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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from __________ to __________

Commission File Number: 1-7677

LSB INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware **(State of Incorporation)**	**73-1015226** **(I.R.S. Employer Identification No.)**
16 South Pennsylvania Avenue **Oklahoma City, Oklahoma** **(Address of Principal Executive Offices)**	**73107** **(Zip Code)**

Registrant's Telephone Number, Including Area Code: (405) 235-4546

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	**New York Stock Exchange**
Preferred Share Purchase Rights	**New York Stock Exchange**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ☒ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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	☒	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

The aggregate market value of the Registrant’s voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2015, was approximately $806 million. As a result, the Registrant is a large accelerated filer as of December 31, 2015. For purposes of this computation, shares of the Registrant’s common stock beneficially owned by each executive officer and director of the Registrant were deemed to be owned by affiliates of the Registrant as of June 30, 2015. Such determination should not be deemed an admission that such executive officers and directors of our common stock are, in fact, affiliates of the Registrant or affiliates as of the date of this Form 10-K.

As of February 19, 2016, the Registrant had 23,471,360 shares of common stock outstanding (excluding 3,660,364 shares of common stock held as treasury stock).

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The information required by Part III, shall be incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A which involves the election of directors that we expect to be filed with the Securities and Exchange Commission not later than 120 days after the end of its 2015 fiscal year covered by this report.

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PART I

ITEM 1. BUSINESS

General

LSB Industries, Inc. (“LSB” or “Registrant”) was formed in 1968 as an Oklahoma corporation and became a Delaware corporation in 1977. LSB is a diversified holding company involved in manufacturing operations through its subsidiaries. LSB and its wholly-owned subsidiaries (the “Company,” “we,” “us,” or “our”) own the following core businesses:

- Chemical Business manufactures and sells nitrogen-based chemical products for the agricultural, industrial, and mining markets that it produces from four facilities located in El Dorado, Arkansas (the “El Dorado Facility”); Cherokee, Alabama (the “Cherokee Facility”); Pryor, Oklahoma (the “Pryor Facility”); and Baytown, Texas (the “Baytown Facility”).
- Climate Control Business manufactures and sells a broad range of HVAC products that includes 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-building 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.

Our Reportable Business Segments

Chemical Business

General

Our Chemical Business supplies chemical products to some of the world’s leading chemical and industrial companies. Focusing on specific geographic areas, we utilize freight and distribution advantages over many of our competitors. We also believe our Chemical Business has established leading regional market positions.

Our Chemical Business manufactures products for three principal markets:

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

Our agricultural products comprise 49% of our chemical sales. We sell most of our agricultural products at the current spot market price in effect at the time of shipment, although we periodically enter into forward sales commitments for some of these products. Sales of our industrial and mining products are generally made to customers pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass through component in the sales price. These contractual sales stabilize the effect of commodity cost changes and fluctuations in demand for these products due to the cyclicality of the end markets.

The following table summarizes net sales information relating to our products of the Chemical Business:

	2015	2014	2013
Percentage of net sales of the Chemical Business:			
Agricultural products	49%	48%	45%
Industrial acids and other chemical products	39%	36%	37%
Mining products	11%	14%	16%
Other products	1%	2%	2%
	100%	100%	100%
Percentage of LSB's consolidated net sales:			
Agricultural products	29%	30%	26%
Industrial acids and other chemical products	24%	23%	21%
Mining products	7%	9%	9%
Other products	1%	2%	1%
	61%	64%	57%

Market Conditions - Chemical Business

As discussed in more detail under “Key Industry Factors” of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”) contained in this report, agricultural fertilizer demand is a significant driver of our sales volumes. This demand is driven by the number of acres planted of crops, principally corn, requiring fertilizer to enhance yield. Corn prices affect the number of acres of corn planted in a given year, and the number of acres planted will drive nitrogen fertilizer consumption, likely driving ammonia, UAN and urea prices. Weather also has an impact on fertilizer application and consumption. The 2014 corn crop produced record production and yields per acre that resulted in significantly higher year-end stock to use ratios compared to the last ten years average. This increase resulted in 2 million fewer acres of corn planted in 2015, approximately 88 million acres down from 91 million acres, which in turn, resulted in the 2015 corn crop being down 53 million bushels compared to 2014’s record year. While world stock to use ratios are up, current U.S. stock to use ratios, while having increased over the past five years, remain in line with historical levels. Estimates for 2016 are an increase of 2 million acres of corn being planted resulting in a total of over 90 million acres planted. As a result, the fundamentals are positive for nitrogen fertilizers that are necessary to enhance the yield per acre for most major crops.

However, there was an abbreviated 2015 fall fertilizer application season, resulting from unusually wet weather, and there was an increase in fertilizer inventories. This increase in inventories had a significant negative effect on the current pricing of fertilizers, reducing overall selling prices. However, it is anticipated that the 2016 spring application of fertilizer will require additional fertilizer to be applied to make up for the shortage of fertilizer applied in the fall. The expected increase in fertilizer applications when combined with the additional acres to be planted in 2016, may be catalysts for selling prices to increase from current levels.

In the industrial and mining markets, sales volumes are driven by general economic conditions, energy prices, and our contractual arrangements with certain large customers. As reported by the U.S. Energy Information Administration (“EIA”), annual coal production for 2015 is estimated to be down 11% from the prior year with a further reduction of 6% estimated for 2016. U.S. coal production is being negatively impacted by low natural gas prices among other things. In addition, other mining operations are being negatively impacted by commodity price decreases.

As natural gas is the basic feedstock for the production of ammonia, North American ammonia producers have a natural gas cost advantage due to the current historically low price of natural gas and it is expected that the price of natural gas will remain relatively low for the foreseeable future. Based upon most estimates, including Blue Johnson & Associates, Inc., the U.S. imports approximately 32% of its annual ammonia consumption. However, the fertilizer outlook could change as the result of, among other things, changes in domestic fertilizer production capacity, acres planted of crops, weather conditions, commodity prices, and volume of imported agricultural products.

One additional factor that is expected to affect the overall nitrogen market is the number of nitrogen expansion projects under construction in the U.S, including our expansion project at our El Dorado Facility (the “El Dorado Expansion”) discussed under “MD&A - Liquidity and Capital Resources.” These expansion projects are expected to increase production capacity in total by approximately 5 million to 6 million tons of ammonia annually. All of these projects are currently scheduled to begin producing ammonia and other upgraded nitrogen products by early 2018. In addition, there are a number of other announced green field projects where construction has not yet begun and, if they were to be completed, the production would not begin until 2019 at the earliest. The amount and timing of additional nitrogen capacity could have a negative effect on prices of nitrogen-based products in the future.

Agricultural Products

Our Chemical Business produces UAN, agricultural grade AN, and ammonia, all of which are nitrogen-based fertilizers. Farmers and ranchers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. Our agricultural markets include a high concentration of pastureland and row crops, which favor our products. We sell these agricultural products to farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the U.S. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. During the past few years, we have been successful in expanding outside our traditional markets by delivering to distributors on the Tennessee and Ohio rivers by barge, and by delivering to certain Western States by rail.

In November 2015, one of our subsidiaries within our Chemical Business, El Dorado Chemical Company (“EDC”) and Koch Fertilizer entered into an ammonia purchase and sale agreement under which Koch Fertilizer agrees to purchase, with minimum purchase requirements, the ammonia that is in excess of El Dorado’s internal needs as the result of the El Dorado Expansion.

Our agricultural business establishes long-term relationships with wholesale agricultural distributors and retailers and also sells directly to agricultural end-users through our network of 11 wholesale and retail distribution centers. In addition, our Chemical Business has an agreement with a third-party purchaser to buy, at market prices, substantially all of the UAN produced at the Pryor Facility. The term of the agreement runs through June 2016, but may be terminated earlier by either party pursuant to the terms of the agreement. We intend to renew this contract or one similar with this third-party purchaser or another third-party purchaser.

Industrial Acids and Other Chemical Products

Our Chemical Business manufactures and sells industrial acids and other chemical products primarily to the polyurethane, paper, fibers, emission control, and electronics industries. In addition, our Chemical Business produces and sells blended and regular nitric acid and industrial and high purity ammonia for many specialty applications, including the reduction of air emissions from power plants.

We believe the Baytown Facility is one of the newest, largest and most technologically advanced nitric acid manufacturing units in the U.S. The majority of the Baytown Facility's production is sold to Covestro AG, (formerly Bayer MaterialScience, LLC) pursuant to a long-term contract that provides for a pass-through of certain costs, including the ammonia costs, plus a fixed dollar profit and performance incentives (the" Covestro Agreement"). The term of the Covestro Agreement runs until June 2021 with options for renewal with Covestro's consent.

Our industrial business competes based upon service, price and location of production and distribution sites, product quality and performance and provides inventory management as part of the value-added services offered to certain customers.

Mining Products

Our mining business manufactures industrial grade AN and 83% AN solution. Until April 2015, El Dorado Chemical Company ("EDC"), a subsidiary within our Chemical Business supplied Orica International Pte Ltd ("Orica") with an annual minimum of 240,000 tons of industrial grade AN pursuant to a cost plus a fixed dollar amount of profit supply agreement. The agreement with Orica (the "Orica Agreement") also included an exclusivity arrangement that provided that EDC would not sell industrial grade AN to the commercial explosives market in the U.S. during the term of the agreement and that Orica would market EDC's industrial grade AN to the U.S. commercial explosives market in North America during the term of the agreement. The agreement with Orica expired on April 9, 2015 and we began selling Low Density Ammonium Nitrate Prills ("LDAN") directly to explosive distributors, mining companies and aggregate companies who sell into the coal mining metals mining and construction industries. However, we are currently disadvantaged compared to our competitors since we are purchasing ammonia to produce AN and AN solution, making us a high cost producer. This will continue until the construction of the ammonia plant at the El Dorado Facility is completed and begins production as we have signed contracts with customers that, beginning in 2016, provide for the sale of LDAN for approximately 150,000 tons per year under various natural gas cost plus a fixed dollar amount pricing arrangements. With the recent downturn in the mining industry, we are unsure if we will reach these sales volumes. Unlike the Orica Agreement, which contained take-or-pay provisions, only certain of these contracts include minimum annual volume levels with penalty payments if minimum volumes are not met. We expect that if these contracted annual volumes are purchased, they should supplant a majority of the previously contracted volume under the Orica Agreement. However, if customers do not purchase at minimum volume levels we will likely have unutilized capacity of LDAN.

For comparison purposes, the following table summarizes net sales to Orica:

	2015	2014	2013
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	4%	8%	11%
LSB's consolidated net sales	2%	5%	6%

For 2015, 2014 and 2013, net sales to Orica above included approximately $3 million, $15 million and $12 million, respectively, for fixed overhead costs and gross profit for tons not taken by Orica, pursuant to the terms of the Orica Agreement.

Dependence on Limited Number of Customers - Chemical Business

Historically, our Chemical Business has relied on a limited number of customers as discussed in our risk factors under Item 1A included in this report.

Raw Materials - Chemical Business

The products our Chemical Business manufactures are primarily derived from the following raw material feedstocks: ammonia and natural gas. These raw material feedstocks are commodities, subject to price fluctuations.

Purchased ammonia currently is the raw material feedstock for all of the El Dorado Facility's production of nitrogen products. Although ammonia is produced from natural gas, the price does not necessarily follow the spot price of natural gas in the U.S. Ammonia is an internationally traded commodity and the relative price is set in the world market while natural gas is primarily a domestically traded commodity. Currently, the ammonia supply to the El Dorado Facility is transported from the Gulf of Mexico by pipeline. Under the current agreement with its principal supplier of ammonia, EDC will have the ability to purchase a majority of its ammonia requirements through the earlier of December 31, 2016 or the date on which the new ammonia plant comes on stream. We believe that we can obtain ammonia from other sources in the event of an interruption of service under the above-referenced contract including from our company owned Pryor and Cherokee Facilities.

The El Dorado Expansion includes expanding our nitrogen fertilizer operations at the El Dorado Facility with the addition of a 1,150 ton per day (approximately 375,000 tons per year) ammonia plant, which we believe under normal conditions will allow us to produce enough ammonia to eliminate our external ammonia purchase requirements and should provide us with approximately 150,000 tons per year of additional ammonia available for sale or to upgrade into other products. This expansion is anticipated to be operational early in the second quarter of 2016 with full production levels being achieved during the second half of 2016. Once the expansion is complete, our annual natural gas requirements for this facility will be approximately 13 million MMBtu of natural gas per year.

Natural gas is the primary raw material for producing ammonia, UAN and other products at the Cherokee and Pryor Facilities. Under normal circumstances when running at a full year production schedule, the Cherokee Facility would purchase approximately 6 million MMBtu of natural gas per year in order to produce approximately 175,000 tons of ammonia and the Pryor Facility would purchase approximately 7 million MMBtu of natural gas to produce approximately 215,000 tons of ammonia.

The Cherokee and Pryor Facilities' natural gas feedstock requirements are generally purchased at spot market price as will the natural gas feedstock requirements of the El Dorado Facility when its ammonia plant is in production. Periodically, we enter into firm purchase commitments and/or futures/forward contracts to lock in the cost of certain of the expected natural gas requirements. For 2016 we have forward purchase commitments of natural gas for approximately 3 million MMBtus for our Cherokee Facility, approximately 2 million MMBtus for our Pryor Facility and approximately 2 million MMBtus for our El Dorado Facility at an average cost of $2.76 per MMBtu. This represents approximately 30% of our exposed natural gas usage at each facility for 2016.

The Baytown Facility normally purchases approximately 135,000 tons of ammonia per year. Under the Covestro Agreement, there is a pass-through of certain costs, including the ammonia costs.

In addition, Zena Energy, L.L.C., a subsidiary within our Chemical Business owns certain natural gas working interests in natural gas properties located in the Marcellus Shale Formation in the state of Pennsylvania. Since our Chemical Business purchases a significant amount of natural gas as a feedstock for the production of ammonia, management considers these working interests as an economic hedge against a potential rise in natural gas prices. We report the working interests as part of the Chemical Business reportable segment.

See further discussion relating to the outlook for the Chemical Business under "Key Industry Factors" in our MD&A contained in this report.

Strategy - Chemical Business

Our Chemical Business pursues a strategy of balancing the sale of product as fertilizer into the agriculture markets at spot prices and developing industrial and mining customers that purchase substantial quantities of products, primarily under contractual obligations and/or pricing arrangements that provide for the pass through of raw material and other manufacturing costs. We believe that this product and market diversification strategy allows us to have consistent levels of production and helps mitigate the volatility risk inherent in the prices of our raw material feedstocks and/or the changes in demand for our products. For 2015, approximately 50% of the Chemical Business' sales were to the industrial and mining markets and approximately 49% of our Chemical Business 2015 sales were to the agricultural markets, primarily at the market price at the time of sale.

The strategy of developing industrial and mining customers is to moderate the risk inherent in the agricultural markets where spot sales prices of our agricultural products may not have a correlation to the ammonia and natural gas feedstock costs but rather reflect market conditions for like and competing nitrogen sources. This volatility of sales pricing in our agricultural products can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal agricultural sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from

balancing production and storage capabilities. Looking forward, we are pursuing profitable growth of our Chemical Business, including the potential to increase the output of our existing production facilities. See further discussion under "Capital Additions" of our MD&A contained in this report. Our strategy calls for continued emphasis on the agricultural sector, while remaining committed to further developing industrial customers who assume the volatility risk associated with the raw material costs and mitigate the effects of seasonality in the agricultural sector.

Our strategy also includes evaluating investment in expansion projects that we believe will generate the best returns for our stockholders taking into consideration the risk and return on investment. This strategy motivated our decision to build the ammonia plant at the El Dorado Facility and to construct a new nitric acid plant and concentrator at the El Dorado Facility. During 2015, we completed the construction of the new nitric acid plant and concentrator. We believe that upon completion of the ammonia plant in 2016, the El Dorado Facility will benefit from reduced feedstock costs, expanded capacity, improved efficiency and enhanced product mix flexibility.

Seasonality - Chemical Business

We believe chemical products sold by our Chemical Business to the agricultural industry are seasonal while sales into the industrial and mining sectors generally are not. The selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, 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.

Regulatory Matters - Chemical Business

Our Chemical Business is subject to extensive federal, state and local environmental laws, rules and regulations as discussed under "Environmental, Health and Safety Matters" of this Item 1 and various risk factors under Item 1A.

Competition - Chemical Business

Our Chemical Business operates in a highly competitive market with many other larger chemical companies, such as Agrium, CF Industries, Chemtrade Logistics, CVR Partners, Rentech Nitrogen Partners, OCI Partners, Solvay, Dyno Nobel, Gavilon Fertilizer, Helm, Koch, Norfalco, Potash Corporation of Saskatchewan, Praxair, Quad Chemical, Trammo and Yara International (some of whom are our customers), many of whom have greater financial and other resources than we do. We believe that competition within the markets served by our Chemical Business is primarily based upon service, price, location of production and distribution sites, and product quality and performance.

Climate Control Business

General

Our Climate Control Business manufactures and sells a broad range of standard and custom designed water source and geothermal heat pumps, hydronic fan coils, large custom air handlers and air and water cooled chillers. These products are for use in commercial/institutional and residential HVAC systems. Our products are installed in some of the most recognizable commercial/institutional developments in the U.S., including the West Point Military Academy, Buffet Cancer Center, BMW, NYU Medical Center, Pfizer, Rockefeller Plaza, and Trump Tower. In addition, we have a significant presence in the lodging sector with installations in numerous Hyatt, Marriott, Four Seasons, Starwood, Ritz Carlton, Wynn, and Hilton hotels, among others.

We believe our Climate Control Business has developed leadership positions in certain product categories by offering extensive product lines and customized products focusing on higher efficiency and "green" technologies. We believe we have developed the most extensive line of water source and geothermal heat pumps and hydronic fan coils in the U.S. and that we are a pioneer in the use of geothermal technology, one of the most energy efficient climate control systems commercially available today. Employing highly flexible production capabilities, we produce both semi-custom and custom design units for new construction as well as the retrofit and replacement markets. This flexibility positions us for growth in commercial/institutional and residential construction markets as those markets continue to recover over the next several years.

Our geothermal heating and air conditioning products are considered "green" technology and a form of renewable energy. We believe our geothermal systems are among the most energy efficient systems available in the market for heating and cooling applications in commercial/institutional and single family new construction as well as replacement and renovation markets. Based upon market data supplied by the Air-Conditioning, Heating and Refrigeration Institute ("AHRI"), we believe we continue to maintain a market share leadership position in this sector of the market.

The following table summarizes net sales information relating to our products of the Climate Control Business:

	2015	2014	2013
Percentage of net sales of the Climate Control Business:			
Water source and geothermal heat pumps	57%	64%	64%
Hydronic fan coils	25%	23%	23%
Other HVAC products	18%	13%	13%
	100%	100%	100%
Percentage of LSB's consolidated net sales:			
Water source and geothermal heat pumps	22%	22%	26%
Hydronic fan coils	10%	8%	9%
Other HVAC products	7%	5%	5%
	39%	35%	40%

Market Conditions - Climate Control Business

As discussed in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this report, information available from the Dodge Construction Market Forecast Service ("CMFS") indicates that construction activity in the commercial/institutional markets we serve (including multi-family residential structures) is expected to increase 8%, 7% and 5% in the aggregate from 2016 - 2018 and has surpassed pre-recession levels collectively. In particular, the education, office and healthcare vertical end markets of the commercial/institutional sector are expected to grow faster than other vertical end markets we serve. Additionally, single-family residential construction is expected to grow 20% during 2016 to 805,000 units but still remains well below the 1.5 million unit pre-recession levels. In addition to that, we believe low energy prices are adversely affecting new geothermal installations due to the higher installation costs for geothermal as compared to other systems.

Additionally, tax credits and incentives contained in the American Reinvestment Recovery Act of 2009, may have improved sales of our geothermal heat pump products, as well as other "green" products. These tax credits and incentives are scheduled to expire at the end of 2016, which could have an impact on both residential and commercial geothermal heat pump sales if they are not extended.

Water Source and Geothermal Heat Pumps

We believe our Climate Control Business is the leading provider of water source and geothermal heat pumps to the commercial/institutional markets, as well as to single and multi-family residential markets for new construction, renovation and replacement in the U.S.

Water source heat pumps are highly efficient heating and cooling products, which can enable individual room climate control through the transfer of heat using a water pipe system connected to a centralized cooling tower or heat injector. Water source heat pumps enjoy a broad range of commercial/institutional applications, particularly in medium to large sized buildings with many small, individually controlled spaces. We believe our sales of commercial/institutional water source heat pumps should continue to grow as we continue to invest in new products. These developments will provide our distribution channel, engineers and building owners with product and system features that deliver higher efficiency and long-term value compared to other types of heating and air conditioning systems, whether for new construction, renovation or replacement purposes. The largest markets we serve are the single-family residential sector plus the multi-family, education and office markets in the commercial/institutional sector. Out of these markets, we believe all but the single-family residential market are forecast to show solid opportunity for growth going forward.

Geothermal systems, which circulate water or a combination of water and antifreeze through an underground heat exchanger, are considered to be the most energy efficient systems currently available in the market.

Hydronic Fan Coils

We believe that our Climate Control Business is a leading provider of hydronic fan coils targeting commercial and institutional markets including hospitality, multi-family and education sectors. Hydronic fan coils use heated or chilled water provided by a centralized chiller and/or boiler, through a water pipe system, to condition the air and allow individual room control. Hydronic fan coil systems are quieter and, have longer lives and lower maintenance costs than other comparable systems used where individual room control is required. Hydronic fan coils are effective in medium to large sized buildings with many small, individually controlled spaces.

Production and Backlog - Climate Control Business

We manufacture our products in many sizes and configurations, as required by the customer, to fit the space and capacity requirements of hotels, schools, hospitals, apartment buildings, condominiums, office buildings other commercial/institutional structures, and single family residences. Our backlog consists of confirmed customer orders for product to be shipped at a future date.

Most customers place their product orders well in advance of required delivery dates. The backlog of confirmed customer product orders are discussed under "Key Operational Factors – Climate Control Business" of the MD&A contained in this report.

Distribution - Climate Control Business

Our Climate Control Business sells its products primarily to mechanical contractors, independent manufacturers' representatives, independent wholesale distributors and original equipment manufacturers ("OEM"s). Our commercial sales to mechanical contractors primarily occur through independent manufacturers' representatives, who also represent complementary product lines not manufactured by us. Our single-family residential sales are primarily made through distributors. OEMs generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from our Climate Control Business.

Selling Markets - Climate Control Business

Our Climate Control Business market includes commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems. In the commercial/institutional markets, the largest vertical markets that we focus on, include multi-family residential, education, office, hospitality, healthcare, and retail.

Raw Materials and Components - Climate Control Business

Numerous domestic and foreign sources exist for the materials and components used by our Climate Control Business, which include compressors, electrical components, electric motors, copper, steel, and valves. We do not anticipate any difficulties in obtaining the necessary materials and components for our Climate Control Business. Although we believe we will be able to pass to our customers the majority of any cost increases in the form of higher prices, the timing of these price increases could lag the increases in the cost of materials and components. While we believe we will have sufficient sources for materials and components, a shortage could adversely affect production and costs of our Climate Control products.

Competition - Climate Control Business

Our Climate Control Business operates in a highly competitive market with many other larger HVAC manufacturing companies, such as Carrier Corporation (United Technologies Corporation), Nortek Inc., Trane (Ingersoll-Rand Public Limited Company), WaterFurnace (NIBE Industrier), Bosch Group, Haakon Industries Ltd., McQuay (Daikin Industries, Ltd.) and Energy Labs Inc., some of whom are also our customers. Some of our competitors serve other markets and have greater financial and other resources than we do. We believe our Climate Control Business manufactures a broader line of geothermal and water source heat pump and fan coil products than any other manufacturer in the U.S. and that we are competitive as to price, service, warranty and product performance.

Strategy - Climate Control Business

Our strategy in our Climate Control Business is to continue to launch new products and product upgrades in an effort to maintain and increase our current market positions and to expand our addressable markets. Further, our plan to drive growth in our Climate Control Business includes:

- focusing on obtaining deeper penetration in identifiable vertical markets while expanding our addressable markets for our products;
- continuing to develop the market for geothermal products, as well as products for green and energy-efficient construction retrofit; and
- continuing to focus on our Operational Excellence transformation which will result in improvements in safety, quality, on-time delivery, as well as operational efficiencies over time detailed in "Key Operational Factors—Climate Control Business —Operational Excellence Activities in our MD&A" contain in this report.

Additional Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating income (loss) and identifiable assets attributable to each of our lines of business and of the amount of our export sales in the aggregate and by major geographic area for each of the last three years appear in Note 18 to Consolidated Financial Statements included in this report.

Employees

As of December 31, 2015, we employed 1,928 persons. As of that date, our Chemical Business employed 576 persons, 197 of whom are represented by unions under agreements that expire in November of 2016 through October of 2018, and our Climate Control Business employed 1,259 persons, none of whom was represented by a union.

Environmental, Health and Safety Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (the "Environmental Laws and Health Laws"). 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 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, subsidiaries within our Chemical Business have incurred significant expenditures in order to comply with the Environmental Laws and Health Laws and are reasonably expected to do so in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our Chemical Business facilities should we discontinue the operations of a facility. We do not operate the natural gas wells where we own an interest and compliance with Environmental Laws and Health Laws is controlled by others, with our Chemical Business still being responsible for its proportionate share of the costs involved.

Available Information

We file or furnish annual, quarterly and current reports and other documents with the SEC under the Securities Exchange Act of 1934 (as amended, the "Exchange Act"). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0030. Also, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. the public can obtain any documents we file with the SEC at www.sec.gov.

We also make available free of charge through our Internet website (www.lsbindustries.com) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition to the reports filed or furnished with the SEC, we publicly disclose material information from time to time in press releases, at annual meetings of stockholders, in publicly accessible conferences and investor presentations, and through our website.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

Our Chemical and Climate Control Businesses and their customers are sensitive to adverse economic cycles.

Our Chemical Business can be affected by cyclical factors such as inflation, currency exchange rates, global energy policy and costs, global market conditions and economic downturns in specific industries. Certain sales of our Chemical Business are sensitive to the level of activity in the agricultural, mining, automotive and housing industries. A substantial decline in the activity of our Chemical Business has in the past, and could in the future, have a material adverse effect on the results of our Chemical Business and on our operating results, liquidity and capital resources. Further, material economic changes that adversely affect our natural gas working interests or lower natural gas prices may require us to write down the carrying value of our natural gas working interests. Therefore, these changes in our Chemical Business could adversely impact our operating results, liquidity and financial condition.

Our Climate Control Business also can be affected by cyclical factors, such as interest rates, inflation and economic downturns. Our Climate Control Business depends on sales to customers in the construction and renovation industries, which are particularly sensitive

to these factors. A decline in the economic activity in the U.S. has in the past had, and could in the future have, a material adverse effect on us and our customers in the construction and renovation industries in which our Climate Control Business sells a substantial amount of its products. Such a decline could result in a decrease in revenues and profits, and an increase in bad debts that could have a material adverse effect on our operating results, financial condition and liquidity.

Weather conditions adversely affect our Chemical Business and Climate Control Business.

The agricultural products produced and sold by our Chemical Business have been in the past, and could be in the future, materially affected by adverse weather conditions (such as excessive rain or drought) in the primary markets for our fertilizer and related agricultural products. Some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. These climate changes might also occur as the result of other phenomena that human activity is unable to influence, including changes in solar activity and volcanic activity. Regardless of the cause, if any of these unusual weather events occur during the primary seasons for sales of our agricultural products (March-June and September-November), this could have a material adverse effect on the agricultural sales of our Chemical Business and our financial condition and results of operations.

In addition, weather conditions, severe or otherwise, may adversely affect the construction, refurbishment and renovation of facilities that utilize our Climate Control products resulting in lower product order levels during those periods.

Our estimates about the funds needed to complete the El Dorado Expansion may not be accurate, which could adversely affect our business and financial condition.

The anticipated cost to complete the expansion of our El Dorado, Arkansas, chemical plant has increased significantly since the beginning of 2015, from our expectation of $485 million to $520 million total cost to our current estimate of $831 million to $855 million (including capitalized interest). Although we believe we have raised sufficient funding to complete the El Dorado Expansion, our current estimates of the amount of funding we need to complete the El Dorado Expansion may prove to be incorrect in the future because the costs may ultimately be higher than our current estimate or our operations may not provide the amount of cash flow we currently project, whether because of chemical plant interruptions, lower selling prices of our products or other events. Accordingly, we may learn in the future that more capital is needed and that we will have to undertake further financing activities or other actions. The past shortfall in cost estimates has had, and any possible future shortfall in cost estimates could have, a material adverse effect on our financial condition and results of operations.

Despite continuing investment to upgrade and replace equipment on an ongoing basis, the age of facilities of our Chemical Business increases the risk for unplanned downtime, which may be significant.

Our Chemical Business is comprised of operating units of various ages and levels of automated control. While we have continued to make significant annual capital improvements, potential age or control related issues have occurred in the past and may occur in the future, which could cause damage to the equipment and ancillary facilities. For example, during 2015, certain of our chemical facilities had planned and unplanned downtime as a result of certain maintenance and equipment issues, including our Pryor Facility that had a total of 70 days of downtime during the third quarter of 2015. As a result, we have experienced and may continue to experience additional downtime at our chemical facilities in the future.

The equipment required for the manufacture of our chemical products is specialized, and the time for replacement of such equipment can be lengthy, resulting in extended downtime in the affected unit. Although we use various reliability and inspection programs and maintain a significant inventory of spare equipment, which are intended to mitigate the extent of production losses, unplanned outages may still occur. As a result, these planned and unplanned downtime events at our chemical facilities have in the past and could in the future adversely affect our operating results, liquidity and financial condition.

We may not be able to generate sufficient cash to service our debt and may be required to take other actions to satisfy the obligations under our debt agreements or to redeem our preferred stock, which may not be successful.

Our ability to make scheduled payments on our debt obligations and our redemption obligations for the Series E cumulative redeemable Class C preferred stock ("Series E Redeemable Preferred") depends on our financial condition and operating performance, which is subject to the risks previously described for our El Dorado Expansion, prevailing economic and competitive conditions, and certain financial, business and other factors, some of which may be beyond our control. We may not be able to maintain a level of cash flows sufficient to pay the principal and interest on our debt, including the $425 million principal amount of our 7.75% Senior Secured Notes and the $50 million principal amount of the 12% Senior Secured Notes (collectively, the "Senior Secured Notes"), or if and when applicable, the outstanding amount of the Working Capital Revolver Loan or to pay the cumulative dividends and redemption payment on the Series E Redeemable Preferred should the holder choose to redeem it.

If cash flows and capital resources are insufficient to fund our debt, dividend or preferred stock redemption obligations, we could face substantial liquidity problems and will need to seek additional capital through the issuance of debt, the issuance of equity, asset sales or combination of the foregoing. If we are unsuccessful, we will need to reduce or delay investments and capital expenditures, or to dispose of other assets or operations, seek additional capital, or restructure or refinance debt or redeemable equity. These alternative measures may not be successful, may not be completed on economically attractive terms, or may not be adequate for us to meet our debt or preferred stock redemption obligations when due. Additionally, our debt agreements and the operating agreements associated with of our Series E Redeemable Preferred limit the use of the proceeds from many dispositions of assets or operations. As a result, we may not be permitted to use the proceeds from these dispositions to satisfy our debt or preferred stock redemption obligations.

Further, if we suffer or appear to suffer from a lack of available liquidity, the evaluation of our creditworthiness by counterparties and rating agencies and the willingness of third parties to do business with us could be materially and adversely affected. In particular, our credit ratings could be lowered, suspended or withdrawn entirely at any time by the rating agencies, if in each rating agency's judgment, circumstances warrant. Downgrades in our long-term debt ratings generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease and could trigger liquidity demands pursuant to the terms of contracts, leases or other agreements. Any future transactions by us, including the issuance of additional debt, the sale of any operating assets, or any other transaction to manage our liquidity, could result in temporary or permanent downgrades of our credit ratings.

Current and future legislative or regulatory requirements affecting our Chemical Business may result in increased costs and decreased revenues, cash flows and liquidity or could have other negative effects on our Chemical Business.

Our businesses are subject to numerous health, safety, security and environmental laws and regulations, primarily relating to our Chemical Business. The manufacture and distribution of chemical products are activities that entail health, safety and environmental risks and impose obligations under health, safety and environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Although we believe we have established processes to monitor, review and manage our businesses to comply with the numerous health, safety and environmental laws and regulations, our Chemical Business in the past has been, and in the future may be, subject to fines, penalties and sanctions for violations and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from the Chemical Business' facilities. Further, a number of our Chemical Business' facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on their operations and our results of operation and financial condition. These operating permits are subject to modification, renewal and revocation. In addition, third parties may contest our ability to receive or renew certain permits that we need to operate, which can lengthen the application process or even prevent us from obtaining necessary permits. We regularly monitor and review our operations, procedures and policies for compliance with permits, laws and regulations. Despite these compliance efforts, risk of noncompliance or permit interpretation is inherent in the operation of our businesses.

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment over time. As a result, there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. We try to anticipate future regulatory requirements that might be imposed and plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of compliance.

Changes to the production equipment at our chemical facilities that are required in order to comply with health, safety and environmental regulations may require substantial capital expenditures.

Explosions and/or losses at other chemical facilities that we do not own (such as the explosion in West, Texas) could also result in new or additional legislation or regulatory changes, particularly relating to public health, safety or any of the products manufactured and/or sold by our Chemical Business or the inability on the part of our Chemical Business' customers to obtain or maintain insurance as to certain products manufactured and/or sold by our Chemical Business, which could have a negative effect on the revenues, cash flow and liquidity of our Chemical Business.

In summary, new or changed laws and regulations or the inability of the customers of our Chemical Business to obtain or maintain insurance in connection with any of our chemical products could have an adverse effect on our operating results, liquidity and financial condition.

We may be required to modify or expand our operating, sales and reporting procedures and to install additional equipment for our Chemical Business in order to comply with current and possible future government regulations.

The chemical industry in general, and producers and distributors of ammonia and AN specifically, are scrutinized by the government, industry and public on security issues. Under current and proposed regulations, we may be required to incur substantial additional costs relating to security at our chemical facilities and distribution centers, as well as in the transportation of our products. These costs could have a material effect on our results of operations, financial condition, and liquidity. The cost of such regulatory changes, if

significant enough, could lead some of our customers to choose other products to ammonia and AN, which would have a significant adverse effect on our Chemical Business.

- In order to comply with the "Secure Handling of Ammonium Nitrate Act of 2007" as enacted by the U.S. Congress, the U.S. Department of Homeland Security ("DHS") published a notice of the proposed rulemaking. This regulation proposes to require sellers, buyers, their agents and transporters of solid AN and certain solid mixtures containing AN to possess a valid registration issued by DHS, keep certain records, report the theft or unexplained loss of regulated materials, and comply with certain other new requirements. We and others affected by this proposal have submitted appropriate comments to DHS regarding the proposed regulation. It is possible that DHS could significantly revise the requirements currently being proposed. Depending on the provisions of the final regulation to be promulgated by DHS and on our ability to pass these costs to our customers, these requirements may have a negative effect on the profitability of our AN business and may result in fewer distributors who are willing to handle the product. The proposed rule did not promulgate in 2015 and DHS may be considering significant changes compared to the original proposed rule. Although we cannot predict the timing or content of any DHS regulation, we believe implementation of a final rule appears unlikely in 2016.

  On August 1, 2013, U.S. President Obama issued an executive order addressing the safety and security of chemical facilities in response to recent incidents involving chemicals such as the April 2013 explosion at West, Texas. The President directed federal agencies to enhance existing regulations and make recommendations to the U.S. Congress to develop new laws that may affect our Chemical Business. For example, the EPA is expected to propose a revision to its Risk Management Program in March 2016. OSHA is likewise considering changes to its Process Safety Management standards. In addition, DHS, the EPA, and the Bureau of Alcohol, Tobacco, Firearms and Explosives updated a joint chemical advisory on the safe storage, handling, and management of AN. In January 2016 the U.S. Chemical Safety and Hazard Investigation Board ("CSB") released its final report on the West, Texas incident. The CSB report identifies several federal and state regulations and standards that could be strengthened to reduce the risk of a similar incident occurring in the future. While the CSB does not have authority to directly regulate our business, the findings in this report, and other activities taken in response to the West, Texas incident by federal, state, and local regulators may result in additional regulation of processes and products in our Chemical Business.

Proposed governmental laws and regulations relating to greenhouse gas and other air emissions may subject certain of our Chemical Business' facilities to significant new costs and restrictions on their operations and may reduce sales of our products.

The manufacturing facilities in our Chemical Business use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state legislatures and administrative agencies, including the EPA, are considering the scope and scale of greenhouse gas or other air emission regulation. Legislation and administrative actions are being considered that would regulate greenhouse gas emissions at some point in the future for our facilities, and existing and possible actions have already affected certain of our customers, leading to closure or rate reductions of certain facilities. The EPA has instituted a mandatory greenhouse gas reporting requirement that began in 2010, which affects all of our chemical manufacturing sites. Greenhouse gas regulation could: increase the price of the electricity and other energy sources purchased by our chemical facilities; increase costs for natural gas and other raw materials (such as ammonia); potentially restrict access to or the use of certain raw materials necessary to produce our chemical products; and require us to incur substantial expenditures to retrofit our chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted. Federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations. For instance, the EPA recently published a rule, known as the Clean Power Plan, to limit greenhouse gases from electric power plants. Judicial challenges have been filed, which seek a stay of the implementation of the rules. On February 9, 2016, the Supreme Court stayed the implementation of the Clean Power Plan while legal challenges to the rule proceed. Depending on the outcome of those challenges, and how various states choose to implement this rule, the Clean Power Plan could result in greater electric costs, more use of alternative energy sources, and a decreased demand for coal-generated electricity.

The Clean Power Plan is one of many recent developments aimed at limiting greenhouse gas emissions that could adversely affect our clients in the coal industry, and thus limit the market for some of our products. Enactment of laws or passage of regulations regarding emissions from the combustion of coal by the United States, states, or other countries could also result in electricity generators further switching from coal to other fuel sources or result in additional coal-fueled power plant closures. For example, the 2015 Paris climate summit agreement resulted in voluntary commitments by numerous countries to reduce their GHG emissions, and could result in additional firm commitments by various nations with respect to future GHG emissions. These commitments could further disfavor coal-fired generation, particularly in the medium- to long-term. In addition, the U.S. Department of the Interior recently announced a moratorium on issuing certain new coal leases on federal land while the Bureau of Land Management undertakes a programmatic review of the federal coal program. Pressure from advocacy groups and policies limiting available financing for the development of new coal-fueled power plants could also adversely affect the demand for coal in the future, and thus limit the market for some of our products.

As it relates to our Chemical Business' working interest in natural gas properties, legislative and regulatory proposals for restricting greenhouse gas or other air emissions or otherwise addressing climate change could require our Chemical Business to incur additional operating costs and could adversely affect demand for the natural gas that the operator of these wells intends to sell. For instance, the EPA has proposed New Source Performance Standards for methane and volatile organic compound emissions from certain activities in the oil and gas sector, as well as a new definition of oil and gas sources, and new draft Control Techniques Guidelines for reducing volatile organic compound emissions from existing oil and gas sources in certain ozone nonattainment areas. If the rules are adopted as proposed, these rules could impose new compliance costs and permitting burdens on natural gas production.

In addition, the EPA has recently lowered the national ambient air quality standard for ground level ozone, which could result in additional compliance requirements for natural gas operations in areas of the country that have failed to attain the new, lower standard. The EPA has not yet designated which areas of the country are out of attainment, and it will take the states several years to develop compliance plans for their non-attainment areas. It is difficult to predict how these and any other possible regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

There is intense competition in the Chemical and Climate Control industries.

Substantially all of the markets in which we participate are highly competitive with respect to product quality, price, design innovations, distribution, service, warranties, reliability and efficiency. We compete with many companies, domestic and foreign, that have greater financial, marketing and other resources. Specifically, the overall nitrogen market is expected to be affected as a result of the number of announced and started nitrogen expansion projects in the U.S. Competitive factors could require us to reduce prices or increase spending on product development, marketing and sales, which could have a material adverse effect on our business, results of operation and financial condition.

Our Chemical Business competes with many U.S. producers and producers in other countries, including state-owned and government-subsidized entities. Some competitors have greater total resources and are less dependent on earnings from chemical sales, which make them less vulnerable to industry downturns and better positioned to pursue new expansion and development opportunities. Our competitive position could suffer to the extent we are not able to expand our own resources sufficiently either through investments in new or existing operations or through acquisitions, joint ventures or partnerships. An inability to compete successfully could result in the loss of customers, which could adversely affect our sales and profitability.

We may pursue various transactions and initiatives to address our highly leveraged balance sheet and significant cash flow requirements.

If our existing financing sources are insufficient for our financing needs, or if we are unable to refinance debt and redemption obligations as they become due, we may be required to reduce or delay investments and capital expenditures (including the El Dorado Expansion), dispose of assets or operations, seek additional capital, restructure or refinance debt, or undertake a combination of some or all of these. Any transactions and initiatives that we may pursue may have significant adverse effects on our business, capital structure, ownership, liquidity, credit ratings and results of operations. These measures may not be successful, may not produce the desired outcome if completed, may not be completed on economically attractive terms, and may not be adequate for us to fund the El Dorado Expansion and to meet our debt or redemption obligations when due. This could ultimately adversely affect us, our debtholders, and our shareholders in a material manner.

A substantial portion of our sales are dependent upon a limited number of customers.

For 2015, seven customers of our Chemical Business accounted for approximately 52% of its net sales and 31% of our consolidated net sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer with other sales on substantially similar terms.

Cost and the lack of availability of raw materials could materially affect our profitability and liquidity.

Our sales and profits are heavily affected by the costs and availability of primary raw materials. These primary raw materials are subject to considerable price volatility. Historically, when there have been rapid increases in the cost of these primary raw materials, we have sometimes been unable to timely increase our sales prices to cover all of the higher costs incurred. While we periodically enter into futures/forward contracts to economically hedge against price increases in certain of these raw materials, there can be no assurance that we will effectively manage against price fluctuations in those raw materials.

Since we source certain of our raw materials and components on a global basis, we may experience long lead times in procuring those raw materials and components purchased overseas. In addition, certain of our raw materials and components are subject to tariff

controls and other international trade barriers, which may increase the uncertainty of raw material and component availability and pricing volatility.

Ammonia and natural gas represent the primary raw material feedstocks in the production of most of the products of the Chemical Business. Although our Chemical Business enters into contracts with certain customers that provide for the pass-through of raw material costs, we have a substantial amount of sales that do not provide for the pass-through of raw material costs. Also the spot sales prices of our agricultural products may not correlate to the ammonia and natural gas feedstock costs but rather reflect market conditions for similar and competing nitrogen sources. This lack of correlation can compromise our ability to recover our full cost to produce the products in this market. In addition, the Climate Control Business depends on raw materials such as copper and steel, which have shown considerable price volatility. As a result, in the future, we may not be able to pass along to all of our customers the full amount of any increases in raw material costs. Future price fluctuations in our raw materials may have an adverse effect on our financial condition, liquidity and results of operations.

As stated above, natural gas represents one of the primary raw materials in the production of our Chemical Business' products, and, as a result, we acquired natural gas working interests as an economic hedge against rising prices for natural gas. Our natural gas working interests may not be effective as an economic hedge under certain limited conditions.

We do not operate our natural gas working interest properties and have no, or very limited, ability to exercise influence over operations of these properties or their associated cost.

Additionally, we depend on certain vendors to deliver the primary raw materials and other key components that are required in the production of our products. Any disruption in the supply of the primary raw materials and other key components could result in lost production or delayed shipments. We have suspended in the past, and could suspend in the future, production at our chemical facilities due to, among other things, the high cost or lack of availability of such primary raw materials, which could adversely affect our competitiveness in the markets we serve. Accordingly, our financial condition, liquidity and results of operations could be materially affected in the future by the lack of availability of primary raw materials and other key components and increase costs relating to the purchase of raw materials or the production of our natural gas working interests.

Potential increase of imported agricultural products.

Russia and Ukraine both have substantial capacity to produce and export fertilizer grade AN. Producers in these countries also benefit from below-market prices for natural gas, due to government regulation and other factors. Fertilizer grade AN imports from Russia and Ukraine are currently subject to U.S. antidumping duty orders, which require these imports to be sold in the U.S. market at a fair value. Currently, imports of fertilizer grade AN from certain Russian producers are subject to an antidumping duty rate of 254% and all imports of fertilizer grade AN from Ukraine are subject to an antidumping duty rate of 156%. Since 2014, the duty rates for two Russian producers and exporters were reduced to zero following a U.S. Commerce Department ("DOC") annual review of pricing by these entities. The antidumping orders that exist on the Ukrainian and Russian product have substantially restrained the volumes of these imports in the past, but the 2014 temporary duty elimination for certain exporters resulted in increased Russian imports in 2015. If DOC continues to assign zero duty rates to certain Russian exporters at the end of the current annual review, the volumes of Russian fertilizer grade AN exported to the U.S. may continue to increase, possibly priced below our current cost to produce fertilizer grade AN. Moreover, two federal government agencies will begin a "sunset review" in 2016 to determine whether to continue the Russian antidumping duty order for another five years or terminate it. In addition, producers in China have substantial capacity to produce and export urea. Depending on various factors, including prevailing prices from other exporters, the price of coal, and the price of China's export tariff, higher volumes of urea from China could be imported into the U.S. at prices that have had and could have an adverse effect on the selling prices of other nitrogen products, including the nitrogen products we manufacture and sell.

We may have inadequate insurance.

While we maintain liability, property and business interruption insurance, including certain coverage for environmental contamination, it is subject to coverage limits and policies that may exclude coverage for some types of damages (which may include warranty claims). Although there may currently be sources from which such coverage may be obtained, the coverage may not continue to be available to us on commercially reasonable terms or the possible types of liabilities that may be incurred by us may not be covered by our insurance. In addition, our insurance carriers may not be able to meet their obligations under the policies, or the dollar amount of the liabilities may exceed our policy limits. Even a partially uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Furthermore, we are subject to litigation for which we could be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. While we maintain insurance, there can be no assurance that our insurance will prove to be adequate. If we are required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, our business, results of operations, financial condition and liquidity could be materially

adversely affected. For further discussion of our litigation, please see "Other Pending, Threatened or Settled Litigation" in Note 11 to Consolidated Financial Statements included in this report.

LSB is a holding company and depends, in large part, on receiving funds from its subsidiaries to fund our indebtedness.

Because LSB is a holding company and operations are conducted through its subsidiaries, LSB's ability to meet its obligations depends, in large part, on the operating performance and cash flows of its subsidiaries and the ability of its subsidiaries to make distributions and pay dividends to LSB.

Our substantial level of indebtedness, including dividend requirements relating to our preferred stock, could limit our financial and operating activities, and adversely affect our ability to incur additional debt to fund future needs.

We currently have a substantial amount of indebtedness and dividend requirements relating to our preferred stock. As a result, this level could, among other things:

- require us to dedicate a substantial portion of our cash flow to the payment of principal (primarily relating to 2019), interest and dividends, thereby reducing the funds available for operations and future business opportunities;
- make it more difficult for us to satisfy our obligations, including our repurchase obligations;
- limit our ability to borrow additional money if needed for other purposes, including working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes, on satisfactory terms or at all;
- limit our ability to adjust to changing economic, business and competitive conditions;
- place us at a competitive disadvantage with competitors who may have less indebtedness or greater access to financing;
- make us more vulnerable to an increase in interest rates, a downturn in our operating performance or a decline in general economic conditions; and
- make us more susceptible to changes in credit ratings, which could affect our ability to obtain financing in the future and increase the cost of such financing.

Any of the foregoing could adversely affect our operating results, financial condition, and liquidity.

Loss of key personnel could negatively affect our business.

We believe that our performance has been and will continue to be dependent upon the efforts of our principal executive officers. We cannot promise that our principal executive officers will continue to be available. Although we have employment agreements with certain of our principal executive officers, including Jack E. Golsen, Daniel D. Greenwell, and Mark T. Behrman, we do not have employment agreements with all of our key personnel. The loss of some of our principal executive officers could have a material adverse effect on us. We believe that our future success will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel.

