertilizer production and/or demand;
- increasing output and capacity of our existing production facilities;
- stimulating sales of our geothermal heat pump products, and other “green” products;
- eliminating the current ammonia cost disadvantage;
- improved sales in 2015 for our Climate Control Business;
- the sources to fund our cash needs and how this cash will be used;
- the ability to entering into the additional borrowings;
- completing the ERP implemented in 2016;
- completing the El Dorado expansion project during 2015;
- the results from the El Dorado expansion project;
- cost of our capital projects;
- sufficient sources for materials and components;
- compliance by the El Dorado Facility of the terms of its permits;
- dissolved mineral issue should not be an issue since the pipeline is operational;
- costs of compliance with environmental laws, health laws, security regulations and transportation regulations;
- when Turnarounds will be performed and completed;
- costs of Turnarounds during the remainder of 2015;
- expenses in connection with environmental projects;
- the impact of litigation and other contingencies;
- the increase in depreciation, depletion and amortization;
- benefits from the El Dorado expansion projects;
- meeting all required covenant tests for the next twelve months; and
- changes to internal controls over financial reporting

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

- changes in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material changes in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- adverse effect on increases in prices of raw materials;
- changes in federal, state and local laws and regulations, especially environmental regulations or the American Reinvestment and Recovery act, or in interpretation of such,
- releases of pollutants into the environment exceeding our permitted limits,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to secure additional financing for planned capital expenditures or financing obligations due in the near future,
- substantial existing indebtedness;
- material changes in the cost of certain precious metals, ammonia, natural gas, copper, steel and purchased components,
- limitations due to financial covenants;
- changes in competition,
- the loss of any significant customer,
- increase in cost to maintain internal controls over financial reporting;
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- problems with production equipment,
- changes in the production efficiency of our facilities,
- adverse results in our contingencies including pending litigation,
- unplanned downtime at one or more of our chemical facilities;
- changes in production rates at any of our chemical plants;
- inability to obtain necessary raw materials and purchased components,
- material increases in cost of raw materials;
- material changes in our accounting estimates,
- significant problems within our production equipment,
- fire or natural disasters,
- inability to obtain or retain our insurance coverage,
- obtaining necessary permits;
- third-party financing;
- risk associated with drilling natural gas wells;
- risks associated with proxy contests initiated by dissident stockholders;
- changes in fertilizer production;
- reduction in acres planted for crops requiring fertilizer;
- decrease in duties for products we sell resulting in an increase in imported products into the U.S.
- uncertainties in estimating natural gas reserves;
- volatility of natural gas prices;
- weather conditions;
- increase in imported agricultural products;
- other factors described in the MD&A contained in this report, and
- other factors described in “Risk Factors” and “Special Note Regarding Forward-Looking Statements” contained in our 2014 Form 10-K.



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

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### **Defined Terms**

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

**Amended Working Capital Revolver Loan** – The senior secured revolving credit facility, amended effective December 31, 2013.

**AN** - Ammonium nitrate.

**ARO** - Asset retirement obligation.

**Bayer** - Bayer MaterialScience LLC.

**Baytown Facility** - The nitric acid production facility operated by a subsidiary of EDN located in Baytown, Texas.

**Borrowers** – LSB and certain of its subsidiaries that are party to the Amended Working Capital Revolver Loan.

**Carrier** - Carrier Corporation.

**Chemical Business** – LSB’s business segment that manufactures and sells nitrogen-based chemical products for the agricultural, industrial, and mining markets.

**Cherokee Facility** - Our chemical production facility located in Cherokee, Alabama.

**Climate Control Business** – LSB’s business segment manufactures and sells a broad range of HVAC products that include water source and geothermal heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers, and other related products and services.

**CM** - Climate Master, Inc.

**CMFS** - The Dodge Data & Analytics Construction Market Forecasting Service.

**DSN** – A 98% strength nitric acid plant which was located at the El Dorado Facility

**EDC** - El Dorado Chemical Company.

**EDN** – El Dorado Nitric LLC

**EIA** – The U.S. Energy Information Administration.

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

**Environmental Laws** - Numerous federal, state and local environmental laws.

**EPA** - The U.S. Environmental Protection Agency.

**ERP** - Enterprise resource planning.

**FASB** – Financial Accounting Standards Board

**GHP** – Geothermal heat pump.

**Golsen Group** - Jack E. Golsen, our Executive Chairman of the Board of Directors, members of his immediate family, including Barry H. Golsen, our Chief Executive Officer and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee.

**Health Laws** – Numerous federal, state and local health and safety laws.

**Indenture** – The agreement governing the Senior Secured Notes.

**LSB** - LSB Industries, Inc.

**MD&A** - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**MMBtu** - Million Metric British thermal units.

**Nitric Acid Plant** – A new nitric acid plant being constructed at our El Dorado Facility.

**NYMEX** - New York Mercantile Exchange

**OEM** - An original equipment manufacturer.

**Orica** - Orica International Pte Ltd.

**PCC** - Pryor Chemical Company.

**PP&E** - Plant, property and equipment.

**Pryor Facility** - Our chemical production facility located in Pryor, Oklahoma.

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

**Senior Secured Notes** - The \$425 million aggregate principal amount of 7.75% Senior Secured Notes due August 1, 2019.

**SG&A** - Selling, general and administrative expense.

**Turnaround** - A planned major maintenance activity.

**UAN** - Urea ammonium nitrate.

**U.S.** - United States.

**WASDE** - World Agricultural Supply and Demand Estimates Report

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

There are no material legal proceedings or material developments in any such legal proceedings pending against us not reported in Item 3 of our 2014 Form 10-K, except for possible penalties relating to a Risk Management inspection conducted by the EPA at the Cherokee Facility discussed under footnote 3 – Other Environmental Matters of Note 9 of Notes to Condensed Consolidated Financial Statements and a class action lawsuit filed against CM discussed under Note 15 of Notes to Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There are no material changes from the risk factors as previously disclosed in Item 1A to Part I of our 2014 Form 10-K.

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

Not applicable

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

(a) Exhibits The Company has included the following exhibits in this report:

- 3(ii) Amended and Restated Bylaws of LSB Industries, Inc., dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014, August 21, 2014 and April 26, 2015.
- 10.1 Settlement Agreement, dated April 26, 2015, by and among the Company and Starboard Value LP, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed April 30, 2015.
- 10.2 Employment Agreement, dated April 27, 2015, by and among the Company and Barry H. Golsen, which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K, filed April 30, 2015.
- 10.3 Employment Agreement, dated April 27, 2015, by and among the Company and Mark T. Behrman, which the Company hereby incorporates by reference from Exhibit 99.4 to the Company's Form 8-K, filed April 30, 2015.
- 10.4 Offer Letter, dated February 5, 2014, by and among the Company to Mark T. Behrman, which the Company hereby incorporates by reference from Exhibit 99.5 to the Company's Form 8-K, filed April 30, 2015.
- 10.5 Amendment and Restated Severance Agreement, dated April 27, 2015, by and among the Company and Tony M. Shelby, which the Company hereby incorporates by reference from Exhibit 99.6 to the Company's Form 8-K, filed April 30, 2015. Substantially similar Amended and Restated Severance Agreements, each dated April 27, 2015, between the Company and each of David R. Goss, Phil Gough, Greg Withrow, James Murray, III, Michael Tepper, Paul Rydlund, Steven Golsen, Heidi Brown, and David Shear are not attached hereto, but will be provided to the Securities and Exchange Commission upon request.

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10.6	2015 Amendment to Severance Agreement, dated April 27, 2015, by and among the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 99.7 to the Company's Form 8-K, filed April 30, 2015.
31.1	Certification of Barry H. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
31.2	Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
32.1	Certification of Barry H. Golsen, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
32.2	Certification of Tony M. Shelby, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 7<sup>th</sup> day of May 2015.

LSB INDUSTRIES, INC.

/s/ Tony M. Shelby

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Tony M. Shelby  
Executive Vice President of Finance and Chief Financial Officer  
(Principal Financial Officer)

/s/ Harold L. Rieker, Jr.

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Harold L. Rieker, Jr.  
Vice President and Corporate Controller  
(Principal Accounting Officer)

**LSB INDUSTRIES, INC.**  
**(a Delaware Corporation)**  
**AMENDED AND RESTATED BYLAWS**

(as amended February 18, 2010, January 17, 2014, February 4, 2014 ~~and~~, August 21, 2014, and April 26, 2015)

ARTICLE I

Offices

Section 1. The principal office of the Corporation shall be in Oklahoma City, County of Oklahoma, State of Oklahoma, and the Corporation may also have offices at such other places as the Board of Directors may from time to time appoint or at such other places as the business of the Corporation requires.

ARTICLE II

Seal

Section 1. The corporate seal shall be in such form as the Board of Directors may from time to time prescribe. Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

ARTICLE III

Stockholders; Business to be Conducted at Annual or Special Meeting  
of Stockholders; and Stockholder Access to Corporation's Proxy Statement

Section 1. Place. All meetings of the stockholders shall be held in Oklahoma City, Oklahoma, or at such other place as the directors may designate.

Section 2. Annual Meeting. Annual meetings of stockholders to elect directors and transact such other business as may properly be presented to the meeting shall be held on the last Tuesday in June of each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at 10:00 a.m., or if the annual meeting is not held on the above designated date, then the directors shall cause the annual meeting to be held as soon thereafter as is convenient.

Section 3. Quorum. The holders of record of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, but in the absence of a quorum the holders of record, present in person or represented by proxy at such meeting shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 4. Voting; Proxies. Except as otherwise provided by the laws of the State of Delaware or the Certificate of Incorporation of the Corporation or these Bylaws:

(a) At every meeting of the stockholders every shareholder having the right to vote shall be entitled to one vote for each share of capital stock having voting rights held by him.

(b) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(c) Each matter properly presented to any meeting shall be decided by a majority of the votes cast on the matter.