Terrorist attacks and other acts of violence or war, and natural disasters (such as hurricanes, pandemic health crises, etc.), have negatively affect and could negatively affect U.S. and foreign companies, the financial markets, the industries where we operate, our operations and our profitability.

Terrorist attacks in the U.S and elsewhere and natural disasters (such as hurricanes or pandemic health crises) have in the past negatively affected, and can in the future negatively affect our operations. We cannot predict further terrorist attacks and natural disasters in the U.S. and elsewhere. These attacks or natural disasters have contributed to economic instability in the U.S. and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, our business, results of operations and financial condition. In addition, terrorist attacks and natural disasters may directly affect our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could affect our sales, our production capability and our ability to deliver products to our customers. In the past, hurricanes affecting the Gulf Coast of the U.S. have negatively affected our operations and those of our customers. As previously noted, some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects, whether anthropogenic or otherwise, were to occur in areas where we or our clients operate, they could have in adverse effect on our assets and operations. The consequences of any terrorist attacks or hostilities or natural disasters are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

Risks associated with capital projects may prevent the completion of those projects on budget, on schedule or at all.

We are undertaking capital projects and may undertake additional capital projects in the future. Capital projects entail risks, including, but not limited to:

- unanticipated cost increases;
- unforeseen engineering or environmental problems;
- work stoppages;
- weather interference;
- unavailability of necessary equipment; and
- unavailability of financing on acceptable terms.

Construction, equipment or staffing problems or difficulties in obtaining any of the requisite licenses, easements, permits and authorizations from regulatory authorities could increase the total cost and could delay or prevent the construction or completion of a capital project.

In addition, a capital project could be negatively affected if we are required to obtain additional debt or equity financing to complete a capital project or we are unable to obtain adequate sources of funding, such as the inability to obtain other debt or equity financing on acceptable terms or at all. Moreover, if we are able to complete a capital project, production levels at our facilities or general market conditions may not meet our expectations. As a result of these factors, our results of operations, liquidity and financial condition could be adversely affected.

Risks generally associated with implementation of an enterprise resource planning ("ERP") system may adversely affect our business operation and the effectiveness of internal control over financial reporting.

We have begun to implement an ERP system, which, when completed, will handle the business and financial processes of our subsidiaries' operations and our corporate and administrative functions, such as:

- facilitating the process of purchasing, manufacturing and distributing inventories;
- receiving, processing, and shipping orders on a timely basis,
- managing the accuracy of billings and collections for our customers;
- processing payments to our suppliers;
- managing the accuracy of payroll; and
- generating financial transactions, information and reports.

ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that can continue for several years. ERP implementations also require transformation of business and financial processes in order to benefit from a new ERP system. Our results of operations, liquidity and financial condition may be adversely affected if we experience operating problems and cost overruns during the ERP implementation process or if the ERP system (and the associated process changes) does not generate the expected benefits. Additionally, if we do not effectively implement the ERP system as planned or if the system does not operate as intended, it could adversely affect our financial reporting.

Cyber security risks could adversely affect our business operations.

As we continue to increase our dependence on information technologies to conduct our operations, the risks associated with cyber security also increase. We rely on our ERP and other information systems, among other things, to manage our manufacturing, supply chain, accounting and financial functions. This risk not only applies to us, but also to third parties on whose systems we place significant reliance for the conduct of our business. We have implemented security procedures and measures in order to protect our information from being vulnerable to theft, loss, damage or interruption from a number of potential sources or events. Although we believe these measures and procedures are appropriate, we may not have the resources or technical sophistication to anticipate, prevent, or recover from rapidly evolving types of cyber-attacks. Compromises to our information systems could have an adverse effect on our results of operations, liquidity and financial condition.

Certain of our stockholders control a significant amount of our voting stock, and their interests could conflict with interests of other stockholders.

LSB Funding LLC ("LSB Funding"), our largest voting shareholder, an unrelated third party, owns one share of Series F redeemable Class C preferred stock (the "Series F Redeemable Preferred"), which has voting rights with common stock equal to 19.4% of the outstanding shares of LSB's common stock as of February 19, 2016.

Jack E. Golsen, our Executive Chairman of our the Board of Directors (the "Board"), members of his immediate family, including Barry H. Golsen, a member of our Board, entities owned by them, and trusts for which they possess voting or dispositive power as trustee (the "Golsen Holders") owned as of February 19, 2016, an aggregate of 2,815,064 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together vote as a class and represent approximately 15% of the voting power (prior to conversion of the shares of voting preferred) of our issued and outstanding voting securities as of that date. The series of preferred represented by the 20,000 shares of voting preferred is convertible into an aggregate of 666,666 shares of our common stock.

Pursuant to a Board Representation and Standstill Agreement entered into in connection with LSB Funding's purchase of preferred stock in December 2015, LSB Funding has the right to designate three directors on our Board, and the Golsen Holders have the right to appoint two directors, subject to reduction in each case in certain circumstances. This is in addition to their ability to vote generally in the election of directors. As a result, each of LSB Funding and the Golsen Holders have significant influence over the election of directors to our Board.

The interests of LSB Funding and the Golsen Holders may conflict with interests of other stockholders (as well as with each other). As a result of the voting power and board designation rights of LSB Funding and the Golsen Holders, the ability of other stockholders to influence our management and policies could be limited.

Our debt agreements and our preferred stock contain covenants and restrictions that limit flexibility in operating our businesses. A breach of these covenants or restrictions could result in an event of default under one or more of our debt agreements or contracts at different entities within our capital structure, including as a result of cross acceleration or default provisions.

Our debt agreements and our preferred stock contain various covenants and other restrictions that, among other things, limit flexibility in operating our businesses. A breach of any of these covenants or restrictions could result in a significant portion of our debt becoming due and payable or could result in significant contractual liability. Our ability to comply with certain of our covenants and restrictions can be affected by events beyond our control. These covenants and other restrictions limit our ability to, among other things:

- incur additional debt or issue preferred shares;
- pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments;
- make investments;
- sell or transfer assets;
- create liens on assets to secure debt;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with affiliates;
- designate subsidiaries as unrestricted subsidiaries, and
- repay, repurchase or modify certain subordinated and other material debt.

There are a number of important limitations and exceptions to these covenants and other restrictions.

In addition, certain failures to make payments on significant contract obligations when due constitute a cross-default of some of our debt instruments, including the note purchase agreement governing our 12% Senior Secured Notes (the "Senior Secured Note Purchase Agreement") and the indenture governing our 7.75% Senior Secured Notes (the "Senior Secured Notes Indenture"). A breach of any of these covenants or restrictions could result in an event of default under one or more of our debt agreements at different entities within our capital structure, including as a result of cross acceleration or default provisions. Upon the occurrence of an event of default under one of these debt agreements, our lenders or noteholders could elect to declare all amounts outstanding under that debt agreement to be immediately due and payable and/or terminate all commitments to extend further credit. Such actions by those lenders or noteholders could cause cross defaults or accelerations under our other debt. If we were unable to repay those amounts, the lenders or noteholders could proceed against any collateral granted to them to secure such debt. In the case of a default

under debt that is guaranteed, holders of such debt could also seek to enforce the guarantees. If lenders or noteholders accelerate the repayment of all borrowings, we would likely not have sufficient assets and funds to repay those borrowings. Such occurrence could result in our or our applicable subsidiary going into bankruptcy, liquidation or insolvency.

We have not paid dividends on our outstanding common stock in many years.

We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. Although our Board has not made a decision whether or not to pay dividends on our common stock in 2016, it is unlikely we will pay dividends on our common stock until we have repaid or refinanced our debt and our preferred stock. In addition, there are certain limitations contained in our loan and securities purchase agreements that may limit our ability to pay dividends on our outstanding common stock.

Future issuances or potential issuances of our common stock or preferred equity could adversely affect the price of our common stock and our ability to raise funds in new stock offerings and could dilute the percentage ownership or voting power of our common stockholders.

Future sales of substantial amounts of our common stock, preferred stock or equity-related securities in the public market, or the issuance of a substantial amount of our common stock as the result of the exercise of our outstanding warrants, the conversion of our outstanding convertible preferred stocks, or the perception that such sales or conversions could occur, could adversely affect prevailing trading prices of our common stock and could dilute the value of common stock held by our existing stockholders. No prediction can be made as to the effect, if any, that future sales of common stock, preferred stock, or equity-related securities, exercises of our warrants or conversions of, our outstanding preferred stocks into shares of common stock, or the availability of shares of common stock for future sale will have on the trading price of our common stock. Such future sales, exercises, or conversions could also significantly reduce the percentage ownership and voting power of our existing common stockholders.

We are subject to a variety of factors that could discourage other parties from attempting to acquire us.

Our certificate of incorporation provides for a staggered Board and, except in limited circumstances, a two-thirds vote of outstanding voting shares to approve a merger, consolidation or sale of all, or substantially all, of our assets. In addition, we have entered into severance agreements with our executive officers and some of the executive officers of certain subsidiaries that provide, among other things, that if, within a specified period of time after the occurrence of a change in control of LSB, these officers are terminated, other than for cause, or the officer terminates his employment for good reason, the officer would be entitled to certain severance benefits. Certain of our preferred stock series and debt instruments also provide special rights in a change of control, including in some cases the ability to be repaid in full or redeemed.

We have authorized and unissued (including shares held in treasury) 51,603,779 shares of common stock and 4,019,999 shares of preferred stock as of December 31, 2015. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

We have adopted a preferred share purchase plan, which is designed to protect us against certain creeping acquisitions, open market purchases and certain mergers and other combinations with acquiring companies.

The foregoing provisions and agreements are designed to discourage a third party tender offer, proxy contest, or other attempts to acquire control of us and could have the effect of making it more difficult to remove incumbent management. In addition, LSB Funding and the Golsen Holders have significant voting power and rights to designate board representatives, all of which may further discourage a third party tender offer, proxy contest, or other attempts to acquire control of us.

Delaware has adopted an anti-takeover law which, among other things, will delay for three years business combinations with acquirers of 15% or more of the outstanding voting stock of publicly-held companies (such as us), unless:

- prior to such time the Board of the corporation approved the business combination that results in the stockholder becoming an invested stockholder;
- the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction;
- two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the Board; or
- the stockholders of the corporation amend its articles of incorporation or by-laws electing not to be governed by this provision

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- invest in projects that will generate best returns for our stockholders;
- future liquidity outlook;
- the construction and sales outlook for the markets we serve and the products we sell in the Climate Control Business;
- the outlook our chemical products and related markets;
- the amount, timing and impact on the nitrogen market from the current nitrogen expansion projects;
- demand for our geothermal products;
- the impact from the lack of non-seasonal volume in the Chemical Business;
- competition is based upon service, price, location of production and distribution sites, and product quality and performance;
- outlook for the coal industry;
- availability of raw materials;
- the result of our product and market diversification strategy for our Chemical Business;
- leadership positions in certain product categories for our Climate Control Business;
- shipment of backlog;
- the impact from the ongoing Operational Excellence activities;
- the results of our strategy for our Climate Control Business;
- geothermal technology being one of the most energy efficient;
- eliminating our external ammonia purchase requirements;
- changes in domestic fertilizer production;
- increasing output and capacity of our existing production facilities;
- ability to moderate risk inherent in agricultural markets;
- stimulating sales of our geothermal heat pump products, and other "green" products;
- eliminating the current ammonia cost disadvantage;
- improved sales in 2016 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;
- completing the El Dorado Expansion;
- the results from the El Dorado Expansion;
- cost of our capital projects;
- ability to pass to our customers cost increases in the form of higher prices;
- sufficient sources for materials and components;
- ability to obtain ammonia from other sources;

- annual natural gas requirements;
- compliance by the El Dorado Facility of the terms of its permits;
- costs of compliance with environmental laws, health laws, security regulations and transportation regulations;
- when Turnarounds will be performed and completed;
- costs of Turnarounds during 2016;
- expenses in connection with environmental projects;
- estimated accrued warranty costs could change in the near and long term;
- projected warranty costs;
- the impact of litigation and other contingencies;
- the increase in depreciation, depletion and amortization;
- benefits from the El Dorado Expansion;
- ability to comply with debt servicing and covenants;
- ability to meet debt maturities or redemption obligations when due; and
- meeting all required covenant tests for the next twelve months.

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

- changes in general economic conditions, both domestic and foreign,
- material 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 product 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 is 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."

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

Defined Terms

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

AHRI - The Air-Conditioning, Heating and Refrigeration Institute.
Amended Working Capital Revolver Loan – The senior secured revolving credit facility, amended effective December 31, 2013.
AN - Ammonium nitrate.
ARO - Asset retirement obligation.
Covestro - Formerly Bayer MaterialScience, LLC., the party with whom our subsidiary in Baytown has entered into an agreement for supply of nitric acid through at least June 2021, the Covestro Agreement.
Covestro Agreement - A long-term contract that provides for a pass-through of certain costs, including the ammonia costs, plus a fixed dollar profit.
Baytown Facility - The nitric acid production facility 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 Construction Market Forecasting Service.
DEF - Diesel Exhaust Fluid.
DHS - The U.S. Department of Homeland Security.
DSN – A 98% strength nitric acid plant which was located at the El Dorado Facility.
DOC – The U.S. Department of Commerce.
EDC - El Dorado Chemical Company.
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.
GHP – Geothermal heat pump.
Golsen Holders - Jack E. Golsen, our Executive Chairman of the Board, members of his immediate family, including Barry H. Golsen, a member of the Board, 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.
Liquidation Preference – The Series E Redeemable Preferred has a liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value.
Indenture – The agreement governing the 7.75% Senior Secured Notes.
LSB - LSB Industries, Inc.
MA - A management alignment consisting of a structured process to identify the most critical improvement opportunities within a business, prioritize and staff the improvement activities and to align the entire organization around achieving those improvement objectives over the next twelve months.
MD&A – Management's Discussion and Analysis of Financial Condition and Results of Operations.
MMBtu - Million Metric British thermal units.
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.
RIE - A rapid improvement event that is generally a week long, concentrated process that involves a cross functional team focused on improving a specific area of the business (or process).
SEC -The U.S. Securities and Exchange Commission.
7.75% Senior Secured Notes - The $425 million aggregate principal amount of 7.75% Senior Secured Notes due August 1, 2019.
12% Senior Secured Notes – The $50 million aggregate principal amount of 12% 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.
VSA – A value stream analysis that is a structured activity that helps visualize and document an entire business process flow and the interactions between functional departments. By creating a process map of the current state, the future state and identifying improvement opportunities, activity becomes the basis for an improvement plan.
WASDE - World Agricultural Supply and Demand Estimates Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The following table presents our significant properties for 2015:

	Chemical Business					Climate Control Business			
Facility	El Dorado Facility	Cherokee Facility	Pryor Facility	Baytown Facility	Chemical Distribution Centers	Heat Pumps	Fan Coils	Large Air Handlers	Modular Chillers
Location	El Dorado, AR	Cherokee, AL	Pryor, OK	Baytown, TX	(A)	Oklahoma City, OK	Oklahoma City, OK	Oklahoma City, OK	Oklahoma City, OK
Plant Area (acres)	150	160	47	2					
Plant Area (Sq. Ft.)						566,000	230,000	120,000	70,000
Site Area (acres)	1,400	1,300	104	Covestro site					
Site Status	Owned	Owned	Owned	Operating Agreement	(A)	Owned	Owned	Owned	Owned
Capacity Utilization	54% (B)	98% (C)	78% (D)	100%		51% (E)	51% (E)	54% (E)	39% (E)

(A) Our Chemical Business distributes its agricultural products through 11 wholesale and retail distribution centers, with 9 of the centers located in Texas (8 of which we own and 1 of which we lease); 1 center located in Tennessee (owned); and 1 center located in Missouri (owned).

(B) The percentage of utilization for the El Dorado Facility relates to its nitric acid capacity. The capacity utilization rate has been negatively affected by the reduction in low density AN sales to the mining industry.

(C) The percentage of utilization for the Cherokee Facility relates to its ammonia production capacity.

(D) The percentage of utilization for the Pryor Facility relates to its ammonia production capacity and is based on 330 days of production per year. The Pryor Facility has additional operational capacity for nitric acid and AN solution in excess of its current ammonia capacity.

(E) The capacity utilizations for the Climate Control Business are based on existing restrictions within our fabrication and assembly operations, using the current production layouts and work day shift structures (several operations utilize more than one shift in certain areas). Ongoing Operational Excellence activities should improve our assembly and our fabrication utilization going forward, enabling us to further optimize facility utilization and capacities.

Most of our real property and equipment located at our Chemical facilities are being used to secure our long-term debt. Most of our real property and equipment located at our Climate Control facilities have been mortgaged to secure the Senior Secured Notes. All of the properties utilized by our businesses are suitable and adequate to meet the current needs of that business.

ITEM 3. LEGAL PROCEEDINGS

See Legal Matters under Note 11 of Notes to Consolidated Financial Statements included in this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is trading on the New York Stock Exchange under the symbol "LXU". The following table shows, for the periods indicated, the high and low sales prices.

	Year Ended December 31,			
	2015		2014	
Quarter	High	Low	High	Low
First	$ 42.91	$ 29.00	$ 41.00	$ 31.22
Second	$ 47.33	$ 40.06	$ 42.37	$ 35.77
Third	$ 41.74	$ 15.16	$ 42.41	$ 35.63
Fourth	$ 18.23	$ 5.38	$ 37.83	$ 28.91

Stockholders

As of February 19, 2016, we had 408 record holders of our common stock

Dividends

We have not paid cash dividends on our outstanding shares of common stock during the two most recent fiscal years but have paid cash dividends on our outstanding series of convertible preferred stock during this period. See discussion concerning dividends and restrictions in payment of dividends below under "Liquidity and Capital Resources Dividends" and "Loan Agreements" of the MD&A contained in this report.

Equity Compensation Plans

Discussions relating to our equity compensation plans under Item 12 of Part III are incorporated by reference to our definitive proxy statement which we intend to file with the SEC on or before April 29, 2016.

Sale of Unregistered Securities

As previously reported, on December 4, 2015, we entered into a securities purchase agreement with unrelated third parties, LSB Funding and Security Benefit Corporation, in a private placement exempt from registration under the Securities Act (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, on December 4, 2015. On that day, we issued $210 million of Series E Redeemable Preferred, warrants to purchase 4,103,746 shares of common stock, par value $0.10 (which is equal to 17.99% of the outstanding shares of common stock before the completion of the private placement) and one share of Series F Redeemable Preferred. See Note 13 to Consolidated Financial Statements contained in this report.

Preferred Share Rights Plan

See discussions relating to our preferred share rights plan under Preferred Share Rights Plan of Note 13 to Consolidated Financial Statements contained in this report.

ITEM 6. SELECTED FINANCIAL DATA (1)

	Year ended December 31,				
	2015	2014	2013	2012	2011
	(In Thousands, Except Per Share Data)				
Selected Statement of Operations Data in Dollars:					
Net sales (2)	$ 711,781	$ 761,246	$ 701,241	$ 782,426	$ 831,435
Operating income (loss)	(50,752)	53,362	105,308	95,655	136,443
Interest expense, net	7,381	21,599	13,986	4,237	6,658
Provisions (benefit) for income taxes	(23,550)	12,400	35,421	33,594	46,208
Income (loss) from continuing operations	(34,707)	19,723	55,141	58,786	83,984
Net income (loss)	(34,765)	19,634	54,962	58,604	83,842
Net (loss) income attributable to common stockholders	$ (38,038)	$ 19,334	$ 54,662	$ 58,304	$ 83,537
Income (loss) per common share attributable to common stockholders:					
Basic:					
Income (loss) from continuing operations	$ (1.67)	$ 0.86	$ 2.44	$ 2.62	$ 3.81
Net loss from discontinued operations	—	—	(0.01)	(0.01)	(0.01)
Net income (loss)	$ (1.67)	$ 0.86	$ 2.43	$ 2.61	$ 3.80
Diluted:					
Income (loss) from continuing operations	$ (1.67)	$ 0.83	$ 2.34	$ 2.50	$ 3.59
Net loss from discontinued operations	—	—	(0.01)	(0.01)	(0.01)
Net income (loss)	$ (1.67)	$ 0.83	$ 2.33	$ 2.49	$ 3.58
Selected Balance Sheet Data in Dollars:					
Total assets (3)	$ 1,361,827	$ 1,130,572	$ 1,075,218	$ 575,808	$ 500,953
Long-term debt, including current portion, net (3)	520,422	450,885	455,088	71,637	78,404
Redeemable preferred stock	177,272	—	—	—	44
Stockholders' equity	$ 421,580	$ 434,048	$ 411,715	$ 354,497	$ 293,270
Selected Other Data in Dollars:					
Cash dividends declared per common share	—	—	—	—	—

(1) See discussions included in Item 7 of Part II of this report.

(2) Prior periods have been adjusted to classify certain shipping and handling costs of our Chemical Business from net sales and SG&A to cost of sales to conform to our current presentation of our consolidated statement of operations for 2015. See Note 1 to Consolidated Financial Statements.

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

ITEM 7. 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-K and our December 31, 2015 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 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.

Key Expectations for 2016

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

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

Key Capital Expenditure, Financing and Other Developments – 2015

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

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

Although we had begun seeking additional debt financing to address what were then our known costs of the El Dorado Expansion during the third quarter of 2015, the reluctance of existing bondholders to permit additional senior indebtedness unless we obtained additional equity caused us to reevaluate our financing plans and liquidity needs while we also worked to define the new cost estimates. As a result of that analysis, we concluded that our liquidity needs to complete the projects would exceed available debt financing, particularly in light of our existing debt covenants limiting the incurrence of additional indebtedness. Given that publicly offered financing would be unavailable before we had defined the cost estimates and the release of our 2015 third quarter results and would probably be unavailable even after those events, our options were either to obtain other financing solutions in order for us to

continue the projects or delay or stop the projects during the fourth quarter of 2015 to preserve our liquidity for other operations, which, without the El Dorado costs, are generally self-sustaining. We also took additional steps to address our liquidity concerns, including obtaining extended payment terms, for a limited time during the fourth quarter, from Leidos our EDC contractor, for our El Dorado Expansion and by obtaining financing for discrete pieces of equipment.

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

12% Senior Secured Notes

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

Securities Purchase Agreement

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

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

See further discussion in Note 13 to Consolidated Financial Statements contained in this report.

Registration Right Agreements

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

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

Board Representation and Standstill Agreement

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

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

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

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

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

Ammonia Purchase and Sale Agreement

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

Significant Financial Developments – 2015

Our financial developments during 2015 included the following items:

- Our consolidated operating loss for 2015 was $50.8 million, including an operating loss of $41.8 million from our Chemical Business. The following items contributed to the Chemical Business operating loss:
- a $43.2 million non-cash impairment charge primarily consisting of a $39.7 million non-cash impairment charge to reduce the carrying value of our working interest in natural gas properties in the Marcellus Shale region primarily as the result of a decline in forward prices for natural gas, large natural gas price differentials in the Marcellus Shale region and changes in the drilling plans of these natural gas properties (see discussion below under "Critical Accounting Policies and Estimates") and a $3.5 million non-cash impairment charge recorded by our Pryor Facility to reduce the carrying value of certain plant assets related to unused ammonia production equipment;
- a $19.1 million negative impact on operating results due to the planned and unplanned downtime experienced at the Pryor Facility. During the third quarter of 2015 ($15.6 million) and unplanned outage and resulting maintenance costs during the fourth quarter of 2015 ($3.5 million to $4.0 million)**;**
- a $27 million increase in operating losses at the El Dorado Facility resulting from the impact of the expiration of the Orica Agreement related to the sale of industrial grade AN ("LDAN") and lower sales volume of agricultural grade AN ("HDAN") primarily as the result of unfavorable weather conditions that curtailed the fall fertilizer application season, partially offset by;
- a $13.0 million improvement in operating results, after adjusting for a $28 million insurance recovery in 2014, at the Cherokee Facility primarily due to overall higher on-stream rates as this facility was not required to perform major planned maintenance (a "Turnaround") during 2015.

Key Industry Factors

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 world grain demand and production levels, the cost and availability of transportation, storage, weather conditions, competitive pricing and the availability of imports, among other factors. An expansion or upgrade of competitors' facilities, international and domestic political and economic developments and other factors are likely to continue to play an important role in nitrogen fertilizer industry economics. These factors can impact, among other things, the level of inventories in the market, resulting in price volatility and product margins.

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

Industrial

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

Mining

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

Farmer Economics

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

Natural Gas Prices

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

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

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

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

Ammonia Prices

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

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

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

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

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

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

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

Transportation Costs

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

Climate Control Business

Construction Markets

Our Climate Control Business serves the new, renovation and replacement commercial/institutional and residential construction sectors. Over the past two years, our overall business volume has shifted from a new construction majority to a dominance in renovation and replacement projects today. Information available from the CMFS indicates that construction activity in the commercial/institutional markets we serve (including multi-family residential structures) is expected to increase 8%, 7% and 5% in the aggregate from 2016 - 2018 and has surpassed pre-recession levels collectively. In particular, the education, office and healthcare vertical end markets of the commercial/institutional sector are expected to grow faster than other vertical end markets we serve. Additionally, single-family residential construction is expected to grow 20% during 2016 to 805,000 units but still remains well below the 1.5 million unit pre-recession levels.

Based on the above forecasted growth in the vertical markets we serve as well as the introduction of new products specifically targeted at the hospitality, education and healthcare vertical markets, we expect the commercial/institutional portion of the Climate Control Business to experience sales growth in the medium and long-term. We believe that our residential products, which are all geothermal heat pumps ("GHP"), will experience limited sales growth, if any, due to the higher relative total system purchase cost of our higher efficiency GHP product offerings as compared to traditional HVAC systems. The higher initial purchase cost creates a longer payback period in most regions due to current low energy costs. We continue to concentrate our product development and sales and marketing efforts on increasing our share of the existing market for our products, as well as expanding the markets for and application of our products, with a focus on 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 account, the availability of resources to perform the needed maintenance, feedstock logistics and other factors. Our Cherokee and Pryor Facilities have historically undergone a facility Turnaround every year. In the third quarter of 2014, our Cherokee Facility underwent an extended Turnaround replacing certain end-of-life equipment and performing additional maintenance required to move to a two-year Turnaround cycle. As a result, a Turnaround was not required at this facility during 2015 and we anticipate that Turnarounds at our Cherokee Facility typically will be performed every two years, and last 25 to 30 days. For the Cherokee Facility, the next bi-annual Turnaround is scheduled in mid-2016. Currently, Turnarounds at our Pryor Facility are performed annually, and typically last between 20 to 25 days. During the third quarter of 2015, the Pryor Facility completed a Turnaround that lasted 25 days. However, subsequent to the completion of this Turnaround, this facility experienced unplanned downtime as discussed below under "Items Affecting Comparability of Results." We are currently anticipating a Turnaround at our Pryor Facility in mid-2016. At our El Dorado Facility, since we are able to perform Turnaround projects on individual plants without shutting down the entire facility, the impact of lost production is not significant. However, upon completion of the new ammonia plant at our El Dorado Facility, the facility will begin with annual Turnarounds that are expected to last between 20 to 25 days. All Turnarounds result in lost fixed overhead absorption and additional maintenance costs, which costs are expensed as incurred.

Prepay Contracts

We use forward sales of our fertilizer products to optimize our asset utilization, planning process and production scheduling. These sales are made by offering customers the opportunity to purchase product on a forward basis at prices and delivery dates that we propose. We use this program to varying degrees during the year depending on market conditions and depending on our view as to whether price environments will be increasing or decreasing. Fixing the selling prices of our products months in advance of their ultimate delivery to customers typically causes our reported selling prices and margins to differ from spot market prices and margins available at the time of shipment.

Climate Control Business

Product Orders, Sales and Ending Backlog

Our Climate Control Business had 2015 total bookings of $261 million, a 6% decline from 2014. This decline is directly related to the loss of Carrier's water source heat pump contract that occurred in May 2014. The backlog at December 31, 2015 is approximately 4% higher than 2014 primarily driven by an increase in commercial/institutional branded water source heat pump products of our subsidiary, Climate Master, Inc. ("Climate Master").

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	2104
	(In Millions)					
First Quarter	$ 66.5	$ 63.2	$ 65.2	$ 60.3	$ 68.6	$ 44.7
Second Quarter	$ 70.2	$ 83.1	$ 66.8	$ 62.8	$ 75.1	$ 68.1
Third Quarter	$ 65.1	$ 74.1	$ 75.1	$ 73.5	$ 71.2	$ 73.5
Fourth Quarter	$ 58.7	$ 58.0	$ 67.0	$ 68.8	$ 67.1	$ 64.9
Fiscal Year	$ 260.5	$ 278.4	$ 274.1	$ 265.4		

(1) Our product new order level consists of confirmed purchase orders from customers that have been accepted and received credit approval and 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. At December 31, 2015 backlog includes two orders totaling approximately $1.5 million expected to ship from 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 January 2016, our new orders received were approximately $18.8 million and our backlog was approximately $65.6 million at January 31, 2016.

Operational Excellence Activities

In 2013 we began our Operational Excellence ("OpEx") initiative at each of the companies within our Climate Control Business focusing on creating a safe work environment, industry leading quality, excellent customer service and operating cost reductions. Our OpEx focus intensified throughout 2014 and 2015 at our custom air handler business and realignment of our water source and geothermal heat pump and hydronic fan coil operations. We have increased our investment through the addition of a group Director of OpEx and staffing of OpEx professionals at three of our operations to accelerate improvements in the businesses. The Climate Control Business continues to build the foundation for the continuous improvement culture desired in our organization. OpEx initiatives will drive safety, quality, delivery, and cost reductions with integration into our 2016 strategic planning activities by setting targeted goals and driving organizational development and management accountability. Savings are expected to come from increased manufacturing excellence, effective launch of new products, and synergies gained through changes in organizational structure which will leverage support across all businesses.

Certain Heat Pump Contracts

In November 2013, Carrier advised Climate Master that heat pump contracts would not be renewed between Climate Master, as the manufacturer, and Carrier, as the purchaser. These contracts expired in May 2014. During 2014 and 2015, net sales pursuant to these heat pump contracts represented approximately $14.7 million and $0.6 million, respectively.

Consolidated Results for 2015

Our consolidated net sales for 2015 were $711.8 million compared to $761.2 million for 2014. The sales decrease of $49.4 million included a decrease of $55.5 million in our Chemical Business partially offset by an increase of $8.7 million in our Climate Control Business. Our consolidated operating loss was $50.8 million compared to a consolidated operating income of $53.4 million for 2014. The decrease in our operating results of $104.2 million included a decrease in our Chemical Business operating results of $93.1 million and a decrease of $1.8 million in operating income in our Climate Control Business. In addition, our unallocated corporate expenses increased $8.5 million. The items impacting our operating results are discussed in more detail below and under "Results of Operations."

Items Affecting Comparability of Results

Property and Business Interruption Insurance Claims and Recoveries

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

Impairment of Natural Gas Properties and Long Lived Assets

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

Pryor Downtime

Our Pryor Facility completed an annual Turnaround on August 4, 2015, which lasted 25 days. While restarting the plant, several mechanical issues were encountered requiring management to take the plant out of service for additional repairs. The plant was restarted and resumed production on September 23, 2015, resulting in 45 days of unplanned downtime. The Pryor facility experienced additional unplanned downtime in its Urea and UAN plants during the fourth quarter of 2015. We estimate that the period of planned

and unplanned downtime at our Pryor Facility during the third quarter of 2015 resulted in reduced sales volumes of UAN and ammonia by approximately 18,300 tons and 22,200 tons, respectively and an additional reduction in UAN sales volumes of 21,000 tons in the fourth quarter. The impact from these outages increased our operating losses in 2015 by approximately $19 million, which includes unabsorbed overhead expenses, costs of repair and lost profit margin.

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

Orica Agreement

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

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

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

Cherokee Turnaround Expense

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

Interest Expense, net

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

Certain Unallocated Corporate Expenses

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

Results of Operations

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

We present the following information about our results of operations 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. Operating income (loss) 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 for each of the three years ended December 31:

	2015	2014	2013
		(In Thousands)	
Net sales:			
Chemical	$ 428,129	$ 483,638	$ 402,623
Climate Control	274,086	265,358	285,018
Other	9,566	12,250	13,600
	$ 711,781	$ 761,246	$ 701,241
Gross profit:			
Chemical	$ 16,644	$ 61,084	$ 40,728
Climate Control	83,660	82,443	92,907
Other	3,404	4,347	4,484
	$ 103,708	$ 147,874	$ 138,119
Operating income (loss):			
Chemical	$ (41,831)	$ 51,281	$ 87,784
Climate Control	19,892	21,675	30,386
Other	1,104	1,771	1,699
General corporate expenses	(29,917)	(21,365)	(14,561)
	(50,752)	53,362	105,308
Interest expense, net	7,381	21,599	13,986
Losses on extinguishment of debt	—	—	1,296
Non-operating income, net:			
Chemical	(363)	(249)	(1)
Climate Control	(4)	—	(1)
Corporate and other business operations	491	(32)	(98)
Provisions (benefit) for income taxes	(23,550)	12,400	35,421
Equity in earnings of affiliate - Climate Control	—	(79)	(436)
Income (loss) from continuing operations	$ (34,707)	$ 19,723	$ 55,141
Additions to property, plant and equipment:			
Chemical	$ 469,558	$ 238,070	$ 160,343
Climate Control	632	1,859	5,576
Other	25	27	65
Corporate	294	148	435
	$ 470,509	$ 240,104	$ 166,419
Depreciation, depletion and amortization of property, plant and equipment:			
Chemical	$ 35,239	$ 30,364	$ 23,497
Climate Control	4,834	4,946	4,707
Other	36	34	49
Corporate	387	320	57
	$ 40,496	$ 35,664	$ 28,310

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

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2015 and 2014:

	2015	2014	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Agricultural products	$ 209,770	$ 230,046	$ (20,276)	(8.8)%
Industrial acids and other chemical products	167,520	173,876	(6,356)	(3.7)%
Mining products	47,475	67,484	(20,009)	(29.7)%
Other products	3,364	12,232	(8,868)	(72.5)%
Total Chemical	$ 428,129	$ 483,638	$ (55,509)	(11.5)%
Gross profit - Chemical	$ 16,644	$ 61,084	$ (44,440)	(72.8)%
Gross profit percentage - Chemical (1)	3.9%	12.6%	(8.7)%	
Operating income (loss) - Chemical	$ (41,831)	$ 51,281	$ (93,112)	(181.6)%

(1) As a percentage of net sales

The following tables provide key operating metrics for the agricultural products of our Chemical Business for 2015 and 2014:

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

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

With respect to sales of industrial, mining and other chemical products, the following table indicates the volumes sold of our major products for 2015 and 2014:

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

Net Sales – Chemical

Our Chemical Business sales in the agricultural markets primarily were at the spot market price in effect at the time of sale or at a negotiated future price. The majority of our 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. In general, for 2015 our agricultural sales were lower due to lower sales volumes for HDAN, ammonia and our other agricultural products due to unusually wet application seasons and lower prices for HDAN and UAN partially offset by higher UAN sales volumes. Mining sales also declined primarily due to lower sales prices and volumes while sales of industrial products

decreased slightly with lower prices partially offset by higher sales volumes. In addition, natural gas sales prices and volumes declined in 2015 compared to 2014.

- Agricultural products comprised approximately 49% and 48% of the Chemical Business net sales for 2015 and 2014, respectively. The sales decline of 8.8% over 2014 sales was driven by a slight overall decline in sales volumes with lower HDAN, ammonia and other agricultural products sales volumes partially offset by higher UAN sales volumes. The higher UAN sales volumes were primarily due to higher production at our Cherokee and Pryor Facilities in 2015 compared to 2014 when we performed a bi-annual turnaround at the Cherokee Facility. Compounding the slight decline in sales volumes was a decrease in our average product selling prices per ton in 2015 with UAN down 9% and HDAN down 1%. These lower selling prices were attributable to lower natural gas and other commodity prices coupled with lower urea selling prices caused by the large amount of imports, placing downward pressure on selling prices. Ammonia prices were essentially unchanged for 2015 compared to 2014.

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

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

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

Gross Profit - Chemical

- Our gross profit decreased $44.4 million in 2015 when compared to 2014. Excluding the business interruption insurance recoveries of $22.9 million in 2014, the decrease in gross profit in 2015 compared to 2014 was $21.5 million. The decrease of $21.5 million was primarily due to the loss of the margin contribution relating to the expiration of the Orica Agreement, lost absorption of fixed overhead costs associated with lower production of HDAN, lower average sales prices, increased operating costs including railcar lease costs, partially offset by the higher overall on-stream rate at the Cherokee Facility and lower natural gas feedstock costs. Natural gas feedstock costs decreased approximately 25% but that was partially offset by operating losses incurred relating to our working interests in certain natural gas properties.

Operating Income (Loss) - Chemical

- Our Chemical Business operating loss was $41.8 million, a decrease of $93.1 million in operating results. This decrease includes the $43.2 million non-cash impairment charges consisting of an impairment charge of $39.7 million to reduce the carrying value of our working interest in natural gas properties and a $3.5 million impairment charge to reduce the carrying value of certain plant assets related to unused ammonia production equipment at our Pryor Facility during 2015. In addition to the business interruption insurance recovery included in gross profit discussed above, a property insurance recovery of $5.1 million for a total insurance recovery of $28.0 million, was recognized in 2014. Excluding the impairment charges of $43.2 million in 2015 and the total insurance recoveries of $28.0 million in 2014, operating results decreased $21.9 million primarily from the decrease in gross profit discussed above and personnel and training expenses, which are primarily related to the expansion related activities at the El Dorado Facility.

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2015 and 2014:

	2015	2014	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Water source and geothermal heat pumps	$ 156,314	$ 168,804	$ (12,490)	(7.4)%
Hydronic fan coils	68,082	61,307	6,775	11.1%
Other HVAC products	49,690	35,247	14,443	41.0%
Total Climate Control	$ 274,086	$ 265,358	$ 8,728	3.3%
Gross profit - Climate Control	$ 83,660	$ 82,443	$ 1,217	1.5%
Gross profit percentage - Climate Control (1)	30.5%	31.1%	(0.6)%	
Operating income - Climate Control	$ 19,892	$ 21,675	$ (1,783)	(8.2)%

(1) As a percentage of net sales

The following table provides sales by market sector in our Climate Control Business for the year ended December 31:

	2015		2014		
	(Dollars in Thousands)				
Sales by Market Sector	Sales	Sector Mix	Sales	Sector Mix	Percentage Change
Commercial/Institutional	$ 238,551	87 %	$ 223,071	84%	7%
Residential	35,535	13 %	42,287	16%	(16)%
	$ 274,086		$ 265,358		3%

Net Sales – Climate Control

- Net sales of our water source and geothermal heat pump products decreased in 2015 primarily as a result of the loss of the Carrier heat pump contract, which generated $14.7 million in sales in 2014 compared to $0.6 million in 2015. Excluding Carrier heat pump sales, commercial/institutional product sales of water source and geothermal heat pumps improved slightly over 2014 while residential product sales of water source and geothermal heat pumps declined $3.9 million, or 10.0%. Overall, the number of units sold declined and the average unit selling price decreased due to lower Carrier sales and product mix, respectively. From a commercial/institutional market perspective, gains were seen in the multi-family, healthcare and public building sectors with a slight decline in the education and office sectors. We believe during 2015, we continued to maintain a leading market share position based on market data supplied by AHRI.
- Net sales of our hydronic fan coils increased in 2015 primarily due to favorable end markets as well as new product introductions and an increase in selling prices relative to 2014. Sales gains were realized in hospitality, healthcare, government buildings and multi-family offset slightly by a drop in the education market. We believe during 2015, we continued to maintain a leading market share position based on market data supplied by AHRI.
- Net sales of our other HVAC products increased primarily due to increased sales of our large custom air handlers related to a higher beginning backlog entering 2015. Our backlog continues to grow.

Gross Profit - Climate Control

- The increase in gross profit in our Climate Control Business was primarily the result of the higher net sales as discussed above, although the gross profit as a percentage of net sales declined due to product mix and under absorbed overhead and increased expenses for contract labor, outside services, recruiting, repair and maintenance.

Operating Income - Climate Control

- Operating income decreased primarily as a result of higher variable selling expenses related to the increase in sales volume (freight, warranty, and commissions) partially offset by a reduction in fixed expenses in 2015 over 2014, primarily advertising.

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. General corporate expenses were $29.9 million in 2015 compared to $21.4 million in 2014. The increase of approximately $8.5 million primarily relates to an increase of $6.4 million for personnel related expenses including; one-time severance payments of approximately $2.0 million for certain senior executives, additional compensation expense of approximately $1.0 million, discontinuance of the allocation of certain senior management costs to the Chemical and Climate Control Businesses of approximately $1.2 million and compensation related to restricted stock awards of approximately $0.4. The remaining increase of approximately $2.1 million relates primarily to an increase in professional fees for legal and investment banking services related to various financing activities, an increase in auditing and other accounting services and other consulting services. Additionally, in both 2014 and 2015 we incurred $4.8 million and $4.6 million respectively for fees and expenses related to analyzing proposals received from certain activist shareholders and in dealing, negotiating and settling with those shareholders in order to avoid a proxy fight.

Interest Expense, net

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

Provision (benefit) for Income Taxes

The benefit for income taxes for 2015 was $23.6 million compared to a provision of $12.4 million for the same period in 2014. The effective tax rate was 40% for 2015 and 39% for 2014.

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

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2014 and 2013:

	2014	2013	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Agricultural products	$ 230,046	$ 180,763	$ 49,283	27.3%
Industrial acids and other chemical products	173,876	150,497	23,379	15.5%
Mining products	67,484	63,286	4,198	6.6%
Other products	12,232	8,077	4,155	51.4%
Total Chemical	$ 483,638	$ 402,623	$ 81,015	20.1%
Gross profit - Chemical	$ 61,084	$ 40,728	$ 20,356	50.0%
Gross profit percentage - Chemical (1)	12.6%	10.1%	2.5%	
Operating income - Chemical	$ 51,281	$ 87,784	$ (36,503)	(41.6)%

(1) As a percentage of net sales

Net Sales – Chemical

Our Chemical Business sales in the agricultural markets primarily were at the spot market price in effect at the time of sale or at a negotiated future price. Most of our 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 2014 production and sales volumes were higher in all three of our primary markets due to consistent customer demand and improved on-stream production rates at the El Dorado, Pryor and Cherokee Facilities, partially offset by an extended Turnaround in the third quarter and the approximately 30 days of downtime in the fourth quarter to complete certain unplanned maintenance at our Cherokee Facility.

- Agricultural products comprised approximately 48% and 45% of the Chemical Business' net sales for 2014 and 2013, respectively. Agricultural products sales increased in 2014 as more product was available to sell resulting from the increased on-stream rates of our facilities partially offset by lower average selling prices for nitrogen fertilizers. Compared to 2013, the 2014 average agricultural products selling prices per ton were lower by 8%, 5%, and 10% for ammonia, UAN and AN, respectively. The decrease in selling prices for the nitrogen fertilizers was due largely to record exports of urea from China combined with lower commodity prices.
- Industrial acids and other chemical products sales increased in 2014 as a result of more product available to sell due to the improved on-stream rates of our chemical facilities.
- Mining products sales increased in 2014 primarily as a result of more product available to sell due to the improved on-stream rates of our chemical facilities.
- Other products relates to natural gas sales from our working interests in certain natural gas properties acquired in 2012 and 2013 by a subsidiary within our Chemical Business. The increase in natural gas sales is primarily due to higher production volume as these properties are developed and partially offset by lower net selling prices.

Gross Profit - Chemical

- Our gross profit increased $20.4 million in 2014 when compared to 2013. Excluding business interruption insurance recoveries of $22.9 million and $28.6 million in 2014 and 2013, respectively, and $4.5 million of precious metals recovery in 2013, the increase in gross profit was $30.6 million. The increase of $30.6 million was due to the higher sales level resulting in improved fixed overhead absorption made possible by the improved on-stream production rates of our chemical facilities. The improved gross profit was partially offset by a decline in the margin per ton of nitrogen fertilizers due to lower selling prices and higher feedstock costs. Natural gas feedstock cost increased approximately 12% partially offset by a 7% decrease in ammonia feedstock costs, while AN prices decreased 10% and UAN selling prices decreased 5%, negatively affecting gross profit margins on our nitrogen fertilizer sales.
- Unrealized losses related to forward contracts on natural gas purchases decreased 2014 gross profit by $2.1 million compared to a minimal unrealized gain in 2013.
- Purchased UAN that was sold at a loss to honor forward sales commitments in excess of available production due to unplanned downtime reduced gross profit by $1.2 million in 2014.

Operating Income - Chemical

- Our Chemical Business' operating income was $51.3 million, a decrease of $36.5 million. In addition to the business interruption insurance recoveries included in gross profit discussed above, property insurance recoveries of $5.1 million and $66.0 million were recognized in 2014 and 2013, respectively. Excluding all insurance recoveries of $28.0 million and $94.6 million in 2014 and 2013, respectively, and excluding the precious metals recovery of $4.5 million in 2013, our adjusted operating income was $23.3 million in 2014 compared to an adjusted operating loss of $11.3 million, or an increase of $34.6 million. Additionally net other expenses were $4.0 million lower in 2014 due primarily to dismantling expenses and penalties incurred in 2013.

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2014 and 2013:

	2014	2013	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Water source and geothermal heat pumps	$ 168,804	$ 183,757	$ (14,953)	(8.1)%
Hydronic fan coils	61,307	64,541	(3,234)	(5.0)%
Other HVAC products	35,247	36,720	(1,473)	(4.0)%
Total Climate Control	$ 265,358	$ 285,018	$ (19,660)	(6.9)%
Gross profit - Climate Control	$ 82,443	$ 92,907	$ (10,464)	(11.3)%
Gross profit percentage - Climate Control (1)	31.1%	32.6%	(1.5)%	
Operating income - Climate Control	$ 21,675	$ 30,386	$ (8,711)	(28.7)%

(1) As a percentage of net sales

Net Sales – Climate Control

· Net sales of our water source and geothermal heat pump products decreased in 2014 primarily as a result of the loss of the Carrier heat pump contracts, which generated sales in 2014 that were $17 million lower than 2013. Excluding Carrier heat pump sales, commercial/institutional product sales were flat with 2013 while residential product sales were up nearly 6.5%. Overall, the number of units sold declined; and 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. In addition, 2014 had an extremely slow start due to low beginning backlog and weather related delays. Incoming orders, excluding Carrier, for commercial/institutional products and residential products increased 11% and 15%, respectively. During 2014, we continued to maintain a market share leadership position based on market data supplied by AHRI.

· Net sales of our hydronic fan coils declined in 2014 primarily due to lower than expected product orders partially offset by an increase in selling prices of approximately 8% over 2013 primarily due to product and feature mix. We experienced only minor fluctuations in the vertical markets served. During 2014, we continued to maintain a market share leadership position based on market data supplied by AHRI.

· Net sales of our other HVAC products decreased primarily due to a lower beginning backlog entering 2014, customer scheduled delivery dates shifting out for our large custom air handlers and modular chillers, partially offset by increased activity on contracts for our engineering and construction services.

Gross Profit - Climate Control

· The decrease in gross profit in our Climate Control Business was primarily the result of the lower net sales as discussed above and reduced overhead absorption related to fewer units sold in 2014 as compared to 2013.

Operating Income - Climate Control

· Operating income decreased primarily as a result of the lower gross profit discussed above, partially offset by lower operating expenses. However, variable selling expenses as a percentage of sales increased due to the change in product and customer mix with lower OEM sales at CM causing freight to increase as a percentage of sales and warranty expenses increasing due to recent claims at our fan coil operation. Fixed selling and administrative expense in 2014 declined slightly from 2013 but represented a greater percentage of net sales due to lower sales in 2014.

General Corporate Expenses

General corporate expenses were $21.4 million during 2014 compared to $14.6 million in 2013. The increase was primarily the result of incurring approximately $4.2 million in fees and expenses related to evaluating and analyzing proposals from and settling with certain activist shareholders in the first quarter of 2014 and increases in consulting fees and services of $0.9 million, insurance and bank related expense of $0.4 million, depreciation and amortization of $0.4 and personnel costs of $0.3 million. During 2013, we recognized other income of $0.5 million relating to a litigation settlement.

Interest Expense, net

Interest expense for 2014 was $21.6 million compared to $14.0 million for 2013. The increase is due primarily to the issuance of the 7.75% Senior Secured Notes during 2013, partially offset by $14.1 million of capitalized interest on capital projects under development and construction during 2014 compared to $4.0 million capitalized during 2013.