(d) Election of directors and the vote on any other matter presented to a meeting need not be by written ballots, but written ballots may be used if ordered by the chairman of the meeting or if so requested by any stockholder present or represented by proxy at the meeting entitled to vote in such election or on such matter, as the case may be.

Section 5. Notice of Meeting. For each meeting of stockholders written notice shall be given stating the place, date and hour, and, in the case of a special meeting, the purpose or purposes for which the meeting is called and, if the list of stockholders required by Section 6 is not to be at the place of said meeting at least 10 days prior to the meeting, the place where said list will be. Except as otherwise provided by Delaware law, the written notice of any meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 6. List of Stockholders Entitled to Vote. At least 10 days before every meeting of stockholders a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared and shall be open to the examination of any stockholder for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 7. Special Meetings. A special meeting of stockholders may be called at any time by the Chairman or by a majority of the directors then in office, and shall be called by the Chairman upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such meeting, proposed to be presented at the meeting and signed by holders of record of two-thirds of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such

meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting.”

Section 8. Chairman and Secretary at Meeting. At each meeting of stockholders, the Chairman of the Board of Directors or, in the absence or inability to serve by the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors or, in the absence or inability to serve by both the Chairman of the Board of Directors and the Vice Chairman of the Board of Directors, the President or, in the absence or inability to serve by the Chairman of the Board of Directors, Vice Chairman of the Board of Directors and the President, the person designated in writing by the President or, if no person is so designated, then a person designated by the Board of Directors shall preside as Chairman of the meeting; if no person is so designated, then the Board of Directors shall choose a Chairman by plurality vote. The Secretary or in his absence a person designated by the Chairman of the meeting shall act as Secretary of the meeting.

Section 9. Adjourned Meetings. A meeting of stockholders may be adjourned to another time or place as provided in Sections 3 or 4(d) of this Article III. Unless the Board of Directors fixes a new record date, stockholders of record for an adjourned meeting shall be as originally determined for the meeting from which the adjournment was taken. If the adjournment is for more than 30 days, or if after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote. At the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called.

Section 10. Consent of Stockholders in Lieu of Meeting.

10.1 Action by Written Consent. Any action which is required to be or may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, shall have been signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided however, that prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

10.2 Determination of Record Date of Action by Written Consent. In order to inform the Corporation’s stockholders and the investing public in advance that a record date for action by consent will occur and to comply with the procedures contained in the New York Stock Exchange (or such other exchange on which the Corporation’s securities are listed for trading) policies and rules, the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting is fixed by the Board of Directors of the Corporation pursuant to Section 213 of the Delaware General Corporation Law as follows: The Board of Directors shall set as the record date the 10th day after (i) any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent without a



meeting shall, by written notice to the Secretary which may be given by telex or telecopy, advise the Corporation of the corporate action proposed for which consents will be sought and request from the Board of Directors a record date unless a later date is specified by such stockholder, or (ii) the Board of Directors determines that the Corporation should seek corporate action by written consent, unless a later record date is specified in the resolution of the Board of Directors containing such determination. In the event that the record date set as provided falls on a Saturday, Sunday or legal holiday, the record date shall be the first day next following such date that is not a Saturday, Sunday or legal holiday. Any record date determined pursuant to this Subsection 10.2 shall be announced by a press release prior to the opening of trading on the New York Stock Exchange (or such other exchange on which the Corporation's securities are listed for trading) on the next trading day after a request for a record date pursuant to clause (i) above is received by the Secretary or a Board of Directors' determination pursuant to clause (ii) above.

10.3 Duration and Revocation of Consents. In order that the Corporation's stockholders shall have an opportunity to receive and consider the information germane to an informed judgment as to whether to give a written consent and in accordance with the procedures contained in the New York Stock Exchange (or such other exchange on which the Corporation's securities are listed for trading) policies and rules, the stockholders of the Corporation shall be given at least 20 days from the record date to give or revoke written consents. Consents to corporate action shall be valid for a maximum of 60 days after the record date. Consents may be revoked by written notice (i) to the Corporation, (ii) to the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the Corporation (the "Soliciting Stockholders"), or (iii) to a proxy solicitor or other agent designated by the Corporation of the Soliciting Stockholder(s).

10.4 Retention and Duties of Inspectors of Election. Within two business days after receipt of a request by a stockholder for the setting of a record date or a determination by the Board of Directors that the Corporation should seek corporate action by written consent, as the case may be, the Secretary of the Corporation shall engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The inspectors shall review all consents and revocations, determine whether the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents, and forthwith certify such determination for entry in the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders. The cost of retaining inspectors of elections shall be borne by the party proposing the action by consent.