Loss on Extinguishment of Debt

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

Provision for Income Taxes

The provision for income taxes for 2014 was approximately $12.4 million compared to $35.4 million for 2013. The resulting effective tax rate was 39% for 2014 and 40% for 2013 (excluding the benefit of $0.5 million associated with the retroactive tax relief on certain 2012 tax provisions that expired in 2012). The decrease in the effective tax rate was due primarily to certain expired tax credits reinstated during December 2014.

LIQUIDITY AND CAPITAL RESOURCES

For 2015, our operating activities generated positive cash flows. The following summarizes our cash flow for all activities:

Cash Flow from Continuing Operating Activities

For 2015, net cash provided by continuing operating activities was $31.6 million primarily as the result of net loss of $34.8 million plus adjustments of $43.2 million for the impairment of long-lived assets (primarily natural gas properties), $18.5 million for deferred income taxes, and $40.5 million for depreciation, depletion and amortization of PP&E.

Cash Flow from Continuing Investing Activities

For 2015, net cash used by continuing investing activities was $354.0 million consisting primarily of $439.8 million used for expenditures for PP&E primarily for the benefit of our Chemical Business, partially offset by net proceeds of $85.5 million from restricted cash and cash equivalents and investments primarily representing funds designated by management for specific capital projects relating to our Chemical Business.

Cash Flow from Continuing Financing Activities

For 2015, net cash provided by continuing financing activities was $263.1 million and primarily consisted of net proceeds from the issuance of preferred stock and warrants of $198.6 million and net proceeds from long-term financing of $79.0 million, partially offset by net payments on short-term financing and payment of long-term debt of $16.6 million.

Liquidity Needs for 2016

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

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

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

Capitalization

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

	December 31, 2015	December 31, 2014
	(In Millions)	
Cash and cash equivalents and short-term investments	$ 127.3	$ 201.3
Noncurrent restricted cash and cash equivalents and investments	—	71.0
Total current and noncurrent cash and investments	$ 127.3	$ 272.3
Long-term debt:		
7.75% Senior Secured Notes due 2019	$ 425.0	$ 425.0
12% Senior Secured Notes due 2019	$ 50.0	—
Secured Promissory Note due 2016	$ 15.9	22.8
Secured Promissory Note due 2021	$ 16.1	—
Secured Promissory Note due 2022,	$ 15.0	—
Other	$ 7.1	9.5
Unamortized discount and debt issuance costs	$ (8.7)	(6.4)
Total long-term debt, including current portion, net	$ 520.4	$ 450.9
Series E and F redeemable preferred stock	$ 177.3	—
Total stockholders' equity	$ 421.6	$ 434.0

As of December 31, 2015, our cash and cash equivalents were $127.3 million. In addition, our $100 million revolving credit facility was undrawn and available to fund operations as discussed below, if needed, subject to the amount of our eligible collateral and outstanding letters of credit.

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

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

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

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

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

Capital Additions

Capital Additions - 2015

Capital additions during 2015 were $477.0 million, including $473.4 million for the benefit of our Chemical Business. The Chemical Business capital additions included $443.0 million for expansion projects at our El Dorado Facility (which capital additions include

equipment associated with maintaining compliance with environmental laws, regulations and guidelines), $19.1 million for various major renewal and improvement projects, $6.0 million relating to the new ERP system, $3.7 million for the development of natural gas leaseholds, and an additional $3.7 million associated with maintaining compliance with environmental laws, regulations and guidelines not associated with the El Dorado Expansion. The capital additions were funded primarily from noncurrent restricted cash and investments, third-party financing and working capital. Due to the increase in the amount of capital additions incurred and planned, our depreciation, depletion and amortization expenses have increased and are expected to increase in 2016.

Planned Capital Additions

	Planned Capital Additions 2016 (In Millions)	
	Low	High
Chemical:		
El Dorado Expansion	$ 126	$ 150
Other (1)	40	48
Total Chemical	$ 166	$ 198
Climate Control (2)	4	6
Corporate and Other (2)	4	6
	$ 174	$ 210

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

Included in planned capital expenditures is capitalized interest of approximately $12 million for 2016. The planned capital expenditures for Corporate and Other are primarily for the replacement of our ERP, 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 2017 at a total cost of $26 million to $28 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. Beyond the completion of the expansion projects, specific capital projects are less identified but are expected to include between $40 million to $60 million per year at our chemical facilities for ongoing capital maintenance, including environmental compliance, major renewal and improvement projects, and other capital projects, and approximately $19 million from 2016-2019 to fully develop our natural gas working interests.

The El Dorado Expansion

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

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

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

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

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

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

Expenses Associated with Environmental Regulatory Compliance

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 $5.5 million in 2015 in connection with environmental projects. For 2016, we expect to incur expenses ranging from $4.5 million to $5.5 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

Dividends

We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our Board has not made a decision whether or not to pay such dividends on our common stock in 2016**.** Also see discussion below concerning certain limitations relating to paying dividends on our common stock.

During the first quarter of 2015, annual dividends totaling $300,000 were declared on our outstanding Series D 6% cumulative convertible Class C preferred stock (the "Series D Preferred") and Series B 12% cumulative convertible Class C Preferred Stock (the "Series B Preferred") and subsequently paid in 2015 using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our Board, payable as follows:

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

All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Holders. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

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

Compliance with Long - Term Debt Covenants

As discussed below under "Loan Agreements", the Amended Working Capital Revolver Loan requires, among other things, that we meet certain financial covenants. Currently, our forecast is that we will be able to meet all financial covenant requirements for the

next twelve months. We plan to use our revolving credit facility to fund operational needs though out 2016 and believe that even with this additional borrowing that we will meet the minimum fixed charge coverage ratio during 2016.

Loan Agreements and Redeemable Preferred Stock

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

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

See footnote (B) under Note 9 to Consolidated Financial Statements included in this report for additional information on these Senior Secured Notes.

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

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

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

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

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

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

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

Secured Promissory Note due 2021 - On April 9, 2015, EDC and a lender entered into a secured promissory note due 2021 for an original principal amount of approximately $16.2 million. The Secured Promissory Note due 2021 bears interest at the rate of 5.25% per year and matures on March 26, 2021. Interest only is payable monthly for the first 12 months of the term. Principal and

interest are payable monthly for the remaining term of the Secured Promissory Note due 2021. This Secured Promissory Note due 2021 is secured by a natural gas pipeline being constructed at the El Dorado Facility and is guaranteed by LSB.

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

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

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

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

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

Seasonality

See discussion above under "Part I-Item 1 Business" for seasonality trends.

Off-Balance Sheet Arrangements

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

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2015, we have agreed to indemnify the sureties for payments, up to $17.3 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2016.

Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2015 are summarized in the following table (1) (2):

Contractual Obligations	Total	Payments Due in the Year Ending December 31, 2016	2017	2018	2019	2020	Thereafter
				(In Thousands)			
Long-term debt:							
Senior Secured Notes	$ 475,000	$ —	$ —	$ —	$ 475,000	$ —	$ —
Capital leases	194	106	62	26	—	—	—
Other	53,954	22,367	5,464	8,147	5,325	5,507	7,144
Total long-term debt	529,148	22,473	5,526	8,173	480,325	5,507	7,144
Interest payments on long-term debt (3)	143,539	40,836	40,536	40,193	20,411	677	886
Series E redeemable preferred stock (4)	210,000	—	—	—	210,000	—	—
Dividends earned Series E redeemable preferred stock (4)	105,513	29,400	29,400	29,400	17,313	—	—
Interest rate contract (5)	126	126	—	—	—	—	—
El Dorado Expansion (6)	150,000	150,000	—	—	—	—	—
Other capital expenditures (7)	60,000	60,000	—	—	—	—	—
Operating leases	27,062	6,321	5,962	5,625	5,083	2,406	1,665
Natural gas pipeline commitment (8)	20,013	2,327	2,507	2,507	2,507	2,507	7,658
Firm purchase commitments	19,522	19,210	312	—	—	—	—
Other contractual obligations	20,949	5,023	2,392	1,220	1,220	1,220	9,874
Other contractual obligations included in noncurrent accrued and other liabilities (9)	7,859	—	49	50	3,359	51	4,350
Total	$ 1,293,731	$ 335,716	$ 86,684	$ 87,168	$ 740,218	$ 12,368	$ 31,577

(1) The table does not include amounts relating to future purchases of ammonia by EDC pursuant to a supply agreement through the earlier of December 31, 2016 or the date on which the new ammonia plant comes on stream. The terms of this supply agreement do not include minimum volumes or take-or-pay provisions.
(2) The table does not include our estimated accrued warranty costs of $10.6 million at December 31, 2015 as discussed below under "Critical Accounting Policies and Estimates".
(3) The estimated interest payments relating to variable interest rate debt are based on interest rates at December 31, 2015.
(4) The dividends on our Series E redeemable preferred stock are assumed to be paid annually and redeemed on the earliest possible redemption date by the holder, August 2, 2019.
(5) The estimated future cash flows are based on the estimated fair value of these contracts at December 31, 2015.
(6) Capital expenditures are based on estimates (high end of range) at December 31, 2015.
(7) Other capital expenditures include only the estimated committed amounts (high end of range) at December 31, 2015 but exclude amounts relating to the El Dorado Expansion.
(8) Our proportionate share of the minimum costs to ensure capacity relating to a gathering and pipeline system.
(9) The future cash flows relating to executive and death benefits are based on estimates at December 31, 2015. The participation rights value associated with embedded derivative of our Series E redeemable preferred stock is based the value of our common stock at December 31, 2015 and in included in the table above on the earliest possible redemption date by the holder, August 2, 2019.

Critical Accounting Policies and Estimates

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

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

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

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

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.

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations at the time of sale using a percentage of sales and cost per unit of equipment, based upon our historical and estimated future warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, or component thereof, or project installation, when such costs are probable and reasonably estimable. It is reasonably possible that our estimated accrued warranty costs could change in the near and long term.

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.

Since 2003, our residential products warranty carried a ten-year standard parts warranty on the refrigerant circuit (including air coils, compressors, thermal expansion valves, water coils, and reversing valves) and five-years on the other components (motors being the major component). In 2010, the warranty policy was amended to include a full ten-year standard parts and five-year standard labor warranty. Without a full ten-year experience on the other components (motors), there is a risk we could incur higher than projected warranty costs over the next five years.

At December 31, 2015 and 2014, our accrued product warranty obligations were $10.6 million and $8.8 million, respectively and are included in current and noncurrent accrued and other liabilities in the consolidated balance sheets. For 2015, 2014, and 2013, our warranty expense was $9.6 million, $7.9 million, and $7.4 million, respectively.

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

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

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

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

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

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

The carrying value of the Series E Redeemable Preferred is being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest

possible redemption date by the holder. At December 31, 2015, the carrying value of these redeemable preferred stocks was $177.3 million. Approximately $3 million of accretion was recorded to retained earnings in 2015.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Our results of operations and operating cash flows are impacted by changes in market prices of ammonia, natural gas, copper, and steel, 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 December 31, 2015, we had no embedded losses associated with sales commitments with firm sales prices in our Chemical Business.

Commodity Price Risk

A substantial portion of our products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. We are exposed to commodity price risk as we generally do not use derivative financial instruments to manage risks related to changes in prices of commodities. Our Chemical Business periodically enters into contracts to purchase natural gas for anticipated production needs. Generally these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2015, approximately 1,820,000 MMBtus' of natural gas derivatives did not meet the definition of a normal purchase and sale and therefore a $0.10 change in natural gas price would impact income from continuing operations by approximately $0.2 million.

Interest Rate Risk

Generally, we are exposed to variable interest rate risk with respect to our revolving credit facility. As of December 31, 2015 we have zero borrowings on this credit facility. We are also exposed to interest rate risk on variable rate borrowings for certain commercial loans in the amount of approximately $31.0 million. We currently do not hedge our interest rate risk associated with these variable interest loans.

The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive debt agreements and the estimated future cash flows and related estimated weighted-average receive rate for our interest rate sensitive interest rate swaps as of December 31, 2015:

	Years ending December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
	(Dollars In Thousands)						
Expected maturities of long-term debt (1):							
Variable interest rate debt	$ 17,011	$ 1,980	$ 1,980	$ 1,980	$ 1,980	$ 5,925	$ 30,856
Weighted-average interest rate	3.95%	4.24%	4.24%	4.24%	4.24%	4.24%	4.08%
Fixed interest rate debt	$ 5,462	$ 3,546	$ 6,193	$ 478,345	$ 3,527	$ 1,219	$ 498,292
Weighted-average interest rate	8.06%	8.10%	8.13%	8.12%	5.25%	5.25%	8.09%
Estimated future cash flows of interest rate swaps (2):							
Variable to Fixed	$ 126						$ 126
Weighted-average pay rate	3.23%						3.23%
Weighted-average receive rate	0.61%						0.61%

(1) The variable and fixed interest rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2015.
(2) The estimated future cash flows and related weighted-average receive rate are based on the estimated fair value of these contracts as of December 31, 2015.

The following table presents our purchase commitments under firm purchase commitments and related weighted-average contract costs by contract terms as of December 31, 2015:

	Years ending December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
	(Dollars In Thousands, Except For Weighted Average Costs)						
Firm purchase commitments:							
Natural gas:							
Total cost of contracts	$ 19,210						$ 19,210
Weighted-average cost per MMBtu	$ 2.76						$ 2.76
Foreign Currency (1):							
Total cost of contracts	$ —	$ 312					$ 312
Weighted-average contract exchange rate	—	1.12					1.12

(1) Our commitments under these contracts are to pay in U.S. Dollars and receive approximately 280,000 Euros.

At December 31, 2015 and 2014, we did not have any financial instruments with fair values significantly different from their carrying amounts (which excludes issuance costs, if applicable), except for the 7.75% Senior Secured Notes as shown below.

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We have included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporate by reference the relevant portions of those statements and information into this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. 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 December 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 ERP 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. 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.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act. Our internal control system is a process, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 Framework). Based on our assessment, we believe that, as of December 31, 2015, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on the following page.

Report of Independent Registered Public Accounting Firm

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

We have audited LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). LSB Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, LSB Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LSB Industries, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of LSB Industries, Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 29, 2016

ITEM 9B. OTHER INFORMATION

None.

PART III

Item 10, Item 11, Item 12, Item 13 and Item 14 are incorporated by reference to our definitive proxy statement which we intend to file with the SEC on or before April 29, 2016.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Company appear immediately following this Part IV:

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Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2015 and 2014	F-3
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2015	F-5
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2015	F-6
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2015	F-7
Notes to Consolidated Financial Statements	F-9
Quarterly Financial Data (Unaudited)	F-54
Supplemental Natural Gas Disclosures (Unaudited)	F-57

(a) (2) Financial Statement Schedule

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts	F-60

We have omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in our Consolidated Financial Statements, including the notes to those statements.

(a)(3) Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
3(i).1	Restated Certificate of Incorporation, as amended, which the Company hereby incorporates by reference from.	Exhibit 3(i).1 to the Company's Form 10-K filed on February 28, 2013
3(ii).1	Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014 and August 21, 2014	Exhibit 3(ii).1 to the Company's Form 8-K filed August 27, 2014
3(ii).2	Fifth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of April 26, 2015	Exhibit 3(ii) to the Company's Form 8-K filed April 30, 2015
3(ii).3	Sixth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 2, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 8, 2015
3(ii).4	Seventh Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 22, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 29, 2015
4.1	Specimen Certificate for the Company's Series B Preferred Stock	Exhibit 4.27 to the Company's Registration Statement on Form S-3 No. 33-9848
4.2	Specimen Certificate for the Company's Series D 6% Cumulative, Convertible Class C Preferred Stock	Exhibit 4.3 to the Company's Form 10-K filed March 3, 2011
4.3	Specimen Certificate for the Company's Common Stock	Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed November 16, 2012
4.4	Certificate of Designations of Series E Cumulative Redeemable Class C Preferred Stock of LSB Industries, dated as of December 4, 2015	Exhibit 4.1 to the Company's Form 8-K filed December 8, 2015
4.5	Certificate of Designations of Series F Cumulative Redeemable Class C Preferred Stock of LSB Industries, dated as of December 4, 2015	Exhibit 4.2 to the Company's Form 8-K filed December 8, 2015
4.6	Renewed Rights Agreement, dated as of December 2, 2008, between the Company and UMB Bank, n.a.	Exhibit 4.1 to the Company's Form 8-K filed December 5, 2008
4.7	First Amendment to Renewed Rights Agreement, dated December 3, 2008, between LSB Industries, Inc. and UMB Bank, n.a.	Exhibit 4.3 to the Company's Form 8-K filed December 5, 2008
4.8	Amendment to Renewed Rights Agreement, by and between LSB Industries, Inc. and UMB Bank, n.a., dated as of December 4, 2015	Exhibit 4.3 to the Company's Form 8-K filed December 8, 2015
4.9	Indenture, dated August 7, 2013, among LSB Industries, Inc., the subsidiary guarantors named therein, UMB Bank, n.a., as trustee	Exhibit 4.1 to the Company's Form 8-K filed August 14, 2013
4.10	Intercreditor Agreement by and among Wells Fargo Capital Finance, Inc., as agent and UMB Bank, n.a., as collateral agent, and acknowledged and agreed to by LSB Industries, Inc. and the other grantors named therein	Exhibit 99.1 to the Company's Form 8-K filed August 14, 2013
10.1*	Form of Death Benefit Plan Agreement	Exhibit 10.2 to the Company's Form 10-K filed March 31, 2006
10.2*	LSB Industries, Inc. 1998 Stock Option and Incentive Plan	Exhibit 10.44 to the Company's Form 10-K filed April 15, 1999

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.3*	LSB Industries, Inc. Outside Directors Stock Purchase Plan	Exhibit 99.2 to the Company's Form 8-K filed October 23, 2014
10.4*	Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and Dan Ellis	Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed September 10, 2007
10.5*	Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and John Bailey	Exhibit 99.2 to the Company's Registration Statement on Form S-8 filed September 10, 2007
10.6*	LSB Industries, Inc. 2008 Incentive Stock Plan, effective June 5, 2008, as amended by the First Amendment, effective June 5, 2014	Exhibit 99.3 to the Company's Form 8-K filed June 11, 2014
10.7*	Form of Restricted Stock Agreement of LSB Industries, Inc.	Exhibit 10.3 to the Company's Form 8-K filed January 8, 2016
10.8(a)*	Form of Incentive Stock Option Agreement for 2008 Plan	
10.9*	Employment Agreement, dated April 27, 2015, by and among the Company and Barry H. Golsen	Exhibit 99.3 to the Company's Form 8-K filed April 30, 2015
10.10*	Severance and Release Agreement, dated September 1, 2015, by and between the Company and Barry H. Golsen	Exhibit 10.1 to the Company's Form 8-K filed September 4, 2015
10.11*	Amendment to Severance Agreement, dated December 17, 2008, between Barry H. Golsen and the Company. Each Amendment to Severance Agreement with Jack E. Golsen, Tony M. Shelby, David R. Goss and David M. Shear is substantially the same as this exhibit and will be provided to the Commission upon request.	Exhibit 99.2 to the Company's Form 8-K filed December 23, 2008
10.12*	Employment Agreement and Amendment to Severance Agreement dated January 12, 1989, between the Company and Jack E. Golsen, dated March 21, 1996, (with Severance Agreement dated January 17, 1989 attached) as amended by the First Amendment to Employment Agreement, dated April 29, 2003, as amended by the Second Amendment to Employment Agreement, dated May 12, 2005, as amended by the Third Amendment to Employment and Severance Agreement, dated December 17, 2008, as amended by the Fourth Amendment to Employment Agreement, dated January 1, 2015	Exhibit 10.9 to the Company's Form 10-K filed March 2, 2015
10.13*	2015 Amendment to Severance Agreement, dated April 27, 2015, by and among the Company and Jack E. Golsen	Exhibit 99.7 to the Company's Form 8-K filed April 30, 2015
10.14*	Offer Letter, dated February 5, 2014, and Non-Qualified Stock Option Agreement, by and among the Company to Mark T. Behrman	Exhibit 99.5 to the Company's Form 8-K filed April 30, 2015
10.15*	Employment Agreement, dated April 27, 2015, by and among the Company and Mark T. Behrman	Exhibit 99.4 to the Company's Form 8-K filed April 30, 2015
10.16*	Employment Agreement by and between LSB Industries, Inc. and Mark Behrman, dated January 14, 2016	Exhibit 10.1 to the Company's Form 8-K filed January 21, 2016
10.17(a)*	Restricted Stock Agreement by and between LSB Industries, Inc. and Mark Behrman, dated as of December 31, 2015	

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.18*	Amendment and Restated Severance Agreement, dated April 27, 2015, by and among the Company and Tony M. Shelby. 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.	Exhibit 99.6 to the Company's Form 8-K filed April 30, 2015
10.19*	Severance and Release Agreement, dated November 3, 2015, by and between the Company and David R. Goss	Exhibit 10.2 to the Company's Form 10-Q filed November 9, 2015
10.20*	Independent Contractor Agreement, dated September 30, 2015, by and among the Company and Circle S. Consulting LLC, (executed by Richard S. Sanders on behalf of Circle S. Consulting LLC as President & Individually).	Exhibit 10.3 to the Company's Form 10-Q filed November 9, 2015
10.21*	Severance and Release Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 31, 2015	Exhibit 10.1 to the Company's Form 8-K filed January 8, 2016
10.22*	Consulting Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K filed January 8, 2016
10.23*	Employment Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.1 to the Company's Form 8-K/A filed January 8, 2016
10.24*	Restricted Stock Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K/A filed January 8, 2016
10.25(a)*	Employment Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	
10.26(a)*	Restricted Stock Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	
10.27*	Separation and Release Agreement by and between LSB Industries, Inc. and Tony M. Shelby, dated as of February 22, 2016	Exhibit 10.1 to the Company's Form 8-K filed February 25, 2016
10.28(a)*	Form of Retention Bonus Agreement	
10.29	Indemnification Agreement, dated October 14, 2015, between the Company and Jack E. Golsen, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule	Exhibit 10.1 to the Company's Form 8-K filed October 19, 2015
10.30	Indemnification Agreement, dated October 14, 2015, between the Company and David M. Shear, together with a schedule identifying other substantially identical agreements between the Company and each of its executive officers identified on the schedule	Exhibit 10.2 to the Company's Form 8-K filed October 19, 2015
10.31	Indemnification Agreement, dated as of December 7, 2015, by and between LSB Industries, Inc. and Jonathan S. Bobb, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule	Exhibit 10.5 to the Company's Form 8-K filed December 8, 2015

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.32	Nitric Acid Supply, Operating and Maintenance Agreement, dated October 23, 2008, between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC	Exhibit 10.1 to the Company's Form 10-Q filed November 6, 2008 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #30125, DATED OCTOBER 4, 2013, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.33	Second Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement, dated June 16, 2010, between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC	Exhibit 10.2 to the Company's Form 10-Q filed August 6, 2010 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #30124, DATED OCTOBER 4, 2013, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.34	Third Amendment to Nitric Acid Supply, Operating and Maintenance Agreement, dated June 25, 2013, between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC	Exhibit 10.3 to the Company's Form 10-Q filed August 9, 2013 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS SUBJECT OF A COMMISSION ORDER CF #30123, DATED OCTOBER 4, 2013, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.35	AN Supply Agreement, dated effective January 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd.	Exhibit 10.27 to the Company's Form 10-K filed March 8, 2010 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDERS CF #24842, DATED MARCH 25, 2010, AND CF #31968, DATED FEBRUARY 3, 2015 GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.36	First Amendment to AN Supply Agreement, dated effective March 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd.	Exhibit 10.28 to the Company's Form 10-K filed March 8, 2010

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.37	Third Amendment to AN Supply Agreement, dated effective April 9, 2013, between El Dorado Chemical Company and Orica International Pte Ltd.	Exhibit 99.1 to the Company's Form 8-K, filed May 1, 2013
10.38	Agreement, dated effective August 1, 2013, between United Steel Workers of America International Union on behalf of LOCAL 13-434 and El Dorado Chemical Company	Exhibit 99.1 to the Company's Form 8-K filed October 11, 2013
10.39	Agreement, dated effective October 17, 2013, between International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224 and El Dorado Chemical Company	Exhibit 99.2 to the Company's Form 8-K filed October 11, 2013
10.40	Agreement, dated November 12, 2013, between United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local No. 00417 and Cherokee Nitrogen Company	Exhibit 99.1 to the Company's Form 8-K filed February 13, 2014
10.41	Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 2.1 to the Company's Form 8-K dated December 27, 2002
10.42	Exhibits and Disclosure Letters to the Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 10.1b to the Company's Form 10-Q filed August 6, 2010
10.43	Anhydrous Ammonia Sales Agreement, dated effective January 1, 2009 between Koch Nitrogen International Sàrl and El Dorado Chemical Company	Exhibit 10.49 to the Company's Form 10-K filed March 13, 2009 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #28828, DATED SEPTEMBER 14, 2012, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.44	Second Amendment to Anhydrous Ammonia Sales Agreement, dated February 23, 2010, between Koch Nitrogen International Sàrl and El Dorado Chemical Company	Exhibit 10.35 to the Company's Form 10-K filed March 8, 2010 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #28827, DATED SEPTEMBER 14, 2012, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.45	Fifth Amendment to the Anhydrous Ammonia Sales Agreement, dated August 22, 2012, between KOCH Nitrogen International Sàrl and El Dorado Chemical Company	Exhibit 99.1 to the Company's Form 8-K filed August 28, 2012 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF#28826, DATED SEPTEMBER 14, 2012, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.46(a)	Ninth Amendment to Anhydrous Ammonia Sales Agreement, dated November 30, 2015, between Koch Nitrogen International Sàrl and El Dorado Chemical Company	CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 29, 2016 WHEREBY THE COMPANY REQUESTS CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.47	Urea Ammonium Nitrate Purchase and Sale Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC.	Exhibit 99.1 to the Company's Form 8-K filed May 13, 2009 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #23659, DATED JUNE 9, 2009, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.48	Amendment No. 1 to Urea Ammonium Nitrate Purchase and Sale Agreement, dated October 29, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC	Exhibit 99.1 to the Company's Form 8-K filed November 4, 2009 CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #24284, DATED NOVEMBER 19, 2009, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.49(a)	Ammonia Purchase and Sale Agreement by and between El Dorado Chemical Company and Koch Fertilizer, LLC, dated as of November 2, 2015	CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBECT OF A COMMISSION ORDER SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 29, 2016 WHEREBY THE COMPANY REQUESTS CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
10.50	Railcar Management Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC	Exhibit 99.2 to the Company's Form 8-K filed May 13, 2009
10.51	Real Estate Purchase Contract, dated as of May 26, 2011, by and between DPMG, Inc., Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen	Exhibit 10.1 to the Company's Form 10-Q filed November 7, 2011
10.52	Real Estate Purchase Contract, dated as of September 8, 2011, by and between South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen	Exhibit 10.2 to the Company's Form 10-Q filed November 7, 2011
10.53	Common Stock Purchase Warrant granted by Landmark Land Company to Prime Financial, L.L.C., dated February 7, 2012	Exhibit 99.4 to the Company's Form 8-K filed February 16, 2012
10.54	Geothermal Use Contract, between South Padre Island Development, LLC and Prime Financial, L.L.C., dated February 7, 2012	Exhibit 99.5 to the Company's Form 8-K filed February 16, 2012
10.55	Purchase and Sale Agreement, dated October 31, 2012, between Clearwater Enterprises, L.L.C. and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K filed November 2, 2012. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided supplementally to the Securities and Exchange Commission upon request.

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.56	Purchase and Sale Agreement, dated August 28, 2013, between Hat Creek Energy LLC, Citrus Energy Appalachia, LLC, Troy Energy Investments, LLC, and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K, filed August 30, 2013. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided supplementally to the Securities and Exchange Commission upon request.
10.57	Contract, between Weatherly Inc. and El Dorado Chemical Company, dated November 30, 2012	Exhibit 99.2 to the Company's Form 8-K filed December 6, 2012
10.58	Engineering, Procurement and Construction Agreement, dated August 12, 2013, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC	Exhibit 10.1 to the Company's Form 8-K filed August 15, 2013
10.59	Construction Agreement-DMW2, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.1 to the Company's Form 8-K filed November 12, 2013
10.60	Construction Agreement-NACSAC, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.2 to the Company's Form 8-K filed November 12, 2013
10.61	Engineering, Procurement and Construction Agreement, dated December 31, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.1 to the Company's Form 8-K filed January 7, 2014
10.62	Engineering Procurement and Construction Contract, Amendment No.1 dated October 20, 2015, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC	Exhibit 10.1 to the Company's Form 8-K filed October 26, 2015
10.63	Promissory Note, dated February 1, 2013, in the original principal amount of $35 million, issued by Zena Energy L.L.C. in favor of International Bank of Commerce	Exhibit 99.1 to the Company's Form 8-K filed February 7, 2013
10.64	Leasehold Mortgage, Security Agreement, Assignment and Fixture Filing, dated February 1, 2013, from Zena Energy L.L.C. to International Bank of Commerce	Exhibit 99.2 to the Company's Form 8-K filed February 7, 2013
10.65	Guaranty, dated February 1, 2013, issued by LSB Industries, Inc. in favor of International Bank of Commerce	Exhibit 99.3 to the Company's Form 8-K filed February 7, 2013
10.66	Settlement Agreement, dated April 26, 2015, by and among the Company and Starboard Value LP	Exhibit 99.1 to the Company's Form 8-K filed April 30, 2015
10.67	Agreement by and among the Company and Engine Capital, L.P., Red Alder, LLC, and certain of their respective affiliates, dated April 3, 2014	Exhibit 99.2 to the Company's Form 8-K filed April 4, 2014
10.68	Consent Decree, dated May 28, 2014, by and among, LSB Industries, Inc., El Dorado Chemical Co., Cherokee Nitrogen Co., Pryor Chemical Co., El Dorado Nitrogen, L.P., the U.S. Department of Justice, the U.S. Environmental Protection Agency, the Alabama Department of Environmental Management, and the Oklahoma Department of Environment Quality	Exhibit 99.1 to the Company's Form 8-K filed June 3, 2014
10.69	Second Amended and Restated Loan and Security Agreement, dated effective December 31, 2013, by and among LSB Industries, Inc., each of its subsidiaries that are signatories thereto, the lenders signatories thereto, and Wells Fargo Capital Finance, LLC	Exhibit 4.9 to the Company's Form 10-K filed February 27, 2014

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.70	Amendment No. 1 to the Second Amended and Restated Loan and Security Agreement, dated effective as of June 11, 2015, by and among LSB Industries, Inc. its subsidiaries identified on the signature pages thereof, the lenders identified on the signature pages thereof and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders	Exhibit 99.1 to the Company's Form 8-K filed June 17, 2015
10.71	Amendment No. 2 to the Second Amended and Restated Loan and Security Agreement, dated as of November 9, 2015, by and among LSB Industries, Inc., its subsidiaries identified on the signature pages thereof, the lenders identified on the signature pages thereof, and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders	Exhibit 10.3 to the Company's Form 8-K filed November 16, 2015
10.72(a)	Security Agreement dated as of August 7, 2013 among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A. as Collateral Agent	
10.73(a)	Supplement No. 1 to Security Agreement February 12, 2014 among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A., as Collateral Agent	
10.74	Note Purchase Agreement, dated November 9, 2015, by and among LSB Industries, Inc., the guarantors party thereto and LSB Funding LLC	Exhibit 10.1 to the Company's Form 8-K filed November 16, 2015
10.75	Promissory Note, dated November 9, 2015, by LSB Industries, Inc.	Exhibit 10.2 to the Company's Form 8-K filed November 16, 2015
10.76	Joinder to Intercreditor Agreement, dated November 9, 2015, by and among LSB Funding LLC, Wells Fargo Capital Finance, Inc., as ABL Agent, UMB Bank, N.A., as Notes Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.4 to the Company's Form 8-K filed November 16, 2015
10.77	Joinder to Security Agreement, dated November 9, 2015, by and among LSB Funding LLC, UMB Bank, N.A., as Collateral Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.5 to the Company's Form 8-K filed November 16, 2015
10.78	Securities Purchase Agreement by and among LSB Industries, Inc., LSB Funding LLC, and Security Benefit Corporation, dated as of December 4, 2015	Exhibit 10.1 to the Company's Form 8-K filed December 8, 2015
10.79	Warrant to Purchase Common Stock issued by LSB Industries to LSB Funding LLC, dated as of December 4, 2015	Exhibit 10.2 to the Company's Form 8-K filed December 8, 2015
10.80	Board Representation and Standstill Agreement by and between LSB Industries, Inc., LSB Funding LLC, Security Benefit Corporation, Todd Boehly and the Golsen Holders (as defined therein), dated as of December 4, 2015	Exhibit 10.3 to the Company's Form 8-K filed December 8, 2015
10.81	Registration Rights Agreement by and between LSB Industries, Inc. and the Purchaser Named on Schedule A thereto, dated as of December 4, 2015	Exhibit 10.4 to the Company's Form 8-K filed December 8, 2015
12.1(a)	Calculation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	
21.1(a)	Subsidiaries of the Company	
23.1(a)	Consent of Independent Registered Public Accounting Firm	
23.2(a)	Consent of Pinnacle Energy Services, L.L.C.	

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
31.1(a)	Certification of Daniel D. Greenwell , Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302	
31.2(a)	Certification of Mark T. Behrman, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302	
32.1(b)	Certification of Daniel D. Greenwell, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906	
32.2(b)	Certification of Mark T. Behrman, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906	
99.1(a)	Pinnacle Energy Services, L.L.C. Engineering Evaluation Effective January 1, 2016 Zena Energy-Ardent II Marcellus Wyoming County, Pennsylvania dated February 4, 2016	
101.INS(a)	XBRL Instance Document	
101.SCH(a)	XBRL Taxonomy Extension Schema Document	
101.CAL(a)	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF(a)	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB(a)	XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE(a)	XBRL Taxonomy Extension Presentation Linkbase Document	

* Executive Compensation Plan or Arrangement
(a) Filed herewith
(b) Furnished herewith

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 29, 2016	By:	/s/ Daniel D. Greenwell Daniel D. Greenwell, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: February 29, 2016	By:	/s/ Daniel D. Greenwell Daniel D. Greenwell, President and Chief Executive Officer (Principal Executive Officer) and Director
Dated: February 29, 2016	By:	/s/ Mark T. Behrman Mark T. Behrman, Executive Vice President of Finance, Chief Financial Officer (Principal Financial Officer)
Dated: February 29, 2016	By:	/s/ Harold L. Rieker Jr. Harold L. Rieker Jr., Vice President and Corporate Controller (Principal Accounting Officer)
Dated: February 29, 2016	By:	/s/ Jack E. Golsen Jack E. Golsen, Executive Chairman of the Board of Directors
Dated: February 29, 2016	By:	/s/ Webster L. Benham Webster L. Benham, Director
Dated: February 29, 2016	By:	/s/ Jonathan S. Bobb Jonathan S. Bobb, Director
Dated: February 29, 2016	By:	/s/ Mark R. Genender Mark R. Genender, Director
Dated: February 29, 2016	By:	/s/ Barry H. Golsen Barry H. Golsen, Director
Dated: February 29, 2016	By:	/s/ Louis S. Massimo Louis S. Massimo, Director
Dated: February 29, 2016	By:	/s/ Andrew K. Mittag Andrew K. Mittag, Director
Dated: February 29, 2016	By:	/s/ William F. Murdy William F. Murdy, Director
Dated: February 29, 2016	By:	/s/ Marran H. Ogilvie Marran H. Ogilvie, Director
Dated: February 29, 2016	By:	/s/ Joseph E. Reece Joseph E. Reece, Director

Dated:	By:	/s/ Richard W. Roedel
February 29, 2016		Richard W. Roedel, Director
Dated:	By:	/s/ Richard S. Sanders Jr.
February 29, 2016		Richard S. Sanders Jr., Director
Dated:	By:	/s/ Lynn F. White
February 29, 2016		Lynn F. White, Director

LSB Industries, Inc.

Consolidated Financial Statements
And Schedule for Inclusion in Form 10-K
For the Fiscal Year ended December 31, 2015

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Report of Independent Registered Public Accounting Firm

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

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

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

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

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

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 29, 2016

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 127,314**	$ 186,811
Restricted cash and cash equivalents	**—**	365
Short-term investments	**—**	14,500
Accounts receivable, net	**92,602**	88,074
Inventories	**53,237**	56,586
Supplies, prepaid items and other:		
Prepaid insurance	**10,563**	13,752
Precious metals	**12,918**	12,838
Supplies	**18,681**	15,927
Prepaid and refundable income taxes	**6,811**	7,387
Other	**5,797**	5,438
Total supplies, prepaid items and other	**54,770**	55,342
Deferred income taxes	**4,774**	17,204
Total current assets	**332,697**	418,882
Property, plant and equipment, net	**1,005,488**	619,205
Other assets:		
Noncurrent restricted cash and cash equivalents	**—**	45,969
Noncurrent restricted investments	**—**	25,000
Intangible and other, net	**23,642**	21,516
Total other assets	**23,642**	92,485
	$ 1,361,827	$ 1,130,572

(Continued on following page)

Consolidated Balance Sheets (continued)

	December 31, 2015	December 31, 2014
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 108,002**	$ 81,456
Short-term financing	**9,119**	11,955
Accrued and other liabilities	**52,331**	51,166
Current portion of long-term debt	**22,468**	10,680
Total current liabilities	**191,920**	155,257
Long-term debt, net	**497,954**	440,205
Noncurrent accrued and other liabilities	**20,922**	17,934
Deferred income taxes	**52,179**	83,128
Commitments and contingencies (Note 11)		
Redeemable preferred stocks:		
Series E 14% cumulative, redeemable Class C preferred stock, no par value, 210,000 shares issued and outstanding (none at December 31, 2014); aggregate liquidation preference of $212,287,000	**177,272**	—
Series F redeemable Class C preferred stock, no par value, 1 share issued and outstanding (none at December 31, 2014); aggregate liquidation preference of $100	—	—
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	**2,000**	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	**1,000**	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 27,131,724 shares issued (26,968,212 shares at December 31, 2014)	**2,713**	2,697
Capital in excess of par value	**192,249**	170,537
Retained earnings	**248,150**	286,188
	446,112	462,422
Less treasury stock, at cost:		
Common stock, 3,735,503 shares (4,320,462 shares at December 31, 2014)	**24,532**	28,374
Total stockholders' equity	**421,580**	434,048
	$ 1,361,827	**$ 1,130,572**

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations

	Year Ended December 31, 2015	2014	2013
	(In Thousands, Except Per Share Amounts)		
Net sales	$ **711,781**	$ 761,246	$ 701,241
Cost of sales	**608,073**	613,372	563,122
Gross profit	**103,708**	147,874	138,119
Selling, general and administrative expense	**112,288**	98,405	95,237
Provisions for losses on accounts receivable	**253**	134	478
Impairment of long-lived assets	**43,188**	—	—
Property insurance recoveries in excess of losses incurred	**—**	(5,147)	(66,255)
Other expense (income), net	**(1,269)**	1,120	3,351
Operating income (loss)	**(50,752)**	53,362	105,308
Interest expense, net	**7,381**	21,599	13,986
Loss on extinguishment of debt	**—**	—	1,296
Non-operating other expense (income), net	**124**	(281)	(100)
Income (loss) from continuing operations before provisions (benefit)for income taxes and equity in earnings of affiliate	**(58,257)**	32,044	90,126
Provisions (benefit) for income taxes	**(23,550)**	12,400	35,421
Equity in earnings of affiliate	**—**	(79)	(436)
Income (loss) from continuing operations	**(34,707)**	19,723	55,141
Net loss from discontinued operations	**58**	89	179
Net income (loss)	**(34,765)**	19,634	54,962
Dividends on convertible preferred stocks	**300**	300	300
Dividends on Series E redeemable preferred stock	**2,287**	—	—
Accretion of Series E redeemable preferred stock	**686**	—	—
Net income (loss) attributable to common stockholders	$ **(38,038)**	$ 19,334	$ 54,662
Income (loss) per common share:			
Basic:			
Income (loss) from continuing operations	$ **(1.67)**	$ 0.86	$ 2.44
Net loss from discontinued operations	$ **—**	—	(0.01)
Net income (loss)	$ **(1.67)**	$ 0.86	$ 2.43
Diluted:			
Income (loss) from continuing operations	$ **(1.67)**	$ 0.83	$ 2.34
Net loss from discontinued operations	$ **—**	—	(0.01)
Net income (loss)	$ **(1.67)**	$ 0.83	$ 2.33

See accompanying notes.

Consolidated Statements of Stockholders' Equity

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

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Cash flows from continuing operating activities			
Net income (loss)	**$ (34,765)**	$ 19,634	$ 54,962
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:			
Net loss from discontinued operations	**58**	89	179
Deferred income taxes	**(18,519)**	12,839	35,289
Gains on property insurance recoveries associated with property, plant and equipment	**—**	(5,147)	(66,255)
Impairment of long-lived assets	**43,188**	—	—
Depreciation, depletion and amortization of property, plant and equipment	**40,496**	35,664	28,310
Other	**5,769**	5,479	4,819
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Accounts receivable	**5,571**	(7,637)	2,268
Inventories	**2,145**	(1,394)	8,203
Prepaid insurance	**3,189**	1,321	(5,073)
Prepaid and accrued income taxes	**576**	3,505	(13,278)
Other supplies, prepaid items and other	**(4,339)**	61	(4,975)
Accounts payable	**(3,895)**	(1,044)	(6,032)
Accrued interest	**(709)**	(37)	13,356
Customer deposits	**(4,623)**	1,333	(2,689)
Other current and noncurrent liabilities	**(2,533)**	2,078	4,971
Net cash provided by continuing operating activities	**31,609**	66,744	54,055
Cash flows from continuing investing activities			
Expenditures for property, plant and equipment	**(439,807)**	(219,842)	(157,377)
Acquisition of working interests in natural gas properties	**—**	—	(9,205)
Proceeds from property insurance recovery associated with property, plant and equipment	**—**	5,147	66,437
Software and software development costs	**(2,889)**	(3,161)	(966)
Proceeds from sales of property and equipment	**87**	662	1,459
Proceeds from short-term investments	**39,500**	14,500	—
Purchases of short-term investments	**(25,000)**	(29,000)	—
Proceeds from noncurrent restricted cash and cash equivalents	**45,969**	200,111	—
Deposits of current and noncurrent restricted cash and cash equivalents	**—**	(165,471)	(80,943)
Proceeds from noncurrent restricted investments	**25,000**	259,990	—
Purchases of noncurrent restricted investments	**—**	(75,000)	(209,990)
Other investing activities	**3,137**	41	962
Net cash used by continuing investing activities	**(354,003)**	(12,023)	(389,623)

(Continued on following page)

	Year Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Cash flows from continuing financing activities			
Proceeds from revolving debt facility	**$ 47,438**	$ —	$ —
Payments on revolving debt facility	**(47,438)**	—	—
Proceeds from 12% senior secured notes, net of discount and fees	**47,889**	—	—
Proceeds from 7.75% senior secured notes, net of pay off of secured term loan and fees	**—**	—	350,957
Proceeds from other long-term debt, net of fees	**31,047**	—	39,825
Payments on other long-term debt	**(13,771)**	(10,473)	(12,647)
Payments of debt issuance costs	**(1,200)**	—	(1,872)
Proceeds from loans secured by cash value of life insurance policies	**1,288**	—	—
Proceeds from short-term financing	**10,943**	14,346	16,385
Payments on short-term financing	**(13,779)**	(16,140)	(11,890)
Proceeds from issuance of redeemable preferred stocks, net of discount and fees	**180,013**	—	—
Proceeds from issuance of common stock warrants, net of discount and fees	**21,018**	—	—
Payments of issuance costs relating to preferred stocks and warrants	**(2,472)**	—	—
Proceeds from exercises of stock options	**1,785**	1,074	1,014
Excess income tax benefit associated with stock-based compensation	**596**	—	—
Dividends paid on convertible preferred stocks	**(300)**	(300)	(300)
Net cash provided (used) by continuing financing activities	**263,057**	(11,493)	381,472
Cash flows of discontinued operations:			
Operating cash flows	**(160)**	(167)	(174)
Net increase (decrease) in cash and cash equivalents	**(59,497)**	43,061	45,730
Cash and cash equivalents at beginning of year	**186,811**	143,750	98,020
Cash and cash equivalents at end of year	**$ 127,314**	$ 186,811	$ 143,750

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Consolidation - LSB Industries, Inc. ("LSB") and its subsidiaries (the "Company", "We", "Us", or "Our") are consolidated in the accompanying consolidated financial statements. We are 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 were 20% to 50% owned and for which we had significant influence were accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

Use of Estimates - The preparation of consolidated financial statements in conformity with United States ("U.S.") generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

Inventories - Inventories are stated at the lower of cost (determined using the first-in, first-out ("FIFO") basis) or market (net realizable value). Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. Additionally, we review inventories and record inventory reserves for slow-moving inventory items to state them at net realizable value.

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset (asset group) exceeds the estimated undiscounted future cash flows expected to result from the use of the asset (asset group) and its eventual disposition. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. In general, assets held for sale are reported at the lower of the carrying amounts of the assets or fair values less costs to sell. At December 31, 2015 and 2014, we had no long-lived assets classified as assets held for sale.

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

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

Capitalized Software – Intangible and other noncurrent assets includes capitalized software that primarily relate to implementing a new enterprise resource planning software ("ERP") for internal use and is stated at cost, net of accumulated amortization. For 2015 and 2014 our carrying value was $ 19.9 million and $13.1 million, and accumulated amortization of $2.1 million and $0.5 million, respectively. Capitalized software costs include software purchase costs and internal and external costs for implementing software. For financial reporting purposes, amortization of capitalized software costs is computed using the straight-line method over the estimated useful lives of the software, which is primarily eight years. During 2015, 2014 and 2013, interest cost capitalized in capitalized software was $0.3 million, $0.5 million and $0.1 million, respectively. No provision for amortization is made until such time as the relevant assets are placed into service. Amortization expense related to capitalized software was $1.2 million and $0.4 million for 2015 and 2014, respectively and minimal in 2013. Estimated amortization related to capitalized software for each of the subsequent five years, 2016 through 2020, is $1.8 million, $2.6 million, $3.2 million, $3.2 million and $3.2 million, respectively. The estimated amortization is based on management's expected ERP implementation completion by the end of 2017 to early 2018.

Capitalized Interest - Interest cost on borrowings incurred during a significant construction or development project is capitalized. Capitalized interest is added to the underlying asset and amortized over the estimated useful lives of the assets.

Goodwill - Goodwill is reviewed for impairment at least annually. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Reporting units are one level below the business segment level. No impairments of goodwill were incurred in 2015, 2014, or 2013. Goodwill relates to business acquisitions in prior periods in the following business segments:

	December 31, 2015	December 31, 2014
	(In Thousands)	
Chemical	**$ 1,621**	$ 1,621
Climate Control	**103**	103
Total goodwill	**$ 1,724**	$ 1,724

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

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

1. Summary of Significant Accounting Policies (continued)

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. Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations at the time of sale using a percentage of sales and cost per unit of equipment, based upon our historical and estimated future warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, component thereof, or project installation, when such costs are probable and reasonably estimable. It is reasonably possible that our estimated accrued warranty costs could change in the near term.

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

Income Taxes - We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to net operating loss ("NOL") carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In addition, we do not recognize a tax benefit unless we conclude that it is more-likely-than-not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

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

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

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

Redeemable Preferred Stocks - Our redeemable preferred stocks that are redeemable outside of our control are classified as temporary/mezzanine equity. The redeemable preferred stocks were recorded at fair value upon issuance, net of issuance costs or discounts. In addition, certain embedded features included in the Series E Redeemable Preferred required bifurcation and are classified as derivative liabilities. The carrying values of the redeemable preferred stocks are being increased by periodic accretions (including the amount for dividends earned but not yet declared or paid) so that the carrying amount will equal the redemption value as of August 2, 2019, the earliest possible redemption date by the holder. The amount of accretion was recorded to retained earnings.

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Selling, General and Administrative Expense - Selling, general and administrative expense ("SG&A") includes costs associated with the sales, marketing and administrative functions. Such costs include personnel costs, including benefits, advertising costs, commission expenses, warranty costs, professional fees, office and occupancy costs associated with the sales, marketing and administrative functions. SG&A also includes outbound freight in our Climate Control Business.