10.5 Procedures for Counting and Challenging Consents. Consents and revocations shall be delivered to the inspectors upon receipt by the Corporation, the Soliciting Stockholders or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. The inspectors shall keep such count confidential and shall not reveal the count to the Corporation, the Soliciting Stockholders or their representatives. As soon as practicable after the earlier of (i) 60 days after the record date for the consents or (ii) a request therefore by the Corporation or the Soliciting Stockholders (whichever is soliciting consents) made after expiration of the period for giving or revoking consents under

Subsection 10.3 above, notice of which request shall be given to the party opposing the solicitation of consents, which request shall state that the Corporation or Soliciting Stockholder(s) (as the case may be) in good faith believe that it or they have received the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents, the inspectors shall issue a preliminary report to the Corporation and the Soliciting Stockholders stating:

- (i) The number of valid consents;
- (ii) The number of valid revocations;
- (iii) The number of valid and unrevoked consents;
- (iv) The number of invalid consents;
- (v) The number of invalid revocations;
- (vi) Whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the Corporation and the Soliciting Stockholder(s) shall agree to a shorter or longer period, the Corporation and the Soliciting Stockholder(s) shall have 48 hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within 48 hours after the inspector's issuance of the preliminary report, the inspectors shall issue to the Corporation and the Soliciting Stockholder(s) their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the Corporation or the Soliciting Stockholder(s) issue written notice of an intention to challenge the inspectors' preliminary report within 48 hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the Corporation and the Soliciting Stockholder(s) containing the information included in the preliminary report, plus all changes in the vote totals as a result of the challenges and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents.

10.6 Notice of Results. The Corporation shall give prompt notice to the stockholders of the results of any consent solicitation or the taking of the corporate action without a meeting and by less than unanimous written consent.

Section 11. Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment

thereof, or to express consent to corporate action in writing without a meeting, or entitled receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 12. Business to be Conducted at the Annual or Special Meeting of the Stockholders; Notice of Proposals. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who: (a) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business as proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving notice provided for in this Section 12 and at the time of the meeting; and (b) complies with the notice procedures set forth in this Section 12.

Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules as regulations, the "Exchange Act") and included in the notice of the meeting given by or at the direction of the Board of Directors, the foregoing clause (ii) will be the exclusive means for a stockholder to propose business to be brought before the annual meeting of stockholders.

For business to be properly brought before the annual meeting by a stockholder, the Proposing Person (as defined below) must have given timely notice thereof in writing to the Secretary of the Corporation. The Proposing Person's notice will be timely if delivered or mailed to and received at the principal executive offices at the Corporation not less than 120 nor more than 150 days before the date on which the Corporation first mailed its proxy materials for the prior year's annual meeting of stockholders; provided however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such date, notice by the stockholder timely must be so delivered, or mailed and received not later than the 90<sup>th</sup> day prior to such annual meeting, or if later, the 10<sup>th</sup> day following the date on which the public disclosure of the date of such annual meeting was such made. Any adjournment of an annual meeting or the announcement hereof will not commence a new time period for giving the notice described above.

The Proposing Person's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, the following:

- (i) the name and address, as they appear on the Corporation books, of the stockholder proposing such business;
- (ii) the class or series and number of shares of the Corporation's securities that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by the Proposing Person, except the Proposing Person will be deemed to beneficially own any shares or class or series of the Corporation's securities which the Proposing Person has a right to acquire beneficially ownership at any time in the future (collectively, the "Stockholder Information");
- (iii) as to each item of business that the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and
- (iv) a reasonably detailed description of all agreements, arrangements and understandings, oral or in writing (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other record or beneficial holder of the shares of any class or series of the Corporation (including their names) in connection with the proposal of such business by such stockholder or (z) between or among any Proposing Person and any other persons or entities (including their names) acting in concert with the Proposing Person.

For purposes of this Section 12, the term "Proposing Person" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner; and (iv) any material interest of such stockholder with respect to such business.

Notwithstanding anything in these Bylaws to the contrary, no business (other than nominations of directors, which must be made in compliance with, and shall be exclusively governed by, Article III, Section 13 of these Bylaws) shall be brought before or conducted at the annual meeting except in accordance with the provisions of this Section 12. The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12 and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, as needed, so that the information provided or required to be provided in such notice pursuant to this Section 12 shall be true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation not later than five business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight business days prior to the date for the meeting (in the case of the update and supplement required to be made as of 10 business days prior to the meeting or any adjournment or postponement thereof).

This Section 12 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders; except this Section 12 shall not apply to any proposal made pursuant to Rule 14a-8 of the Exchange Act, or to the nomination of persons for election to the Corporation's Board of Directors at a meeting of stockholders at which directors are to be elected which shall be governed by Article III, Section 13 of these Bylaws. In addition to the requirements of this Section 12 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 12 shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

For purposes of these Bylaws, "public disclosure" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that business was not properly brought before the meeting in accordance with the procedures set forth in this Section 12, and, if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

### Section 13. Election to the Board of Directors.

13.1 Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only:

- (i) By or at the direction of the Board of Directors; or
- (ii) By any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in Subsection 13.2 below.

The foregoing clause (ii) will be the exclusive means by which a stockholder may nominate a person for election to the Board of Directors.