Shipping and Handling Costs – Shipping and handling costs not included in cost of sales for our Climate Control Business are as follows:

	2015	2014	2013
		(In Thousands)	
Shipping and handling costs - SG&A	**$ 11,962**	$ 10,146	$ 9,520

Advertising Costs - Costs in connection with advertising and promotion of our products are expensed as incurred. These costs, primarily relating to our Climate Control Business, are as follows.

	2015	2014	2013
		(In Thousands)	
Advertising costs	**$ 2,295**	$ 3,095	$ 3,157

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

	As Previously Reported	Adjustments / Reclassifications	As Adjusted
		(In Thousands)	
Consolidated Balance Sheet at December 31, 2014			
Total other assets	$ 98,918	$ (6,433)	$ 92,485
Total assets	$ 1,137,005	$ (6,433)	$ 1,130,572
Long term debt	$ 457,318	$ (6,433)	$ 450,885
Total liabilities and stockholders' equity	$ 1,137,005	$ (6,433)	$ 1,130,572
Consolidated Statement of Operations - For the year ended December 31, 2014			
Net sales	$ 732,510	$ 28,736	$ 761,246
Cost of sales	$ 579,155	$ 34,217	$ 613,372
Gross profit	$ 153,355	$ (5,481)	$ 147,874
Selling, general, and administrative expense	$ 103,886	$ (5,481)	$ 98,405

	As Previously Reported	Adjustments / Reclassifications	As Adjusted
		(In Thousands)	
Consolidated Statement of Operations - For the year ended December 31, 2013			
Net sales	$ 679,287	$ 21,954	$ 701,241
Cost of sales	$ 535,731	$ 27,391	$ 563,122
Gross profit	$ 143,556	$ (5,437)	$ 138,119
Selling, general, and administrative expense	$ 100,674	$ (5,437)	$ 95,237

2. Income (loss) per Common Share

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

	2015	2014	2013
	(Dollars In Thousands, Except Per Share Amounts)		
Numerator:			
Net (loss) income:	**$ (34,765)**	$ 19,634	$ 54,962
Dividend requirements on Series E Redeemable Preferred	**(2,287)**	—	—
Dividends on Series B Preferred	**(240)**	(240)	(240)
Dividends on Series D Preferred	**(60)**	(60)	(60)
Accretion of Series E Redeemable Preferred	**(686)**	—	—
Total dividends, dividend requirements and accretion on preferred stocks	**(3,273)**	(300)	(300)
Numerator for basic net income (loss) per common share - net income (loss) attributable to common stockholders	**(38,038)**	19,334	54,662
Dividends on convertible preferred stocks assumed to be converted, if dilutive	**300**	300	300
Numerator for diluted net income (loss) per common share	**$ (37,738)**	$ 19,634	$ 54,962
Denominator:			
Denominator for basic net income (loss) per common share - weighted- average shares	**22,758,873**	22,575,053	22,465,176
Effect of dilutive securities:			
Convertible preferred stocks	—	916,666	916,666
Unvested restricted stock	—	—	—
Warrants	—	—	—
Stock options	—	175,751	215,124
Dilutive potential common shares	—	1,092,417	1,131,790
Denominator for dilutive net income (loss) per common share - adjusted weighted-average shares and assumed conversions	**22,758,873**	23,667,470	23,596,966
Basic net income (loss) per common share	**$ (1.67)**	$ 0.86	$ 2.43
Diluted net income (loss) per common share	**$ (1.67)**	$ 0.83	$ 2.33

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

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

3. Accounts Receivable

	December 31, 2015	December 31, 2014
	(In Thousands)	
Trade receivables and other	**$ 93,296**	$ 88,900
Allowance for doubtful accounts	**(694)**	(826)
	$ 92,602	$ 88,074

Our sales to contractors and independent sales representatives are generally subject to a mechanic's lien or band protection in the Climate Control Business. Sales to other customers are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Concentrations of credit risk with respect to trade receivables are monitored and this risk is reduced due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas (primarily as it relates to the Climate Control Business) and payment terms of 15 days or less relating to most of our significant customers in the Chemical Business. Ten customers (including their affiliates), primarily relating to the Chemical Business, account for approximately 30% of our total net receivables at December 31, 2015.

4. Inventories

	Finished Goods	Work-in-Process	Raw Materials	Total
	(In Thousands)			
December 31, 2015:				
Chemical products	**$ 16,621**	**$ —**	**$ 5,427**	**$ 22,048**
Climate Control products	**5,354**	**2,042**	**21,385**	**28,781**
Industrial machinery and components	**2,408**	**—**	**—**	**2,408**
	$ 24,383	**$ 2,042**	**$ 26,812**	**$ 53,237**
December 31, 2014:				
Chemical products	$ 19,354	$ —	$ 2,147	$ 21,501
Climate Control products	5,521	2,763	23,458	31,742
Industrial machinery and components	3,343	—	—	3,343
	$ 28,218	$ 2,763	$ 25,605	$ 56,586

At December 31, 2015 and 2014, inventory reserves for certain slow-moving inventory items (Climate Control products) were $1,968,000 and $1,653,000, respectively. In addition, because cost exceeded the net realizable value, inventory adjustments for certain nitrogen-based inventories (Chemical Business products) were $2,832,000 and $1,976,000 at December 31, 2015 and 2014, respectively.

5. Property, Plant and Equipment

	Useful lives in years		December 31, 2015		2014
			(In Thousands)		
Machinery, equipment and automotive	**3 - 30**	**$**	**589,098**	$	360,222
Proved natural gas properties	*		**76,277**		72,529
Buildings and improvements	**10 - 30**		**62,426**		55,975
Furniture, fixtures and store equipment	**3 - 10**		**6,399**		6,492
Assets under capital leases	**3**		**425**		240
Land improvements	**10 - 40**		**7,433**		7,125
Construction in progress	**N/A**		**507,287**		292,324
Capital spare parts	**N/A**		**18,047**		8,722
Land	**N/A**		**9,780**		9,780
			1,277,172		813,409
Less accumulated depreciation, depletion and amortization			**271,684**		194,204
		$	**1,005,488**	$	619,205

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

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

6. Current and Noncurrent Accrued and Other Liabilities

		December 31, 2015		2014
		(In Thousands)		
Accrued interest	**$**	**14,784**	$	13,888
Accrued warranty costs		**10,551**		8,817
Deferred revenue on extended warranty contracts		**8,217**		7,806
Accrued payroll and benefits		**7,027**		8,743
Customer deposits		**2,209**		6,833
Series E redeemable preferred - embedded derivative		**3,308**		—
Other		**27,157**		23,013
		73,253		69,100
Less noncurrent portion		**20,922**		17,934
Current portion of accrued and other liabilities	**$**	**52,331**	$	51,166

7. 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:

	2015	2014	2013
		(In Thousands)	
Balance at beginning of year	**$ 8,817**	$ 7,297	$ 6,172
Amounts charged to SG&A	**9,678**	7,923	7,388
Costs incurred	**(7,944)**	(6,403)	(6,263)
Balance at end of year	**$ 10,551**	$ 8,817	$ 7,297

8. Asset Retirement Obligations

Currently, we have various legal requirements related to operations at 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 AROs. In addition, we currently have no plans to discontinue the use of these facilities, and the remaining life of the facilities is indeterminable. As a result, a liability for only a minimal amount relating to AROs associated with certain facilities has been established. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made. In addition, 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 December 31, 2015 and 2014, our accrued liability for AROs was $281,000 and $340,000, respectively.

9. Long-Term Debt

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

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

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

- The definition of Permitted Investments is modified to (a) permit LSB to make investments to the extent that the Consolidated Leverage Ratio (as defined in the Amendment) does not exceed 2.50 to 1.00 over a trailing twelve month period from the measurement date; (b) permit investments in an amount not to exceed 50% of the consolidated net earnings of LSB and its subsidiaries since August 7, 2013, less consolidated net losses and other investments during the same period; and (c) permit $ 50 million in investments in Zena Energy, L.L.C.
- LSB is permitted to incur indebtedness without restriction if (i) the Fixed Charge Coverage Ratio (as defined by the Amended Working Capital Revolver Loan) is greater than 2.0 to 1.0, (ii) there is no default under the Amended Working Capital Revolver Loan and (iii) at least 20% of the maximum revolver commitment or $20 million, whichever is greater, is available.

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

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

9. Long-Term Debt (continued)

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

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

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

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

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

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

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

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

9. Long-Term Debt (continued)

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

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

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

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

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

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

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

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

9. Long-Term Debt (continued)

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

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

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

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

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

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

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

9. Long-Term Debt (continued)

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

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

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

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

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

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

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

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

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

10. Income Taxes

Provisions (benefit) for income taxes are as follows:

	2015	2014	2013
		(In Thousands)	
Current:			
Federal	**$ (5,473)**	$ (1,452)	$ (1,225)
State	**442**	1,013	1,357
Total Current	**$ (5,031)**	$ (439)	$ 132
Deferred:			
Federal	**$ (17,667)**	$ 12,278	$ 32,197
State	**(852)**	561	3,092
Total Deferred	**$ (18,519)**	$ 12,839	$ 35,289
Provisions (benefit) for income taxes	**$ (23,550)**	$ 12,400	$ 35,421

The current benefit for federal income taxes shown above includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. For 2013 and in connection with the American Taxpayer Relief Act of 2012 that was signed into law in January 2013, we recorded a one-time benefit of approximately $0.5 million related to the retroactive tax relief for certain tax provisions that expired in 2012. Because the legislation was signed into law after December 31, 2012, the retroactive effects of the law reduced the current provision for 2013 and impacted the effective tax rate for 2013. The current provision for state income taxes includes regular state income tax and provisions for uncertain income tax positions

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

We utilized approximately $9.6 million, $5.9 million and $0.1 million of state NOL carryforwards to reduce tax liabilities in 2015, 2014 and 2013, respectively. At December 31, 2015, we have remaining federal and state tax NOL carryforwards of $47.7 million and $85.7 million, respectively, which amounts exclude the NOL carryforwards that are related to unrecognized tax benefits and stock compensation that have not been recognized in accordance with GAAP. Additionally, we had approximately $27.8 million of alternative minimum tax ("AMT") NOL carryforwards available as a deduction against future AMT income. The federal NOL carryforwards begin expiring in 2033 and the state NOL carryforwards began expiring in 2015.

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

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

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

10. Income Taxes (continued)

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

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

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

10. Income Taxes (continued)

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

	2015	2014	2013
		(In Thousands)	
Provisions (benefit) for income taxes at federal statutory rate	**$ (20,391)**	$ 11,263	$ 31,697
State current and deferred income taxes	**(1,317)**	1,497	3,916
Energy credit	**(2,846)**	(110)	(318)
Valuation allowance	**950**	—	—
Other	**54**	(250)	126
Provisions (benefit) for income taxes	**$ (23,550)**	$ 12,400	$ 35,421

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

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

We expect that the amount of unrecognized tax benefits may change as the result of ongoing operations, the outcomes of audits, and the expiration of statute of limitations. This change is not expected to have a significant impact on our results of operations or financial condition. The total amount of unrecognized tax benefits that would impact the effective tax rate, if recognized, was $168,000, $160,000, and $204,000, net of federal expense, in 2015, 2014, and 2013, respectively.

We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense. During 2014, we recognized a recovery of $518,000 in interest expense and penalties associated with the reduction of unrecognized tax positions (minimal in 2015). During 2013, we recognized $121,000 in interest and penalties associated with unrecognized tax benefits. At December 31, 2015 and 2014, the amounts accrued for interest and penalties were minimal.

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

11. Commitments and Contingencies

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

	Operating Leases
2016	$ 6,321
2017	5,962
2018	5,625
2019	5,083
2020	2,406
Thereafter	1,665
Total minimum lease payments	$ 27,062

11. Commitments and Contingencies (continued)

Expenses associated with our operating lease agreements, including month-to-month leases, were $10,257,000 in 2015, $7,425,000 in 2014, and $6,401,000 in 2013. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts.

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

Covestro agreement - Subsidiaries within our Chemical Business, El Dorado Nitric Company and its subsidiaries ("EDN") and EDC, are party to an agreement (the "Covestro Agreement") with Covestro AG, formerly Bayer MaterialScience LLC ("Covestro"). EDN operates the nitric acid plant (the "Baytown Facility") located within Covestro's chemical manufacturing complex. Under the terms of the Covestro Agreement, Covestro purchases from EDN all of Covestro's requirements for nitric acid for use in Covestro's chemical manufacturing complex located in Baytown, Texas that provides a pass-through of certain costs plus a profit. In addition, EDN is responsible for the maintenance and operation of the Baytown Facility. If there is a change in control of EDN, Covestro has the right to terminate the Covestro Agreement upon payment of certain fees to EDN. The Covestro Agreement expires in June 2021, with options for renewal.

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

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

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

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

11. Commitments and Contingencies (continued)

Other purchase and sales commitments - See Note 12 - Derivatives, Hedges, Financial Instruments and Carbon Credits for our commitments relating to derivative contracts and carbon credits at December 31, 2015. During 2015, certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs at certain of our chemical facilities. Since these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2015, our natural gas contracts, which are exempt from mark-to-market accounting, included the firm purchase commitments of approximately 5.1 million MMBtu of natural gas. These contracts extend through December 2016 at a weighted-average cost of $2.91 per MMBtu ($14.9 million) and a weighted-average market value of $2.47 per MMBtu ($12.7 million). In addition, we had standby letters of credit outstanding of approximately $2.8 million at December 31, 2015. We also had deposits from customers of $2.2 million for forward sales commitments, most of which relate to our Chemical Business at December 31, 2015.

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

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

Performance and Payment Bonds – We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by certain subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2015, we have agreed to indemnify the sureties for payments, up to $17.3 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2016.

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

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

A. Environmental Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (collectively, the “Environmental and Health Laws”). In particular, the manufacture, production and distribution of products by our Chemical Business are activities that entail environmental and public health risks and impose obligations under the Environmental and Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental and Health Laws and related enforcement policies have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Further, a number of our Chemical Business’ facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on their operations and our financial condition.

11. Commitments and Contingencies (continued)

Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental and Health Laws, and significant expenditures are expected to be incurred in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our 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 and Health Laws is controlled by others, with our Chemical Business being responsible for its proportionate share of the costs involved. As of December 31, 2015, our accrued liabilities for environmental matters totaled $439,000 relating primarily to the matters discussed below. It is reasonably possible that a change in the estimate of our liability could occur in the near term. Also, see discussion in Note 8 - Asset Retirement Obligations.

1. Discharge Water Matters

Each of our 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 and overseen by the U.S.

Environmental Protection Agency (the "EPA"). These permits limit the type and amount of effluents that can be discharged and control the method of such discharge. The following are discharge water matters in relation to the respective state discharge water permits.

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

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

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

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

In addition, the El Dorado Facility is currently operating under a consent administrative order (the "CAO") that recognizes the presence of nitrate contamination in the shallow groundwater. The 2006 CAO required EDC to continue semiannual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ relating to the El Dorado Facility. The risk assessment was submitted in August 2007. In February 2015, the ADEQ stated that El Dorado Chemical was meeting the requirements of the CAO and should continue semi-annual monitoring. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to a new consent administrative order and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment, of which cost (or range of costs) cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2015, in connection with this matter.

11. Commitments and Contingencies (continued)

2. Air Matters

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

3. Other Environmental Matters

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

In 2002, two subsidiaries within our Chemical Business sold substantially all of their operating assets relating to a Kansas chemical facility (the "Hallowell Facility") but retained ownership of the real property. Even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. Our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and develop a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. Based on the assessment discussed above, we account for transactions associated with the Hallowell Facility as discontinued operations.

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

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

11. Commitments and Contingencies (continued)

B. Other Pending, Threatened or Settled Litigation

In April 2013, an explosion and fire occurred at the West Fertilizer Co. ("West Fertilizer") located in West, Texas, causing death, bodily injury and substantial property damage. West Fertilizer is not owned or controlled by us, but West Fertilizer was a customer of EDC, purchasing AN from EDC from time to time. LSB and EDC received letters from counsel purporting to represent subrogated insurance carriers, personal injury claimants and persons who suffered property damages informing LSB and EDC that their clients are conducting investigations into the cause of the explosion and fire to determine, among other things, whether AN manufactured by EDC and supplied to West Fertilizer was stored at West Fertilizer at the time of the explosion and, if so, whether such AN may have been one of the contributing factors of the explosion. Initial lawsuits filed named West Fertilizer and another supplier of AN as defendants. In 2014, EDC and LSB were named as defendants, together with other AN manufacturers and brokers that arranged the transport and delivery of AN to West Fertilizer, in the case styled *City of West, Texas v CF Industries, Inc., et al,* in the District Court of McLennan County, Texas. The plaintiffs allege, among other things, that LSB and EDC were negligent in the production and marketing of fertilizer products sold to West Fertilizer, resulting in death, personal injury and property damage. EDC retained a firm specializing in cause and origin investigations with particular experience with fertilizer facilities, to assist EDC in its own investigation. LSB and EDC placed its liability insurance carrier on notice, which carrier is handling the defense for LSB and EDC concerning this matter. Our product liability insurance policies have aggregate limits of general liability totaling $100 million, with a self-insured retention of $250,000. In August 2015, the trial court dismissed plaintiff's negligence claims against us and EDC based on a duty to inspect, but allowed the plaintiffs to proceed on claims for design defect and failure to warn. Subsequently, we and EDC have entered into entered into a confidential settlement agreements with several plaintiffs that had claimed wrongful death and bodily injury. A portion of this settlement was paid by the insurer during 2015 and in January 2016. While these settlements resolve the claims of what we believe were the highest risk cases in this matter for us, we continue to be party to litigation related to this explosion by other plaintiffs, in addition to indemnification or defense obligations we may have to other defendants. We intend to continue to defend these lawsuits vigorously and we are unable to estimate a possible range of loss at this time if there is an adverse outcome in this matter as to EDC. As of December 31, 2015, no liability reserve has been established in connection with this matter, except for the unpaid portion of the settlement agreement discussed above, but we have incurred professional fees up to our self-insured retention amount.

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

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

11. Commitments and Contingencies (continued)

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

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control Business products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which 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. At December 31, 2015, our accrued general liability insurance claims were $621,000 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.

12. Derivatives, Hedges, Financial Instruments and Carbon Credits

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

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

12. 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 1.12 and the total estimated market exchange rate of 1.09 (U.S. Dollar/Euro). For interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. At December 31, 2015, the valuation inputs included the contractual weighted-average pay rate of 3.23% and the estimated market weighted-average receive rate of 0.61%. For the embedded derivative, the derivative is valued using the underlying number of shares as defined in the terms of the Series E Redeemable Preferred and the market price of our common stock. At December 31, 2015, the valuation inputs included the market price of our common stock, which was $7.25 per share. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts as discussed above.

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

Commodities Contracts

Raw materials for use in our manufacturing processes include 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 December 31, 2015, we did not have any futures/forward copper contracts. At December 31, 2014, our futures/forward copper contracts included 1,750,000 pounds of copper, extended through May 2015 at a weighted-average cost of $2.98 per pound. At December 31, 2015, our futures/forward natural gas contracts included 1,820,000 MMBtu of natural gas, extend through December 2016 (includes contractual costs indexed to future NYMEX prices) at a weighted-average cost of $2.35 per MMBtu. At December 31, 2014, our futures/forward natural gas contracts (accounted for on a mark-to-market basis) included approximately 8,279,000 MMBtu of natural gas, extend through June 2016 at a weighted-average cost of $3.24 per MMBtu. At December 31, 2015, we did not have any futures/forward platinum contracts. At December 31, 2014, our futures/forward platinum contracts included 3,000 ounces of platinum, extended through April 2015 at a weighted-average cost of $1,224.26 per ounce. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our 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 December 31, 2015, our foreign exchange contract was for the receipt of approximately 280,000 Euros through February 2017 at the contractual exchange rate of 1.12 (U.S. Dollar/Euro. At December 31, 2014, our foreign exchange contract was for the receipt of approximately 819,000 Euros through May 2015 at the contractual exchange rate of 1.27 (U.S. Dollar/Euro. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Interest Rate Contracts

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

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

Embedded Derivative

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

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

Description	Total Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015 Using			Total Fair Value at December 31, 2014
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
			(In Thousands)		
Assets - Supplies, prepaid items and other:					
Commodities contracts (1)	**$ 195**	**$ —**	**$ 195**	**$ —**	$ —
Carbon credits	**1,154**	**—**	**—**	**1,154**	2,779
Total	**$ 1,349**	**$ —**	**$ 195**	**$ 1,154**	$ 2,779
Liabilities - Current and noncurrent accrued and other liabilities:					
Commodities contracts (1)	**$ 202**	**$ —**	**$ 202**	**$ —**	$ 2,440
Contractual obligations - carbon credits	**1,154**	**—**	**—**	**1,154**	2,779
Embedded derivative	**3,308**	**—**	**3,308**	**—**	—
Interest rate contracts	**126**	**—**	**126**	**—**	671
Foreign exchange contracts	**6**	**—**	**6**	**—**	44
Total	**$ 4,796**	**$ —**	**$ 3,642**	**$ 1,154**	$ 5,934

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

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

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

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

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

	2015	2014	2013
	(In Thousands)		
Total net gains (losses) included in operating results:			
Cost of sales - Undesignated commodities contracts	**$ (4,293)**	$ (1,198)	$ (244)
Cost of sales - Undesignated foreign exchange contracts	**(72)**	(49)	—
Other income - Carbon credits	**3,663**	3,089	1,233
Other expense - Contractual obligations relating to carbon credits	**(2,759)**	(2,799)	(1,233)
Non-operating other expense - embedded derivative	**(520)**	—	—
Interest expense - Undesignated interest rate contracts	**(47)**	(71)	(33)
Total net losses included in operating results	**$ (4,028)**	$ (1,028)	$ (277)

At December 31, 2015 and 2014, we did not have any financial instruments with fair values significantly different from their carrying amounts (which excludes issuance costs, if applicable), except for the 7.75% Senior Secured Notes as shown below.

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

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

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

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

13. Securities Financing Including Redeemable Preferred Stocks

Securities Purchase Agreement Including Redeemable Preferred Stocks

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

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

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

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

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

13. Securities Financing Including Redeemable Preferred Stocks (continued)

Series E Redeemable Preferred

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

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

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

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

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

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

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

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

13. Securities Financing Including Redeemable Preferred Stocks (continued)

Series F Redeemable Preferred

The Series F COD authorizes one (1) shares of Series F Redeemable Preferred. The Series F Redeemable Preferred has voting rights (the "Series F Voting Rights") to vote as a single class on all matters which the common stock have the right to vote and is entitled to a number of votes equal to 4,559,971 shares of our common stock, which is equal to 19.99% of the number of outstanding shares of our common stock before the completion of the Private Placement; provided however, the number of votes that may be cast by the Series F Redeemable Preferred will be reduced automatically upon the occurrence of the following specified events:

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

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

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

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

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

Warrants

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

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

13. Securities Financing Including Redeemable Preferred Stocks (continued)

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

Registration Rights Agreement- Warrants

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

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

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

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

Amendment to Renewed Rights Agreement

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

14. Stockholders' Equity

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

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

14. Stockholders' Equity (continued)

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

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

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

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

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

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

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

The following information relates to our stock option plans:

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

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

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

14. Stockholders' Equity (continued)

The following information relates to our restricted stock:

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

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

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

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

The following table summarizes information about these granted stock options:

	2015	2014	2013
Weighted-average risk-free interest rate	**1.73%**	1.83%	N/A
Dividend yield	—	—	N/A
Weighted-average expected volatility	**38.32%**	45.18%	N/A
Total weighted-average expected forfeiture rate	**0.00%**	7.88%	N/A
Weighted-average expected life (years)	**5.11**	5.90	N/A
Total weighted-average remaining vesting period in years (1)	**6.53**	5.83	2.45
Total fair value of options granted	**$ 1,915,000**	$ 7,262,000	N/A
Stock-based compensation expense - Cost of sales (1)	**$ 428,000**	$ 255,000	$ 227,000
Stock-based compensation expense - SG&A (1)	**$ 1,918,000**	$ 1,660,000	$ 1,315,000
Income tax benefit (1)	**$ (906,000)**	$ (747,000)	$ (601,000)

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

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

14. Stockholders' Equity (continued)

The following information relates to our stock options:

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

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

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

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

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

14. Stockholders' Equity (continued)

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

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

15. Non-Redeemable Preferred Stock

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

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

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

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

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

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

16. Executive Benefit Agreements and Employee Savings Plans

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

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

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

The following table includes information about these agreements:

	December 31, 2015	December 31, 2014
	(In Thousands)	
Total undiscounted death benefits	**$ 4,501**	$ 6,417
Total accrued death benefits	**$ 4,040**	$ 4,054
Total undiscounted executive benefits	**$ 913**	$ 1,900
Total accrued executive benefits	**$ 718**	$ 1,363

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

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

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

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

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

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

	2015	2014	2013
		(In Thousands)	
Cost of life insurance premiums	**$ 1,114**	$ 1,224	$ 1,159
Increases in cash surrender values	**(632)**	(752)	(745)
Net cost of life insurance premiums included in SG&A	**$ 482**	$ 472	$ 414

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

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

	2015	2014	2013
		(In Thousands)	
Other expense:			
Realized and unrealized losses on contractual obligations associated with carbon credits	**2,759**	2,799	1,233
Losses on sales and disposals of property and equipment	**11**	1,312	737
Dismantle and demolition expense (1)	—	559	2,578
Miscellaneous penalties	**137**	18	824
Miscellaneous expense	**688**	197	302
Total other expense	**$ 3,595**	$ 4,885	$ 5,674
Other income:			
Realized and unrealized gains on carbon credits	**$ 3,663**	$ 3,089	$ 1,233
Settlements of litigation and potential litigation (2)	**311**	—	545
Miscellaneous income	**890**	676	545
Total other income	**$ 4,864**	$ 3,765	$ 2,323
Other expense (income), net	**$ (1,269)**	$ 1,120	$ 3,351
Non-operating other expense (income), net:			
Interest income	**$ (396)**	$ (301)	$ (165)
Miscellaneous income	—	—	(1)
Loss on embedded derivative and other expense	**520**	20	66
Total non-operating other income, net	**$ 124**	$ (281)	$ (100)

(1) Amounts relate to the dismantling and demolition of certain plant and equipment at our chemical facilities.
(2) Amount relates primarily to settlements reached with certain vendors of our Chemical Business.

18. Segment Information

Factors Used by Management to Identify the Enterprise's Reportable Segments and Measurement of Segment Income or Loss and Segment Assets

We have three operating segments (business segments) but only two reportable segments: the Chemical Business and the Climate Control Business. A reportable segment may include several business units that offer similar products and services. The reportable segments are managed separately from each other because they manufacture and distribute distinct products with different production processes.

We evaluate performance and allocate resources based on operating results. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Description of Each Reportable Segment

Chemical Business -The Chemical Business segment primarily manufactures and sells:

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

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

During the last several years, our Chemical Business encountered a number of significant issues including the events discussed in Note 20 – Property and Business Interruption Insurance Claims and Recoveries and numerous mechanical issues at the Pryor Facility, all resulting in lost production and causing an adverse effect on our sales and operating income for the periods presented. Also see footnotes (2) and (3) below and Note 20 regarding business interruption and property insurance recoveries.

Other products relate to working interests in certain natural gas properties. In 2012 and 2013, a subsidiary within our Chemical Business acquired these working interests. Since our Chemical Business purchases a significant amount of natural gas as a feedstock for the production of ammonia, management considers these acquisitions as economic hedges against a portion of a potential rise in natural gas prices in the future for a portion of our future natural gas production requirements. We report the working interests as part of the Chemical Business reportable segment. All of our natural gas producing activities are within the United States (in Pennsylvania). For 2015, we incurred a net loss of $42.8 million from our working interests in natural gas properties. This net loss consisted of $3.4 million in net sales less $6.3 million of cost of sales (DD&A of $5.2 million and production costs of $1.1 million), $0.2 million of SG&A and a non-cash impairment charge of $39.7 million.

As of December 31, 2015, our Chemical Business employed 576 persons, 197 of whom are represented by unions under agreements, which will expire in November of 2016 through October of 2018.

Climate Control Business - The Climate Control Business segment manufactures and sells the following variety of heating, ventilation, and air conditioning ("HVAC") products:

- water source and geothermal heat pumps,
- hydronic fan coils, and
- other HVAC products including large custom air handlers, modular geothermal and other chillers and other products and services.

18. Segment Information (continued)

These HVAC products are primarily for use in commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems. Our various facilities located in Oklahoma City, Oklahoma comprise substantially all of the Climate Control segment's operations. Sales to customers of this segment primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world.

Other - The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users located primarily in North America.

Information about our continuing operations in different business segments is detailed below.

	2015	2014	2013
		(In Thousands)	
Net sales:			
Chemical (1):			
Agricultural products	**$ 209,770**	$ 230,046	$ 180,763
Industrial acids and other chemical products	**167,520**	173,876	150,497
Mining products	**47,475**	67,484	63,286
Other products	**3,364**	12,232	8,077
Total Chemical	**428,129**	483,638	402,623
Climate Control:			
Water source and geothermal heat pumps	**156,314**	168,804	183,757
Hydronic fan coils	**68,082**	61,307	64,541
Other HVAC products	**49,690**	35,247	36,720
Total Climate Control	**274,086**	265,358	285,018
Other	**9,566**	12,250	13,600
	$ 711,781	$ 761,246	$ 701,241
Gross profit:			
Chemical (1) (2)	**$ 16,644**	$ 61,084	$ 40,728
Climate Control	**83,660**	82,443	92,907
Other	**3,404**	4,347	4,484
	$ 103,708	$ 147,874	$ 138,119
Operating income (loss):			
Chemical (1) (2) (3) (4)	**$ (41,831)**	$ 51,281	$ 87,784
Climate Control	**19,892**	21,675	30,386
Other	**1,104**	1,771	1,699
General corporate expenses (5)	**(29,917)**	(21,365)	(14,561)
	(50,752)	53,362	105,308
Interest expense, net (6)	**7,381**	21,599	13,986
Loss on extinguishment of debt	**—**	—	1,296
Non-operating expense (income), net:			
Chemical	**(363)**	(249)	(1)
Climate Control	**(4)**	—	(1)
Corporate and other business operations	**491**	(32)	(98)
Provisions (benefit) for income taxes	**(23,550)**	12,400	35,421
Equity in earnings of affiliate - Climate Control	**—**	(79)	(436)
Income (loss) from continuing operations	**$ (34,707)**	$ 19,723	$ 55,141

(1) As discussed above under "Chemical Business", our Chemical Business encountered a number of significant issues at certain of our facilities resulting in lost production and adverse effects on operating results. However, some of these issues were covered by our business interruption and property insurance policies.

18. Segment Information (continued)

(2) For 2014 and 2013 we recognized business interruption insurance recoveries, of which $22.9 million and $28.4 million, respectively, were classified as reductions to cost of sales (none in 2015).

(3) For 2014 and 2013, we recognized property insurance recoveries, of which $5.1 million and $66.3 million, were classified as property insurance recoveries in excess of losses incurred (none for 2015).

(4) For 2015, we recognized a non-cash impairment charge of $39.7 million relating to our working interest in natural gas properties and a non-cash impairment charge of $3.5 million for certain equipment at our Pryor Facility.

(5) General corporate expenses consist of the following:

	2015	2014	2013
		(In Thousands)	
Selling, general and administrative:			
Personnel costs (A)	**$ (14,798)**	$ (8,434)	$ (8,096)
Fees and expenses relating to shareholders' (B)	**(4,603)**	(4,843)	(162)
Professional fees (C)	**(6,610)**	(4,536)	(4,813)
All other	**(3,979)**	(3,632)	(2,046)
Total selling, general and administrative	**(29,990)**	(21,445)	(15,117)
Other income	**128**	97	584
Other expense	**(55)**	(17)	(28)
Total general corporate expenses	**$ (29,917)**	$ (21,365)	$ (14,561)

(A) Personnel costs include salaries, incentive compensation, insurance and other benefits. For 2015, additional costs were incurred primarily relating to certain severance agreements with former executives, compensation incentives and additional personnel performing general corporate activities.

(B) 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.

(C) Professional fees include costs for legal services, auditing and accounting services, director services and various consulting services.

(6) For 2015, 2014 and 2013, interest expense is net of capitalized interest of $30.6 million, $14.1 million and $4.0 million, respectively.

18. Segment Information (continued)

Information about our PP&E and total assets by business segment is detailed below:

	2015	2014	2013
		(In Thousands)	
Depreciation, depletion and amortization of PP&E:			
Chemical	$ **35,239**	$ 30,364	$ 23,497
Climate Control	**4,834**	4,946	4,707
Other	**36**	34	49
Corporate	**387**	320	57
Total depreciation, depletion and amortization of PP&E	$ **40,496**	$ 35,664	$ 28,310
Additions to PP&E:			
Chemical	**$ 469,558**	$ 238,070	$ 160,343
Climate Control	**632**	1,859	5,576
Other	**25**	27	65
Corporate	**294**	148	435
Total additions to PP&E	**$ 470,509**	$ 240,104	$ 166,419
Total assets at December 31:			
Chemical	**$ 1,159,592**	$ 929,671	$ 842,588
Climate Control	**148,997**	133,183	159,960
Other	**5,502**	5,960	6,832
Corporate	**47,736**	61,758	65,838
Total assets	**$ 1,361,827**	$ 1,130,572	$ 1,075,218

Net sales by business segment include net sales to unaffiliated customers as reported in the consolidated financial statements. Net sales classified as “Other” consist of sales of industrial machinery and related components. Intersegment net sales are not significant.

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.

Operating income (loss) 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.

Identifiable assets by business segment are those assets used in the operations of each business. Corporate-related assets are those principally owned by LSB or by subsidiaries not involved in the three business segments.

All net sales and long-lived assets relate to domestic operations for the periods presented.

Net sales to unaffiliated customers are to U.S. customers except foreign export sales in our Climate Control Business as follows:

Geographic Area	2015	2014	2013
		(In Thousands)	
Canada	**$ 17,856**	$ 19,334	$ 19,976
Other	**10,428**	12,642	14,178
	$ 28,284	$ 31,976	$ 34,154

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

19. Related Party Transactions

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

20. Supplemental Cash Flow Information

The following provides additional information relating to cash flow activities:

	2015	2014 (In Thousands)	2013
Cash payments (refunds) for:			
Interest on long-term debt and other, net of capitalized interest	**$ 5,389**	$ 21,063	$ 451
Income taxes, net	**$ (5,845)**	$ (3,999)	$ 13,320
Noncash investing and financing activities:			
Accounts receivable, accounts payable, other liabilities, and long-term debt associated with additions of property, plant and equipment	**$ 65,471**	$ 34,636	$ 14,465
Accounts payable, long-term debt associated with additions of capitalized internal-use software and software development	**$ 3,791**	$ 5,303	$ 4,011
Equity issuance costs, including amounts in accounts payable	**$ 9,754**	$ —	$ —
Dividend accrued on redeemable preferred stock	**$ 2,287**	$ —	$ —
Accretion of redeemable preferred stock	**$ 686**	$ —	$ —
Debt issuance costs incurred associated with senior secured notes, including amounts in accounts payable	**$ 2,566**	$ —	$ 6,498
Secured term loan extinguished	**$ —**	$ —	$ 66,563
Prepayment premium incurred associated with secured term loan	**$ —**	$ —	$ 666
Debt issuance costs written off associated with secured term loan	**$ —**	$ —	$ 630
Insurance claims receivable associated with property, plant and equipment	**$ —**	$ —	$ 249

21. Property and Business Interruption Insurance Claims and Recoveries

El Dorado Facility

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

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

21. Property and Business Interruption Insurance Claims and Recoveries (continued)

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

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

Cherokee Facility

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

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

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

22. Subsequent Events

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

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

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

LSB Industries, Inc.

Supplementary Information

Quarterly Financial Data (unaudited)

Summarized unaudited quarterly financial data for 2015 and 2014 are as follows:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Amounts)			
2015 (1) (2)				
Net sales	$ 198,798	$ 192,345	$ 163,617	$ 157,021
Gross profit (3)	$ 40,761	$ 32,697	$ 11,180	$ 19,070
Income (loss) from continuing operations (3) (4) (5)	$ 6,679	$ 420	$ (33,759)	$ (8,047)
Net loss from discontinued operations	30	3	4	21
Net income (loss)	$ 6,649	$ 417	$ (33,763)	$ (8,068)
Net income (loss) attributable to common stockholders	$ 6,349	$ 417	$ (33,763)	$ (11,041)
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
Net loss from discontinued operations	—	—	—	—
Net income (loss)	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
Diluted:				
Income (loss) from continuing operations	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
Net loss from discontinued operations	—	—	—	—
Net income (loss)	$ 0.28	$ 0.02	$ (1.48)	$ (0.48)
2014 (1) (2)				
Net sales	$ 185,382	$ 210,746	$ 177,860	$ 187,258
Gross profit (3)	$ 47,433	$ 47,445	$ 22,942	$ 30,054
Income (loss) from continuing operations (3) (4) (5)	$ 11,643	$ 11,134	$ (3,772)	$ 718
Net loss from discontinued operations	2	21	5	61
Net income (loss)	$ 11,641	$ 11,113	$ (3,777)	$ 657
Net income (loss) attributable to common stockholders	$ 11,341	$ 11,113	$ (3,777)	$ 657
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ 0.50	$ 0.49	$ (0.17)	$ 0.03
Net loss from discontinued operations	—	—	—	—
Net income (loss)	$ 0.50	$ 0.49	$ (0.17)	$ 0.03
Diluted:				
Income (loss) from continuing operations	$ 0.49	$ 0.47	$ (0.17)	$ 0.03
Net loss from discontinued operations	—	—	—	—
Net income (loss)	$ 0.49	$ 0.47	$ (0.17)	$ 0.03

(1) As discussed in Note 1 to Consolidated Financial Statements, prior periods have been adjusted relating to certain shipping and handling costs in our Chemical Business segment. The following table reconciles net sales and gross profit as previously reported (these adjustments did not impact income (loss) from continuing operation:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Net sales:				
2015:				
As previously reported	$ 193,858	$ 182,659	$ 157,685	N/A
Adjustments	$ 4,940	$ 9,686	$ 5,932	
As adjusted	$ 198,798	$ 192,345	$ 163,617	
2014:				
As previously reported	$ 178,525	$ 201,662	$ 171,046	$ 181,277
Adjustments	$ 6,857	$ 9,084	$ 6,814	$ 5,981
As adjusted	$ 185,382	$ 210,746	$ 177,860	$ 187,258
Gross profit:				
2015:				
As previously reported	$ 42,359	$ 34,882	$ 13,279	N/A
Adjustments	$ (1,598)	$ (2,185)	$ (2,099)	
As adjusted	$ 40,761	$ 32,697	$ 11,180	
2014:				
As previously reported	$ 48,722	$ 48,869	$ 24,386	$ 31,378
Adjustments	$ (1,289)	$ (1,424)	$ (1,444)	$ (1,324)
As adjusted	$ 47,433	$ 47,445	$ 22,942	$ 30,054

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

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

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Business interruption insurance recoveries:				
2014	$ 22,836	$ —	$ —	$ —
Undesignated commodities contracts:				
2015	$ (1,978)	$ (70)	$ (1,526)	$ (719)
2014	$ 2,216	$ (105)	$ (214)	$ (3,095)
Turnaround costs: (A)				
2015	$ (152)	$ —	$ (2,101)	$ (55)
2014	$ (330)	$ (840)	$ (5,215)	$ (105)

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

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

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

	March 31	June 30	September 30	December 31
Impairment of long lived assets				
2015	$ —	$ —	$ 39,670	$ 3,518
Shareholder related fees and expenses primarily relating to certain activist shareholders' proposals:				
2015	$ 1,679	$ 2,655	$ 113	$ 155
2014	$ 4,200	$ 262	$ 230	$ 151
Interest expense, net:				
2015	$ 3,398	$ 2,230	$ 877	$ 876
2014	$ 6,708	$ 5,671	$ 5,079	$ 4,141
Severance agreements with certain former executives				
2015	$ —	—	$ 1,789	$ 224

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

Supplemental Natural Gas Disclosures

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

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

Our Chemical Business owns working interests in certain natural gas properties, all of which are located in Wyoming County, Pennsylvania, within the Marcellus Shale. 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. Our Chemical Business purchases a significant amount of natural gas as a feedstock for the production of ammonia. Management considers this acquisition as an economic hedge against a potential rise in natural gas prices in the future for a portion of our future natural gas production requirements.

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

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

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

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

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

Supplemental Natural Gas Disclosures (continued)

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

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

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

Estimated Quantities of Proved Natural Gas Reserves

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

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

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

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

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

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

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

Supplemental Natural Gas Disclosures (continued)

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

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

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

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

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

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2015, 2014, and 2013

(In Thousands)

Description (1)	Balance at Beginning of Year	Additions-Charges to (Recovery of) Costs and Expenses	Deductions-Write-offs/Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts:				
2015	$ 826	$ 253	$ 385	$ 694
2014	$ 827	$ 134	$ 135	$ 826
2013	$ 636	$ 478	$ 287	$ 827
Inventory-reserve for slow-moving items:				
2015	$ 1,653	$ 349	$ 34	$ 1,968
2014	$ 1,389	$ 325	$ 61	$ 1,653
2013	$ 1,818	$ 249	$ 678	$ 1,389
Supplies-reserve for slow-moving items:				
2015	$ 928	$ —	$ —	$ 928
2014	$ 721	$ 379	$ 172	$ 928
2013	$ 722	$ —	$ 1	$ 721
Notes receivable - allowance for doubtful accounts:				
2015	$ 970	$ —	$ —	$ 970
2014	$ 970	$ —	$ —	$ 970
2013	$ 970	$ —	$ —	$ 970
Deferred tax assets - valuation allowance:				
2015	$ 292	$ 950	$ —	$ 1,242
2014	$ 298	$ —	$ 6	$ 292
2013	$ 273	$ 25	$ —	$ 298

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

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

Exhibit 10.8

LSB INDUSTRIES, INC.
(2008 Stock Incentive Plan)

INCENTIVE
STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") is effective as of the Grant Date set forth in paragraph 2 below, by and between LSB INDUSTRIES, INC., a Delaware corporation (the "Company"), and Participant named in paragraph 2 below and a signatory hereto. For valuable consideration, the Company and Participant agree as follows.

1. Background. Participant is an employee, officer or director of the Company or an Affiliate, whom the Compensation and Stock Option Committee of the Board of Directors of the Company (the "Committee") has selected to receive an award under the Company's 2008 Stock Incentive Plan (as may be amended from time to time, the "Plan"). The purpose of the award is to retain and motivate Participant by providing Participant the opportunity to acquire a proprietary interest in the Company and to link Participant's interests and efforts to the long-term interests of the Company's shareholders.

2. Certain Defined Terms. The following terms will have the meanings ascribed below:

Participant: ______________________________

Option Shares: ______________________________
(shares of the Company's common stock, par value $.10 per share)

Exercise Price: per share ______________________________

Grant Date: ______________________________

Expiration Date: ______________________________

3. Option Grant. Subject to the terms of the Plan and of this Agreement, the Company hereby grants to Participant the right and option (the "Option") to purchase all or any portion of the Option Shares on or before the Expiration Date. The Option is intended by the parties hereto to be an incentive stock option, as such term is defined under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

4. Terms and Conditions of the Option. The Option will be subject to the terms and conditions of the Plan and the following:

4.1 Exercise of Option. The Exercise Price is the price per share of common stock acquired upon exercise of the Option. The Option will be exercisable as specified herein and in the Plan by written notice directed to the Company at its principal place of business setting forth the exact number of Option Shares that Participant is purchasing. The Option will not be deemed to be exercised until the Exercise Price for the number of Option Shares to be purchased is collected by the Company, and Participant has complied with such other reasonable requirements as the Committee may establish. Payment of the Exercise Price for the number of Option Shares to be acquired upon exercise of the Option will be by (a) check or wire transfer, or (b) only if the date of notice of exercise is not within a "blackout" period or other period during which the Participant is prohibited under law or policies adopted by the Company from trading in the Company's securities, by tendering by attestation shares of Common Stock already owned by the Participant that on the day prior to the exercise date have a Fair Market Value equal to the aggregate exercise price of the shares being purchased under the Option, provided that the Participant must have held for at least six months any such tendered shares that were acquired by the Participant under a Company-sponsored stock compensation program. The Option may not be exercised after the Expiration Date. The exercise of the Option will be subject to such additional administrative procedures as may be adopted by the Committee from time to time.

4.2 Vesting. The Option will vest and be exercisable in six installments, based upon Participant's years of continuous employment with the Company or an Affiliate from the Grant Date, as follows:

(a) 16.5% of the Option Shares will vest and be exercisable after one year;

(b) an additional 16.5% of the Option Shares will vest and be exercisable after two years;

(c) an additional 16.5% of the Option Shares will vest and be exercisable after three years;

(d) an additional 16.5% of the Option Shares will vest and be exercisable after four years;

(e) an additional 16.5% of the Option Shares will vest and be exercisable after five years; and

(f) 100% of the Option Shares will vest and be exercisable after six years.

The Committee will have the sole and absolute discretion to accelerate the time when Participant will become entitled to exercise the Option.

4.3 Exercise after Termination of Service. The Option may not be exercised after a Termination of Service (as defined in the Plan), except as follows:

(a) Disability. If the Termination of Service is on account of a Disability (as defined in the Plan), Participant may exercise the Option within 12 months after the date of Termination of Service.

(b) Death. If Participant dies prior to the termination of the Option, the Option may be exercised within 12 months after the death of Participant by the personal representative of Participant's estate, or by a person who acquired the right to exercise the Option by bequest, inheritance, or by reason of the death of Participant; provided that (a) Participant died while an employee of the Company or an Affiliate; or (b) Participant ceased to be an employee of the Company or an Affiliate on account of a Disability and died within three months after the date of Termination of Service.

In both (a) and (b), above, the Option may be exercised only as to the number of Option Shares that were vested as of the date of Participant's Termination of Service. Notwithstanding the foregoing, the Option may not be exercised after the expiration of 10 years from the Grant Date.

4.4 Investment Representation. If Option Shares issued pursuant to the exercise of the Option are not subject to an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), Participant agrees to represent and warrant in writing at the time of any exercise of the Option or any portion thereof that the Option Shares are being purchased only for investment and without any present intention to sell or distribute such shares, and further agrees that the certificate representing Option Shares so acquired may bear an appropriate legend and will be sold or transferred only in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") or any applicable law, regulation, or rule of any governmental agency.

4.5 Taxes. Participant shall pay all original issue or transfer taxes and all other fees and expenses incident to the issue, transfer, or delivery of Option Shares.

4.6 Not Assignable. The Option or any interest on the Option may not be sold, assigned, pledged (as collateral for a loan or as security for the performance of an obligation or for any other purpose) or transferred by Participant or made subject to attachment or similar proceedings otherwise than by will or by the applicable laws of descent and distribution, except that to the extent permitted by the Committee, in its sole discretion, a Participant may designate on a Company-approved form one or more beneficiaries who may receive Option Shares under the Option after Participant's death. During a Participant's lifetime, the Option may be exercised only by Participant.

4.7 No Rights until Issue. No right to vote or receive dividends or any other rights as a stockholder of the Company will exist with respect to the Option Shares, notwithstanding the exercise of the Option, until the issuance to Participant of a stock certificate or certificates representing such shares.

4.8 Anti-dilution. In the event of a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure, then the Committee shall make proportional adjustments in the Option and/or the Plan as described in the Plan.

4.9 Delivery of Option Shares. The Company will deliver the shares of common stock to be acquired upon the exercise of the Option within a reasonable period following (a) the receipt of the written notice of exercise, (b) collection of payment in full of the Exercise Price for such shares, and (c) Participant's payment of any tax withholding obligations in accordance with paragraph 6 of this Agreement. If any law, regulation or stock exchange requires the Company to take any action with respect to such shares before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action.

4.10 Limitation. To the extent that the aggregate Fair Market Value of common stock exercisable for the first time by Participant during any calendar year exceeds $100,000 or, if different, the maximum limitation in effect at the time of grant under the Code (the Fair Market Value being determined as of the Grant Date), such portion in excess of $100,000 will be treated as Non-qualified Stock Options.

5. The Plan. Participant acknowledges receipt of a copy of the Plan and represents that Participant is familiar with the terms and provisions of the Plan and hereby accepts the Option subject to all such terms and provisions. In addition to the definitions contained in this Agreement, certain words and phrases used in this Agreement may be defined in the Plan.

6. Withholding. Upon the exercise of an Option requiring tax withholding, Participant will be required to pay to the Company for remittance to the appropriate taxing authorities an amount necessary to satisfy the employee's portion of federal, state and local taxes, if any, incurred by reason of the exercise of an Option.

7. Employment. Nothing in the Plan or in this Agreement shall confer upon Participant any right to continued employment as an employee of the Company or interfere in any way with the right of the Company to terminate Participant's employment at any time.

8. Transferability of Shares. If a registration statement with respect to the issuance of Option Shares to Participant upon the exercise of the Option or any portion thereof is not in effect at the time of such issuance of Option Shares by the Company, at the time of the proposed transfer of Option Shares, Participant shall not offer, sell, hypothecate, transfer or otherwise dispose of any of the Option Shares issued pursuant to the exercise of the Option or any portion thereof unless either (a) a registration statement with respect to such Option Shares is then in effect under the Securities Act, and any applicable state securities laws, and such offer, sale, transfer or other disposition is accompanied by a prospectus relating to such registration statement and meeting the requirements of the Securities Act; or (b) counsel satisfactory to the Company renders an opinion in writing, addressed to the Company and acceptable to the Company and its counsel, to the effect that, in the opinion of such counsel, such proposed offer, sale, transfer or other disposition of such Option Shares is exempt from the provisions of Section 5 of the Securities Act and the applicable state securities laws in view of the circumstances of such proposed offer, sale, transfer or other disposition.

9. Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, trustees, successors and assigns.

EXECUTED effective as of the Grant Date.

LSB INDUSTRIES, INC., a Delaware corporation

By: ______________________________

Daniel D. Greenwell, CEO and President
(the "Company")

____

Signature
("Participant")

Exhibit 10.17

LSB INDUSTRIES, INC.
(2008 Stock Incentive Plan)

RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (this "**Agreement**") is entered into this 14th day of January, 2016, effective as of December 31, 2015 (the "**Grant Date**"), by and between LSB INDUSTRIES, INC., a Delaware corporation (the "**Company**"), and Mark T. Behrman (the "**Participant**"). For valuable consideration, the Company and Participant agree as follows.

1. Background. The Participant is an employee, officer or director of the Company or an Affiliate, whom the Compensation Committee of the Board of Directors of the Company ("**Committee**") has selected to receive an award under the Company's 2008 Stock Incentive Plan (as may be amended from time to time, the "**Plan**"). The purpose of the award is to retain and motivate the Participant by providing the Participant the opportunity to acquire a proprietary interest in the Company and to link the Participant's interests and efforts to the long-term interests of the Company's shareholders.

2. Restricted Stock Grant. Subject to the terms of the Plan and to the terms in this Agreement, the Company granted to the Participant 208,914 shares of the Company's Common Stock on the Grant Date, subject to certain restrictions (the "**Restricted Stock**").

3. Restrictions; Forfeiture. The Restricted Stock is restricted in that it may not be sold, transferred or otherwise alienated or hypothecated until the restrictions enumerated in this Agreement and the Plan are removed or expire as contemplated in Section 4 of this Agreement. The Restricted Stock is also restricted in the sense that it may be forfeited to the Company (the "**Forfeiture Restrictions**"). Except as otherwise provided in Section 4, if the Participant's service relationship with the Company or any of its subsidiaries is terminated for any reason, then those shares of Restricted Stock for which the restrictions have not lapsed as of the date of termination shall become null and void and those shares of Restricted Stock shall be forfeited to the Company. The Restricted Stock for which the restrictions have lapsed as of the date of such termination shall not be forfeited to the Company. The Participant hereby agrees that if the Restricted Stock is forfeited, the Company shall have the right to deliver the Restricted Stock to the Company's transfer agent for, at the Company's election, cancellation or transfer to the Company.

4. Vesting.

4.1 The restrictions on the Restricted Stock will expire and the Restricted Stock will become transferable, and nonforfeitable as to one-third of the Restricted Stock on each of the first three anniversaries of the Grant Date, such that 100% of the shares of Restricted Stock shall be vested on the third anniversary of the Grant Date; provided, however, that, except as otherwise provided in Section 4.2 of this Agreement or in the Employment Agreement between the parties dated January 14, 2016 effective as of December 31, 2015 (the "**Employment Agreement**"), the Restricted Stock will vest on such dates only if the Participant remains in the employ of or a service provider to the Company or its subsidiaries continuously from the Grant Date through the applicable vesting date.

4.2 Notwithstanding Section 4.1 of this Agreement, provided that (i) the Participant remains in the employ of or a service provider to the Company or its subsidiaries continuously from the Grant Date until immediately prior to the occurrence of any of the events listed below and (ii) the Participant holds Restricted Stock at such time, then:

4.2.1 all shares of Restricted Stock shall automatically vest in full upon a Change in Control of the Company (as defined in the Employment Agreement);

4.2.2 all shares of Restricted Stock shall automatically vest in full upon a termination of the Participant's employment by the Company without Cause (as defined in the Employment Agreement) or by the Participant for Good Reason (as defined in the Employment Agreement); or

4.2.3 a pro-rata portion of Restricted Stock shall automatically vest upon the Participant's termination of employment by reason of death or Disability (as defined in the Employment Agreement) with such pro-rata portion calculated by multiplying the number of shares of Restricted Stock scheduled to vest on the anniversary of the Grant Date immediately succeeding such termination of employment by a fraction, the numerator of which is the number of days that have elapsed from the last anniversary of the Grant Date (or if such termination of employment occurs prior to the first anniversary of the Grant Date, then the number of days that have elapsed from the Grant Date) through the date of such termination of employment and the denominator of which shall be 365.

5. Escrow of Restricted Stock. The Company shall evidence the Restricted Stock in the manner that it deems appropriate, including, without limitation, certificating the Restricted Stock or evidencing the Restricted Stock in book entry form, electronic or otherwise. The Company may issue in the Participant's name a certificate or certificates representing the Restricted Stock and retain that certificate or those certificates until the restrictions on such Restricted Stock expire, as contemplated in Section 4 of this Agreement, or the Restricted Stock is forfeited, as described in Section 3 of this Agreement. If the Company certificates the Restricted Stock, the Participant shall execute one or more stock powers in blank for those certificates and deliver those stock powers to the Company. The Company shall hold the Restricted Stock and the related stock powers pursuant to the terms of this Agreement, if applicable, until such time as (a) a certificate or certificates for the Restricted Stock are delivered to the Participant, (b) the Restricted Stock is otherwise transferred to the Participant free of restrictions, or (c) the Restricted Stock is canceled and forfeited pursuant to this Agreement.

6. Ownership of Restricted Stock. The Participant is entitled to all the rights of absolute ownership of the Restricted Stock, including the right to vote those shares; provided, however, that any dividends paid by the Company with respect to the Restricted Stock prior to the expiration of the Forfeiture Restrictions shall be held in escrow by the Company and paid to the Participant, if at all, at the time the Forfeiture Restrictions expire on the Restricted Stock for which the dividend accrued; provided, further, that in no event shall dividends be settled later than 45 days following the date on which the Forfeiture Restrictions expire with respect to the Restricted Stock for which the dividends were accrued. For purposes of clarity, if the Restricted Stock is forfeited by the Participant pursuant to the terms of this Agreement then the Participant shall also forfeit the dividends, if any, accrued with respect to such forfeited Restricted Stock. No interest will accrue on the dividends between the declaration and settlement of the dividends.

7. Delivery of Stock. Promptly following the expiration of the restrictions on the Restricted Stock as contemplated in Section 4 of this Agreement, the Company shall cause to be issued and delivered to the Participant or the Participant's designee a certificate or other evidence of the number of whole shares of Restricted Stock as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, upon receipt by the Company of any tax withholding as may be requested pursuant to Section 8 of this Agreement. The value of such Restricted Stock shall not bear any interest, and the Company shall not have any liability to the Participant other than to deliver the Restricted Stock and associated dividends, if any, because of to the passage of time or any delay in delivery.

8. Payment of Taxes. The Company may require the Participant to pay to the Company (or the Company's subsidiary if the Participant is an employee of a subsidiary of the Company), an amount the Company deems necessary to satisfy its (or its subsidiary's) current or future obligation to withhold federal, state, and local income or other taxes that the Participant incurs as a result of the vesting of the Restricted Stock. With respect to any required tax withholding, the Participant may (a) direct the Company to withhold from the shares of Common Stock to be issued to the Participant under this Agreement the number of shares necessary to satisfy the Company's obligation to withhold taxes, which determination will be based on the shares' Fair Market Value at the time such determination is made; (b) deliver to the Company shares of Common Stock sufficient to satisfy the Company's tax withholding obligations, based on the shares' Fair Market Value at the time such determination is made; (c) deliver cash to the Company sufficient to satisfy its tax withholding obligations; or (d) satisfy such tax withholding through any

combination of (a), (b) and (c). If the Participant desires to elect to use the stock withholding option described in subparagraph (a), the Participant must make the election at the time and in the manner the Company prescribes. If such tax obligations are satisfied under subparagraph (a) or (b), the maximum number of shares of Common Stock that may be so withheld or surrendered shall be the number of shares of Common Stock that have an aggregate Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such tax liabilities determined based on the greatest withholding rates for federal, state, and local, tax purposes, including payroll taxes, that may be utilized without creating adverse accounting treatment with respect to such Award. The Company, in its discretion, may deny the Participant's request to satisfy its tax withholding obligations using a method described under subparagraph (a), (b), or (d). In the event the Company determines that the aggregate Fair Market Value of the shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Participant must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.

9. Leave of Absence. With respect to the Restricted Stock, the Company may, in its sole discretion, determine that if the Participant is on leave of absence for any reason, the Participant will be considered to still be in the employ of, or providing services to, the Company, provided that rights to the Restricted Stock during a leave of absence will be limited to the extent to which those rights were earned or vested when the leave of absence began.

10. Compliance with Securities Law. Notwithstanding any provision of this Agreement to the contrary except for Section 16, the issuance of Common Stock (including Restricted Stock) will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the Common Stock may then be listed. No Common Stock will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, Common Stock will not be issued hereunder unless (i) a registration statement under the Securities Act, is at the time of issuance in effect with respect to the shares issued or (ii) in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. THE PARTICIPANT IS CAUTIONED THAT ISSUANCE OF UNRESTRICTED STOCK UPON THE VESTING OF RESTRICTED STOCK MAY NOT OCCUR UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of the Restricted Stock, or unrestricted Common Stock (upon vesting), will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Committee and appropriate officers of the Company are authorized to take the Securities Actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate Persons to make shares of Common Stock available for issuance.

11. Certain Defined Terms. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

12. Anti-dilution. In the event of a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure, then the Committee shall make proportional adjustments to the Restricted Stock and/or the Plan as described in Section 13 of the Plan.

13. The Plan. Participant acknowledges receipt of a copy of the Plan, which is attached hereto as Exhibit A, and represents that Participant is familiar with the terms and provisions of the Plan and hereby accepts the Restricted Stock subject to all such terms and provisions.

14. Employment. Nothing in the Plan or in this Agreement shall confer upon Participant any right to continued employment as an employee of the Company or its Affiliates or interfere in any way with the right of the Company and its Affiliates to terminate Participant's employment at any time.

15. Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, trustees, successors and assigns.

16. Company Representations and Warranties. The Company represents and warrants that there are sufficient shares under the Plan (and will reserve same) for this award and also that it will take all reasonable steps necessary to file an S-8 or other registration statement to enable it to issue shares of Restricted Stock to Participant upon the Grant Date and for Participant to sell them once vested.

17. No Liability for Good Faith Determinations. The Company and the members of the Committee and the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Stock.

18. Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of Common Stock or property to the Participant or the Participant's legal representative, heir, legatee, or distribute, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. The Company may require the Participant or the Participant's legal representative, heir, legatee or distribute, as a condition precedent to such payment or issuance, to execute a release solely with respect to the delivered Restricted Stock and receipt therefor in such form as it shall reasonably determine.

19. Governing Law and Consent to Jurisdiction and Venue. All questions arising with respect to the provisions of this Agreement shall be determined by application of the laws of Oklahoma, without giving any effect to any conflict of law provisions thereof, except to the extent Oklahoma state law is preempted by federal law. Further, the Participant hereby consents and agrees that state courts located in Oklahoma City, Oklahoma and the United States District Court for the Western District of Oklahoma each shall have personal jurisdiction and proper venue with respect to any dispute between the Participant and the Company arising in connection with the Restricted Shares or this Agreement. In any dispute with the Company, the Participant will not raise, and the Participant hereby expressly waives, any objection or defense to such jurisdiction as an inconvenient forum.

20. Clawback. This Agreement and the Restricted Stock are subject to any written clawback policies of the Company, whether in effect on the Grant Date or adopted, with the approval of the Board, following the Grant Date and either (i) applicable to all senior executives of the Company and their restricted stock awards or (ii) adopted to conform to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and rules promulgated thereunder by the Securities and Exchange Commission. Any such policy may subject the Restricted Stock and amounts paid or realized with respect to the Restricted Stock to reduction, cancelation, forfeiture or recoupment if certain specified events or wrongful conduct occur as specified in such policy, including but not limited to an accounting restatement due to the Company's material noncompliance with financial reporting regulations or other events or wrongful conduct specified in any such clawback policy and which the Company determines should apply to the Restricted Stock in accordance with this Section 20.

21. Electronic Delivery. The Participant consents to receive documents from the Company and any plan administrator by means of electronic delivery, provided that such delivery complies with applicable law. This consent shall be effective for the entire time that the Participant holds awards granted under the Plan.

22. Entire Agreement. This Agreement and the Employment Agreement constitute the entire agreement between the Company and the Participant relating to the Restricted Stock. Any previous agreement with respect to this matter is superseded by this Agreement. Unless otherwise provided in the Plan, no term, provision or condition of this Agreement may be modified in any respect except by a writing executed by both of the parties hereto. No person has any authority to make any representation or promise not set forth in this Agreement. This Agreement has not been executed in reliance upon any representation or promise except those contained herein and in the Employment Agreement.

EXECUTED effective as of the Grant Date.

LSB INDUSTRIES, INC., a Delaware corporation

By: /s/ Daniel D. Greenwell
Daniel D. Greenwell
CEO and President

/s/ Mark T. Berman
Mark T. Behrman
Participant

Exhibit A

LSB Industries, Inc. 2008 Incentive Stock Plan
(as amended and restated effective April 3, 2014)

LSB Industries, Inc. 2008 Incentive Stock Plan
(as amended and restated effective April 3, 2014)

Section 1. Purpose of the Plan

The purpose of the LSB Industries, Inc. 2008 Incentive Stock Plan (the "Plan"), is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors of LSB Industries, Inc. (the "Company") by providing them the opportunity to acquire a proprietary interest in the Company and to link their interests and efforts to the long-term interests of the Company's shareholders.

Section 2. Definitions

As used in the Plan,

"Affiliate" means all Persons with whom the Company would be considered a single employer under Section 414(b) of the Code, and all persons with whom such person would be considered a single employer under Code Section 414(c) of the Code, except that where Treasury Regulation §1.414(c)-2(b)(2)(i) requires at least an 80 percent interest for establishment of a controlling interest, only a 50 percent interest shall be required. In addition, for purposes of determining whether any individual is eligible to receive a grant of Incentive Stock Options, the term "Affiliate" shall refer only to those Persons who are "subsidiaries" as defined Section 424(f) of the Code.

"Award" means any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, dividend equivalent, cash-based award or other incentive payable in cash or in shares of Common Stock as may be designated by the Committee from time to time.

"Board" means the Board of Directors of the Company.

"CEO" means the chief executive officer of the Company.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Code Section 162(m)" means Section 162(m) of the Code, including any proposed and final regulations and other guidance issued thereunder by the Department of the Treasury and/or the Internal Revenue Service.

"Code Section 409A" means Section 409A of the Code, including any proposed and final regulations and other guidance issued thereunder by the Department of the Treasury and/or the Internal Revenue Service.

"Committee" has the meaning set forth in Section 3 below.

"Common Stock" means the common stock, par value $.10 per share, of the Company.

"Company" means LSB Industries, Inc., a Delaware corporation.

"Covered Employee" means a "covered employee" as that term is defined in Code Section 162(m)(3) or any successor provision.

"Disability" or "Disabled" means as to any Participant that such Participant (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's employer. Notwithstanding the forgoing, all determinations of whether a Participant is Disabled shall be made in accordance with Code Section 409A and the guidance thereunder.

"Effective Date" has the meaning set forth in Section 16.

"Eligible Person" has the meaning set forth in Section 5.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Fair Market Value" means, unless otherwise required under any applicable provision of the Code, as of any given date: (a) the closing price of the common stock on the last preceding day on which the common stock was traded, as reported on a national securities exchange or (b) if the fair market value of the common stock cannot be determined pursuant to clause (a), such price as the Committee shall determine; provided that for Awards subject to Code Section 409A, any such determination shall comply with Code Section 409A and guidance thereunder.

"Grant Date" means the date on which the Committee completes the corporate action authorizing the grant of an Award or such later date specified by the Committee, provided that conditions to the exercisability or vesting of Awards shall not defer the Grant Date.

"Incentive Stock Option" means an Option granted with the intention that it qualify as an "incentive stock option" as that term is defined in Section 422 of the Code or any successor provision.

"Key Employee" means an employee designated in accordance with Section 3.5 below. as of December 31 (the "Key Employee Designation Date") as an employee meeting the requirements under Section 416(i) of the Code (applied in accordance with the regulations thereunder and disregarding Section 416(i)(5)) at any time during the 12-month period ending on the Key Employee Designation Date.

"Nonqualified Stock Option" means an Option other than an Incentive Stock Option.

"Option" means a right to purchase Common Stock granted under Section 7.

"Participant" means any Eligible Person as set forth in Section 5 to whom an Award is granted.

"Performance Based Exception" means the performance based exception from the tax deductibility limitations of Code Section 162(m) contained in Section 162(m)(4)(C) of the Code.

"Person" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

"Plan" means the LSB Industries, Inc. 2008 Incentive Stock Plan.

"Restricted Stock" means an Award of shares of Common Stock granted under Section 9, the rights of ownership of which may be subject to restrictions prescribed by the Committee.

"Restricted Stock Unit" means an Award granted under Section 9 denominated in units of Common Stock.

"Retirement" means a Termination of Service voluntarily at a time when a Participant is entitled to begin immediate receipt of early or normal retirement benefits under one or more of the Company's defined benefit pension plans, or under comparable terms of an Affiliate's pension plan, as then in effect, unless provided otherwise in the instrument evidencing the Award or in a written employment or services agreement between the Participant and the Company or an Affiliate.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Stock Appreciation Right" or "SAR" has the meaning set forth in Section 8.1.

"Termination of Service," unless otherwise defined by the Committee or in the instrument evidencing the Award or in a written employment or services agreement, means a Participant's termination or deemed termination from employment with the Company and its Affiliates. For purposes of determining whether a Termination of Service has occurred, the employment relationship is treated as continuing intact while the Participant is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed three (3) months, or if longer, so long as the Participant retains a right to reemployment with his or her employer under an applicable statute or by contract. For this purpose, a leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for his or her employer. If the period of

leave exceeds three (3) months and the Participant does not retain a right to reemployment under an applicable statute or by contract, the employment relationship will be deemed to terminate on the first date immediately following such three (3) month period. Notwithstanding the foregoing, if a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than three (3) months, and such impairment causes the Participant to be unable to perform the duties of the Participant's position of employment or any substantially similar position of employment, a twenty-nine (29) month period of absence shall be substituted for such three (3) month period. For purposes of this Agreement, a Termination of Service occurs at the date as of which the facts and circumstances indicate either that, after such date: (a) the Participant and the Company reasonably anticipate the Participant will perform no further services for the Company and its Affiliates (whether as an employee or an independent contractor) or (b) that the level of bona fide services the Participant will perform for the Company and its Affiliates (whether as an employee or independent contractor) will permanently decrease to no more than twenty (20%) of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period or, if the Participant has been providing services to the Company and its Affiliates for less than thirty-six (36) months, the full period over which the Participant has rendered services, whether as an employee or independent contractor. The determination of whether a Termination of Service has occurred shall be governed by the provisions of Treasury Regulation § 1.409A-1, as amended, taking into account the objective facts and circumstances with respect to the level of bona fide services performed by the Participant after a certain date.

Section 3. Administration

3.1 Committee

The Plan shall be administered by the Committee which shall, as the context requires, refer to the Board, the Compensation and Stock Option Committee of the Board, the CEO or any other committee to which administration is delegated by the Board in accordance with Section 3.3 hereof.

3.2 Administration of the Plan

Except to the extent the Board reserves administrative powers to itself or appoints a different committee to administer the Plan, the Committee shall mean (a) the Board, with respect to all non-employee directors, (b) the Compensation and Stock Option Committee of the Board, with respect to all executive officers of the Company and any other Eligible Person with respect to whom it elects to act as the Committee and (c) except as the Compensation and Stock Option Committee of the Board may provide, if the CEO is a member of the Board, a committee consisting of the CEO with respect to any Eligible Person other than an executive officer of the Company. To the extent the Board considers it desirable to comply with Rule 16 b-3, the Committee shall consist of two or more directors of the Company, each of whom shall qualify as both an "outside director" within the meaning of Code Section 162(m) and as a "non-employee director" as defined in Rules 16b-3 promulgated under the Exchange Act.

3.3 Delegation by the Board

Notwithstanding the foregoing, the Board may delegate responsibility for administering the Plan with respect to designated classes of Eligible Persons to different committees consisting of one or more members of the Board or one or more officers of the Company, subject to such limitations as the Board deems appropriate, except with respect to Awards to non-employee Directors and to officers subject to Section 16 of the Exchange Act or officers who are or may be Covered Employees. Members of any such committee, which shall also be referred to as the "Committee," shall serve for such term as the Board may determine, subject to removal by the Board at any time.

3.4 Administration and Interpretation by Committee

Except for the terms and conditions explicitly set forth in the Plan, the Committee shall have full power and exclusive authority, subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to (a) select the Eligible Persons as set forth in Section 5 to whom Awards may from time to time be granted under the Plan; (b) determine the type or types of Award to be granted to each Participant under the Plan; (c) determine the number of shares of Common Stock to be covered by each Award granted under the Plan (including, but not limited to, vesting of such Award); (d) determine the terms and conditions

of any Award granted under the Plan; (e) approve the forms of agreements for use under the Plan; (f) determine whether, to what extent and under what circumstances Awards may be settled in cash, shares of Common Stock or other property or canceled or suspended; (g) determine whether, to what extent and under what circumstances cash, shares of Common Stock, other property and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the Participant; (h) interpret and administer the Plan and any instrument or agreement entered into under the Plan; (i) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (j) delegate ministerial duties to such of the Company's officers as it so determines; and (k) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Decisions of the Committee shall be final, conclusive and binding on all persons, including the Company, any Participant, any shareholder and any Eligible Person. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.

3.5 Designation of Key Employees

For purposes of Code Section 409A, annually the Board shall designate in writing those employees who are Key Employees as of December 31 (the "Key Employee Designation Date"). A Participant designated as a Key Employee shall be a Key Employee for the entire twelve (12) month period beginning on April 1 following the Key Employee Designation Date.

Section 4. Shares Subject to the Plan

4.1 Authorized Number of Shares

Subject to adjustment from time to time as provided in Section 13, the maximum number of shares of Common Stock available for issuance under the Plan shall be 1,975,000.

4.2 Share Usage

(a) Shares of Common Stock covered by an Award shall not be counted as used unless and until they are actually issued and delivered to a Participant. If any Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder or if shares of Common Stock are issued under the Plan to a Participant and thereafter are reacquired by the Company, the shares subject to such Awards and the reacquired shares shall again be available for issuance under the Plan. In addition, the following shares of Common Stock shall not be treated as having been issued under the Plan: (i) shares tendered by a Participant or retained by the Company as full or partial payment to the Company for the purchase price of an Award or to satisfy tax withholding obligations in connection with an Award, (ii) shares covered by an Award that is settled in cash, or (iii) the number of shares subject to a SAR in excess of the number of shares that are delivered to the Participant upon exercise of the SAR. The number of shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares or credited as additional Restricted Stock, Restricted Stock Units or Performance Shares. All shares issued under the Plan may be either authorized and unissued shares or issued shares reacquired by the Company.

(b) The Committee shall have the authority to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company.

(c) Notwithstanding the foregoing, the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall equal the aggregate share number stated in Section 4.1, subject to adjustment as provided in Section 13.

4.3 Limitations

(a) Subject to adjustment as provided in Section 13, the aggregate number of shares that may be issued pursuant to Awards granted under the Plan (other than Awards of Options or Stock Appreciation Rights) shall not exceed 1,975,000.

(b) Subject to adjustment as provided in Section 13, the aggregate number of shares that may be issued pursuant to Awards granted under the Plan (other than Awards of Options or Stock Appreciation Rights) that contain no

restrictions or restrictions based solely on continuous employment or services for less than three years (except where Termination of Service occurs by reason of death, Retirement or Disability) shall not exceed 1,975,000.

Section 5. Eligibility

An Award may be granted to any employee, officer or director of the Company or an Affiliate whom the Committee from time to time selects. An Award may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to the Company or any Affiliate that (a) are not in connection with the offer and sale of the Company's securities in a capital-raising transaction and (b) do not directly or indirectly promote or maintain a market for the Company's securities. The above are "Eligible Persons."

Section 6. Awards

6.1 Form and Grant of Awards

The Committee shall have the authority, in its sole discretion, to determine the type or types of Awards to be granted under the Plan. Such Awards may be granted either alone, in addition to or in tandem with any other type of Award.

6.2 Evidence of Awards

Awards granted under the Plan shall be evidenced by a written instrument that shall contain such terms, conditions, limitations and restrictions as the Committee shall deem advisable and that are not inconsistent with the Plan.

6.3 Dividends and Distributions

Participants holding Awards may, if the Committee so determines, be credited with dividends paid with respect to the underlying shares or dividend equivalents while the Awards are so held in a manner determined by the Committee in its sole discretion. The Committee may apply any restrictions to the dividends or dividend equivalents that the Committee deems appropriate. The Committee, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, shares of Common Stock, Restricted Stock or Restricted Stock Units. Notwithstanding the foregoing, the right to any dividends or dividend equivalents declared and paid on the number of shares underlying an Option or a Stock Appreciation Right must be set forth as a separate arrangement to the extent required by Code Section 409A, if applicable. Notwithstanding the foregoing, in no event shall dividend equivalents be paid in connection with the grant of an Award subject to performance goals until such time as the Committee has certified that the performance goals with respect to such Award have been achieved for the relevant period.

Section 7. Options

7.1 Grant of Options

The Committee may grant Options designated as Incentive Stock Options or Nonqualified Stock Options.

7.2 Option Exercise Price

7.2.1 Less than 10% Shareholders. The exercise price for shares purchased under an Option shall be as determined by the Committee, but shall not be less than 100% of the Fair Market Value of the Common Stock at the Grant Date for options granted to an individual who, at the time the option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Subsidiary (computed in accordance with the provisions applicable to Section 422(b)(6) of the Code) (a "less than 10% Shareholder").

7.2.2 10% Shareholder. The exercise price of any Incentive Stock Option granted to an individual who is not a less than 10% Shareholder (a "10% Shareholder") shall be not less than one hundred ten percent (110%) of the Fair Market Value of the shares of Common Stock subject to the Incentive Stock Option at the time the Incentive Stock

Option is granted, determined in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Incentive Stock Option is granted.

7.3 Term of Options

Subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the Option, the maximum term of an Option shall be a term not to exceed ten (10) years from the Grant Date (five (5) years in the case of an Incentive Stock Option granted to a 10% Shareholder) as established for that Option by the Committee or, if not so established, shall be ten (10) years from the Grant Date.

7.4 Exercise of Options

The Committee shall establish and set forth in each instrument that evidences an Option the time at which, or the installments in which, the Option shall vest and become exercisable, any of which provisions may be waived or modified by the Committee at any time.

To the extent an Option has vested and become exercisable, the Option may be exercised in whole or from time to time in part by delivery as directed by the Company to the Company or a brokerage firm designated or approved by the Company of a written stock option exercise agreement or notice, in a form and in accordance with procedures established by the Committee, setting forth the number of shares with respect to which the Option is being exercised, the restrictions imposed on the shares purchased under such exercise agreement, if any, and such representations and agreements as may be required by the Committee, accompanied by payment in full as described in Section 7.5. An Option may be exercised only for whole shares and may not be exercised for less than a reasonable number of shares at any one time, as determined by the Committee.

7.5 Payment of Exercise Price

The exercise price for shares purchased under an Option shall be paid in full as directed by the Company to the Company or a brokerage firm designated or approved by the Company by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid before the Company will issue the shares being purchased and must be in a form or a combination of forms acceptable to the Committee for that purchase, which forms may include: (a) check; (b) wire transfer; (c) tendering by attestation shares of Common Stock already owned by the Participant that on the day prior to the exercise date have a Fair Market Value equal to the aggregate exercise price of the shares being purchased under the Option, provided that the Participant must have held for at least six months any such tendered shares that were acquired by the Participant under a Company-sponsored stock compensation program; (d) to the extent permitted by applicable law, delivery of a properly executed exercise notice, together with irrevocable instructions to a brokerage firm designated or approved by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the Option exercise price and any tax withholding obligations that may arise in connection with the exercise, all in accordance with the regulations of the Federal Reserve Board; or (e) such other consideration as the Committee may permit in its sole discretion.

7.6 Post-Termination Exercise

The Committee shall establish and set forth in each instrument that evidences an Option whether the Option shall continue to be exercisable, and the terms and conditions of such exercise, after a Termination of Service, any of which provisions may be waived or modified by the Committee at any time, provided that any such waiver or modification shall satisfy the requirements for exemption under Code Section 409A unless otherwise determined by the Committee.

7.7 Incentive Stock Options

The terms of any Incentive Stock Options shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Individuals who are not employees of the Company or one of its parent or subsidiary corporations (as such terms are defined for purposes of Section 422 of the Code) may not be granted Incentive Stock Options. To the extent that the aggregate Fair Market Value of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant

during any calendar year exceeds $100,000 or, if different, the maximum limitation in effect at the time of grant under the Code (the Fair Market Value being determined as of the Grant Date for the Option), such portion in excess of $100,000 shall be treated as Nonqualified Stock Options.

Section 8. Stock Appreciation Rights

8.1 Grant of Stock Appreciation Rights

The Committee may grant stock appreciation rights ("Stock Appreciation Rights" or "SARs") to Participants at any time. An SAR may be granted in tandem with an Option or alone ("freestanding"). The grant price of a tandem SAR shall be equal to the exercise price of the related Option, and the grant price of a freestanding SAR shall be equal to the Fair Market Value of the Common Stock at the Grant Date. An SAR may be exercised upon such terms and conditions and for the term as the Committee determines in its sole discretion; provided, however, that, subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the SAR, the term of a freestanding SAR shall be a term not to exceed ten (10) years from the Grant Date as established for that SAR by the Committee or, if not so established, shall be ten (10) years, and in the case of a tandem SAR, (a) the term shall not exceed the term of the related Option and (b) the tandem SAR may be exercised for all or part of the shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option, except that the tandem SAR may be exercised only with respect to the shares for which its related Option is then exercisable.

8.2 Payment of SAR Amount

Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying (a) the difference between the Fair Market Value of the Common Stock for the date of exercise over the grant price by (b) the number of shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon exercise of an SAR may be in cash, in shares of equivalent value, in some combination thereof or in any other manner approved by the Committee in its sole discretion.

8.3 Post-Termination Exercise

The Committee shall establish and set forth in each instrument that evidences a freestanding SAR whether the SAR shall continue to be exercisable, and the terms and conditions of such exercise after a Termination of Service, any of which provisions may be waived or modified by the Committee at any time, provided that any such waiver or modification shall satisfy the requirements for exemption under Code Section 409A unless otherwise determined by the Committee.

Section 9. Restricted Stock and Restricted Stock Units

9.1 Grant of Restricted Stock and Restricted Stock Units

The Committee may grant Restricted Stock and Restricted Stock Units on such terms and conditions and subject to such forfeiture restrictions, if any (which may be based on continuous service with the Company or an Affiliate), as the Committee shall determine in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award.

9.2 Issuance of Shares

Upon the satisfaction of any terms, conditions and restrictions prescribed with respect to Restricted Stock or Restricted Stock Units, or upon a Participant's release from any terms, conditions and restrictions of Restricted Stock or Restricted Stock Units, as determined by the Committee, and subject to the provisions of Section 11, (a) the shares of Restricted Stock covered by each Award of Restricted Stock shall become freely transferable by the Participant, and (b) Restricted Stock Units shall be paid in cash, shares of Common Stock or a combination of cash and shares of Common Stock, as the Committee shall determine in its sole discretion. Any fractional shares subject to such Awards shall be paid to the Participant in cash.

9.3 Waiver of Restrictions

Notwithstanding any other provisions of the Plan, the Committee, in its sole discretion, may waive the repurchase or forfeiture period and any other terms, conditions or restrictions on any Restricted Stock or Restricted Stock Unit under such circumstances and subject to such terms and conditions as the Committee shall deem appropriate; provided, however, that the Committee may not adjust performance goals for any Restricted Stock or Restricted Stock Unit intended to qualify for the Performance Based Exception for the year in which the Restricted Stock or Stock Unit is settled in such a manner as would increase the amount of compensation otherwise payable to a Participant.

Section 10. Other Stock or Cash-Based Awards

In addition to the Awards described in Sections 7 through 9, and subject to the terms of the Plan, the Committee may grant other incentives payable in cash or in shares of Common Stock under the Plan as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems appropriate.

Subject to adjustment as provided in Section 13, and in accordance with the requirements under Code Section 162(m), no Participant shall receive in any one calendar year grants of Options or Stock Appreciation Rights covering an aggregate of more than one hundred thousand (100,000) shares of Common Stock. Notwithstanding any other provision of the Plan to the contrary, any Option or Stock Appreciation Right intended to qualify as performance based compensation under Code Section 162(m) for the Performance Based Exception of Code Section 162(m) shall have an exercise or grant price, an applicable, of no less than 100% of the Fair Market Value of the Common Stock at the Grant Date, except in the case of Substitute Awards.

Section 11. Withholding

The Company may require a Participant to pay to the Company the amount of (a) any taxes that the Company is required by applicable federal, state, local or foreign law to withhold with respect to the grant, vesting or exercise of an Award (“tax withholding obligations”).

The Committee may permit or require a Participant to satisfy all or part of his or her tax withholding obligations and other obligations by (a) paying cash to the Company, (b) having the Company withhold an amount from any cash amounts otherwise due or to become due from the Company to the Participant, (c) having the Company withhold a number of shares of Common Stock that would otherwise be issued to the Participant (or become vested in the case of Restricted Stock) having a Fair Market Value equal to the tax withholding obligations and other obligations, or (d) surrendering a number of shares of Common Stock the Participant already owns having a value equal to the tax withholding obligations and other obligations.

In addition, the Company may accelerate the time or schedule of a payment of vested shares of Common Stock subject to an Award, and/or deduct from any payment of shares of Common Stock subject to an Award to the Participant, or to his or her beneficiaries in the case of the Participant’s death, that number of shares of Common Stock having a Fair Market Value at the date of such deduction equal to any amounts due from the Participant to the Company or any Affiliate (“other obligations”) as satisfaction of any such other obligations, *provided* that (x) such other obligations are incurred in the ordinary course of the employment relationship between the Company or any of its Affiliates and the Participant, (y) the aggregate amount of any collateral held in connection with such other obligations or deduction made in any taxable year of the Company with respect to the Participant does not exceed $5,000, and (z) the deduction of shares of Common Stock is made at the same time and in the same amount as the other obligations otherwise would have been due and collected from the Participant.

The Company shall not be required to issue any shares of Common Stock under the Plan until such tax withholding obligations and other obligations are satisfied.

Section 12. Assignability

No Award or interest in an Award may be sold, assigned, pledged (as collateral for a loan or as security for the performance of an obligation or for any other purpose) or transferred by the Participant or made subject to attachment or similar proceedings otherwise than by will or by the applicable laws of descent and distribution, except that to the extent permitted by the Committee, in its sole discretion, a Participant may designate one or more beneficiaries on a Company-approved form who may receive payment under an Award after the Participant's death. During a Participant's lifetime, an Award may be exercised only by the Participant.

Section 13. Adjustments

In the event, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure results in (a) the outstanding shares of Common Stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or kind of securities of the Company or of any other company or (b) new, different or additional securities of the Company or of any other company being received by the holders of shares of Common Stock, then the Committee shall make proportional adjustments in (v) the maximum number and kind of securities available for issuance under the Plan; (w) the maximum number and kind of securities issuable as Incentive Stock Options as set forth in Section 4.2; (x) the maximum number and kind of securities that may be issued to an individual in any one calendar year as set forth in Section 4.3; (y) the maximum number and kind of securities that may be made subject to the different types of Awards available under the Plan; and (z) the number and kind of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor.

The determination by the Committee as to the terms of any of the foregoing adjustments shall be conclusive and binding.

Notwithstanding the foregoing, the issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services rendered, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Awards.

Section 14. Amendment and Termination

14.1 Amendment, Suspension or Termination of the Plan

The Board may amend, suspend or terminate the Plan or any portion of the Plan at any time and in such respects as it shall deem advisable. In addition, the Company intends that, except as the Committee otherwise determines, the Plan and Awards either comply with or be excepted from Code Section 409A. Accordingly, the Company reserves the right, without the consent of affected Participants, to amend or revise the Plan and/or to amend, revise or revoke any Award (including any agreement under which such Award was granted) in order to cause the Plan and/or the Award (including any agreement under which such Award was granted) to be so compliant or excepted and to take such other actions under the Plan and any Award (including any agreement under which such Award was granted) to achieve such compliance or exception. Notwithstanding the foregoing, however, that, to the extent required by applicable law, regulation or stock exchange rule, shareholder approval shall be required for any amendment to the Plan.

14.2 Term of the Plan

Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no future Awards may be granted, but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan's terms and conditions. Notwithstanding the foregoing, no Incentive

Stock Options may be granted more than ten years after the earlier of (a) the adoption of the Plan by the Board and (b) the Effective Date.

14.3 Consent of Participant

Except as provided in Section 14.1 above, (a) the amendment, suspension or termination of the Plan or a portion thereof or the amendment of an outstanding Award shall not, without the Participant's consent, materially adversely affect any rights under any Award theretofore granted to the Participant under the Plan and (b) any change or adjustment to an outstanding Incentive Stock Option shall not, without the consent of the Participant, be made in a manner so as to constitute a "modification" that would cause such Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option. Notwithstanding the foregoing, any adjustments made pursuant to Section 13 shall not be subject to these restrictions.

14.4 Restriction on Repricing.

Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or SARs or to cancel outstanding Options or SARS in exchange for cash, other awards or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs without stockholder approval.

Section 15. General

15.1 No Individual Rights

No individual or Participant shall have any claim to be granted any Award under the Plan, and the Company has no obligation for uniformity of treatment of Participants under the Plan. Furthermore, nothing in the Plan or any Award granted under the Plan shall be deemed to constitute an employment contract or confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Affiliate or limit in any way the right of the Company or any Affiliate to terminate a Participant's employment or other relationship at any time, with or without cause.

15.2 Issuance of Shares

Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue or deliver any shares of Common Stock under the Plan or make any other distribution of benefits under the Plan unless, in the opinion of the Company's counsel, such issuance, delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act or the laws of any state or foreign jurisdiction) and the applicable requirements of any securities exchange or similar entity.

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under the laws of any state or foreign jurisdiction, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made. The Company may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal, state and foreign securities laws. The Company may also require such other action or agreement by the Participants as may from time to time be necessary to comply with applicable securities laws.

To the extent the Plan or any instrument evidencing an Award provides for issuance of stock certificates to reflect the issuance of shares of Common Stock, the issuance may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

15.3 Indemnification

Each person who is or shall have been a member of the Board, or a committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with Section 3 shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit or proceeding against him or her; provided, however, that he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability or expense is a result of his or her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or of any power that the Company may have to indemnify them or hold them harmless.

15.4 No Rights as a Shareholder

Unless otherwise provided by the Committee or in the instrument evidencing the Award or in a written employment or services agreement, no Option or Award denominated in units shall entitle the Participant to any cash dividend, voting or other right of a shareholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award.

15.5 Compliance with Laws and Regulations

Notwithstanding anything in the Plan to the contrary, the Committee, in its sole discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to Participants who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Participants.

Additionally, in interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

15.6 Participants in Other Countries

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of other countries in which the Company or any Affiliate may operate to ensure the viability of the benefits from Awards granted to Participants employed in such countries, to comply with applicable foreign laws and to meet the objectives of the Plan.

15.7 No Trust or Fund

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require the Company to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of the Company.

15.8 Successors

All obligations of the Company under the Plan with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all the business and/or assets of the Company.

15.9 Severability

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Committee's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

15.10 Choice of Law

The Plan, all Awards granted thereunder and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the laws of the United States, shall be governed by the laws of the State of Oklahoma without giving effect to principles of conflicts of law.

Section 16. Effective Date

The Plan was effective June 5, 2008 (the "Effective Date"), and the Plan was amended effective April 3, 2014, subject to shareholder approval of the Plan within twelve months of the date of such amendment.

Exhibit 10.25

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT ("Agreement") is entered into as of this 6th day of January, 2016 to be effective January 5, 2016 (the "Effective Date"), by and between LSB Industries, Inc., a Delaware corporation (together with its successors and assigns, the "Company"), and Michael J. Foster, an individual (the "Executive").

WHEREAS, the Company and the Executive desire to enter into this Agreement to set out the terms and conditions for the continuing employment relationship between the Executive and the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto agree as follows:

1. Term. The Company agrees to employ the Executive pursuant to the terms of this Agreement, and the Executive agrees to be so employed, for a term of three (3) years (the "Initial Term") commencing as of the Effective Date. On each anniversary of the Effective Date following the Initial Term, the term of this Agreement shall be automatically extended for successive one-year periods, provided, however, that either party hereto may elect not to extend this Agreement by giving written notice to the other party at least one hundred and eighty (180) days prior to any such anniversary date. Notwithstanding the foregoing, the Executive's employment hereunder may be earlier terminated in accordance with Section 9 hereof, subject to Section 10 hereof. Terms used herein with initial capitalization not otherwise defined are defined in Section 25. The period of time between the Effective Date and the termination of the Executive's employment hereunder shall be referred to as the "Employment Period."

2. Position and Duties. During the Employment Period, the Executive shall serve as Senior Vice President, General Counsel and Secretary of the Company, shall report directly to the Company's Chief Executive Officer. In his capacity as Senior Vice President, General Counsel and Secretary, the Executive shall have the duties, responsibilities and authorities customarily associated with the position of Senior Vice President, General Counsel and Secretary in a company the size and nature of the Company. The Executive shall devote the Executive's reasonable best efforts and substantially all of the Executive's business time to the performance of the Executive's duties hereunder and the advancement of the business and affairs of the Company and shall be subject to, and shall comply in all material respects with, the policies of the Company applicable to the Executive; provided that the Executive shall be entitled (i) to serve as a member of the board of directors of a reasonable number of other companies, subject to the advance approval of the Board, which approval shall not be unreasonably withheld, (ii) to serve on civic, charitable, educational, religious, public interest or public service boards, and (iii) to manage the Executive's personal and family investments, in each case, to the extent such activities do not materially interfere, as determined by the Board in good faith, with the performance of the Executive's duties and responsibilities hereunder.

3. Place of Performance. During the Employment Period, the Executive shall be based primarily at the Company's offices in Oklahoma City, Oklahoma.

4. Compensation and Benefits; Equity Awards.

(a) Base Salary. During the Employment Period, the Company shall pay to the Executive a base salary (the "Base Salary") at the rate of no less than $360,000 per calendar year, less applicable deductions. The Base Salary shall be reviewed for increase by the Board no less frequently than annually and shall be increased in the discretion of the Board and any such adjusted Base Salary shall constitute the "Base Salary" for purposes of this Agreement. The Base Salary shall be paid in substantially equal installments in accordance with the Company's regular payroll procedures.

(b) Annual Bonus. During the Employment Period, the Executive shall be paid an annual cash performance bonus (an "Annual Bonus") under the Company's annual bonus plan (as in effect from time to time for senior executives) in respect of the 2016 fiscal year and each fiscal year that ends during the Employment Period, to the extent earned based on performance against performance criteria. The performance criteria for any particular fiscal year shall be determined by the Compensation Committee of the Board (the "Committee"), in good faith, after consultation with the Executive, no later than sixty (60) days after the commencement of the relevant bonus period. The Executive's annual bonus opportunity shall be no less than 50% of the Executive's Base Salary as of the beginning of the applicable performance period (the "Target Bonus"), if target levels of performance for that year are achieved, up to a maximum of 100% of the Executive's Base Salary. The Executive's Annual Bonus for a bonus period shall be determined by the Committee after the end of the applicable bonus period and shall be paid to the Executive when annual bonuses for that year are paid to other senior executives of the Company generally, but in no event later than March 15 of the year following the year to which such Annual Bonus relates.

(c) Equity Awards. In each fiscal year during the Employment Period, the Executive shall be granted a number of shares of restricted stock under the Equity Incentive Plan with a value equal to not less than 100% of the Executive's then current Base Salary, with such number of shares of restricted stock to be calculated based the Fair Market Value (as defined in the applicable plan) of a share of common stock on the date of grant (the "Annual Equity Award"). For each fiscal year commencing during the Employment Period, the Company shall grant the Annual Equity Award on the applicable anniversary of the Effective Date (or the closest business day thereafter if such anniversary is a weekend). The terms and conditions applicable to any Annual Equity Award shall be determined by the Committee in accordance with the Company's applicable long-term incentive plan to the extent consistent with the terms of this Agreement and shall be no less favorable to the Executive than the terms applicable to any other senior executive of the Company. Concurrent with the execution of this Agreement the Company shall grant to the Executive an award of 50,139 shares of restricted stock ("Sign-On Grant"). The Sign-On Grant shall vest one-third (1/3) on each anniversary of the Effective Date such that it shall be fully vested on the third anniversary of the Effective Date. Vesting of Annual Equity Awards shall occur one-third on each anniversary of the date of grant and any outstanding equity awards shall fully vest immediately prior to a Change in Control. The Sign-On Grant shall be awarded pursuant to the form of equity grant attached hereto as Exhibit A.

(d) Vacation; Benefits. During the Employment Period, the Executive shall be entitled to four (4) weeks of paid vacation per calendar year (as prorated for partial years) in accordance with the applicable policies of the Company, which shall be accrued and used in accordance with such policies. During the Employment Period, the Executive shall be entitled to participate in any employee benefit plan that the Company has adopted or may adopt, maintain or contribute to for the benefit of its employees generally, subject to satisfying the applicable eligibility requirements, except to the extent such plans are duplicative of the benefits otherwise provided to the Executive hereunder. The Executive's participation will be subject to the terms of the applicable plan documents and generally applicable Company policies. The foregoing, however, shall not be construed to require the Company to establish any such plans or to prevent the modification or termination of such plans once established.

5. Expenses. The Company shall reimburse the Executive promptly for all expenses reasonably incurred by the Executive in the performance of his duties in accordance with policies which may be adopted from time to time by the Company following presentation by the Executive of an itemized account, including reasonable substantiation, of such expenses.

6. Confidentiality and Non-Disclosure. The Company and the Executive acknowledge and agree that during the Executive's employment with the Company, the Executive will have access to and may assist in developing Confidential Information and will occupy a position of trust and confidence with respect to the affairs and business of the Company and the Company Affiliates. The Executive agrees that the following obligations are necessary to preserve the confidential and proprietary nature of Confidential Information and to protect the Company and the Company Affiliates against misuse of such information:

(a) Non-Disclosure. After the Executive's employment with the Company ends, the Executive will not use, disclose, copy or transfer any Confidential Information unless authorized in writing by the Company. Anything herein to the contrary notwithstanding, the provisions of this Section 6(a) shall not apply (i) when disclosure is required by law or by any court, arbitrator, mediator or administrative or legislative body

(including any committee thereof) with actual or apparent jurisdiction to order the Executive to disclose or make accessible any information, provided that prior to any such disclosure the Executive shall provide the Company with reasonable notice of the requirements to disclose and an opportunity to object to such disclosure and the Executive shall cooperate with the Company in filing such objection; (ii) as to information that becomes well known to the public other than due to the Executive's violation of this Section 6(a); or (iii) to the extent necessary in connection with any disputes between the parties with respect to the interpretation and/or enforcement of this Agreement and any other agreements between the parties.