13.2 Nominations of election as a director of the Corporation, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than 120 nor more than 150 days prior to the anniversary date of the Corporation's immediately preceding annual meeting of stockholders; provided, however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such date, notice by the stockholder to be timely must be so delivered, or mailed and received not later than the 90<sup>th</sup> day prior to such annual meeting, or if later, the 10<sup>th</sup> day following the date on which the public disclosure of the date of such annual meeting was so made. Any adjournment of an annual meeting or the announcement hereof will not commence a new time period for giving the timely notice described above. Such stockholder's notice shall set forth:

- (i) As to each person whom such stockholder proposes to nominate for election or reelection as a director, (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (y) a representation that such a person shall also provide any other information reasonably requested by the Corporation within 10 business days after such request); and
- (ii) As to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's voting capital stock that are beneficially owned by such stockholder.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 13, and, if the stockholder desires or requests access to the Corporation's Proxy Statement with respect to the election of a director, Article III, Section 14 of these Bylaws.

The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 14. Stockholder Access to Corporation's Proxy Statement.

(a) Whenever the Corporation solicits proxies with respect to an election of directors at an annual meeting (an "Election"), it shall include in its proxy statement and on its proxy card, in addition to individuals nominated by the Board of Directors, up to the Permitted Number of individuals nominated in compliance with these Bylaws by one or more Eligible Stockholders. Any Eligible Stockholder seeking to have its nominee included in the Corporation's proxy statement and on the Corporation's proxy card shall comply with all provisions of these Bylaws otherwise applicable to shareholder nominations and furnish to the Secretary of the Corporation, no later than the last day on which stockholder nominations for consideration in the Election may be made under Article III, Section 13.2 of these Bylaws (the "Advance Notice Date"),

- (i) the information set forth in Sections 13.2 of these Bylaws,
- (ii) the written undertakings described in subsections (d) and (e) below, and
- (iii) any accompanying statement from the Eligible Stockholder to be included in the Corporation's proxy statement, which statement in order to be so included shall not exceed 500 words and must fully comply with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, including without limitation Rule 14a-9.

(b) For purposes of this Section:

- (i) The "Permitted Number" means one seat on the Corporation's Board of Directors to be filled in the Election; *provided, however*, that the Permitted Number shall be reduced, but not below zero, by the sum of (i) number of such director candidates for which the Corporation shall have received from Eligible Stockholders by the Advance Notice Date one or more valid stockholder notices nominating director candidates, and (ii) the number of directors in office and serving in the class of directors to be considered at the Election for whom access to the Corporation's proxy materials was provided pursuant to this Section ("Access Director"), other than any who has served as a director continuously for at least six years. In no event will the number of nominees nominated by an Eligible Stockholder for which access to the Corporation's proxy materials may be provided in the Election plus the number of Access Directors serving on the Board at the time of the Election exceed 25% of the total number of directors that shall constitute the whole board.

- (ii) An “Eligible Stockholder” means a stockholder of the Corporation that, together with its Affiliates, has continuously held Beneficial Ownership and Economic Interest of not less than the Required Interest for at least one year preceding the Advance Notice Date, and that complies with all applicable provisions of these Bylaws.
- (iii) “Beneficial Ownership” means the power to vote or direct the voting of, or to dispose or direct the disposition of, the securities in question.
- (iv) An “Economic Interest” in a security means having or sharing the opportunity, directly or indirectly, to profit or share in any profit (or loss) derived from a transaction in the security, including through options, swaps or other derivative securities or synthetic arrangements.
- (v) “Independent” with respect to a nominee for director pursuant to this Section 14 shall mean (a) that the nominee would be considered an independent director in accordance with the listing standards of the principal U.S. securities market in which the common stock of the Corporation trades or, if no such listing standards are applicable at the time, in accordance with the standards used by the Board of Directors or a duly authorized committee thereof in determining and disclosing the independence of the Corporation’s directors in accordance with the rules of the SEC and (b) the nominee is not an employee or officer of, or consultant to, the Eligible Stockholder or any of its Affiliates and has no other material association, by agreement, understanding or familial or other relationship, with the Eligible Stockholder or any of its Affiliates.
- (vi) A “Disqualified Repeat Nominee” in respect of an election shall mean an individual as to whom access to the Corporation’s proxy materials for the immediately preceding election was provided and who (i) withdrew from or became ineligible or unavailable for election at the meeting, or (ii) received at such meeting votes in favor of his or her election representing less than 50% of the total votes cast for or withheld from his or her election.
- (vii) The “Required Interest” means 5% of the voting power of the outstanding voting securities of the Corporation entitled to vote in the Election, based upon the number of outstanding voting securities of the Corporation most recently disclosed prior to the Advance Notice Date by the Corporation in a filing with the Securities and Exchange Commission.
- (viii) “Affiliate” of a specified person means a person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the specified person, and, with respect to any



investment company (as defined in the Investment Company Act of 1940, whether or not exempt from registration thereunder), shall also include all other investment companies managed by the same investment adviser or any of its Affiliates.

(c) Subject to the following sentence and any undertaking previously provided by an Eligible Stockholder pursuant to Section 14(d) below, each Eligible Stockholder, together with its Affiliates, may nominate one, and not more than one, individual under this Section for inclusion in the Corporation's proxy statement and on its proxy card. If the Corporation shall receive more than the Permitted Number of proposed nominations from Eligible Stockholders in compliance with these Bylaws, then the nominee nominated by the Eligible Stockholder possessing the largest Beneficial Ownership of voting securities of the Corporation as of the Advance Notice Date shall be the only nominee for purposes of this Section 14.

(d) Any Eligible Stockholder nominating an individual for director in accordance with this Section shall execute and deliver to the Corporation no later than the Advance Notice Date an undertaking, in a form to be provided by the Secretary of the Corporation, that it will, and will cause its Affiliates to,

- (i) not sell or otherwise dispose of its Beneficial Ownership and Economic Interest of voting securities of the Corporation so as to reduce the Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, below the Required Interest on or prior to the date of the Election (and representing that they have no present intention of reducing, within one year following the Election, their aggregate Beneficial Ownership and Economic Interest below the greater of (x) the Required Interest and (y) 75% of their aggregate Beneficial and Economic Interest as of the Advance Notice Date),
- (ii) comply with the provisions of the Corporation's Certificate of Incorporation and Bylaws and all laws and regulations relating to the accompanying statement submitted by the Eligible Stockholder and any solicitation or communications with stockholders of the Corporation in connection with such nomination,
- (iii) indemnify the Corporation and its agents and representatives in respect of any and all liabilities that may arise out of the accompanying statement submitted by the Eligible Stockholder or any solicitation or communications with stockholders of the Corporation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection with such nomination, including as a result of any violation of law or regulation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection therewith,
- (iv) not use any proxy card other than the Corporation's proxy card in soliciting stockholders in connection with the matters to be voted on at the meeting at which the Election is held,

- (v) file all solicitation materials used by it or on its behalf with the Securities and Exchange Commission under cover of Schedule 14A promulgated under the Exchange Act, and
- (vi) for a period of one year from the date of the Election, not (x) nominate any individual to be a director of the Corporation or conduct any solicitation with respect to an election for directors of the Corporation other than with respect to the Election and in accordance with this Section, or (y) acquire or propose to acquire Beneficial Ownership of or an Economic Interest in any voting securities of the Corporation such that such Eligible Stockholder, together with its Affiliates, would have aggregate Beneficial Ownership of, and/or an Economic Interest in, more than the greater of (I) 10% of the voting power of the outstanding voting securities of the Corporation or (II) an additional 5% of the voting power of the Corporation's outstanding voting securities in excess of the aggregate Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, as of the Advance Notice Date (the "Aggregate Beneficial Ownership"); provided that the Aggregate Beneficial Ownership shall not equal or exceed the amount that would equal or exceed the beneficial ownership threshold necessary to trigger the Corporation preferred share rights plan as may be in effect during such time.

(e) Any Eligible Stockholder nominating an individual for director in accordance with this Section shall also deliver to the Corporation no later than the Advance Notice Date a signed undertaking of its nominee agreeing that he or she will tender his or her resignation from the Board of Directors if

- (i) any of the information provided to the Corporation by the Eligible Stockholder or the nominee pursuant to this Bylaw is determined to be inaccurate in any material respect, or
- (ii) the Eligible Stockholder or any of its Affiliates shall breach their obligations under the undertakings described in subsection (d) above in any material respect.

(f) The Nominating and Governance Committee shall consider a nomination pursuant to this Section 14, and shall determine if the Access Nominee is Independent and may, in its discretion, make a recommendation to the Board of Directors as to whether the Access Nominee should be nominated by the Board of Directors for election at the Annual Meeting of Stockholders.

If the Board of Directors nominates an Access Nominee as part of the Board's slate of nominees, the Notice of Access will be deemed withdrawn and the former Access Nominee shall be presented to the stockholders in the same manner as any other nominee of the Board of Directors. If the Board of Directors does not so nominate the Access Nominee, access to the Corporation's proxy materials shall be provided in accordance with the terms and subject to the conditions of this Section.

The Board of Directors or a committee thereof may adopt such rules or guidelines for applying the provisions of this Section as it determines are appropriate. These may include timing and other such adjustments as may be appropriate in the event an Access Nominee for whom Notice of Access has been provided becomes unavailable or unwilling to serve or becomes ineligible.

(g) This Section shall provide the exclusive method for stockholders to include nominees for director in the Corporation's proxy statement and on the Corporation's proxy card.

ARTICLE IV  
Directors

Section 1. Number, Term, Qualifications and Vacancies. The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three nor more than ~~ten~~thirteen members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be stockholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 2. Offices and Books. The directors may have one or more offices, and keep the books of the Corporation at the offices of the Corporation in Oklahoma City, Oklahoma, or at such other places as they may from time to time determine.

Section 3. Resignation. Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors, or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 4. Removal. Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors. For purposes of this Article IV, Section 4, cause for removal shall be deemed to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such director's duty to the Corporation and, in each case, such adjudication is no longer subject to direct appeal.