(b) Materials. The Executive will use Confidential Information only for normal and customary use in the Company's business, as determined reasonably and in good faith by the Executive. The Executive will return to the Company all Confidential Information and copies thereof and all other property of the Company or any Company Affiliate at any time upon the request of the Company and in any event promptly after the Executive's employment ends. The Executive agrees to identify and return to the Company any copies of any Confidential Information after the Executive ceases to be employed by the Company. Anything to the contrary notwithstanding, nothing in this Section 6 shall prevent the Executive from retaining a home computer (provided all Confidential Information has been removed), papers and other materials of a personal nature, including diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, information that may be needed for tax purposes, and copies of plans, programs and agreements relating to his employment or termination thereof.

7. Non Solicitation/Non-Competition.

(a) During the Non-Compete Period, the Executive shall not (A) directly solicit any, person or other entity in soliciting any established customer for the purpose of a Competitive Enterprise providing and/or selling any products that are provided and/or sold by the Company or its subsidiaries to such established customer, or performing any services that are performed by the Company or its subsidiaries for such established customer, (B) interfere with or damage (or attempt to interfere with or damage) any relationship and/or agreement between the Company or its subsidiaries and any established customer; or (C) directly or indirectly solicit any employee of the Company or the Company Affiliates with a view toward inducing any such employee to go to work for another person or third party or to cease or end their employment relationship.

(b) During the Non-Compete Period, the Executive shall not associate (including, but not limited to, association as a sole proprietor, owner, employer, partner, principal, investor, joint venturer, shareholder, associate, employee, member, consultant, contractor, director or otherwise) with any Competitive Enterprise; provided, however, that Executive may own, as a passive investor, securities of any such entity that has outstanding publicly traded securities so long as his direct holdings in any such entity shall not in the aggregate constitute more than one percent (1%) of the voting power of such entity. The Executive acknowledges that this covenant has a unique, very substantial and immeasurable value to the Company, that the Executive has sufficient assets and skills to provide a livelihood for the Executive while such covenant remains in force and that, as a result of the foregoing, in the event that the Executive breaches such covenant, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper.

(c) If the restrictions contained in Section 7 shall be determined by any court of competent jurisdiction to be unenforceable, Section 7 shall be modified in order for it to be enforceable to maximum allowed by law.

(d) Conflicting Obligations and Rights. The Executive agrees to inform the Company of any apparent conflicts between the Executive's work for the Company and any obligations the Executive may have to preserve the confidentiality of another's proprietary information or related materials before using the same on the Company's behalf. The Company shall receive such disclosures in confidence and consistent with the objectives of avoiding any conflict of obligations and rights or the appearance of any conflict of interest.

(e) Enforcement. The Executive acknowledges that in the event of any breach of this Section 7, the business interests of the Company and the Company Affiliates will be irreparably injured, the full extent of the damages to the Company and the Company Affiliates will be impossible to ascertain, monetary damages will not be an adequate remedy for the Company and the Company Affiliates, and the Company will be

entitled to enforce this Agreement by a temporary, preliminary and/or permanent injunction or other equitable relief, without the necessity of posting bond or security, which the Executive expressly waives. The Executive understands that the Company may waive some of the requirements expressed in this Agreement, but that such a waiver to be effective must be made in writing and should not in any way be deemed a waiver of the Company's right to enforce any other requirements or provisions of this Agreement. The Executive agrees that each of the Executive's obligations specified in this Agreement is a separate and independent covenant and that the unenforceability of any of them shall not preclude the enforcement of any other covenants in this Agreement.

8. Cooperation. Following any termination of employment, the Executive agrees to reasonably cooperate (taking into account his other business and personal commitments) with any investigation, suit or claim involving the Company and of which the Executive has knowledge, provided any such cooperation is not adverse to his legal interests. The Company agrees to reimburse the Executive for any costs incurred by him in connection with such cooperation, including payment of separate counsel for the Executive if he reasonably determines such separate representation is warranted by the circumstances.

9. Termination of Employment.

(a) Permitted Terminations. The Executive's employment hereunder may be terminated during the Employment Period under the following circumstances:

(i) Death. The Executive's employment hereunder shall terminate upon the Executive's death.

(ii) By the Company. The Company may terminate the Executive's employment:

(A) Disability. For Disability; or

(B) With or Without Cause. For Cause or without Cause.

(iii) By the Executive. The Executive may terminate his employment for any reason or for no reason by giving thirty (30) days advance Notice of Termination to the Company.

(b) Termination. Any termination of the Executive's employment by the Company or the Executive (other than because of the Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 12 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Termination of the Executive's employment shall take effect on the Date of Termination.

(c) Effect of Termination. Upon any termination of the Executive's employment with the Company, and its subsidiaries, the Executive shall resign from, and shall be considered to have simultaneously resigned from, all positions with the Company and all of its subsidiaries.

10. Compensation Upon Termination.

(a) Death. If the Executive's employment is terminated during the Employment Period as a result of the Executive's death pursuant to Section 9(a)(i), the Employment Period shall terminate without further notice or any action required by the Company or the Executive's legal representatives. Upon the Executive's death, the Company shall pay or provide to the Executive's representative or estate (i) all Accrued Benefits, if any, to which the Executive is entitled, (ii) a lump sum payment of an amount equal to a pro rata portion (based upon the number of days the Executive was employed during the calendar year in which the Date of Termination occurs) of the Annual Bonus based on the achievement of the applicable performance criteria for the year in which Executive's employment terminates, payable at the time set forth in Section 4(b) and (iii) the Executive's outstanding equity awards shall vest pro-rata as of the Date of Termination based on the time the Executive was employed during the

applicable three (3)-year vesting period. Except as set forth herein, the Company shall have no further compensation obligations to the Executive (or the Executive's legal representatives or estate) under this Agreement.

(b) Disability. If the Company terminates the Executive's employment during the Employment Period because of the Executive's Disability pursuant to Section 9(a)(ii)(A), the Company shall pay to the Executive (i) all Accrued Benefits, if any, to which the Executive is entitled, (ii) a lump sum payment of an amount equal to a pro rata portion (based upon the number of days the Executive was employed during the calendar year in which the Date of Termination occurs) of the Annual Bonus based on the achievement of the applicable performance criteria for the year in which Executive's employment terminates, payable at the time set forth in Section 4(b), and (iii) the Executive's outstanding equity awards shall vest pro-rata as of the Date of Termination based on the time the Executive was employed during the applicable three (3)-year vesting period. Except as set forth herein, the Company shall have no further compensation obligations to the Executive (or the Executive's legal representatives) under this Agreement.

(c) Termination by the Company for Cause, or by the Executive without Good Reason. If, during the Employment Period, the Company terminates the Executive's employment for Cause pursuant to Section 9(a)(ii)(B), or the Executive terminates his employment without Good Reason, the Company shall pay to the Executive all Accrued Benefits, if any, to which the Executive is entitled. Except as set forth herein, the Company shall have no further compensation obligations to the Executive under this Agreement.

(d) Certain Terminations Prior to or After a Change in Control. If, prior to the occurrence of a Change in Control, or after the twenty-four (24) month protection period in Section 10(e) has expired, the Company terminates the Executive's employment during the Employment Period other than for Cause, death or Disability or if the Executive terminates his employment hereunder with Good Reason the Employment Period shall terminate upon the Date of Termination, (i) the Company shall pay or provide the Executive (or the Executive's estate, if the Executive dies after such termination but before receiving such amount) (A) all Accrued Benefits, if any, to which the Executive is entitled; (B) a lump sum payment of an amount equal to a pro rata portion (based upon the number of days the Executive was employed during the calendar year in which the Date of Termination occurs) of the Annual Bonus based on the achievement of the applicable performance criteria for the year in which Executive's employment terminates, payable as set forth in Section 4(b); and (C) an amount equal to the product of (x) one (1) and (y) the sum of the Executive's (I) Base Salary, and (II) Target Bonus, payable in a lump sum on the first payroll date following the execution (and non-revocation) of the general release of claims described in Section 10(g), subject to Section 10(h) and Section 24, (ii) all of the Executive's outstanding equity awards shall fully vest as of the Date of Termination, and (iii) the Executive and his covered dependents shall be entitled to continued participation on the same terms and conditions as applicable immediately prior to the Executive's Date of Termination for the eighteen (18) month period following the Date of Termination in such medical, dental, and hospitalization insurance coverage in which the Executive and his eligible dependents were participating immediately prior to the Date of Termination; provided the Company agrees to impute as taxable income to the Executive an amount equal to the full actuarial cost of such coverage, for each month during which such coverage is in effect for the Executive and/or his eligible dependents but only if and to the extent such imputation is required for the Executive to avoid being subject to tax under Section 105(h) of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to any payment or reimbursement of expenses made to the Executive or for the Executive and/or any of his eligible dependent's benefit under such health care coverage.

(e) Certain Terminations Following a Change in Control. If, upon or within twenty-four (24) months following the date of consummation of a Change in Control, the Company terminates the Executive's employment other than for Cause, Death or Disability or if the Executive terminates his employment hereunder with Good Reason the Employment Period shall terminate upon the Date of Termination, (i) the Company shall pay or provide the Executive (or the Executive's estate, if the Executive dies after such termination but before receiving such amount) (A) all Accrued Benefits, if any, to which the Executive is entitled; (B) a lump sum payment of an amount equal to a pro rata portion (based upon the number of days the Executive was employed during the calendar year in which the Date of Termination occurs) of the Annual Bonus based on the achievement of the applicable performance criteria for the year in which Executive's employment terminates, payable as set forth in Section 4(b); and (C) an amount equal to the product of (x) two (2) and (y) the sum of the Executive's (I) Base Salary, and (II) Target Bonus, payable in a lump sum on the first payroll date following the execution (and non-revocation) of the general release of claims described in Section 10(g), subject to Section 10(h) and Section 24, (ii) all of the

Executive's outstanding equity awards shall fully vest as of the Date of Termination, and (iii) the Executive and his covered dependents shall be entitled to continued participation on the same terms and conditions as applicable immediately prior to the Executive's Date of Termination for the eighteen (18) month period following the Date of Termination in such medical, dental, and hospitalization insurance coverage in which the Executive and his eligible dependents were participating immediately prior to the Date of Termination; provided the Company agrees to impute as taxable income to the Executive an amount equal to the full actuarial cost of such coverage, for each month during which such coverage is in effect for the Executive and/or his eligible dependents but only if and to the extent such imputation is required for the Executive to avoid being subject to tax under Section 105(h) of the Code, with respect to any payment or reimbursement of expenses made to the Executive or for the Executive and/or any of his eligible dependent's benefit under such health care coverage.

(f) Termination of Employment Upon Expiration of the Term. Upon a notice of non-renewal of the Employment Period by either the Company or the Executive pursuant to Section 1 hereof, the Executive's employment shall terminate at the end of the Employment Period. In addition, any notice of non-renewal of the Employment Period by the Company pursuant to Section 1 (assuming the Executive was willing and able to continue to be employed) shall be treated as a termination without Cause under this Agreement and the Executive shall be entitled to severance under the terms of either Sections 10(d) or 10(e) as applicable upon the termination of Executive's employment at the end of the Employment Period.

(g) Release. As a condition of receiving any and all amounts payable and benefits or additional rights provided pursuant to this Agreement beyond the Accrued Benefits, the Executive must execute and deliver to the Company and not revoke a general release of claims in favor of the Company in substantially the form attached on Exhibit B hereto. Such release must be executed and delivered (and no longer subject to revocation, if applicable) within sixty (60) days following the Executive's Date of Termination. The Company shall deliver to the Executive the appropriate form of release of claims for the Executive to execute within five (5) business days following the Date of Termination.

(h) Certain Payment Delays. Notwithstanding anything to the contrary set forth herein, to the extent that the payment of any amount described in Sections 10(d) or (e) constitute "nonqualified deferred compensation" for purposes of Code Section 409A (as defined in Section 24 hereof), any such payment scheduled to occur during the first sixty (60) days following the termination of employment shall not be paid until the first regularly scheduled pay period following the sixtieth (60th) day following such termination and shall include payment of any amount that was otherwise scheduled to be paid prior thereto.

(i) No Offset. In the event of termination of his employment, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due to him on account of any remuneration or benefits provided by any subsequent employment he may obtain. The Company's obligation to make any payment pursuant to, and otherwise to perform its obligations under, this Agreement shall not be affected by any offset, counterclaim or other right that the Company or the Company Affiliates may have against the Executive for any reason.

(j) 280G Payments. In the event the Company determines in good faith that any payments, entitlements or benefits (whether made or provided pursuant to this Agreement or otherwise, including by the person or entity affecting a change in control) provided to the Executive constitute "parachute payments" within the meaning of Section 280G of the Code, and may be subject to an excise tax imposed pursuant to Section 4999 of the Code, then, if the Executive would be placed in a better after-tax position, the Executive's "parachute payments" will be reduced to an amount determined by the Company in good faith to be the maximum amount that may be provided to the Executive without resulting in any portion of such "parachute payment" being subject to such excise tax. The payment reduction contemplated by the preceding sentence shall be implemented as follows: first, by reducing any payments to be made to the Executive under Section 10(d)(i)(B) and (C) or Section 10(e)(i)(B) and (C), as applicable; second, by reducing any other cash payments to be made to the Executive but only if the value of such cash payments is not greater than the parachute value of such payments; third, by cancelling the acceleration of vesting of any restricted stock or restricted stock unit awards solely with respect accelerated vesting upon a change in control such that such awards will continue to vest on their original schedules; fourth, by cancelling the acceleration of vesting of any stock options or stock appreciation rights solely with respect accelerated vesting upon a change in control such that such awards will continue to vest on their original schedules, fifth, by eliminating the

Company's payment of the cost of any post-termination continuation of medical and dental benefits for the Executive and his eligible dependents and sixth, by reducing any equity awards. In the case of the reductions to be made pursuant to each of the above-mentioned clauses, the payment and/or benefit amounts to be reduced and the acceleration of vesting to be cancelled shall be reduced or cancelled in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and shall be so reduced (x) only to the extent that the payment and/or benefit otherwise to be paid or the vesting of the award that otherwise would be accelerated, would be treated as a "parachute payment" within the meaning of Section 280(G)(b)(2)(A) of the Code, (y) only to the extent necessary to achieved the required reduction hereunder and (z) all amounts that are not subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c) shall be reduced before any amounts that are subject to calculation under Treas. Reg. §1.280G-1, Q&A-24(b) or (c). Any determinations that are made pursuant to this Section 10(j) shall be made by a nationally recognized certified public accounting firm that shall be selected by the Company (and paid by the Company) prior to any transaction that is subject to Code Section 280G and reasonably acceptable to the Executive (the "Accountant"), which determination shall be certified by the Accountant and set forth in a certificate delivered to the Executive setting forth in reasonable detail the basis of the Accountant's determinations. In connection with this determination the Accountant shall value the non-compete and other restrictions on the Executive's activities.

11. Indemnification. The Executive shall be indemnified and held harmless by the Company during the Employment Period and following any termination of his employment for any reason whatsoever in the same manner as would any other key management employee of the Company with respect to acts or omissions occurring on or prior to the termination of employment of the Executive. In addition, during the Employment Period and for a period of three (3) years following the termination of Executive's employment for any reason whatsoever, the Executive shall be covered by a Company-held directors' and officers' liability insurance policy covering acts or omissions occurring on or prior to the termination of employment of the Executive.

12. Notices. All notices, demands, requests, or other communications which may be or are required to be given or made by any party to any other party pursuant to this Agreement shall be in writing and shall be hand delivered, mailed by first-class registered or certified mail, return receipt requested, postage prepaid, delivered by overnight air courier addressed as follows:

If to the Company:

LSB Industries, Inc.
16 S Pennsylvania Ave.
Oklahoma City, OK 73107

Attention: Chief Executive Officer

If to the Executive:

His primary address last shown on the Company's records.

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication that shall be given or made in the manner described above shall be deemed sufficiently given or made for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, or the affidavit of messenger being deemed conclusive but not exclusive evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

13. Severability. The invalidity or unenforceability of any one or more provisions of this Agreement, including, without limitation, Sections 6 or 7, shall not affect the validity or enforceability of the other provisions of this Agreement, which shall remain in full force and effect.

14. Survival. It is the express intention and agreement of the parties hereto that the provisions of Sections 6, 7, 8, 10, 11, 12, 13, 15, 16, 17, 19, 20, 21, 23, 24 and 25 hereof and this Section 14 shall survive the termination of employment of the Executive or the termination or expiration of the Employment Period. In addition,

all obligations of the Company to make payments hereunder shall survive any expiration of the Employment Period on the terms and conditions set forth herein.

15. Assignment. The rights and obligations of the parties to this Agreement shall not be assignable or delegable, except that (i) in the event of the Executive's death, the personal representative or legatees or distributees of the Executive's estate, as the case may be, shall have the right to receive any amount owing and unpaid to the Executive hereunder and (ii) the rights and obligations of the Company hereunder shall be assignable and delegable in connection with any subsequent merger, consolidation, sale of all or substantially all of the assets or equity interests of the Company or similar transaction involving the Company or a successor corporation. Unless provided by applicable law, the Company shall require any successor to the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

16. Binding Effect. Subject to any provisions hereof restricting assignment, this Agreement shall be binding upon the parties hereto and shall inure to the benefit of the parties and their respective heirs, devisees, executors, administrators, legal representatives, successors and assigns.

17. Amendment; Waiver. This Agreement shall not be amended, altered or modified except by an instrument in writing duly executed by the party against whom enforcement is sought. Neither the waiver by either of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure of either of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall thereafter be construed as a waiver of any subsequent breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

18. Headings. Section and subsection headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

19. Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Oklahoma (but not including any choice of law rule thereof that would cause the laws of another jurisdiction to apply).

20. Dispute Resolution/Waiver of Jury Trial. Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the State of Oklahoma or the United States District Court for the Western District of Oklahoma and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits in any proceeding relating to this Agreement or the Executive's employment by the Company or any Company Affiliate, or the termination of such employment, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Oklahoma, located in Oklahoma County, the United States District Court for the Western District of Oklahoma, and appellate courts having jurisdiction of appeals from any of the foregoing and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Oklahoma State court or, to the extent permitted by law, in such federal court, (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that the Executive or the Company may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same, (c) waives all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Executive's employment by the Company or any Company Affiliate, or the termination of such employment, or the Executive's or the Company's performance under, or the enforcement of, this Agreement, (d) agrees that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at the Executive's or the Company's address as provided in Section 12 hereof, and (e) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of Oklahoma. In addition, if the Executive substantially prevails on any claim that is the matter of such dispute, the Company shall promptly reimburse the Executive for his legal fees.

21. Entire Agreement. This Agreement constitutes the entire agreement between the parties respecting the employment of the Executive, there being no representations, warranties or commitments except as set forth herein and supersedes and replaces all other agreements related to the subject matter hereof. In the event there is a conflict between any provision of this Agreement and any other agreement, plan, policy or arrangement of the Company or any Company Affiliate, the provision most favorable to the Executive shall govern.

22. Counterparts. This Agreement may be executed in two counterparts, each of which shall be an original and all of which shall be deemed to constitute one and the same instrument.

23. Withholding. The Company may withhold from any benefit payment under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

24. Section 409A.

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

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

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

(d) For purposes of Code Section 409A, the Executive's right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days, (i) the actual date of payment within the specified period shall be within the sole discretion of the Company and, (ii) if such

payment qualifies as non-qualified deferred compensation under Section 409A and it can be paid in one of two calendar years, it shall be paid in the second calendar year.

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

25. Definitions.

(a) "Accrued Benefits" means (i) any unpaid Base Salary through the Date of Termination; (ii) any earned but unpaid Annual Bonus for a performance year that has ended on or prior to the Date of Termination; (iii) any accrued and unpaid vacation and/or sick days; (iv) any amounts or benefits owing to the Executive or to the Executive's beneficiaries under the then applicable benefit plans of the Company (excluding any severance plan, program, agreement or arrangement); (v) any rights or entitlements under any other agreements between the Executive and the Company, including, without limitation, the Indemnification Agreements and any outstanding equity award agreements; and (vi) any amounts owing to the Executive for reimbursement of expenses properly incurred by the Executive prior to the Date of Termination and which are reimbursable in accordance with Section 5 (including any gross-up payment required thereunder). Amounts payable under (A) clauses (i), (ii) and (iii) shall be paid promptly after the Date of Termination, (B) clause (iv) shall be paid in accordance with the terms and conditions of the applicable plan, program or arrangement; (C) clause (v) shall be treated in accordance with the applicable agreement; and (D) clause (vi) shall be paid in accordance with the terms of the applicable expense policy or Section 5, as applicable.

(b) "Cause" means (i) the Executive's conviction of, or plea of nolo contendere to, a felony (other than for a traffic violation); (ii) the Executive's continued failure to substantially perform the Executive's material duties hereunder (other than due to a mental or physical impairment) after receipt of written notice from the Company that specifically identifies the manner in which the Executive has substantially failed to perform the Executive's material duties and specifies the manner in which the Executive may substantially perform his material duties in the future; (iii) an act of fraud or gross or willful material misconduct by the Executive; or (iv) the Executive's material breach of Sections 7(a) and 7(b). Anything herein to the contrary notwithstanding, the Executive shall not be terminated for "Cause" hereunder unless (A) written notice stating the basis for the termination is provided to the Executive, (B) as to clauses (ii) or (iv) of this paragraph, he fails to cure such neglect or conduct within thirty (30) days following receipt of such notice, (C) he has an opportunity (represented by counsel) to address a meeting of the Board, and (D) after such meeting (or if the Executive declines to meet), there is a 75% vote of the Board (not counting the Executive) to terminate his employment for Cause.

(c) "Change in Control" means:

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

(ii) A "change in the effective control of the Company" which shall occur on the date that either (A) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock

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

(iii) A "change in the ownership of a substantial portion of the Company's assets" which shall occur on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets of the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. Any transfer of assets to an entity that is controlled by the stockholders of the Company immediately after the transfer, as provided in guidance issued pursuant to Code Section 409A, shall not constitute a Change in Control.

For purposes of the definition of Change in Control, the provisions of Section 318(a) of the Code regarding the constructive ownership of stock will apply to determine stock ownership; provided, that, stock underlying unvested options (including options exercisable for stock that is not substantially vested) will not be treated as owned by the individual who holds the option.

(d) "Company Affiliate" means any entity controlled by, in control of, or under common control with, the Company.

(e) "Competitive Enterprise" means (i) a business enterprise that engages in nitrogen and climate control in competition with the Company or its subsidiaries (the "Company's Business") (a) in the United States of America, or (b) in any other country where the Company or its subsidiaries operates facilities or sells such products. Notwithstanding the foregoing, in the event a business enterprise (including, without limitation, any entity, or private equity or hedge fund) has one or more lines of business that do not involve the Company's Business, the Executive shall be permitted to associate with such business enterprise if, and only if, the Executive does not participate in, or have supervisory authority with respect to, any line of business involving the Company's Business.

(f) "Confidential Information" means all non-public information concerning trade secrets, know-how, software, developments, inventions, processes, technology, designs, financial data, strategic business plans or any proprietary or confidential information, documents or materials in any form or media, including any of the foregoing relating to research, operations, finances, current and proposed products and services, vendors, customers, advertising and marketing, and other non-public, proprietary, and confidential information of the Company or the Company Affiliates. Notwithstanding anything to the contrary contained herein, the general skills, knowledge and experience gained during the Executive's employment with the Company, information publicly available or generally known within the industry or trade in which the Company competes and information or knowledge possessed by the Executive prior to his employment by the Company, shall not be considered Confidential Information.

(g) "Date of Termination" means (i) if the Executive's employment is terminated by the Executive's death, the date of the Executive's death; (ii) if the Executive's employment is terminated because of the Executive's Disability pursuant to Section 9(a)(ii)(A), thirty (30) days after Notice of Termination, provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such thirty (30)-day period; (iii) if the Executive's employment is terminated during the Employment Period by the Company pursuant to Section 9(a)(ii)(B) or by the Executive pursuant to Section 9(a)(iii), the date specified in the Notice of Termination consistent with this Agreement; or (v) if the Executive's employment is terminated upon the expiration of the Employment Period pursuant to Section 1 , the last day of the Employment Period.

(h) "Disability" means the inability of the Executive to perform the Executive's material duties hereunder due to a physical or mental injury, infirmity or incapacity, which is expected to exceed one hundred eighty (180) days (including weekends and holidays) in any three hundred sixty-five (365)-day period, as determined by the Executive's treating physician in his or her reasonable discretion.

(i) "Good Reason" means (i) any material diminution in the Executive's job duties, authorities or responsibilities; (ii) a reduction in the Executive's Base Salary or Target Bonus as a percentage of Base Salary or the failure to grant any Annual Equity Award as required in Section 4(c); (iii) the failure of the Executive to report solely and directly to the Chief Executive Officer; (iv) the assignment of duties substantially inconsistent with the Executive's status as Senior Vice President, General Counsel and Secretary – ; (v) a relocation of the Executive's primary place of employment to a location more than fifty (50) miles from the current location of the Company's offices in Oklahoma City, Oklahoma; (vi) any other material breach of this Agreement by the Company; or (vii) the failure of the Company to obtain the assumption in writing of its obligations under the Agreement by any successor to all or substantially all of the assets of the Company after a merger, consolidation, sale or similar transaction in which such Agreement is not assumed by operation of law. In order to invoke a termination for Good Reason, (A) the Executive must provide written notice within ninety (90) days of the later of the occurrence, or the Executive's knowledge, of any event of "Good Reason," (B) the Company must fail to cure such event within thirty (30) days of the giving of such notice and (C) the Executive must provide a Notice of Termination within thirty (30) days following the expiration of the Company's cure period.

(j) "Non-Compete Period" means the period commencing on the Effective Date and ending twenty four (24) months after the Executive's Date of Termination

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Agreement, or have caused this Agreement to be duly executed and delivered on their behalf.

LSB INDUSTRIES, INC.

/s/ Daniel D. Greenwell
By:
Name: Daniel D. Greenwell
Title: President, CEO

EXECUTIVE

/s/ Michael J. Foster
Michael J. Foster

Exhibit A

(Restricted Stock Award Agreement)

Exhibit B

(Form of Release)

LSB INDUSTRIES, INC.
(2008 Stock Incentive Plan)

RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (this "**Agreement**") is effective as of January 5, 2016, (the "**Grant Date**"), by and between LSB INDUSTRIES, INC., a Delaware corporation (the "**Company**"), and Michael Foster (the "**Participant**"). For valuable consideration, the Company and Participant agree as follows.

1. Background. The Participant is an employee, officer or director of the Company or an Affiliate, whom the Compensation Committee of the Board of Directors of the Company ("**Committee**") has selected to receive an award under the Company's 2008 Stock Incentive Plan (as may be amended from time to time, the "**Plan**"). The purpose of the award is to retain and motivate the Participant by providing the Participant the opportunity to acquire a proprietary interest in the Company and to link the Participant's interests and efforts to the long-term interests of the Company's shareholders.

2. Restricted Stock Grant. Subject to the terms of the Plan and of this Agreement, the Company hereby grants to the Participant **50,139** shares of the Company's Common Stock, subject to certain restrictions thereon (the "**Restricted Stock**").

3. Restrictions; Forfeiture. The Restricted Stock is restricted in that it may not be sold, transferred or otherwise alienated or hypothecated until the restrictions enumerated in this Agreement and the Plan are removed or expire as contemplated in Section 4 of this Agreement. The Restricted Stock is also restricted in the sense that it may be forfeited to the Company (the "**Forfeiture Restrictions**"). Except as otherwise provided in Section 4, if the Participant's service relationship with the Company or any of its subsidiaries is terminated for any reason, then those shares of Restricted Stock for which the restrictions have not lapsed as of the date of termination shall become null and void and those shares of Restricted Stock shall be forfeited to the Company. The Restricted Stock for which the restrictions have lapsed as of the date of such termination shall not be forfeited to the Company. The Participant hereby agrees that if the Restricted Stock is forfeited, the Company shall have the right to deliver the Restricted Stock to the Company's transfer agent for, at the Company's election, cancellation or transfer to the Company.

4. Vesting.

4.1 The restrictions on the Restricted Stock granted pursuant to this Agreement will expire and the Restricted Stock will become transferable, and nonforfeitable as to one-third of the Restricted Stock on each of the first three anniversaries of the Grant Date, such that 100% of the shares of Restricted Stock shall be vested on the third anniversary of the Grant Date; provided, however, that, except as otherwise provided in Section 4.2 of this Agreement or in the Employment Agreement between the parties dated as of January 6, 2016 (the "**Employment Agreement**"), the Restricted Stock will vest on such dates only if the Participant remains in the employ of or a service provider to the Company or its subsidiaries continuously from the Grant Date through the applicable vesting date.

4.2 Notwithstanding Section 4.1 of this Agreement, provided that (i) the Participant remains in the employ of or a service provider to the Company or its subsidiaries continuously from the Grant Date until immediately prior to the occurrence of any of the events listed below and (ii) the Participant holds Restricted Stock granted pursuant to this Agreement at such time, then:

4.2.1 all shares of Restricted Stock shall automatically vest in full upon a Change in Control of the Company (as defined in the Employment Agreement);

4.2.2 all shares of Restricted Stock shall automatically vest in full upon a termination of the Participant's employment by the Company without Cause (as defined in the Employment Agreement) or by the Participant for Good Reason (as defined in the Employment Agreement); or

4.2.3 a pro-rata portion of Restricted Stock shall automatically vest upon the Participant's termination of employment by reason of death or Disability (as defined in the Employment Agreement) with such pro-rata portion calculated by multiplying the number of shares of Restricted Stock scheduled to vest on the anniversary of the Grant Date immediately succeeding such termination of employment by a fraction, the numerator of which is the number of days that have elapsed from the last anniversary of the Grant Date (or if such termination of employment occurs prior to the first anniversary of the Grant Date, then the number of days that have elapsed from the Grant Date) through the date of such termination of employment and the denominator of which shall be 365.

5. Escrow of Restricted Stock. The Company shall evidence the Restricted Stock in the manner that it deems appropriate, including, without limitation, certificating the Restricted Stock or evidencing the Restricted Stock in book entry form, electronic or otherwise. The Company may issue in the Participant's name a certificate or certificates representing the Restricted Stock and retain that certificate or those certificates until the restrictions on such Restricted Stock expire, as contemplated in Section 4 of this Agreement, or the Restricted Stock is forfeited, as described in Section 3 of this Agreement. If the Company certificates the Restricted Stock, the Participant shall execute one or more stock powers in blank for those certificates and deliver those stock powers to the Company. The Company shall hold the Restricted Stock and the related stock powers pursuant to the terms of this Agreement, if applicable, until such time as (a) a certificate or certificates for the Restricted Stock are delivered to the Participant, (b) the Restricted Stock is otherwise transferred to the Participant free of restrictions, or (c) the Restricted Stock is canceled and forfeited pursuant to this Agreement.

6. Ownership of Restricted Stock. From and after the Grant Date, the Participant will be entitled to all the rights of absolute ownership of the Restricted Stock granted under this Agreement, including the right to vote those shares; provided, however, that any dividends paid by the Company with respect to the Restricted Stock prior to the expiration of the Forfeiture Restrictions shall be held in escrow by the Company and paid to the Participant, if at all, at the time the Forfeiture Restrictions expire on the Restricted Stock for which the dividend accrued; provided, further, that in no event shall dividends be settled later than 45 days following the date on which the Forfeiture Restrictions expire with respect to the Restricted Stock for which the dividends were accrued. For purposes of clarity, if the Restricted Stock is forfeited by the Participant pursuant to the terms of this Agreement then the Participant shall also forfeit the dividends, if any, accrued with respect to such forfeited Restricted Stock. No interest will accrue on the dividends between the declaration and settlement of the dividends.

7. Delivery of Stock. Promptly following the expiration of the restrictions on the Restricted Stock as contemplated in Section 4 of this Agreement, the Company shall cause to be issued and delivered to the Participant or the Participant's designee a certificate or other evidence of the number of whole shares of Restricted Stock as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, upon receipt by the Company of any tax withholding as may be requested pursuant to Section 8 of this Agreement. The value of such Restricted Stock shall not bear any interest, and the Company shall not have any liability to the Participant other than to deliver the Restricted Stock and associated dividends, if any, because of to the passage of time or any delay in delivery.

8. Payment of Taxes. The Company may require the Participant to pay to the Company (or the Company's subsidiary if the Participant is an employee of a subsidiary of the Company), an amount the Company deems necessary to satisfy its (or its subsidiary's) current or future obligation to withhold federal, state, and local income or other taxes that the Participant incurs as a result of the vesting of the Restricted Stock. With respect to any required tax withholding, the Participant may (a) direct the Company to withhold from the shares of Common Stock to be issued to the Participant under this Agreement the number of shares necessary to satisfy the Company's obligation to withhold taxes, which determination will be based on the shares' Fair Market Value at the time such determination is made; (b) deliver to the Company shares of Common Stock sufficient to satisfy the Company's tax withholding obligations, based on the shares' Fair Market Value at the time such determination is made; (c) deliver cash to the Company sufficient to satisfy its tax withholding obligations; or (d) satisfy such tax withholding through any combination of (a), (b) and (c). If the Participant desires to elect to use the stock withholding option described in subparagraph (a), the Participant must make the election at the time and in the manner the Company prescribes. If such tax obligations are satisfied under subparagraph (a) or (b), the maximum number of shares of Common Stock that may be so withheld or surrendered shall be the number of shares of Common Stock that have an aggregate Fair

Market Value on the date of withholding or repurchase equal to the aggregate amount of such tax liabilities determined based on the greatest withholding rates for federal, state, and local, tax purposes, including payroll taxes, that may be utilized without creating adverse accounting treatment with respect to such Award. The Company, in its discretion, may deny the Participant's request to satisfy its tax withholding obligations using a method described under subparagraph (a), (b), or (d). In the event the Company determines that the aggregate Fair Market Value of the shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then the Participant must pay to the Company, in cash, the amount of that deficiency immediately upon the Company's request.

9. Leave of Absence. With respect to the Restricted Stock, the Company may, in its sole discretion, determine that if the Participant is on leave of absence for any reason, the Participant will be considered to still be in the employ of, or providing services to, the Company, provided that rights to the Restricted Stock during a leave of absence will be limited to the extent to which those rights were earned or vested when the leave of absence began.

10. Compliance with Securities Law. Notwithstanding any provision of this Agreement to the contrary except for Section 16, the issuance of Common Stock (including Restricted Stock) will be subject to compliance with all applicable requirements of federal, state, or foreign law with respect to such securities and with the requirements of any stock exchange or market system upon which the Common Stock may then be listed. No Common Stock will be issued hereunder if such issuance would constitute a violation of any applicable federal, state, or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, Common Stock will not be issued hereunder unless (i) a registration statement under the Securities Act, is at the time of issuance in effect with respect to the shares issued or (ii) in the opinion of legal counsel to the Company, the shares issued may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. THE PARTICIPANT IS CAUTIONED THAT ISSUANCE OF UNRESTRICTED STOCK UPON THE VESTING OF RESTRICTED STOCK GRANTED PURSUANT TO THIS AGREEMENT MAY NOT OCCUR UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of the Restricted Stock, or unrestricted Common Stock (upon vesting), will relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority has not been obtained. As a condition to any issuance hereunder, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect to such compliance as may be requested by the Company. From time to time, the Committee and appropriate officers of the Company are authorized to take the Securities Actions necessary and appropriate to file required documents with governmental authorities, stock exchanges, and other appropriate Persons to make shares of Common Stock available for issuance.

11. Certain Defined Terms. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

12. Anti-dilution. In the event of a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure, then the Committee shall make proportional adjustments to the Restricted Stock and/or the Plan as described in Section 13 of the Plan.

13. The Plan. Participant acknowledges receipt of a copy of the Plan, which is attached hereto as Exhibit A, and represents that Participant is familiar with the terms and provisions of the Plan and hereby accepts the Restricted Stock subject to all such terms and provisions.

14. Employment. Nothing in the Plan or in this Agreement shall confer upon Participant any right to continued employment as an employee of the Company or its Affiliates or interfere in any way with the right of the Company and its Affiliates to terminate Participant's employment at any time.

15. Binding Agreement. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, trustees, successors and assigns.

16. Company Representations and Warranties. The Company represents and warrants that there are sufficient shares under the Plan (and will reserve same) for this award and also that it will take all reasonable steps necessary to file an S-8 or other registration statement to enable it to issue shares of Restricted Stock to Participant upon the Grant Date and for Participant to sell them once vested.

17. No Liability for Good Faith Determinations. The Company and the members of the Committee and the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Stock granted hereunder.

18. Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of Common Shares or property to the Participant or the Participant's legal representative, heir, legatee, or distribute, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such Persons hereunder. The Company may require the Participant or the Participant's legal representative, heir, legatee or distribute, as a condition precedent to such payment or issuance, to execute a release solely with respect to the delivered Restricted Stock and receipt therefor in such form as it shall reasonably determine.

19. Governing Law and Consent to Jurisdiction and Venue. All questions arising with respect to the provisions of this Agreement shall be determined by application of the laws of Oklahoma, without giving any effect to any conflict of law provisions thereof, except to the extent Oklahoma state law is preempted by federal law. Further, the Participant hereby consents and agrees that state courts located in Oklahoma City, Oklahoma and the United States District Court for the Western District of Oklahoma each shall have personal jurisdiction and proper venue with respect to any dispute between the Participant and the Company arising in connection with the Restricted Shares or this Agreement. In any dispute with the Company, the Participant will not raise, and the Participant hereby expressly waives, any objection or defense to such jurisdiction as an inconvenient forum.

20. Clawback. This Agreement and the Restricted Stock granted hereunder is subject to any written clawback policies of the Company, whether in effect on the Grant Date or adopted, with the approval of the Board, following the Grant Date and either (i) applicable to all senior executives of the Company and their restricted stock awards or (ii) adopted to conform to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and rules promulgated thereunder by the Securities and Exchange Commission. Any such policy may subject the Restricted Stock and amounts paid or realized with respect to the Restricted Stock to reduction, cancelation, forfeiture or recoupment if certain specified events or wrongful conduct occur as specified in such policy, including but not limited to an accounting restatement due to the Company's material noncompliance with financial reporting regulations or other events or wrongful conduct specified in any such clawback policy and which the Company determines should apply to the Restricted Stock in accordance with this Section 20.

21. Electronic Delivery. The Participant consents to receive documents from the Company and any plan administrator by means of electronic delivery, provided that such delivery complies with applicable law. This consent shall be effective for the entire time that the Participant holds awards granted under the Plan.

22. Entire Agreement. This Agreement and the Employment Agreement constitute the entire agreement between the Company and the Participant relating to the Restricted Stock. Any previous agreement with respect to this matter is superseded by this Agreement. Unless otherwise provided in the Plan, no term, provision or condition of this Agreement may be modified in any respect except by a writing executed by both of the parties hereto. No person has any authority to make any representation or promise not set forth in this Agreement. This Agreement has not been executed in reliance upon any representation or promise except those contained herein and in the Employment Agreement.

EXECUTED effective as of the Grant Date.

LSB INDUSTRIES, INC., a Delaware corporation

By: /s/ Daniel D. Greenwell
Daniel D. Greenwell
President, CEO

/s/ Michael Foster
Michael Foster
Participant

LSB Industries, Inc. 2008 Incentive Stock Plan
(as amended and restated effective April 3, 2014)

Section 1. Purpose of the Plan

The purpose of the LSB Industries, Inc. 2008 Incentive Stock Plan (the "Plan"), is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors of LSB Industries, Inc. (the "Company") by providing them the opportunity to acquire a proprietary interest in the Company and to link their interests and efforts to the long-term interests of the Company's shareholders.

Section 2. Definitions

As used in the Plan,

"Affiliate" means all Persons with whom the Company would be considered a single employer under Section 414(b) of the Code, and all persons with whom such person would be considered a single employer under Code Section 414(c) of the Code, except that where Treasury Regulation §1.414(c)-2(b)(2)(i) requires at least an 80 percent interest for establishment of a controlling interest, only a 50 percent interest shall be required. In addition, for purposes of determining whether any individual is eligible to receive a grant of Incentive Stock Options, the term "Affiliate" shall refer only to those Persons who are "subsidiaries" as defined Section 424(f) of the Code.

"Award" means any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, dividend equivalent, cash-based award or other incentive payable in cash or in shares of Common Stock as may be designated by the Committee from time to time.

"Board" means the Board of Directors of the Company.

"CEO" means the chief executive officer of the Company.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Code Section 162(m)" means Section 162(m) of the Code, including any proposed and final regulations and other guidance issued thereunder by the Department of the Treasury and/or the Internal Revenue Service.

"Code Section 409A" means Section 409A of the Code, including any proposed and final regulations and other guidance issued thereunder by the Department of the Treasury and/or the Internal Revenue Service.

"Committee" has the meaning set forth in Section 3 below.

"Common Stock" means the common stock, par value $.10 per share, of the Company.

"Company" means LSB Industries, Inc., a Delaware corporation.

"Covered Employee" means a "covered employee" as that term is defined in Code Section 162(m)(3) or any successor provision.

"Disability" or "Disabled" means as to any Participant that such Participant (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's employer. Notwithstanding the forgoing, all determinations of whether a Participant is Disabled shall be made in accordance with Code Section 409A and the guidance thereunder.

"Effective Date" has the meaning set forth in Section 16.

“Eligible Person” has the meaning set forth in Section 5.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.

“Fair Market Value” means, unless otherwise required under any applicable provision of the Code, as of any given date: (a) the closing price of the common stock on the last preceding day on which the common stock was traded, as reported on a national securities exchange or (b) if the fair market value of the common stock cannot be determined pursuant to clause (a), such price as the Committee shall determine; provided that for Awards subject to Code Section 409A, any such determination shall comply with Code Section 409A and guidance thereunder.

“Grant Date” means the date on which the Committee completes the corporate action authorizing the grant of an Award or such later date specified by the Committee, provided that conditions to the exercisability or vesting of Awards shall not defer the Grant Date.

“Incentive Stock Option” means an Option granted with the intention that it qualify as an “incentive stock option” as that term is defined in Section 422 of the Code or any successor provision.

“Key Employee” means an employee designated in accordance with Section 3.5 below. as of December 31 (the “Key Employee Designation Date”) as an employee meeting the requirements under Section 416(i) of the Code (applied in accordance with the regulations thereunder and disregarding Section 416(i)(5)) at any time during the 12-month period ending on the Key Employee Designation Date.

“Nonqualified Stock Option” means an Option other than an Incentive Stock Option.

“Option” means a right to purchase Common Stock granted under Section 7.

“Participant” means any Eligible Person as set forth in Section 5 to whom an Award is granted.

“Performance Based Exception” means the performance based exception from the tax deductibility limitations of Code Section 162(m) contained in Section 162(m)(4)(C) of the Code.

“Person” means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

“Plan” means the LSB Industries, Inc. 2008 Incentive Stock Plan.

“Restricted Stock” means an Award of shares of Common Stock granted under Section 9, the rights of ownership of which may be subject to restrictions prescribed by the Committee.

“Restricted Stock Unit” means an Award granted under Section 9 denominated in units of Common Stock.

“Retirement” means a Termination of Service voluntarily at a time when a Participant is entitled to begin immediate receipt of early or normal retirement benefits under one or more of the Company’s defined benefit pension plans, or under comparable terms of an Affiliate’s pension plan, as then in effect, unless provided otherwise in the instrument evidencing the Award or in a written employment or services agreement between the Participant and the Company or an Affiliate.

“Securities Act” means the Securities Act of 1933, as amended from time to time.

“Stock Appreciation Right” or “SAR” has the meaning set forth in Section 8.1.

“Termination of Service,” unless otherwise defined by the Committee or in the instrument evidencing the Award or in a written employment or services agreement, means a Participant’s termination or deemed termination from employment with the Company and its Affiliates. For purposes of determining whether a Termination of Service has occurred, the employment relationship is treated as continuing intact while the Participant is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed three (3) months, or if longer, so long as the Participant retains a right to reemployment with his or her employer under an applicable statute or by contract. For this purpose, a leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for his or her employer. If the period of leave exceeds three (3) months and the Participant does not retain a right to reemployment under an applicable statute or by contract, the employment relationship will be deemed to terminate on the first date immediately following such three (3) month period. Notwithstanding the foregoing, if a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than three (3) months, and such impairment causes the Participant to be unable to perform the duties of the Participant’s position of employment or any substantially similar position of employment, a twenty-nine (29) month period of absence shall be substituted for such three (3) month period. For purposes of this Agreement, a Termination of Service occurs at the date as of which the facts and circumstances indicate either that, after such date: (a) the Participant and the Company reasonably anticipate the Participant will perform no further services for the Company and its Affiliates (whether as an employee or an independent contractor) or (b) that the level of bona fide services the Participant will perform for the Company and its Affiliates (whether as an employee or independent contractor) will permanently decrease to no more than twenty (20%) of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period or, if the Participant has been providing services to the Company and its Affiliates for less than thirty-six (36) months, the full period over which the Participant has rendered services, whether as an employee or independent contractor. The determination of whether a Termination of Service has occurred shall be governed by the provisions of Treasury Regulation § 1.409A-1, as amended, taking into account the objective facts and circumstances with respect to the level of bona fide services performed by the Participant after a certain date.

Section 3. Administration

3.1 Committee

The Plan shall be administered by the Committee which shall, as the context requires, refer to the Board, the Compensation and Stock Option Committee of the Board, the CEO or any other committee to which administration is delegated by the Board in accordance with Section 3.3 hereof.

3.2 Administration of the Plan

Except to the extent the Board reserves administrative powers to itself or appoints a different committee to administer the Plan, the Committee shall mean (a) the Board, with respect to all non-employee directors, (b) the Compensation and Stock Option Committee of the Board, with respect to all executive officers of the Company and any other Eligible Person with respect to whom it elects to act as the Committee and (c) except as the Compensation and Stock Option Committee of the Board may provide, if the CEO is a member of the Board, a committee consisting of the CEO with respect to any Eligible Person other than an executive officer of the Company. To the extent the Board considers it desirable to comply with Rule 16 b-3, the Committee shall consist of two or more directors of the Company, each of whom shall qualify as both an “outside director” within the meaning of Code Section 162(m) and as a “non-employee director” as defined in Rules 16b-3 promulgated under the Exchange Act.

3.3 Delegation by the Board

Notwithstanding the foregoing, the Board may delegate responsibility for administering the Plan with respect to designated classes of Eligible Persons to different committees consisting of one or more members of the Board or one or more officers of the Company, subject to such limitations as the Board deems appropriate, except with respect to Awards to non-employee Directors and to officers subject to Section 16 of the Exchange Act or officers who are or may be Covered Employees. Members of any such committee, which shall also be referred to as the “Committee,” shall serve for such term as the Board may determine, subject to removal by the Board at any time.

3.4 Administration and Interpretation by Committee

Except for the terms and conditions explicitly set forth in the Plan, the Committee shall have full power and exclusive authority, subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to (a) select the Eligible Persons as set forth in Section 5 to whom Awards may from time to time be granted under the Plan; (b) determine the type or types of Award to be granted to each Participant under the Plan; (c) determine the number of shares of Common Stock to be covered by each Award granted under the Plan (including, but not limited to, vesting of such Award); (d) determine the terms and conditions of any Award granted under the Plan; (e) approve the forms of agreements for use under the Plan; (f) determine whether, to what extent and under what circumstances Awards may be settled in cash, shares of Common Stock or other property or canceled or suspended; (g) determine whether, to what extent and under what circumstances cash, shares of Common Stock, other property and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the Participant; (h) interpret and administer the Plan and any instrument or agreement entered into under the Plan; (i) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (j) delegate ministerial duties to such of the Company's officers as it so determines; and (k) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Decisions of the Committee shall be final, conclusive and binding on all persons, including the Company, any Participant, any shareholder and any Eligible Person. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.

3.5 Designation of Key Employees

For purposes of Code Section 409A, annually the Board shall designate in writing those employees who are Key Employees as of December 31 (the "Key Employee Designation Date"). A Participant designated as a Key Employee shall be a Key Employee for the entire twelve (12) month period beginning on April 1 following the Key Employee Designation Date.

Section 4. Shares Subject to the Plan

4.1 Authorized Number of Shares

Subject to adjustment from time to time as provided in Section 13, the maximum number of shares of Common Stock available for issuance under the Plan shall be 1,975,000.