Section 5. Regular and Annual Meetings; Notice. Regular meetings of the Board of Directors shall be held at such time and at such place, within or without the State of Delaware, as the Board of Directors may from time to time prescribe. No notice need be given of any regular meeting and a notice, if given, need not specify the purposes thereof. A meeting of the Board of Directors may be held without notice immediately after an annual meeting of stockholders at the same place as that at which such annual meeting of stockholders was held.

Section 6. Special Meetings; Notice. A special meeting of the Board of Directors may be called at any time by the Chairman or a majority of the directors then in office. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting.

Section 7. Presiding Officer and Secretary at Meetings. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his absence by the President or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The Secretary, or in his absence an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

Section 8. Quorum. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business, but in the absence of a quorum, a majority of those present (or if only one be present, then that one) may adjourn the meeting, without notice other than announcement at the meeting, until such time as a quorum is present. Except as otherwise required by the Certificate of Incorporation or these Bylaws, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. Meeting by Telephone. Members of the Board of Directors or of any committee thereof may participate in meetings of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 10. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 11. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present.

Section 12. Compensation. Each director shall be entitled to reimbursement of his reasonable expenses incurred in attending meetings or otherwise in connection with his attention

to the affairs of the Corporation. Each director who is not a salaried officer of the Corporation or of a subsidiary of the Corporation shall, as such director and as a member of any committee, be entitled to receive such amounts as may be fixed from time to time by the Board of Directors, in the form either of fees for attendance at meetings of the Board and of committees thereof, or of payment at the rate of a fixed sum per month, or both.

Section 13. Additional Powers. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, as from time to time amended, or by these Bylaws, as from time to time amended, directed or required to be exercised or done by the stockholders.

## ARTICLE V Officers

Section 1. Designation. The Corporation shall have such officers with such titles and duties as set forth in these Bylaws or in any one or more resolutions of the Board of Directors adopted on or after the effective date of these Bylaws which are not inconsistent with these Bylaws and as may be necessary to enable the Corporation to sign instruments and stock certificates as required by law.

Section 2. Election; Qualification. The officers of the Corporation shall be a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may also elect a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a Controller, one or more Assistant Secretaries, one or more Assistant Treasurers, one or more Assistant Controllers, and such other officers as it may from time to time determine. The Chairman of the Board of Directors and Vice Chairman of the Board, if any, shall be elected from among the directors. Two or more offices may be held by the same person.

Section 3. Term of Office. Each officer shall hold office from the time of his election and qualification to the time at which his successor is elected and qualified, unless sooner he shall die or resign or shall be removed pursuant to Article V, Section 5.

Section 4. Resignation. Any officer of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Removal. Any officer may be removed at any time, with or without cause, by the vote of a majority of the whole Board of Directors.

Section 6. Vacancies. Any vacancy however caused in any office of the Corporation may be filled by the Board of Directors.

Section 7. Compensation. The compensation of each officer shall be such as the Board of Directors may from time to time determine.

Section 8. Chairman of the Board of Directors and Vice Chairman of the Board of Directors. The Chairman of the Board of Directors and, in his absence or inability to serve, the Vice Chairman of the Board of Directors, if such offices be occupied, shall serve as Chairman of the meetings of the Board of Directors and shall further advise and consult with the Chief Executive Officer and the President concerning the business and affairs of the Corporation and shall also have such powers and duties as the Bylaws or the Board of Directors may from time to time prescribe.

Section 9. Chief Executive Officer. Chief Executive Officer of the Corporation shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the chief executive officer, subject, however, to the right of the Board of Directors to confer specified powers on the Chief Executive Officer of the Corporation.

Section 10. President. In the absence of the Chief Executive Officer or his inability to same, the President shall serve as the Chief Executive Officer of the Corporation and shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the Chief Executive Officer, subject however to the right of the Chief Executive Officer or the Board of Directors to confer specified duties and/or powers on the President of the Corporation from time to time.

Section 11. Vice President. Each Vice President shall have such powers and duties as generally pertain to the office of Vice President and as the Board of Directors or the President may from time to time prescribe. During the absence of the President or his inability to act, the Vice President, or if there shall be more than one Vice President, then that one designated by the Board of Directors, shall exercise the powers and shall perform the duties of the President, subject to the direction of the Board of Directors.

Section 12. Secretary. The Secretary shall keep the minutes of all meetings of stockholders and of the Board of Directors. He shall be custodian of the corporate seal and shall affix it or cause it to be affixed to such instruments as he deems necessary or appropriate and attest the same and shall exercise the powers and shall perform the duties incident to the office of Secretary, and those that may otherwise from time to time be assigned to him subject to the direction of the Board of Directors.

Section 13. Treasurer. The Treasurer shall manage the funds of the Corporation and manage the securities of the Corporation that are held by the Corporation and shall exercise the powers and shall perform the duties incident to the office of Treasurer, subject to the direction of the Board of Directors.