4.2 Share Usage

(a) Shares of Common Stock covered by an Award shall not be counted as used unless and until they are actually issued and delivered to a Participant. If any Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder or if shares of Common Stock are issued under the Plan to a Participant and thereafter are reacquired by the Company, the shares subject to such Awards and the reacquired shares shall again be available for issuance under the Plan. In addition, the following shares of Common Stock shall not be treated as having been issued under the Plan: (i) shares tendered by a Participant or retained by the Company as full or partial payment to the Company for the purchase price of an Award or to satisfy tax withholding obligations in connection with an Award, (ii) shares covered by an Award that is settled in cash, or (iii) the number of shares subject to a SAR in excess of the number of shares that are delivered to the Participant upon exercise of the SAR. The number of shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares or credited as additional Restricted Stock, Restricted Stock Units or Performance Shares. All shares issued under the Plan may be either authorized and unissued shares or issued shares reacquired by the Company.

(b) The Committee shall have the authority to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company.

(c) Notwithstanding the foregoing, the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall equal the aggregate share number stated in Section 4.1, subject to adjustment as provided in Section 13.

4.3 Limitations

(a) Subject to adjustment as provided in Section 13, the aggregate number of shares that may be issued pursuant to Awards granted under the Plan (other than Awards of Options or Stock Appreciation Rights) shall not exceed 1,975,000.

(b) Subject to adjustment as provided in Section 13, the aggregate number of shares that may be issued pursuant to Awards granted under the Plan (other than Awards of Options or Stock Appreciation Rights) that contain no restrictions or restrictions based solely on continuous employment or services for less than three years (except where Termination of Service occurs by reason of death, Retirement or Disability) shall not exceed 1,975,000.

Section 5. Eligibility

An Award may be granted to any employee, officer or director of the Company or an Affiliate whom the Committee from time to time selects. An Award may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to the Company or any Affiliate that (a) are not in connection with the offer and sale of the Company's securities in a capital-raising transaction and (b) do not directly or indirectly promote or maintain a market for the Company's securities. The above are "Eligible Persons."

Section 6. Awards

6.1 Form and Grant of Awards

The Committee shall have the authority, in its sole discretion, to determine the type or types of Awards to be granted under the Plan. Such Awards may be granted either alone, in addition to or in tandem with any other type of Award.

6.2 Evidence of Awards

Awards granted under the Plan shall be evidenced by a written instrument that shall contain such terms, conditions, limitations and restrictions as the Committee shall deem advisable and that are not inconsistent with the Plan.

6.3 Dividends and Distributions

Participants holding Awards may, if the Committee so determines, be credited with dividends paid with respect to the underlying shares or dividend equivalents while the Awards are so held in a manner determined by the Committee in its sole discretion. The Committee may apply any restrictions to the dividends or dividend equivalents that the Committee deems appropriate. The Committee, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, shares of Common Stock, Restricted Stock or Restricted Stock Units. Notwithstanding the foregoing, the right to any dividends or dividend equivalents declared and paid on the number of shares underlying an Option or a Stock Appreciation Right must be set forth as a separate arrangement to the extent required by Code Section 409A, if applicable. Notwithstanding the foregoing, in no event shall dividend equivalents be paid in connection with the grant of an Award subject to performance goals until such time as the Committee has certified that the performance goals with respect to such Award have been achieved for the relevant period.

Section 7. Options

7.1 Grant of Options

The Committee may grant Options designated as Incentive Stock Options or Nonqualified Stock Options.

7.2 Option Exercise Price

7.2.1 Less than 10% Shareholders. The exercise price for shares purchased under an Option shall be as determined by the Committee, but shall not be less than 100% of the Fair Market Value of the Common Stock at the Grant Date for options granted to an individual who, at the time the option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Subsidiary (computed in accordance with the provisions applicable to Section 422(b)(6) of the Code) (a "less than 10% Shareholder").

7.2.2 10% Shareholder. The exercise price of any Incentive Stock Option granted to an individual who is not a less than 10% Shareholder (a "10% Shareholder") shall be not less than one hundred ten percent (110%) of the Fair Market Value of the shares of Common Stock subject to the Incentive Stock Option at the time the Incentive Stock Option is granted, determined in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Incentive Stock Option is granted.

7.3 Term of Options

Subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the Option, the maximum term of an Option shall be a term not to exceed ten (10) years from the Grant Date (five (5) years in the case of an Incentive Stock Option granted to a 10% Shareholder) as established for that Option by the Committee or, if not so established, shall be ten (10) years from the Grant Date.

7.4 Exercise of Options

The Committee shall establish and set forth in each instrument that evidences an Option the time at which, or the installments in which, the Option shall vest and become exercisable, any of which provisions may be waived or modified by the Committee at any time.

To the extent an Option has vested and become exercisable, the Option may be exercised in whole or from time to time in part by delivery as directed by the Company to the Company or a brokerage firm designated or approved by the Company of a written stock option exercise agreement or notice, in a form and in accordance with procedures established by the Committee, setting forth the number of shares with respect to which the Option is being exercised, the restrictions imposed on the shares purchased under such exercise agreement, if any, and such representations and agreements as may be required by the Committee, accompanied by payment in full as described in Section 7.5. An Option may be exercised only for whole shares and may not be exercised for less than a reasonable number of shares at any one time, as determined by the Committee.

7.5 Payment of Exercise Price

The exercise price for shares purchased under an Option shall be paid in full as directed by the Company to the Company or a brokerage firm designated or approved by the Company by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid before the Company will issue the shares being purchased and must be in a form or a combination of forms acceptable to the Committee for that purchase, which forms may include: (a) check; (b) wire transfer; (c) tendering by attestation shares of Common Stock already owned by the Participant that on the day prior to the exercise date have a Fair Market Value equal to the aggregate exercise price of the shares being purchased under the Option, provided that the Participant must have held for at least six months any such tendered shares that were acquired by the Participant under a Company-sponsored stock compensation program; (d) to the extent permitted by applicable law, delivery of a properly executed exercise notice, together with irrevocable instructions to a brokerage firm designated or approved by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the Option exercise price and any tax withholding obligations that may arise in connection with the exercise, all in accordance with the regulations of the Federal Reserve Board; or (e) such other consideration as the Committee may permit in its sole discretion.

7.6 Post-Termination Exercise

The Committee shall establish and set forth in each instrument that evidences an Option whether the Option shall continue to be exercisable, and the terms and conditions of such exercise, after a Termination of Service, any of which provisions may be waived or modified by the Committee at any time, provided that any such waiver or modification shall satisfy the requirements for exemption under Code Section 409A unless otherwise determined by the Committee.

7.7 Incentive Stock Options

The terms of any Incentive Stock Options shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Individuals who are not employees of the Company or one of its parent or subsidiary corporations (as such terms are defined for purposes of Section 422 of the Code) may not be granted Incentive Stock Options. To the extent that the aggregate Fair Market Value of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year exceeds $100,000 or, if different, the maximum limitation in effect at the time of grant under the Code (the Fair Market Value being determined as of the Grant Date for the Option), such portion in excess of $100,000 shall be treated as Nonqualified Stock Options.

Section 8. Stock Appreciation Rights

8.1 Grant of Stock Appreciation Rights

The Committee may grant stock appreciation rights ("Stock Appreciation Rights" or "SARs") to Participants at any time. An SAR may be granted in tandem with an Option or alone ("freestanding"). The grant price of a tandem SAR shall be equal to the exercise price of the related Option, and the grant price of a freestanding SAR shall be equal to the Fair Market Value of the Common Stock at the Grant Date. An SAR may be exercised upon such terms and conditions and for the term as the Committee determines in its sole discretion; provided, however, that, subject to earlier termination in accordance with the terms of the Plan and the instrument evidencing the SAR, the term of a freestanding SAR shall be a term not to exceed ten (10) years from the Grant Date as established for that SAR by the Committee or, if not so established, shall be ten (10) years, and in the case of a tandem SAR, (a) the term shall not exceed the term of the related Option and (b) the tandem SAR may be exercised for all or part of the shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option, except that the tandem SAR may be exercised only with respect to the shares for which its related Option is then exercisable.

8.2 Payment of SAR Amount

Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying (a) the difference between the Fair Market Value of the Common Stock for the date of exercise over the grant price by (b) the number of shares with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon exercise of an SAR may be in cash, in shares of equivalent value, in some combination thereof or in any other manner approved by the Committee in its sole discretion.

8.3 Post-Termination Exercise

The Committee shall establish and set forth in each instrument that evidences a freestanding SAR whether the SAR shall continue to be exercisable, and the terms and conditions of such exercise after a Termination of Service, any of which provisions may be waived or modified by the Committee at any time, provided that any such waiver or modification shall satisfy the requirements for exemption under Code Section 409A unless otherwise determined by the Committee.

Section 9. Restricted Stock and Restricted Stock Units

9.1 Grant of Restricted Stock and Restricted Stock Units

The Committee may grant Restricted Stock and Restricted Stock Units on such terms and conditions and subject to such forfeiture restrictions, if any (which may be based on continuous service with the Company or an Affiliate), as the Committee shall determine in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award.

9.2 Issuance of Shares

Upon the satisfaction of any terms, conditions and restrictions prescribed with respect to Restricted Stock or Restricted Stock Units, or upon a Participant's release from any terms, conditions and restrictions of Restricted Stock or Restricted Stock Units, as determined by the Committee, and subject to the provisions of Section 11, (a) the shares of Restricted Stock covered by each Award of Restricted Stock shall become freely transferable by the Participant, and (b) Restricted Stock Units shall be paid in cash, shares of Common Stock or a combination of cash and shares of Common Stock, as the Committee shall determine in its sole discretion. Any fractional shares subject to such Awards shall be paid to the Participant in cash.

9.3 Waiver of Restrictions

Notwithstanding any other provisions of the Plan, the Committee, in its sole discretion, may waive the repurchase or forfeiture period and any other terms, conditions or restrictions on any Restricted Stock or Restricted Stock Unit under such circumstances and subject to such terms and conditions as the Committee shall deem appropriate; provided, however, that the Committee may not adjust performance goals for any Restricted Stock or Restricted Stock Unit intended to qualify for the Performance Based Exception for the year in which the Restricted Stock or Stock Unit is settled in such a manner as would increase the amount of compensation otherwise payable to a Participant.

Section 10. Other Stock or Cash-Based Awards

In addition to the Awards described in Sections 7 through 9, and subject to the terms of the Plan, the Committee may grant other incentives payable in cash or in shares of Common Stock under the Plan as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems appropriate.

Subject to adjustment as provided in Section 13, and in accordance with the requirements under Code Section 162(m), no Participant shall receive in any one calendar year grants of Options or Stock Appreciation Rights covering an aggregate of more than one hundred thousand (100,000) shares of Common Stock. Notwithstanding any other provision of the Plan to the contrary, any Option or Stock Appreciation Right intended to qualify as performance based compensation under Code Section 162(m) for the Performance Based Exception of Code Section 162(m) shall have an exercise or grant price, an applicable, of no less than 100% of the Fair Market Value of the Common Stock at the Grant Date, except in the case of Substitute Awards.

Section 11. Withholding

The Company may require a Participant to pay to the Company the amount of (a) any taxes that the Company is required by applicable federal, state, local or foreign law to withhold with respect to the grant, vesting or exercise of an Award ("tax withholding obligations").

The Committee may permit or require a Participant to satisfy all or part of his or her tax withholding obligations and other obligations by (a) paying cash to the Company, (b) having the Company withhold an amount from any cash amounts otherwise due or to become due from the Company to the Participant, (c) having the Company withhold a number of shares of Common Stock that would otherwise be issued to the Participant (or become vested in the case of Restricted Stock) having a Fair Market Value equal to the tax withholding obligations and other obligations, or (d) surrendering a number of shares of Common Stock the Participant already owns having a value equal to the tax withholding obligations and other obligations.

In addition, the Company may accelerate the time or schedule of a payment of vested shares of Common Stock subject to an Award, and/or deduct from any payment of shares of Common Stock subject to an Award to the Participant, or to his or her beneficiaries in the case of the Participant's death, that number of shares of Common Stock having a Fair Market Value at the date of such deduction equal to any amounts due from the Participant to the Company or any Affiliate ("other obligations") as satisfaction of any such other obligations, *provided* that (x) such other obligations are incurred in the ordinary course of the employment relationship between the Company or any of its Affiliates and the Participant, (y) the aggregate amount of any collateral held in connection with such other obligations or deduction made in any taxable year of the Company with respect to the Participant does not exceed $5,000, and (z) the deduction of shares of Common Stock is made at the same time and in the same amount as the other obligations otherwise would have been due and collected from the Participant.

The Company shall not be required to issue any shares of Common Stock under the Plan until such tax withholding obligations and other obligations are satisfied.

Section 12. Assignability

No Award or interest in an Award may be sold, assigned, pledged (as collateral for a loan or as security for the performance of an obligation or for any other purpose) or transferred by the Participant or made subject to attachment or similar proceedings otherwise than by will or by the applicable laws of descent and distribution, except that to the extent permitted by the Committee, in its sole discretion, a Participant may designate one or more beneficiaries on a Company-approved form who may receive payment under an Award after the Participant's death. During a Participant's lifetime, an Award may be exercised only by the Participant.

Section 13. Adjustments

In the event, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure results in (a) the outstanding shares of Common Stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or kind of securities of the Company or of any other company or (b) new, different or additional securities of the Company or of any other company being received by the holders of shares of Common Stock, then the Committee shall make proportional adjustments in (v) the maximum number and kind of securities available for issuance under the Plan; (w) the maximum number and kind of securities issuable as Incentive Stock Options as set forth in Section 4.2; (x) the maximum number and kind of securities that may be issued to an individual in any one calendar year as set forth in Section 4.3; (y) the maximum number and kind of securities that may be made subject to the different types of Awards available under the Plan; and (z) the number and kind of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor.

The determination by the Committee as to the terms of any of the foregoing adjustments shall be conclusive and binding.

Notwithstanding the foregoing, the issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services rendered, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding Awards.

Section 14. Amendment and Termination

14.1 Amendment, Suspension or Termination of the Plan

The Board may amend, suspend or terminate the Plan or any portion of the Plan at any time and in such respects as it shall deem advisable. In addition, the Company intends that, except as the Committee otherwise determines, the Plan and Awards either comply with or be excepted from Code Section 409A. Accordingly, the Company reserves the right, without the consent of affected Participants, to amend or revise the Plan and/or to amend, revise or revoke any Award (including any agreement under which such Award was granted) in order to cause the Plan and/or the Award (including any agreement under which such Award was granted) to be so compliant or excepted and to take such other actions under the Plan and any Award (including any agreement under which such Award was granted) to achieve such compliance or exception. Notwithstanding the foregoing, however, that, to the extent required by applicable law, regulation or stock exchange rule, shareholder approval shall be required for any amendment to the Plan.

14.2 Term of the Plan

Unless sooner terminated as provided herein, the Plan shall terminate ten (10) years from the Effective Date. After the Plan is terminated, no future Awards may be granted, but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan's terms and conditions. Notwithstanding the foregoing, no Incentive

Stock Options may be granted more than ten years after the earlier of (a) the adoption of the Plan by the Board and (b) the Effective Date.

14.3 Consent of Participant

Except as provided in Section 14.1 above, (a) the amendment, suspension or termination of the Plan or a portion thereof or the amendment of an outstanding Award shall not, without the Participant's consent, materially adversely affect any rights under any Award theretofore granted to the Participant under the Plan and (b) any change or adjustment to an outstanding Incentive Stock Option shall not, without the consent of the Participant, be made in a manner so as to constitute a "modification" that would cause such Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option. Notwithstanding the foregoing, any adjustments made pursuant to Section 13 shall not be subject to these restrictions.

14.4 Restriction on Repricing.

Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or SARs or to cancel outstanding Options or SARS in exchange for cash, other awards or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs without stockholder approval.

Section 15. General

15.1 No Individual Rights

No individual or Participant shall have any claim to be granted any Award under the Plan, and the Company has no obligation for uniformity of treatment of Participants under the Plan. Furthermore, nothing in the Plan or any Award granted under the Plan shall be deemed to constitute an employment contract or confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Affiliate or limit in any way the right of the Company or any Affiliate to terminate a Participant's employment or other relationship at any time, with or without cause.

15.2 Issuance of Shares

Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue or deliver any shares of Common Stock under the Plan or make any other distribution of benefits under the Plan unless, in the opinion of the Company's counsel, such issuance, delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act or the laws of any state or foreign jurisdiction) and the applicable requirements of any securities exchange or similar entity.

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under the laws of any state or foreign jurisdiction, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made. The Company may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal, state and foreign securities laws. The Company may also require such other action or agreement by the Participants as may from time to time be necessary to comply with applicable securities laws.

To the extent the Plan or any instrument evidencing an Award provides for issuance of stock certificates to reflect the issuance of shares of Common Stock, the issuance may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

15.3 Indemnification

Each person who is or shall have been a member of the Board, or a committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with Section 3 shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit or proceeding against him or her; provided, however, that he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability or expense is a result of his or her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or of any power that the Company may have to indemnify them or hold them harmless.

15.4 No Rights as a Shareholder

Unless otherwise provided by the Committee or in the instrument evidencing the Award or in a written employment or services agreement, no Option or Award denominated in units shall entitle the Participant to any cash dividend, voting or other right of a shareholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award.

15.5 Compliance with Laws and Regulations

Notwithstanding anything in the Plan to the contrary, the Committee, in its sole discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to Participants who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Participants.

Additionally, in interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

15.6 Participants in Other Countries

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with provisions of the laws of other countries in which the Company or any Affiliate may operate to ensure the viability of the benefits from Awards granted to Participants employed in such countries, to comply with applicable foreign laws and to meet the objectives of the Plan.

15.7 No Trust or Fund

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require the Company to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of the Company.

15.8 Successors

All obligations of the Company under the Plan with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all the business and/or assets of the Company.

15.9 Severability

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Committee's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

15.10 Choice of Law

The Plan, all Awards granted thereunder and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the laws of the United States, shall be governed by the laws of the State of Oklahoma without giving effect to principles of conflicts of law.

Section 16. Effective Date

The Plan was effective June 5, 2008 (the "Effective Date"), and the Plan was amended effective April 3, 2014, subject to shareholder approval of the Plan within twelve months of the date of such amendment.

Exhibit 10.28

LSB INDUSTRIES, INC.
RETENTION BONUS AGREEMENT

This LSB INDUSTRIES, INC., RETENTION BONUS AGREEMENT (the "**Agreement**") is by and between LSB Industries, Inc., a Delaware corporation, (the "Company") and [____________] (the "**Employee**") effective as of the Effective Date.

WHEREAS, the Company recognizes the important goal of retaining the Employee as an employee of the Company and its successors, and

WHEREAS, in furtherance of that goal, the Company wishes to provide an additional financial incentive for the Employee to remain an employee of the Company for the period of time specified herein.

NOW, THEREFORE, the Company and the Employee agree as follows:

1. **Purpose**. The purpose of this Agreement is to provide a financial incentive for the Employee to remain in the employ of the Employer.

2. **Definitions**. The following terms when used herein shall have the meanings set forth below, unless the context clearly indicates to the contrary.

(a) "**Board**" means the Board of Directors of the Employer.

(b) "**Cause**" means, (i) a violation of the Company's substance abuse policy; (ii) refusal or inability (other than by reason of death or disability) to perform the duties assigned to the Employee or unacceptable performance of the same; (iii) acts or omissions evidencing a violation of the Employee's duties of loyalty and good faith; candor; fair and honest dealing; integrity; or full disclosure to the Company, as well as any acts or omissions which constitute self-dealing; (iv) disobedience of orders, policies, regulations, or directives issued to the Employee by the Company, including policies related to sexual harassment, discrimination, computer use or the like; (v) conviction or commission of a felony, a crime of moral turpitude, or a crime that could reasonably be expected to impair the Employee's ability to perform the Employee's job duties; (vi) revocation or suspension of any necessary license or certification; (vii) willful generation of materially incorrect financial, or engineering projections, compilations or reports; or (viii) a false statement by the Employee to obtain his or her position, in each case as determined by the Company in good faith and in its sole and absolute discretion.

(c) "**Change in Control**" means:

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

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

(iii) A "change in the ownership of a substantial portion of the Company's assets" which shall occur on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets of the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. Any transfer of assets to an entity that is controlled by the stockholders of the Company immediately after the transfer, as provided in guidance issued pursuant to Section 409A of the Internal Revenue Code and the regulations issued thereunder ("**Section 409A**"), shall not constitute a Change in Control.

For purposes of the definition of Change in Control, the provisions of Section 318(a) of the Code regarding the constructive ownership of stock will apply to determine stock ownership; provided, that, stock underlying unvested options (including options exercisable for stock that is not substantially vested) will not be treated as owned by the individual who holds the option. In addition, for purposes of the definition of Change in Control alone, "Company" includes (x) the Company, (y) the entity for whom a the Employee performs the services for which the Restricted Stock are granted, and (z) an entity that is a stockholder owning more than 50% of the total fair market value and total voting power (a "Majority Stockholder") of the Company or the entity identified in (y) above, or any entity in a chain of entities in which each entity is a Majority Stockholder of another entity in the chain, ending in the Company or the entity identified in (y) above.

(d) "**Disability**" means as that the Employee (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer. Notwithstanding the forgoing, all determinations of whether the Employee is Disabled shall be made in accordance with Section 409A and guidance thereunder.

(e) "**Effective Date**" means [____________].

(f) "**Employer**" means the Company and any successor to the Company.

(g) "**Involuntary Termination**" means the Employee's "separation from service" (within the meaning of Treasury Regulation § 1.409A-1(h)) with the Employer by the Employer for any reason other than Cause at any time after the Effective Date and prior to the two-year anniversary of the Effective Date.

(h) "**Retention Date**" means the earliest to occur of (i) the date that is the two-year anniversary of the Effective Date, (ii) the date of an Involuntary Termination, or (iii) the date of the closing of a Transaction.

(i) "**Transaction**" means (i) a sale of the facility at which the Employee works, (ii) a sale of the business unit in which the Employee works (e.g., Climate control Business, Chemicals business or Engineered Products Business), or (iii) a Change in Control of the Company.

3. Retention Bonus Pay.

(a) Provided that the Employee (i) is continuously employed by the Employer for the period beginning on the Effective Date and ending on the Retention Date and (ii) executes and does not revoke the release described in Section 6 in the time permitted therein to do so, then the Employee shall be entitled to receive a single lump sum cash payment of [____________] (the "**Retention Bonus**"), payable to the Employee within 60 days following the Retention Date. The provision of the benefits set forth in this Section 3(a) are subject to Sections 3(b), 3(c) and 3(d).

(b) In the event the Employee (i) incurs a separation from service with the Employer by reason of death or Disability prior to the Retention Date, and (ii) executes, or if applicable, Employee's estate or legal representative executes, and does not revoke the release described in Section 6 in the time permitted therein to do so, then the Employee or Employee's estate, as applicable, shall be entitled to receive a pro-rata portion of the Retention Bonus, with such pro-rata portion calculated by multiplying the value of the Retention Bonus by a fraction, the numerator of which is the number of days that have elapsed from the Grant Date through the date of such separation from service and the denominator of which shall be 730 (the "**Pro-Rata Retention Bonus**"). The Pro-Rata Retention Bonus shall be paid to the Employee or the Employee's estate, as applicable, within 60 days following the date of separation from service due to death or Disability. The provision of the benefits set forth in this Section 3(b) are subject to Sections 3(c) and 3(d).

(c) In the event the Employee incurs a separation from service with the Employer for any reason other than death of Disability (as provided in Section 3(b)) prior to the Retention Date, no Retention Bonus shall be paid.

(d) The Employer shall withhold any and all taxes on the payment of the Retention Bonus as may be required by applicable law.

4. Overpayment. If, due to mistake or any other reason, the Employee receives benefits under this Agreement in excess of what this Agreement provides, the Employee shall repay the overpayment to the Employer in a lump sum within 30 days of notice of the amount of overpayment. If the Employee fails to so repay the overpayment, then without limiting any other remedies available to the Employer, the Employer may deduct the amount of the overpayment from any other benefits which become payable to the Employee by the Employer.

5. Set Off. Notwithstanding anything in this Agreement to the contrary, the Retention Bonus payable under Section 3 of this Agreement shall be reduced by any amounts due to the Employer by the Employee or any property of the Employer retained by the Employee following termination of employment.

6. Release and Other Agreements. Notwithstanding any other provision in this Agreement to the contrary, as consideration for receiving benefits under this Agreement, the Employee may be required to execute (and not revoke) a general release as may be reasonably requested by the Employer, pursuant to the procedures established by the Employer. If the Employee fails to properly execute such release (or revokes such release), the Employee shall not receive any benefits under this Agreement.

7. Not a Contract of Employment. This Agreement is not an employment contract for any definite period of time. This Agreement shall have no effect whatsoever on the at-will employment relationship between the Employee and the Employer. Nothing herein shall be deemed to give the Employee the right to be retained in the employ of the Employer or to restrict the right of the Employer to discharge the Employee at any time and for any reason, with or without cause or notice. This Agreement is a bonus-retention plan and, as such, does not constitute an arrangement subject to the Employee Retirement Income Security Act of 1974, as amended. This Agreement shall not give the Employee any security or other interest in any assets of the Employer; rather the Employee's right

to the Retention Bonus provided under this Agreement shall be those of a general unsecured creditor of the Employer.

8. Term. This Agreement will expire on the earlier to occur of (a) the payment of all amounts due pursuant to this Agreement following the Retention Date, or (b) the Employee's separation from service other than due to an Involuntary Termination.

9. Severability. In the event that any provision of this Agreement, or the application thereof to any person or circumstance, is held by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect under present or future laws effective during the effective term of any such provision, such invalid, illegal or unenforceable provision shall be fully severable; and this Agreement shall then be construed and enforced as if such invalid, illegal, or unenforceable provision had not been contained in this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of each such illegal, invalid, or unenforceable provision, there shall be added automatically as part of this Agreement, a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

10. Choice of Law. This Agreement shall be interpreted and construed in accordance with and shall be governed by the laws of the State of Oklahoma, without reference to principles of conflict of laws, and, when applicable, the laws of the United States.

11. Entire Agreement. This Agreement constitutes the entire agreement between the Company and the Employee relating to the Retention Bonus. Any previous agreement with respect to this matter is superseded by this Agreement. No term, provision or condition of this Agreement may be modified in any respect except by a writing executed by both of the parties hereto. No person has any authority to make any representation or promise not set forth in this Agreement. This Agreement has not been executed in reliance upon any representation or promise except those contained herein.

12. Acknowledgment of Terms. The Employee acknowledges that he has carefully read this Agreement; that he has had the opportunity for review of it by an attorney of his choosing; that he fully understands its final and binding effect; that the only promises or representations made to him to sign this Agreement are those stated herein; and that he is signing this Agreement voluntarily.

13. Assignment. The Employee may not assign his rights or obligations under this Agreement to any other.

14. Waiver Under Agreement. The failure of the Employer or the Employee to enforce or require timely compliance with any term or provision of this Agreement shall not be deemed to be a waiver or relinquishment of rights or obligations arising hereunder, nor shall such a failure preclude the enforcement of any term or provision or avoid the liability for any breach of this Agreement.

15. Successors. This Agreement shall be binding upon the Company and its successors and assigns. Except in the case of a merger or reorganization involving the Company with respect to which under applicable law the surviving corporation of such transaction will be obligated under this Agreement in the same manner and to the same extent as the Company would have been required if no such merger had taken place, the Company will require any successor (whether direct or indirect, by purchase or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

16. Attorneys' Fees. If any action is initiated to enforce this Agreement, each party shall bear its own costs and attorneys' fees.

17. Headings. The headings of the Sections herein are included solely for convenience. If the headings and the text of this Agreement conflict, the text shall control.

18. Section 409A. The Retention Bonus and the Pro-Rata Retention Bonus described herein are intended to be exempt from Section 409A pursuant to the exception thereunder for "short-term deferrals," within the meaning of the Section 409A.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

EXECUTED on this ______ day of [____________], to be effective as of the Effective Date.

LSB INDUSTRIES, INC.

By: ______________________________

[____________]

____

[____________]

Employee

Exhibit 10.46

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE CONFIDENTIAL TREATMENT OF THOSE TERMS HAS BEEN REQUESTED. THE REDACTED MATERIAL HAS BEEN SEPARATELY SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***).

NINTH AMENDMENT TO ANHYDROUS AMMONIA SALES AGREEMENT

THIS NINTH AMENDMENT TO ANHYDROUS AMMONIA SALES AGREEMENT (this "Ninth Amendment") is dated November 30, 2015, by and between Koch Nitrogen International Sàrl ("Seller") and El Dorado Chemical Company ("Buyer").

WHEREAS, Seller and Buyer are parties to that certain Anhydrous Ammonia Sales Agreement dated December 3, 2008 with an effective date of January 1, 2009, as previously amended (collectively, the "Agreement"), and Buyer and Seller mutually desire to further amend the Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of the mutual covenants and promises herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. Any capitalized term not defined herein shall have the meaning given to such term in the Agreement.

2. TERM. Pursuant to Section B of Article II TERM of the Agreement, the Term shall be extended to the earlier of (i) December 31, 2016, or (ii) the date on which Buyer's ammonia plant located at El Dorado, Arkansas comes on stream.

3. ADDER. Effective January 1, 2016, Section B of Article VI PRICE of the Agreement shall be deleted in its entirety and replaced with the following:

"B. Adder. Adder shall equal ***."

4. RATIFICATION OF AGREEMENT. Except as expressly amended herein, the terms, covenants and conditions of the Agreement shall remain in full force and effect without modification or amendment, and the parties hereto ratify and reaffirm the same in its entirety.

5. MISCELLANEOUS. This Ninth Amendment shall be governed by and construed in accordance with the governing law set forth in the Agreement, without regard to the conflicts of laws principles. In the event that the terms of the Agreement conflict or are inconsistent with those of this Ninth Amendment, the terms of this Ninth Amendment shall govern. The provisions of this Ninth Amendment shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective representatives, successors, and assigns. This Ninth Amendment may be executed in counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same agreement. This signed Ninth Amendment or counterparts may be transmitted electronically or stored electronically as a photocopy (such as in .pdf format). The parties agree that electronically transmitted or stored copies will be enforceable as original documents.

IN WITNESS WHEREOF, the parties have caused this Ninth Amendment to be effective on the day and year first written above.

Koch Nitrogen International Sàrl

By: /s/ Jason Kubik
Name: Jason Kubik
Title: Managing Director

El Dorado Chemical Company

By: /s/ Anne O. Rendon
Name: Anne Rendon
Title: Vice President

Exhibit 10.49

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE CONFIDENTIAL TREATMENT OF THOSE TERMS HAS BEEN REQUESTED. THE REDACTED MATERIAL HAS BEEN SEPARATELY SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***).

AMMONIA PURCHASE AND SALE AGREEMENT

1. Effective Date	November 2, 2015
2. Buyer	Koch Fertilizer, LLC ("**Buyer**")
3. Buyer Contact Information	Attention: Dion Mick Address: 4111 East 37th Street North, Wichita, Kansas 67220 Phone: 316-828-4694 Email: Dion.Mick@kochind.com
4. Seller	El Dorado Chemical Company ("**Seller**")
5. Seller Contact Information	Attention: Tony Shelby, Sr. Vice President and Anne Rendon, Vice President Address: 16 S. Pennsylvania Ave., Oklahoma City, OK 73107 Phone: 405-235-4546 Email: tshelby@lsbindustries.com and arendon@lsbindustries.com
6. Seller's Facility	Seller is constructing an anhydrous ammonia production facility at Seller's site in El Dorado, Arkansas, which facility and related equipment at the site shall meet or exceed the requirements set forth in Appendix I attached hereto and made a part of the Agreement ("**Seller's Facility**"). A portion of the Ammonia produced at Seller's Facility will be used in the Downstream Facilities.
7. Term	The initial term of the Agreement shall commence on the Effective Date and shall terminate after three (3) Contract Years; provided, this Agreement shall automatically continue for one or more additional terms of one (1) Contract Year each unless terminated by either party by delivering written notice of termination at least nine (9) months prior to the end of the initial or any additional term, as applicable (collectively, the "**Term**").
8. Early Termination	In addition to the early termination rights set forth in Section 21, Appendix II and Section 11 of Appendix IV, if the Completion Date does not occur on or before July 31, 2016, then either party may provide written notice to the other party on or before October 31, 2016 (the "**Early Termination Date**") that it is terminating the Agreement, which it may do without liability to any party.. If neither party terminates the Agreement on or before the Early Termination Date, the Agreement will continue in full force and effect.

9. Quantity	Commencing on the Completion Date, Buyer agrees to purchase from Seller, and Seller agrees to sell to Buyer, *** Tons of Ammonia per month ("**Expected Quantity**"). Buyer shall not be required to purchase more than *** Tons of Ammonia in any month, except as may be agreed under the following paragraph of this Section 9. If Seller desires to sell more than the Expected Quantity in any month ("**Excess Quantity**"), then as soon as reasonably practical, Seller shall provide to Buyer written notice prior to the first day of the expected month of delivery. Such notice shall include the amount of Excess Quantity and the proposed delivery schedule. If the parties agree ***, Buyer shall purchase that portion of the Excess Quantity *** in accordance with the terms of this Agreement. If Buyer does not agree in writing within two (2) business days from receipt of Seller's written notice of Excess Quantity to purchase all or any portion of the Excess Quantity (such unpurchased portion of the Excess Quantity herein referred to as "**Unpurchased Quantity**"), Seller shall have the right to sell such Unpurchased Quantity without restrictions in accordance with Section 19, but delivery of the Unpurchased Quantity shall be subject to the maximum pipeline injection rate and any Excess Quantity purchased by Buyer and Buyer's lifting of Expected Quantity shall have priority over deliveries of Unpurchased Quantity.
10. Quantity Determination	Each party shall have the right to witness the measurement of each delivery of Ammonia under the Agreement. All measuring equipment shall be maintained and calibrated in accordance with manufacturer's specifications, as well as any applicable industry, legal or regulatory requirements or methods established for the maintenance and calibration of such measurement equipment. Deliveries by Ammonia Pipeline: The quantity of Ammonia delivered shall be governed by the reading taken at the meter station at the Delivery Point and the associated monthly meter tickets pursuant to the Ammonia Pipeline tariff. Deliveries by Truck: The quantity of Ammonia delivered shall be determined by use of certified scales/meters at Seller's Facility. If the quantity of Ammonia delivered is, in Buyer's reasonable opinion, lower than that which is stated by Seller on the bill of lading, Buyer may, at its option, require that the Ammonia quantity be determined using an independent certified third-party scale service, which quantity determination will be binding upon the parties. The fees of such independent scale service shall be borne by the party whose determination was more incorrect or in error.
11. Specifications	The Ammonia purchased and sold hereunder will meet the following specifications (the "**Specifications**"): Ammonia (NH_3)(% by weight): 99.5% minimum Moisture (% by weight): 0.2 min – 0.5 max Oil: 5 ppm maximum Temperature: Not less than 35 degrees Fahrenheit, nor greater than 85 degrees Fahrenheit Inerts: 0.5cc per gram maximum.

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE CONFIDENTIAL TREATMENT OF THOSE TERMS HAS BEEN REQUESTED. THE REDACTED MATERIAL HAS BEEN SEPARATELY SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***).

12. Quality Determination	Quality of Ammonia shall be provided to Buyer on Seller's certificate of quality, with the frequency of such analysis to be mutually agreed by the parties. If any Ammonia does not meet the Specifications, whether Buyer rejects such Ammonia or acted in reliance upon Seller's warranty or the certificate of analysis provided by Seller, Seller shall bear all reasonable costs, expenses and liabilities associated with or arising out of such non-conforming Ammonia, including removal, delivery, transportation, storage, disposal, cleaning, and any property damage. Buyer shall have the right before loading and delivery and for a period of 15 days after actual receipt of Ammonia at the Ammonia Pipeline or three (3) days after actual receipt of Ammonia for truck loading, to reject any non-conforming Ammonia and to revoke any acceptance of such Ammonia. Buyer will use commercially reasonable efforts to assist Seller in minimizing Seller's damages in the event Seller delivers non-conforming or defective Ammonia.
13. Price	Subject to Appendix II, the price for the Expected Quantity delivered to Buyer at the Delivery Point shall be determined according to the following formula: ***
14. Payment Terms	Seller shall electronically submit to Buyer a weekly invoice by Tuesday of every week during the month in an amount equal to the Price per Ton based on the previous Friday's Price multiplied by the Tons delivered to Buyer during the period from the previous Monday through Sunday based on the meter reading at the Delivery Point. Buyer shall pay the full amount of each invoice by wire transfer of immediately available funds to such accounts as Seller designates in writing within *** after the invoice date. If the payment due date is a Saturday, Sunday, or holiday where banks are authorized to be closed, Buyer shall make such payment on the business day next succeeding such due date. Interest shall be charged on all past due amounts owed by Buyer hereunder at an interest rate equal to the lesser of 12% per annum and the maximum rate permitted by law, from the payment due date until paid in full. Buyer agrees to accept as originals the electronic copies of invoices from Seller.
15. Forecasts	No later than 45 days prior to the month of delivery of Ammonia, Seller shall notify Buyer in writing of the amount of Expected Quantity that Seller shall make available to Buyer, taking into consideration Seller's planned outages and planned maintenance. In addition, Seller shall also provide a non-binding indication of quantity of Ammonia to be sold to Buyer for the subsequent two (2) months.
16. Delivery and Scheduling	All Ammonia purchased by Buyer under the Agreement shall be delivered to Buyer on a FOB (Seller's Facility) basis in approximately equal daily quantities. Ammonia may be delivered to the Ammonia Pipeline or by trucks. Buyer will be the shipper of record on all Ammonia Pipeline shipments and will be responsible for all pipeline scheduling with the Ammonia Pipeline for deliveries to Buyer. Buyer shall be responsible for any applicable injection fees, transportation fees, taxes or surcharges applicable to the Ammonia after title has passed to Buyer. The parties shall work together to determine the most optimal means for arranging any truck shipments.

17. ***	In the event that Buyer fails to take delivery of the Expected Quantity in any month in accordance with the agreed delivery schedule ("**Unpurchased Ammonia**"), ***. Notwithstanding anything seemingly to the contrary herein, Seller may sell or otherwise dispose of such Unpurchased Ammonia at Seller's sole discretion and without restriction. Notwithstanding the foregoing, Buyer shall not be responsible *** if Buyer's failure described in the preceding paragraph was caused by: (i) Seller's failure to deliver Ammonia in accordance with the agreed delivery schedule, (ii) Seller's Facility not meeting the operating requirements set forth in Appendix I; (iii) lack of availability of the loading area or loading equipment at the Seller's Facility, including pump injection equipment to the Ammonia Pipeline or the inability of Seller to inject the entire Expected Quantity during the month; (iv) rejection or delay by Seller or its agents or representatives of one or more truck(s) where such truck(s) complied with all material requirements of this Agreement; (v) an event of Force Majeure; (vi) Seller's uncured breach of its obligations under this Agreement; or (vii) the Ammonia does not meet the Specifications. *** Seller will use commercially reasonable efforts to sell all or a portion of the Unpurchased Ammonia to reduce or eliminate ***.
18. ***	If Seller fails to deliver Ammonia to Buyer in any month in accordance with the agreed delivery schedule and such failure is not (a) requested by Buyer; (b) caused by an event of Force Majeure, or (c) caused by planned maintenance or a planned turnaround, Seller shall ***. Seller's liability under this Section 18 is limited to *** for each Contract Year. ***
19. Exclusivity and Other Rights	Buyer shall have the exclusive right to purchase all Ammonia in excess of Seller's or Seller's Affiliate's requirements for its Downstream Facilities; provided and except, that Seller may sell Ammonia (i) to the agricultural market, but only if delivered by truck, (ii) to *** and (iii) that constitutes Unpurchased Quantity. Seller acknowledges and agrees that, in addition to all other remedies available (at law or otherwise) to Buyer, Buyer shall be entitled to equitable relief (including injunction and specific performance) as a remedy for any breach or threatened breach of any provision of this Section 19, and Buyer shall not be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 19, and Buyer waives any right it may have to require that Buyer obtain, furnish or post any such bond or similar instrument.
20. Title and Risk of Loss	Title to, and risk of loss, damage and contamination of, the Ammonia shall pass to Buyer when the Ammonia passes the Delivery Point. Ammonia shall be deemed "delivered" at such time as title passes. Prior to passage of title of the Ammonia to Buyer, Seller assumes all risk and liability, and Buyer shall not be liable to Seller for any loss or damage to persons, property or the environment arising out or related to the Ammonia prior to delivery.

21. Force Majeure	The parties will be excused from their respective performances hereunder if performance is prevented or delayed by any acts of God or circumstance beyond the reasonable control of the party seeking excuse from performance, including without limitation, fire, explosion, flood, unusually severe or abnormal weather, riots or other civil disturbances, wars, acts of terrorism, actions of governments, shutdown or curtailment of the natural gas pipeline or Ammonia Pipeline for any reason, compliance with any law or change in law implemented, adopted or promulgated after the date of the Agreement, or strikes, lockouts or other labor difficulties, mechanical equipment failures, or any necessity to not operate, or to reduce operation of, equipment in order to protect the safety of people or to protect the environment for a period extending for more than five (5) consecutive days ("**Force Majeure**"). Promptly after a party determines a Force Majeure condition exists, that party will notify the other party in writing of the circumstances and consequences claimed and will use commercially reasonable means to remove the cause(s) in question. For the avoidance of doubt, unavailability of raw materials shall not be deemed a Force Majeure unless such failure is caused by circumstances beyond the reasonable control of Seller's suppliers that would constitute a Force Majeure under the Agreement. In no event shall a change in market conditions, price of raw materials or other financial change be deemed to be a Force Majeure. Neither party will be obligated to settle any demands of, or disputes with, laborers. If such notice is not given within 72 hours after the party claiming a Force Majeure becomes aware of the existence of such Force Majeure condition, the excuse from performance shall only be effective from and after the date of the notice, otherwise the excuse from performance shall be from the date of the occurrence of such Force Majeure. If quantities of Ammonia are affected by Force Majeure (the "**Force Majeure Quantities**"), Buyer shall have the option (not the obligation) to extend the Term to allow for the delivery of the Force Majeure Quantities within a reasonable period of time as determined by Buyer or to delete the Force Majeure Quantities from the Agreement, but the Agreement will otherwise continue in full force and effect for the Term. Notwithstanding anything herein to the contrary, if the Force Majeure lasts for more than 180 consecutive days, then either party, at its option, may terminate the Agreement upon written notice to the other party.
22. Definitions	As used in the Agreement, in addition to the terms defined elsewhere herein, the terms noted on Appendix III, attached hereto and incorporated herein, shall have the meanings set forth on Appendix III.
23. Terms and Conditions	The Terms and Conditions are hereby attached hereto as Appendix IV and incorporated into and made a part of the Agreement by reference as essential terms and conditions. All purchases by Buyer of Ammonia are expressly limited to and conditioned upon acceptance of such Terms and Conditions, regardless of whether Buyer purchases Ammonia through any media or means, including written purchase orders, electronic orders via EDI, acknowledgements, confirmations, or other writings from Seller to Buyer. Unless such provisions are expressly agreed to by Buyer in a writing (including e-mail), any additional or conflicting terms and conditions contained on, attached to or referenced by Seller's order confirmation or otherwise, or other prior or later communication from Seller to Buyer, shall have no effect on the purchase of any such Ammonia by Buyer from Seller and are expressly rejected by Buyer. In the event of a conflict between the specific provisions of this Agreement and the Terms and Conditions, the specific provisions of this Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement by their duly authorized representatives effective as of the Effective Date.

Seller:
EL DORADO CHEMICAL COMPANY

By: /s/ Anne O. Rendon
Print: Anne O. Rendon
Title: Vice President

Date: 11/2/15

Buyer:
KOCH FERTILIZER, LLC

By: /s/ Dion Mick
Print: Dion Mick
Title: V.P. – North America Ammonia & Industrial Products
Date: 11-2-15

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE CONFIDENTIAL TREATMENT OF THOSE TERMS HAS BEEN REQUESTED. THE REDACTED MATERIAL HAS BEEN SEPARATELY SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***).

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Appendix I
Seller's Facility Operating Requirements

Distribution Facilities. Seller agrees to maintain the following distribution facilities at the Seller's Facility:

(a) On or before June 30, 2016, Ammonia storage with the following characteristics:

(i) nominal capacity of *** Tons;

(ii) working capacity of *** Tons;

(iii) low level of *** Tons; and

(iv) high level of *** Tons;

(b) Prior to having the 30,000 Ton storage tank in service, Seller shall have Ammonia storage of *** Tons, with low level of 2,500 Tons;

(c) On or before the Completion Date, injection capacity into the Ammonia Pipeline of *** Tons per hour minimum and *** Tons per hour maximum;

(d) On or before the Completion Date, truck loading capacity of one – two trucks per hour, daylight hours, unless otherwise agreed by the parties.

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Appendix II

***

***

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Appendix III
Definitions

Unless otherwise defined in the Agreement, capitalized or other terms used herein shall have the following meanings:

"**Affiliate**" or "**Affiliates**" with respect to any specified Person means a Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such specified Person. For this definition, "control" (and its derivatives) means the possession, directly or indirectly, of 25% or more of the equity interest (including shares of capital stock, units, interests or other partnership/limited liability company interests) of a Person, or the power, directly or indirectly, to vote 25% or more of the voting equity interest of a Person.

"**Ammonia**" means commercial grade anhydrous ammonia meeting the Specifications.

"**Ammonia Pipeline**" means the anhydrous ammonia pipeline currently owned by NuStar Pipeline Operating Partnership L.P., or any successor thereto.

"**business day**" means any day other than Saturdays, Sundays and national holidays.

"**day**" means a calendar day, including Saturdays, Sundays and national holidays.

"**Completion Date**" means the date Buyer receives written notification from Seller that Seller's Facility is capable of producing the Expected Quantity.

"**Contract Year**" means a one year period commencing on the first day of the month immediately following the Completion Date or any anniversary thereof during the Term. For example, if the Completion Date occurs on May 20, 2016, a Contract Year shall be June 1st to May 31st of the following calendar year.

"**Delivery Point**" means (a) for deliveries by pipeline, the discharge side of the Ammonia Pipeline's Ammonia meter located at Seller's Facility, or (b) for deliveries by truck, the inlet flange of the truck during loading at the Seller's Facility.

***

"**Downstream Facilities**" means nitric acid plants and ammonium nitrate plants or other ammonia consuming plants (including urea and UAN plants if constructed) of Seller at Seller's Facility or of Seller's Affiliates.

"**month"** means a calendar month.

"**Person**" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, unincorporated organization, business, syndicate, sole proprietorship, association, organization, other entity or governmental body.

"**Price**" means the price per Ton of Ammonia as set forth in Section 13 or Appendix II, as applicable.

***

"**Ton**" or "**Tons**" means a U.S. short ton or 2000 pounds.

Unless the context of the Agreement otherwise requires (i) words of any gender are deemed to include the other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby," "hereto," and derivative or similar words refer to this entire Agreement; (iv) the term "Section" refer to the specified Section of the Agreement; (v) the term "including" and other forms of such term, with respect to any matter or thing, means "including but not limited to" such matter or thing; and (vi) all references to "dollars" or "$" refer to currency of the United States.

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Appendix IV
Terms and Conditions

1. TERMS OF SALE. These Terms and Conditions ("**Terms**") shall apply to the Ammonia Purchase and Sale Agreement to which these Terms are attached or referenced (together with these Terms, the "**Agreement**".

2. TAXES AND DUTIES. Buyer shall be responsible for the amount of any applicable sales, use or value added tax imposed on Ammonia as a result of any sale by Buyer hereunder that (a) state or local taxing authorities require Seller to collect from Buyer, and (b) is not subject to an exemption certificate, a direct pay permit or other exemption document. If any sale is so subject to exemption, Buyer shall provide Seller with copies of such documents or other appropriate evidence. Except to the extent described above, Seller shall pay all Taxes which may now or hereafter be imposed on or with respect to the manufacturing or production of the Ammonia. If Buyer is required to pay any Taxes that are Seller's responsibility hereunder, Seller shall reimburse Buyer for such Taxes within 10 days of notice hereunder.