Section 14. Other Officers. Each other officer of the Corporation shall exercise the powers and shall perform the duties incident to his office, subject to the direction of the Board of Directors.

ARTICLE VI  
Capital Stock

Section 1. Stock Certificates. The interest of each holder of stock of the Corporation shall be (a) evidenced by a certificate or certificates in such form as the Board of Directors may from time to time prescribe or (b) represented by uncertificated shares as issued by the Corporation. The issuance of shares in uncertificated form shall not affect shares already represented by a certificate until the certificate is surrendered to the Corporation. In the case of certificated shares, each certificate shall be signed by or, in the name of the Corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation. If such certificate is countersigned (a) by a transfer agent other than the Corporation or its employee, or (b) by a registrar other than the Corporation or its employee, any other signature on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Shares of stock shall be transferable on the books of the Corporation pursuant to applicable law and such rules and regulations as the Board of Directors shall from time to time prescribe on or after the effective date of these Bylaws.

Section 3. Holder of Record. Prior to due presentment for registration or transfer or receipt of proper transfer instructions, the Corporation may treat the holder of record of a share of its stock as the complete owner thereof exclusively entitled to vote, to receive notifications and otherwise entitled to all the rights and powers of a complete owner thereof, notwithstanding notice to the contrary.

Section 4. Lost, Stolen, Destroyed, or Mutilated Certificates. The Corporation may issue a new certificate of stock or uncertificated shares to replace a certificate alleged to have been lost, stolen, destroyed or mutilated upon terms and conditions as the Board of Directors may from time to time prescribe, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate or his legal representative, to give the Corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate.

Section 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more Transfer Agents and Registrars for the Common Stock and Preferred Stock of the Corporation. The Transfer Agent shall be in charge of the issue, transfer, and cancellation of shares of stock and shall maintain stock transfer books, which shall include a record of the stockholders, giving the names and addresses of all stockholders, and the number and class of shares held by each; prepare voting lists for meetings of stockholders; produce and keep open these lists at the meetings; and perform such other duties as may be delegated by the Board of Directors. Stockholders may give notice of changes of their addresses to the Transfer Agent.



The Registrar shall be in charge of preventing the over-issue of shares, shall register all certificated or uncertificated shares of stock, and perform such other duties as may be delegated by the Board of Directors.

#### ARTICLE VII

##### Checks

Section 1. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

#### ARTICLE VIII

##### Fiscal Year

Section 1. The fiscal year shall begin the first day of January in each year.

#### ARTICLE IX

##### Dividends

Section 1. Declaration. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock of the Corporation.

Section 2. Reserve Fund. The Board of Directors may set aside out of any funds of the Corporation available for dividends a reserve or reserves for any proper purposes and in such sum or sums as the directors from time to time, in their absolute discretion, believe to be proper, and the Board of Directors may abolish any such reserve.

#### ARTICLE X

##### Notice

Section 1. Waiver of Notice. Whenever notice is required by the Certificate of Incorporation, the Bylaws, or as otherwise provided by law, a written waiver thereof, signed by the person entitled to notice, shall be deemed equivalent to notice, whether before or after the time required for such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

Section 2. Mailing of Notice. Whenever under the provisions of these Bylaws notice is required to be given to any director, officer or shareholder and such notice is not waived as provided in Section 1 of this Article X, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter

box, in post- paid sealed wrapper, addressed to such shareholder, officer or director at such address as appears on the books of the Corporation, or, in default of other address, to such director, officer or shareholder at the General Post Office in Oklahoma City, Oklahoma, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

ARTICLE XI  
Amendment of Bylaws

Section 1. Amendment. These Bylaws may be made, amended, altered, added to, revised or repealed only by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors; provided, however, that Article IV, Section 1 of these Bylaws and this Article XI, Section 1, may be amended, altered, added to, revised or repealed only by a vote of two-thirds of the entire Board of Directors or by a vote of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors.

These Amended and Restated Bylaws of LSB Industries, Inc. amend, restate and set forth the entire Bylaws of the Corporation and have been approved by the Board of Directors of the Corporation as of the 20th day of August, 2009.

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen

Jack E. Golsen  
Chairman of the Board

/s/ David M. Shear

David M. Shear, Secretary

**CERTIFICATION**

I, Barry H. Golsen, certify that:

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

Date: May 7, 2015

/s/ Barry H. Golsen

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Barry H. Golsen  
President and  
Chief Executive Officer

**CERTIFICATION**

I, Tony M. Shelby, certify that:

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

Date: May 7, 2015

/s/ Tony M. Shelby

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Tony M. Shelby  
Executive Vice President of Finance  
and Chief Financial Officer

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

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Barry H. Golsen, President and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Barry H. Golsen

Barry H. Golsen

President and

Chief Executive Officer

(Principal Executive Officer)

May 7, 2015

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

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

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended March 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Tony M. Shelby

Tony M. Shelby  
Executive Vice President of Finance and  
Chief Financial Officer  
(Principal Financial Officer)

May 7, 2015

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