3. DELIVERIES. Either party may reject any trucks, transports, containers or storage presented for loading/unloading/transfer or refuse to load/unload, transfer or handle any Ammonia which in either case, in such party's sole opinion, would present an unsafe or potential unsafe situation.

4. COMPLIANCE WITH LAW. Each party agrees to comply with all applicable laws, treaties, conventions, directives, statutes, ordinances, rules, regulations, orders, writs, judgments, injunctions or decrees of any governmental authority having jurisdiction pertaining to the performance of its obligations under the Agreement.

5. HAZAR

DOUS/TOXIC SUBSTANCES. Seller warrants to Buyer that: no Ammonia is or will be the product, or by-product, of any hazardous or toxic waste as defined by applicable law; and Seller will supply Buyer on a timely basis with Safety Data Sheets (SDS) for the Ammonia, which SDS will be complete and accurate, including in the disclosing of risks and dangers of the Ammonia and of handling or processing the same.

6. WARRANTY AND INDEMNIFICATION. (a) Seller warrants that at the time of delivery, (i) the Ammonia shall conform to the Specifications, (ii) Seller will deliver good title to the Ammonia and that the Ammonia shall be delivered free of liens or encumbrances; and (iii) Seller has complied in all respects with all laws applicable to the production, handling, transportation and delivery of the Ammonia. SELLER DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS OF THE AMMONIA FOR A PARTICULAR PURPOSE.

(b) Seller warrants that the production or sale of the Ammonia delivered hereunder will not infringe the claims of any patent or proprietary or intellectual property of any third-party (a "**Third-Party Intellectual Property Right**"). Seller shall indemnify, defend, and hold Buyer (and its Affiliates and its and their respective officers, directors, employees and representatives) harmless from and against any and all claims, liabilities or losses arising from or in connection with any claim that the Ammonia or the sale of Ammonia infringes or violates any Third-Party Intellectual Property Right.

7. LIMITATIONS. Notwithstanding anything to the contrary in this Agreement or applicable law, in no event will either party be liable to the other party for any lost or prospective profits, indirect, incidental, consequential, special, exemplary or punitive damages, including, without limitation, lost earnings, lost profits or business interruption, under any claim, whether based upon a party's negligence, breach of warranty, strict liability, in tort or any other cause of action.

8. GOVERNING LAW AND VENUE FOR DISPUTES. The validity, performance, construction, and effect and all matters arising out of or relating to the Agreement shall be interpreted in accordance with the laws of the State of New York (U.S.A.), without regard to its conflicts of law rules. The United Nations Convention on Contracts for the International Sale of Goods or any subsequently enacted treaty or convention shall not apply or govern the Agreement or the performance thereof or any aspect of any dispute arising therefrom. Any action or proceeding between Buyer and Seller relating to the Agreement shall be commenced and maintained exclusively in the state or federal courts in the state of Delaware (U.S.A.), and Seller submits itself unconditionally and irrevocably to the personal jurisdiction of such courts. BUYER AND SELLER EACH WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION, CLAIM OR PROCEEDING RELATING TO THE AGREEMENT.

9. SUCCESSOR AND ASSIGNS. The Agreement binds and inures to the benefit of Buyer and Seller and their respective successors and assigns expressly permitted by the Agreement. Neither party may assign any interest in, nor delegate any obligation under the Agreement, by operation of law or otherwise, without the other party's prior written consent. Upon any such permitted assignment, however, the assigning party shall not be relieved of any liability under the Agreement. Any assignment or attempted assignment in contravention of the foregoing shall be null and void, and shall be considered a breach of the Agreement.

10. AMENDMENT. Neither party shall claim any amendment, modification or release of any provisions hereof unless the same is in writing and such writing: (i) specifically refers to the Agreement; (ii) specifically identifies the term amended; and (iii) is signed by duly authorized representatives of Seller and Buyer. No salesperson is authorized to bind either party.

11. DEFAULT, LIABILITY AND TERMINATION. Upon the occurrence of any of the following events, (i) the failure of any party to perform any of its other obligations under the Agreement and such failure is not excused or cured within 30 days after receipt of written notice from the other party, or (ii) upon the occurrence of a Bankruptcy Event (as defined below), then the non-defaulting or non-bankrupt party, in its discretion and upon written notice to the other party (provided no notice shall be required in the event of a Bankruptcy Event), may do any one or more of the following in addition to any other right or remedy it may have in the Agreement or under law or in equity: (a) suspend performance under the Agreement; (b) terminate the Agreement, whereby any and all obligations of the defaulting or bankrupt party, including payments or deliveries due, will, at the option of the terminating party, become immediately due and payable or deliverable, as applicable; and/or (c) Set-off against any amount that the terminating party owes to the defaulting or bankrupt party under the Agreement, in each case subject to Section 7 of these Terms. "**Bankruptcy Event**" means the occurrence of any of the following events with respect a party: (i) filing of a petition or otherwise commencing, authorizing or acquiescesing in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law; (ii) making of an assignment or any general arrangement for the benefit of creditors; (iii) having a bankruptcy petition filed against it and such petition is not withdrawn or dismissed within 30 days after such filing; (iv) otherwise becoming bankrupt or insolvent (however evidenced); (v) having a liquidator, administrator, custodian, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (vi) being generally unable to pay its debts as they fall due.

12. CONFIDENTIALITY. Except as may be agreed to in writing on a case by case basis or as may be necessary to perform its obligations herein, during the Term and for a period of one (1) year thereafter, both parties shall maintain in confidence the terms of the Agreement and all information concerning costs and price to be disclosed in connection with the other's performance under the Agreement. Such information shall be disclosed to no one other than (i) Affiliates, employees and representatives who need to know the same in connection with performance under the Agreement, and who are advised of the confidential nature of such information, or (ii) when disclosure is required by law. The obligations under Section 12 of each party, as recipient, shall not apply to such information that (a) was or is in the public domain through no fault of such recipient, (b) was rightfully in recipient's possession free of any obligation of confidence, (c) was developed by recipient independently of and without reference to any confidential information communicated to such recipient by discloser, or (d) was communicated by the discloser to an unaffiliated third-party free of any obligation of confidence.

13. PUBLIC ANNOUNCEMENTS. Neither party shall issue any press release or public announcement concerning the Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other party hereto, which approval will not be unreasonably withheld or delayed, unless, in the judgment of Buyer or Seller, disclosure is otherwise required by law, provided that, even in such circumstances, the party intending to make such release shall use commercially reasonable efforts consistent with such law to consult with the other party with respect to the text thereof.

14. INDEPENDENT CONTRACTORS. Buyer and Seller are independent contractors only and are not partners, master/servant, principal/agent or involved herein as parties to any other similar legal relationship with respect to the transactions contemplated under the Agreement or otherwise; and no fiduciary relationship, nor any other relationship imposing vicarious liability shall exist between the Parties under the Agreement or otherwise at law.

15. NOTICES. Any notice given under the terms of the Agreement shall be in writing and shall be either delivered by hand; mailed by first class, registered, or certified mail with return receipt requested and postage prepaid; or sent by facsimile transmission; or sent prepaid by overnight courier, to the address specified in Section 3 and 5 of the Agreement or otherwise specified in a notice delivered by a party under this Section 15; provided that, any agreement around Excess Quantity or forecasts and scheduling may be provided via e-mail to personnel designated by the receiving party. Notice shall be deemed received upon delivery personally or by fax on a business day of the recipient with a notice of receipt or within seven (7) days if mailed by registered or certified mail, return receipt requested.

16. SURVIVABILITY. The Agreement, and all covenants, promises, agreements, conditions, warranties, representations and understandings contained in this Agreement shall survive the termination or expiration of the Term for purposes of enforcement of rights occurring prior to such termination or expiration.

17. SET-OFF. Each party reserves the right, at any time, to Set-off against any amount that the other party owes to such party under this Agreement. The party invoking the Set-off shall provide written notice to the other party prior to doing so. "**Set-off**" means set-off, offset, combination of accounts, netting of dollar amounts of monetary obligations, right of retention or withholding or similar right to which such party is entitled; provided, that it arises under this Agreement.

18. MISCELLANEOUS. These Terms supersede any terms and conditions of previous dates, and if there is a conflict between these Terms and the specific provisions contained in the Agreement, the specific provisions contained in the Agreement shall control. Capitalized terms not defined herein shall have the meanings set forth in the Agreement. The captions and section headings set forth in the Agreement are for convenience only and shall not be used in defining or construction any of the terms and conditions of the Agreement. Waiver by either party of any

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breach of the terms and conditions contained in the Agreement will not be construed as a waiver of any other or continuing breach. Except where specifically noted in this Agreement, any right or remedy specified in the Agreement shall be in addition to, and not exclusive of, any other right or remedy of under contract, law or equity. The invalidity or unenforceability of any provision of the Agreement shall not affect the validity or enforceability of its other provisions. The Agreement is solely for the benefit of Buyer and Seller and shall not be deemed to confer upon or give to any third-party any right, claim, cause of action or interest herein. Nothing in the Agreement shall be construed against either party as the alleged drafter thereof. No course of dealing, course of performance, or usage of trade shall be considered in the interpretation or enforcement of the Agreement. The Agreement contains the entire understanding of the parties hereto with regard to the subject matter contained herein. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

SECURITY AGREEMENT

dated as of

August 7, 2013

among

LSB INDUSTRIES, INC.

and

THE OTHER GRANTORS
IDENTIFIED HEREIN

in favor of

UMB BANK, N.A.,

as Collateral Agent

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Exhibit 1 Form of Supplement

This SECURITY AGREEMENT, dated as of August 7, 2013 (as amended, supplemented, amended and restated or otherwise modified from time to time, this "Security Agreement"), is made by LSB INDUSTRIES, INC., a Delaware corporation (the "Issuer"), and each of the other entities listed on the signature pages hereof or that become a party hereto pursuant to Section 7.15 (together with the Issuer, the "Grantors", and each individually, a "Grantor"), in favor of UMB Bank, n.a., as collateral agent under the Indenture (as defined below) (together with its successor(s) thereto in such capacity, the "Collateral Agent") for each of the Secured Parties (as defined below).

W I T N E S S E T H :

WHEREAS, pursuant to the Indenture dated as of August 7, 2013 (as amended, supplemented, amended and restated or otherwise modified from time to time, the "Indenture") by and among the Issuer, the other Grantors party thereto, the Collateral Agent and UMB Bank, n.a., as trustee (the "Trustee"), the Issuer is issuing $425,000,000 7.75% Senior Secured Notes due 2019 (together with any Additional Securities issued from time to time under the Indenture, the "Securities");

WHEREAS, pursuant to the Indenture, the Issuer and the other Grantors are entering into this Security Agreement in order to grant to the Collateral Agent, for the benefit of the Secured Parties, a security interest in the Collateral (as defined below);

WHEREAS, each Grantor will derive substantial direct and indirect benefits from the transactions contemplated by the Securities Documents (as defined below); and

WHEREAS, as a condition precedent to the consummation of the offering of the Securities, each Grantor is required to execute and deliver this Security Agreement to the Collateral Agent;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Grantor agrees, for the benefit of each Secured Party, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Terms. The following terms (whether or not underscored) when used in this Security Agreement, including its preamble and recitals, shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof):

"Accounts" means all of each Grantor's now owned or hereafter acquired right, title and interest with respect to "accounts" (as that term is defined in the UCC), and any and all supporting obligations in respect thereof.

"Amended ABL Revolver Loan" means the Amended and Restated Loan and Security Agreement dated as of November 5, 2007, by and among the Issuer, certain direct and indirect Subsidiaries of the Issuer, the lenders from time to time party thereto and Wells Fargo Capital Finance, Inc., as administrative agent, as amended, supplemented, amended and restated or otherwise modified from time to time.

"Article 9 Collateral" means all of the Collateral other than the Pledged Collateral.

"Books" means all of each Grantor's now owned or hereafter acquired books and records (including all of its records indicating, summarizing, or evidencing its assets (including the Collateral) or liabilities, all of its records relating to its business operations or financial condition, and all of its goods or General Intangibles related to such information).

"Collateral" is defined in Section 2.1.

"Collateral Agent" is defined in the preamble.

"Discharge of ABL Obligations" has the meaning specified in the Intercreditor Agreement.

"Equipment" means all of each Grantor's now owned or hereafter acquired right, title, and interest with respect to equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, vehicles (including motor vehicles), tools, parts, goods (other than consumer goods, farm products or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"Excluded Assets" means the collective reference to:

(1) any fee-owned real property with a fair market value equal to or less than $10,000,000 (other than any Existing Lien Real Property Collateral (as defined in the Intercreditor Agreement) and any Issue Date Real Property Collateral);

(2) all leasehold interests in real property;

(3) motor vehicles, airplanes and other assets subject to certificates of title;

(4) Letter-of-Credit rights and Commercial Tort Claims;

(5) any governmental licenses or state or local franchises, charters and authorizations to the extent a security interest in such licenses, franchises, charters or

authorizations are prohibited or restricted thereby (other than to the extent that any such prohibition would be rendered ineffective pursuant to any other applicable requirements of law, including pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the UCC);

(6) pledges and security interests prohibited or restricted by applicable law (including any requirement to obtain the consent of any governmental authority or third party);

(7) any lease, license or agreement or any property subject to such agreement to the extent that a grant of a security interest therein would violate or invalidate such lease, license or agreement or create a right of termination in favor of any other party thereto or otherwise require consent thereunder (after giving effect to the applicable anti-assignment provisions of the UCC or other applicable law) (including, for the avoidance of doubt, the collateral securing the Secured Equipment Note), other than proceeds and receivables thereof, the assignment of which is expressly deemed effective under the UCC or other applicable law notwithstanding such prohibition;

(8) any assets of a Grantor to the extent that a security interest in such assets would reasonably be expected to result in material adverse tax consequences, as reasonably determined in good faith by such Grantor;

(9) any intent-to-use trademark application prior to the filing of a “Statement of Use” or “Amendment to Allege Use” with respect thereto, to the extent, if any, that, and solely during the period, if any, in which, the grant of a security interest therein would impair the validity or enforceability of such intent-to-use trademark application under applicable federal law;

(10) stock and assets of Unrestricted Subsidiaries;

(11) interests in joint ventures and non-wholly owned subsidiaries which cannot be pledged without the consent of third parties after giving effect to the applicable anti-assignment provisions of the UCC or other applicable law;

(12) Capital Stock representing voting stock in excess of 65% of the outstanding voting stock of any Foreign Subsidiary;

(13) rolling stock;

(14) property and assets of Zena and El Dorado Nitrogen, L.P.;

(15) General Intangibles (other than those equity interests of each limited liability company, limited partnership or other business entity that is a Restricted Subsidiary);

(16) Intellectual Property; and

(17) assets as to which the Collateral Agent and the Issuer reasonably determine that the cost of obtaining a security interest therein exceeds the practical benefit to the Secured Parties afforded thereby.

"Fixtures" means all "fixtures" as such term is defined in the UCC, now owned or hereafter acquired by any Grantor.

"General Intangibles" means all of each Grantor's now owned or hereafter acquired right, title, and interest with respect to "general intangibles" as that term is defined in the UCC (including payment intangibles, contract rights, rights to payment, proprietary rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, catalogs, money, deposit accounts, insurance premium rebates, tax refunds and tax refund claims) and any and all supporting obligations in respect thereof.

"Global Intercompany Note" means a promissory note evidencing all Indebtedness of the Issuer and its Subsidiaries that, in each case, is owing to any Grantor from time to time.

"Grantor" and "Grantors" are defined in the preamble.

"Indefeasible Payment and Performance of All Secured Obligations" means the indefeasible payment in full, in cash, and performance in full of all of the Secured Obligations.

"Intellectual Property" means patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, service marks, trade names, trade styles, patent applications, trademark applications and service mark applications, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge and know-how used in or necessary to the business of any Grantor; any licenses and rights related to any of the foregoing; all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing; and all rights to sue for past, present and future infringement of any of the foregoing.

"Inventory" means all of each Grantor's now owned or hereafter acquired right, title, and interest with respect to inventory, including goods held for sale or lease or to be furnished under a contract of service, goods that are leased by a Grantor as lessor, goods that are furnished by a Grantor under a contract of service and raw materials, work in process or materials used or consumed in a Grantor's business.

"Issue Date Real Property Collateral" means the fee-owned real property listed on Schedule 1.

"Negotiable Collateral" means all of each Grantor's now owned or hereafter acquired right, title and interest with respect to Instruments, promissory notes, drafts, Documents and chattel paper (including electronic chattel paper and Tangible Chattel Paper), and any and all supporting obligations in respect thereof. Negotiable Collateral excludes any Excluded Assets.

"Other Pari Passu Lien Obligations" means any Indebtedness or other Obligations (including Hedging Obligations) having pari passu lien priority relative to the Securities with respect to the Collateral and that is not secured by any other assets and, in the case of Indebtedness for borrowed money, has a stated maturity that is equal to or longer than the Securities; provided that an authorized representative of the holders of such Indebtedness (other than Additional Securities) shall have executed a joinder to the Security Documents and the Intercreditor Agreement.

"Perfection Certificate" means the Perfection Certificate dated the Issue Date delivered by the Issuer to the Collateral Agent pursuant to Section 5(s) of the Purchase Agreement.

"Pledged Certificated Stock" means all certificated securities and any other Capital Stock of any material Restricted Subsidiary evidenced by a certificate, instrument or other similar document (each as defined in the UCC), in each case owned by any Grantor, and any distribution of property made on, in respect of or in exchange for the foregoing from time to time, including all Capital Stock listed on Schedule 3.5. Pledged Certificated Stock excludes any Excluded Assets.

"Pledged Collateral" means, collectively, the Pledged Stock, the Pledged Debt Instruments and the Pledged Investment Property.

"Pledged Debt Instruments" means all right, title and interest of any Grantor in instruments evidencing any Indebtedness owed to such Grantor or other obligations owed to such Grantor, and any distribution of property made on, in respect of or in exchange for the foregoing from time to time, including all instruments evidencing Indebtedness described on Schedule 3.5, issued by the obligors named therein. Pledged Debt Instruments excludes any Excluded Assets.

"Pledged Investment Property" means all of each Grantor's now owned or hereafter acquired right, title and interest with respect to "investment property" as that term is defined in the UCC, and any and all supporting obligations in respect thereof, other than any Pledged Stock or Pledged Debt Instruments. Pledged Investment Property excludes any Excluded Assets.

"Pledged Stock" means all Pledged Certificated Stock and all Pledged Uncertificated Stock.

"Pledged Uncertificated Stock" means any Capital Stock of any material Restricted Subsidiary that is not Pledged Certificated Stock, including all right, title and interest of any Grantor as a limited or general partner in any partnership not constituting Pledged Certificated Stock or as a member of any limited liability company, all right, title

and interest of any Grantor in, to and under any articles or certificate of incorporation, bylaws or other organizational documents of any partnership or limited liability company to which it is a party, and any distribution of property made on, in respect of or in exchange for the foregoing from time to time, including in each case those interests set forth on Schedule 3.5, to the extent such interests are not certificated. Pledged Uncertificated Stock excludes any Excluded Assets.

"Proceeds" has the meaning set forth in Article 9 of the UCC.

"Secured Obligations" means (a) the Obligations due or secured under the Securities Documents, whether now existing or arising hereafter, including all principal, premium, interest, fees, attorneys fees, costs, charges, expenses, reimbursement obligations, indemnities, guarantees and all other amounts payable under or secured by any Securities Document (including interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to the Issuer or any other Grantor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) and (b) the Other Pari Passu Lien Obligations.

"Secured Parties" means the Trustee, the Collateral Agent, each Holder of the Securities, each other holder of, or obligee in respect of, any obligations in respect of the Securities outstanding at such time and, if applicable, each holder of Other Pari Passu Lien Obligations.

"Security Agreement" is defined in the preamble.

"Securities Documents" means the Securities (including Additional Securities), the Guarantees, the Indenture, the Security Documents and the Intercreditor Agreement.

"Supplement" means an instrument in the form of Exhibit 1, or any other form approved by the Collateral Agent, and in each case reasonably satisfactory to the Collateral Agent.

"UCC" means the New York Uniform Commercial Code, as in effect from time to time.

SECTION 1.2. Other Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Security Agreement, including its preamble and recitals, have the meanings provided in the Indenture, provided that each term defined in the UCC and not defined in this Agreement shall have the meaning specified in the UCC.

ARTICLE II

SECURITY INTEREST

SECTION 2.1.Grant of Security Interest. Each Grantor hereby grants to the Collateral Agent, for its benefit and the ratable benefit of each other Secured Party, a continuing security interest in all of such Grantor's following property, whether now or hereafter existing, owned or acquired by such Grantor, and wherever located (collectively, the "Collateral"):

(a)all Accounts;

(b)all Books;

(c)all Inventory;

(d)all Pledged Stock, Pledged Debt Instruments and Pledged Investment Property;

(e)all Equipment;

(f)all Negotiable Collateral;

(g)all other Goods of such Grantor, whether tangible or intangible and wherever located;

(h)all books, records, writings, databases, information and other property relating to or used in connection with, evidencing, embodying, incorporating or referring to, any of the foregoing; and

(i)all Proceeds of the foregoing and, to the extent not otherwise included, (i) all payments under insurance (whether or not the Collateral Agent is the loss payee thereof) and (ii) all tort claims relating to the foregoing.

Notwithstanding anything hereto the contrary, the Collateral shall not include any of the Excluded Assets; provided, however, that if and when any property shall cease to be an Excluded Asset, a security interest in such property shall be deemed granted therein.

SECTION 2.2.Security for Secured Obligations. This Security Agreement and the Collateral in which the Collateral Agent for the benefit of the Secured Parties is granted a security interest hereunder by the Grantors secure the payment and performance of all of the Secured Obligations.

SECTION 2.3.Grantors Remain Liable. Anything herein to the contrary notwithstanding:

(a)the Grantors will remain liable under the contracts and agreements included in the Collateral to the extent set forth therein, and will perform all of their duties and obligations under such contracts and agreements to the same extent as if this Security Agreement had not been executed;

(b)the exercise by the Collateral Agent of any of its rights hereunder will not release any Grantor from any of its duties or obligations under any such contracts or agreements included in the Collateral; and

(c)no Secured Party will have any obligation or liability under any contracts or agreements included in the Collateral by reason of this Security Agreement, nor will any Secured Party be obligated to perform any of the obligations or duties of any Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 2.4.Security Interest Absolute, etc. This Security Agreement shall in all respects be a continuing, absolute, unconditional and irrevocable grant of security interest, and shall remain in full force and effect until the Indefeasible Payment and Performance of all Secured Obligations. All rights of the Secured Parties and the security interests granted to the Collateral Agent (for its benefit and the ratable benefit of each other Secured Party) hereunder, and all obligations of the Grantors hereunder, shall, in each case, be absolute, unconditional and irrevocable irrespective of:

(a)any lack of validity, legality or enforceability of any Securities Document;

(b)the failure of any Secured Party (i) to assert any claim or demand or to enforce any right or remedy against any Grantor or any other Person under the provisions of any Securities Document or otherwise, or (ii) to exercise any right or remedy against any other guarantor (including any other Grantor) of, or collateral securing, any Secured Obligations;

(c)any change in the time, manner or place of payment of, or in any other term of, all or any part of the Secured Obligations, or any other extension, compromise or renewal of any Secured Obligations;

(d)any reduction, limitation, impairment or termination of any Secured Obligations for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to (and each Grantor hereby waives any right to or claim of) any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any Secured Obligations or otherwise;

(e)any amendment to, rescission, waiver, or other modification of, or any consent to or departure from, any of the terms of any Securities Document;

(f)any addition, exchange or release of any collateral or of any Person that is (or will become) a grantor (including the Grantors hereunder) of the Secured Obligations, or any surrender or non-perfection of any collateral, or any amendment to or waiver or release or addition to, or consent to or departure from, any other guaranty held by any Secured Party securing any of the Secured Obligations; or

(g)any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, any Grantor, any surety or any guarantor.

SECTION 2.5.Postponement of Subrogation. Each Grantor agrees that it will not exercise any rights against another Grantor which it may acquire by way of rights of subrogation under any Securities Document to which it is a party until the Indefeasible Payment and Performance of All Secured Obligations has occurred. No Grantor shall seek or be entitled to seek any contribution or reimbursement from any other Grantor, in respect of any payment made under any Securities Document, until after the Indefeasible Payment and Performance of All Secured Obligations has occurred. Any amount paid to such Grantor on account of any such subrogation rights prior to the Indefeasible Payment and Performance of All Secured Obligations shall be held in trust for the benefit of the Secured Parties and shall immediately be paid and turned over to the Collateral Agent for the benefit of the Secured Parties in the exact form received by such Grantor (duly endorsed in favor of the Collateral Agent, if required), to be credited and applied against the Secured Obligations, whether matured or unmatured, in accordance with Section 6.1. In furtherance of the foregoing, at all times prior to the Indefeasible Payment and Performance of All Secured Obligations, such Grantor shall refrain from taking any action or commencing any proceeding against any other Grantor (or its successors or assigns, whether in connection with a bankruptcy proceeding or otherwise) to recover any amounts in respect of payments made under this Security Agreement to any Secured Party.

SECTION 2.6.Pledged Collateral. (a) Delivery of Pledged Securities. (i) Each Grantor agrees promptly to deliver or cause to be delivered to the Collateral Agent any and all Pledged Certificated Stock (the "Pledged Securities") (A) on the Issue Date, in the case of any such Pledged Securities owned by such Grantor on the Issue Date, and (B) within thirty (30) days following the acquisition thereof by such Grantor, in the case of any such Pledged Securities acquired by such Grantor after the Issue Date.

(ii)Each Grantor will cause (A) all Indebtedness of the Issuer and each Subsidiary of the Issuer that, in each case, is owing to such Grantor to be evidenced by the Global Intercompany Note, (B) the Global Intercompany Note to be pledged and delivered to the Collateral Agent pursuant to the terms hereof and (C) all Indebtedness (other than Permitted Investments) of any Person other than the Issuer or any Subsidiary of the Issuer in a principal amount of $5,000,000 or more that is owing to a Grantor to be evidenced by a promissory note that is pledged and delivered to the Collateral Agent pursuant to the terms hereof.

(iii)Upon delivery to the Collateral Agent, (A) any Pledged Securities shall be accompanied by undated stock powers duly executed by the applicable Grantor in blank or other undated instruments of transfer reasonably satisfactory to the Collateral Agent and by such other instruments and documents as the Collateral Agent may reasonably request and (B) all other property comprising part of the Pledged Collateral shall be accompanied by proper instruments of assignment duly executed by the applicable Grantor in blank and such other

instruments or documents as the Collateral Agent may reasonably request. Each delivery of Pledged Securities after the date hereof shall be accompanied by a schedule describing the Pledged Securities so delivered, which schedule shall be deemed attached to and to supplement Schedule 3.5 and be made a part hereof, provided that failure to provide any such schedule or any error therein shall not affect the validity of the pledge of any Pledged Securities.

(b)Voting Rights; Dividends and Interest. Unless and until an Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified the Grantors that their rights under this Section 2.6(b) are being suspended:

(i)each Grantor shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Collateral or any part thereof for any purpose consistent with the terms of this Security Agreement and the other Securities Documents; provided that such rights and powers shall not be exercised in any manner that could reasonably be expected to materially and adversely affect the rights and remedies of a holder of any Pledged Collateral;

(ii)the Collateral Agent shall execute and deliver to each Grantor, or cause to be executed and delivered to such Grantor, all such proxies, powers of attorney and other instruments as such Grantor may reasonably request for the purpose of enabling such Grantor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to paragraph (b)(i) of this Section 2.6; and

(iii)each Grantor shall be entitled to receive and retain any and all dividends, interest, principal and other distributions paid on or distributed in respect of the Pledged Collateral, but only to the extent that such dividends, interest, principal and other distributions are permitted by, and otherwise paid or distributed in accordance with, the terms and conditions of the Indenture, the other Securities Documents and applicable laws, provided that any noncash dividends, interest, principal or other distributions that would constitute Pledged Stock or Pledged Debt Instruments, whether resulting from a subdivision, combination or reclassification of the outstanding Capital Stock of the issuer of any Pledged Certificated Stock or Pledged Debt Instruments or received in exchange for Pledged Certificated Stock or Pledged Debt Instruments or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Pledged Collateral and, if received by any Grantor, and required to be delivered to the Collateral Agent hereunder, shall not be commingled by such Grantor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Collateral Agent and shall be forthwith delivered to the Collateral Agent in the same form as so received (with any necessary endorsements, stock powers or other instruments of transfer).

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Each Grantor represents and warrants to the Trustee, the Collateral Agent and each other Secured Party as of the date hereof:

SECTION 3.1.Perfection Certificate. A Perfection Certificate has been duly prepared, completed and executed and the information set forth therein, including the exact legal name of each Grantor, is correct and complete as of the Issue Date.

SECTION 3.2.[Reserved.]

SECTION 3.3.Possession of Equipment. Except as otherwise provided for in the Indenture or the Purchase Agreement, each Grantor has possession of its Equipment constituting Collateral, other than (i) Equipment in transit in the ordinary course of business and (ii) Equipment that is in the possession or control of a warehouseman, bailee agent or other Person (other than a Person controlled by or under common control with the applicable Grantor), which other Person holds such Equipment in the ordinary course of its business for purposes of repairing or maintaining such Equipment. In the case of Equipment described in clause (ii) above, no lessor or warehouseman of any premises or warehouse upon or in which such Equipment is located has (i) issued any warehouse receipt or other receipt in the nature of a warehouse receipt in respect of any such Equipment, (ii) issued any document for any such Equipment, (iii) received notification of any Secured Party's interest (other than the security interest granted hereunder) in any such Equipment or (iv) any Lien on any such Equipment.

SECTION 3.4.[Reserved.]

SECTION 3.5.Pledged Collateral. (a) Except as otherwise provided for in the Indenture or the Purchase Agreement, on the Issue Date, the (i) Pledged Stock pledged by such Grantor hereunder is listed on Schedule 3.5 and constitutes that percentage of the issued and outstanding equity of all classes of each issuer thereof as set forth on Schedule 3.5 and (ii) the Pledged Debt Instruments (other than any Pledged Debt Instrument evidencing a Permitted Investment or Indebtedness of any Person (other than the Issuer or any Subsidiary) in a principal amount not in excess of $5,000,000) pledged by such Grantor hereunder (x) are listed on Schedule 3.5 and (y) in the case of the Global Intercompany Note, has been duly authorized and validly issued and constitute legal, valid and binding obligations of the issuers thereof, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other laws affecting creditors' rights generally and to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b)Except for the security interests granted hereunder, each of the Grantors (i) is the direct owner, beneficially and of record, of the Pledged Collateral

indicated on Schedule 3.5 as owned by such Grantor and (ii) holds the same free and clear of all Liens (other than Liens created under the Securities Documents, Permitted Liens and Permitted Collateral Liens).

(c)Except as disclosed on Schedule 3.5 or any supplemental schedule furnished pursuant to Section 2.6(a)(iii), and except for restrictions and limitations imposed by the Securities Documents or securities laws generally, and, in the case of clause (ii), except for limitations existing as of the Issue Date in the articles or certificate of incorporation, bylaws or other organizational documents of any issuer, (i) the Pledged Collateral is freely transferable and assignable, and (ii) none of the Pledged Collateral is subject to any option, right of first refusal, shareholders agreement, charter or bylaw provisions or contractual restriction of any nature that might prohibit, impair, delay or otherwise affect the pledge of such Pledged Collateral hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Collateral Agent of rights and remedies hereunder.

(d)As of the Issue Date, all Pledged Securities been delivered to the Collateral Agent in accordance with Section 2.6(a)(i).

(e)After all Events of Default have been cured or waived, subject to the terms of the Intercreditor Agreement, the Collateral Agent shall return to the applicable Grantor any cash that such Grantor was entitled to retain which was not applied to the Secured Obligations and each Grantor will have the right to exercise the voting and consensual rights and powers that it would otherwise be entitled to exercise pursuant to the terms of paragraph (c) above.

ARTICLE IV

COVENANTS

Each Grantor covenants and agrees that, until the Indefeasible Payment and Performance of All Secured Obligations, such Grantor will perform, comply with and be bound by the obligations set forth below.

SECTION 4.1.Change of Name, etc. The Issuer shall furnish to the Collateral Agent, with respect to the Issuer or any other Grantor, written notice within five (5) business days of any change in such Person’s (i) organizational name, (ii) jurisdiction of organization or formation, (iii) identity or organizational structure, (iv) organizational identification number or (v) location of its chief executive office or its principal place of business. Each Grantor agrees to provide the Collateral Agent with certified organizational documents reflecting any of the changes described in the first sentence of this paragraph within ten (10) business days after receipt of written request therefor from the Collateral Agent. Each Grantor agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest, having the priority required by this Security Agreement, in the Article 9 Collateral. Each

Grantor agrees to notify the Collateral Agent as promptly as practicable if any material portion of the Article 9 Collateral owned or held by such Grantor is damaged, destroyed, or subject to condemnation.

SECTION 4.2.Equipment. (a) Each Grantor shall inform the Collateral Agent of any material additions to or deletions from its Equipment constituting Collateral within ten (10) business days after such addition or deletion. No Grantor shall permit any of its Equipment constituting Collateral to become a Fixture with respect to real property or to become an accession with respect to other personal property with respect to which real or personal property the Collateral Agent does not have a Lien. No Grantor will, without the Collateral Agent's prior written consent, alter or remove any identifying symbol or number on any of such Grantor's Equipment constituting Collateral.

(b)Except as set forth in the Indenture, no Grantor shall, without the Collateral Agent's prior written consent, sell, license, lease as a lessor, or otherwise dispose of any of its Article 9 Collateral.

SECTION 4.3.Maintenance of Perfected Security Interest; Further Assurances, etc. (a) Each Grantor shall take all actions that may be required under applicable law or that may be reasonably requested by the Collateral Agent to maintain the security interest created by this Security Agreement and shall, at its own expense, take any and all actions necessary to defend title to the Article 9 Collateral against all Persons and to defend the security interest of the Collateral Agent in the Article 9 Collateral and the priority thereof against the claims and demands of all Persons at any time claiming any interest therein adverse to the Collateral Agent or any other Secured Party, subject, in each case, to Permitted Liens, Permitted Collateral Liens and the right of such Grantor under the Indenture to dispose of the Collateral.

(b)Each Grantor agrees that, from time to time at its own expense, it will execute and deliver all further instruments and documents, and take all further action, that may be necessary (within ten (10) business days after the need for such action arises) or that the Collateral Agent may request (within ten (10) business days after its receipt of written request therefor from the Collateral Agent) in order to perfect, preserve and protect any security interest granted or purported to be granted hereby or to enable the Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, such Grantor will:

(i)file (and hereby authorize the Collateral Agent to file such UCC financing statements or UCC continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or that the Collateral Agent may request in order to perfect, preserve and protect the security interests and other rights granted or purported to be granted to the Collateral Agent hereby; and

(ii)furnish to the Collateral Agent, from time to time at the Collateral Agent's request, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Collateral Agent may request, all in reasonable detail.

With respect to the foregoing and the grant of the security interest hereunder, each Grantor hereby authorizes the Collateral Agent to file one or more financing or UCC continuation statements, and amendments thereto, relative to all or any part of the Collateral. Each Grantor agrees that a carbon, photographic or other reproduction of this Security Agreement or any UCC financing statement covering the Collateral or any part thereof shall be sufficient as a UCC financing statement where permitted by law.

(c)*Pledged Collateral*. (i) Except for the security interests granted hereunder, each of the Grantors (i) subject to any transfers made in compliance with the Indenture, will continue to be the direct owner, beneficially and of record, of the Pledged Collateral indicated on Schedule 3.5 as owned by such Grantor, (ii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Pledged Collateral (other than Liens created under the Securities Documents, Permitted Liens, Permitted Collateral Liens and transfers made in compliance with the Indenture) and (iii) will defend its title or interest thereto or therein against any and all Liens (other than Liens created under the Securities Documents, Permitted Liens and Permitted Collateral Liens), however arising, of all Persons whomsoever.

(ii)Except as disclosed on Schedule 3.5 or any supplemental schedule furnished pursuant to Section 2.6(a)(iii), and except for restrictions and limitations imposed by the Securities Documents or securities laws generally, and, in the case of clause (ii), except for limitations existing as of the Issue Date in the articles or certificate of incorporation, bylaws or other organizational documents of any issuer, (i) the Pledged Collateral will continue to be freely transferable and assignable, and (ii) none of the Pledged Collateral will be subject to any option, right of first refusal, shareholders agreement, charter or bylaw provisions or contractual restriction of any nature that might prohibit, impair, delay or otherwise affect the pledge of such Pledged Collateral hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Collateral Agent of rights and remedies hereunder.

SECTION 4.4.Other Actions. To further ensure the attachment, perfection and priority of, and the ability of the Collateral Agent to enforce its security interest in, the Collateral, each Grantor agrees, in each case at such Grantor's own expense, to take the following actions with respect to the following Collateral:

(a)*Instruments and Tangible Chattel Paper*. If any Grantor shall at any time hold or acquire any Instrument (other than any instrument with a face amount of less than $1,000,000) or Tangible Chattel Paper, such Grantor shall forthwith endorse, assign and deliver the same to the Collateral Agent,

accompanied by such instruments of transfer or assignment duly executed in blank as the Collateral Agent may from time to time reasonably request within ten (10) business days after its receipt of written request therefor from the Collateral Agent.

(b)*Deposit Accounts.* For each deposit account that any Grantor at any time opens or maintains (other than (A) any deposit account the funds in which are used, in the ordinary course of business, solely for the payment of salaries and wages, workers' compensation, employee medical and dental expenses and similar expenses, (B) deposit accounts the daily balance in which does not at any time exceed $1,000,000 for any such account or $5,000,000 for all such accounts, (C) any deposit account that is a zero-balance disbursement account and (D) any deposit account the funds in which consist solely of (1) funds held by such Grantor in trust for any director, officer or employee of any Grantor or any employee benefit plan maintained by any Grantor or (2) funds representing deferred compensation for the directors and employees of the Grantors), such Grantor shall either (i) cause the depositary bank to agree to comply with instructions from the Collateral Agent to such depositary bank directing the disposition of funds from time to time credited to such deposit account, without further consent of such Grantor or any other Person, pursuant to an agreement reasonably satisfactory to the Collateral Agent, or (ii) arrange for the Collateral Agent to become the customer of the depositary bank with respect to such deposit account, with the Grantor being permitted, only with the consent of the Collateral Agent, to exercise rights to withdraw funds from such deposit account. The Collateral Agent agrees with each Grantor that the Collateral Agent shall not give any such instructions or withhold any withdrawal rights from any Grantor, in each case pursuant to and in accordance with the Intercreditor Agreement, unless an Event of Default has occurred and is continuing or, after giving effect to any withdrawal, would occur. The provisions of this paragraph shall not apply to (A) any deposit account for which any Grantor, the depositary bank and the Collateral Agent have entered into a cash collateral agreement specially negotiated among such Grantor, the depositary bank and the Collateral Agent for the specific purpose set forth therein and (B) deposit accounts for which the Collateral Agent is the depositary.

(c)*Investment Property*. If any Pledged Uncertificated Stock or Pledged Investment Property not in certificated form now or hereafter acquired by any Grantor that is not an Excluded Asset is issued to such Grantor or its nominee directly by the issuer thereof, such Grantor shall notify the Collateral Agent within ten (10) business days after the occurrence thereof and, at the Collateral Agent's request and option, pursuant to an agreement in form and substance reasonably satisfactory to the Collateral Agent, either (i) cause the issuer to agree to comply with instructions from the Collateral Agent as to such securities, without further consent of any Grantor or such nominee, or (ii) arrange for the Collateral Agent to become the registered owner of the securities. If any Pledged Collateral, whether certificated or uncertificated, now or hereafter acquired by any Grantor that is not an Excluded Asset is held by such Grantor or its nominee

through a securities intermediary or commodity intermediary, such Grantor shall notify the Collateral Agent within ten (10) business days after the occurrence thereof and, at the Collateral Agent's request and option, pursuant to an agreement in form and substance reasonably satisfactory to the Collateral Agent, either (i) cause such securities intermediary or commodity intermediary, as the case may be, to agree to comply with entitlement orders or other instructions from the Collateral Agent to such securities intermediary as to such security entitlements or to apply any value distributed on account of any commodity contract as directed by the Collateral Agent to such commodity intermediary, as the case may be, in each case without further consent of any Grantor, such nominee, or any other Person, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Collateral Agent to become the entitlement holder with respect to such investment property, with the Grantor being permitted, only with the consent of the Collateral Agent, to exercise rights to withdraw or otherwise deal with such investment property. The Collateral Agent agrees with each of the Grantors that the Collateral Agent shall not give any such entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary, and shall not withhold its consent to the exercise of any withdrawal or dealing rights by any Grantor, unless an Event of Default has occurred and is continuing, or, after giving effect to any such investment and withdrawal rights, would occur. The provisions of this paragraph shall not apply to any financial assets credited to a securities account for which the Collateral Agent is the securities intermediary.

(d)*Issue Date Real Property Collateral*. On or before the date that is 90 days after the Issue Date, each Grantor that owns Issue Date Real Property Collateral shall (i) deliver to the Collateral Agent counterparts of a mortgage with respect to all Issue Date Real Property Collateral owned by it and (ii) take all other actions in connection with such Issue Date Real Property Collateral required by Section 4.16(b)(1) of the Indenture.

ARTICLE V

THE COLLATERAL AGENT

SECTION 5.1.Collateral Agent Appointed Attorney-in-Fact. Each Grantor hereby irrevocably appoints the Collateral Agent its attorney-in-fact for the purpose of carrying out the provisions of this Security Agreement in accordance with the Intercreditor Agreement and taking any action and executing any instrument that the Collateral Agent may deem necessary for the purpose of carrying out the provisions of this Security Agreement, with full irrevocable authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, from time to time in the Collateral Agent's discretion. Without limiting the generality of the foregoing and, in each case, subject to and in accordance with the Intercreditor Agreement, the Collateral Agent shall have the right and authority, following the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Collateral Agent's name or in the name of such Grantor, to take any action and to execute any instrument which the

Collateral Agent may deem necessary or advisable to accomplish the purposes of this Security Agreement, including:

(a)to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(b)to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above;

(c)to file any claims or take any action or institute any proceedings which the Collateral Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Collateral Agent with respect to any of the Collateral, and to settle, compromise, compound, adjust or defend any action or proceeding relating to any of the Collateral; and

(d)to perform the affirmative obligations of such Grantor hereunder.

Each Grantor hereby acknowledges, consents and agrees that the power of attorney granted pursuant to this Section is irrevocable and coupled with an interest.

SECTION 5.2.Right to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise its right to prepare for sale, market for sale, sell or otherwise dispose of the Collateral pursuant to and in accordance with Article VI hereof only after the occurrence and during the continuance of an Event of Default, at such time as the Collateral Agent shall be lawfully entitled to exercise such right, each Grantor hereby authorizes the Collateral Agent, for the benefit of the Collateral Agent and the other Secured Parties, to use without compensation such Grantor's trademarks, trade names, patents, copyrights, trade secrets, service marks, advertising matter and licenses related thereto solely in connection with such preparation for sale, marketing for sale, sale or disposition.

SECTION 5.3.Collateral Agent Has No Duty. The powers conferred on the Collateral Agent hereunder are solely to protect its interest (on behalf of the Secured Parties) in the Collateral and shall not impose any duty on it to exercise any such powers. Except for reasonable care of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Collateral Agent shall have no duty as to any Collateral or responsibility for taking any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

ARTICLE VI

REMEDIES

SECTION 6.1.Certain Remedies. If any Event of Default shall have occurred and be continuing:

(a)The Collateral Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a Secured Party on default under the UCC (whether or not the UCC applies to the affected Collateral) and also may

(ii)take possession of any Collateral not already in its possession without demand and without legal process;

(iii)require each Grantor to, and each Grantor hereby agrees that it will, at its expense and upon request of the Collateral Agent forthwith, assemble all or part of the Collateral as directed by the Collateral Agent and make it available to the Collateral Agent at a place to be designated by the Collateral Agent that is reasonably convenient to both parties,

(iv)enter onto the property where any Collateral is located and take possession thereof without demand and without legal process and without liability for trespass but only after prior written notice has been given to the Grantors;

(v)without notice except as specified below, lease, license, sell or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Collateral Agent may deem commercially reasonable. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' prior notice to such Grantor of the time and place of any public sale (and, in the case of a sale at a broker's board or on a securities exchange, the name of the board or exchange) or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Each purchaser at any sale of Collateral shall hold the property sold absolutely free from any claim or right on the part of any Grantor, and each Grantor hereby waives (to the fullest extent permitted by applicable law) all rights of redemption, stay and appraisal that such

Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

(b)Subject to the Intercreditor Agreement, all cash Proceeds received by the Collateral Agent in respect of any sale of, collection from, or other realization upon, all or any part of the Collateral shall be applied:

(ii)FIRST, to the payment of all costs and expenses incurred by, and all indemnity and fee obligations (other than contingent indemnification and expense reimbursement obligations for which no claim has been made) owed to, the Collateral Agent in connection with such collection or sale or otherwise in connection with this Security Agreement, any other Securities Document or any of the Secured Obligations, including all court costs and the fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Securities Document on behalf of any Grantor and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Securities Document;

(iii)SECOND, against all or any part of the Secured Obligations; and

(iv)THIRD, to the Grantors, their successors or their assigns, or as a court of competent jurisdiction may otherwise direct.

(c)The Collateral Agent may:

(ii)transfer all or any part of the Collateral into the name of the Collateral Agent or its nominee, with or without disclosing that such Collateral is subject to the Lien hereunder,

(iii)notify the parties obligated on any of the Collateral to make payment to the Collateral Agent of any amount due or to become due thereunder,

(iv)enforce collection of any of the Collateral by suit or otherwise, and surrender, release or exchange all or any part thereof, or compromise or extend or renew for any period (whether or not longer than the original period) any obligations of any nature of any party with respect thereto,

(v)endorse any checks, drafts, or other writings in any Grantor’s name to allow collection of the Collateral,

(vi)take control of any Proceeds of the Collateral, and

(vii)execute (in the name, place and stead of any Grantor) endorsements, assignments and other instruments of conveyance or transfer with respect to all or any of the Collateral.

SECTION 6.2.Compliance with Restrictions. Each Grantor agrees that in any sale of any of the Collateral whenever an Event of Default shall have occurred and be continuing, the Collateral Agent is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that such prospective bidders and purchasers have certain qualifications, and restrict such prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain any required approval of the sale or of the purchaser by any governmental authority or official, and such Grantor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Collateral Agent be liable nor accountable to such Grantor for any discount allowed by the reason of the fact that such Collateral is sold in compliance with any such limitation or restriction.

SECTION 6.3.Protection of Collateral. The Collateral Agent may from time to time, at its option (a) perform any act which any Grantor fails to perform after being requested in writing so to perform (it being understood that no such request need be given after the occurrence and during the continuance of an Event of Default) and (b) take any other action which the Collateral Agent deems necessary for the maintenance, preservation or protection of any of the Collateral or of its security interest therein and, in each case, the expenses of the Collateral Agent incurred in connection therewith shall be payable by such Grantor pursuant to Section 11.09(c) of the Indenture.

SECTION 6.4.Pledged Collateral. (a) Upon the occurrence and during the continuance of an Event of Default, after the Collateral Agent shall have notified the Grantors of the suspension of their rights under paragraph (b)(iii) of Section 2.6 and subject to the terms of the Intercreditor Agreement, all rights of any Grantor to dividends, interest, principal or other distributions that such Grantor is authorized to receive pursuant to paragraph (b)(iii) of Section 2.6, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, interest, principal or other distributions. All dividends, interest, principal or other distributions received by any Grantor contrary to the provisions of Section 2.6 or this Section 6.4 shall be held in trust for the benefit of the Collateral Agent, shall be segregated from other property or funds of such Grantor and shall be forthwith delivered to the Collateral Agent upon demand in the same form as so received (with any necessary endorsements, stock or note powers or other instruments of transfer). Any and all money and other property paid over to or received by the Collateral Agent pursuant to the provisions of this paragraph (a) shall be retained by the Collateral Agent in an account to be established by the Collateral Agent upon receipt of such money or other property shall be held as security for the payment

and performance of the Secured Obligations and shall be applied in accordance with the provisions of Section 6.1(b). After all Events of Default have been cured or waived and the Issuer has delivered to the Collateral Agent a certificate of a financial officer of the Issuer to that effect, the Collateral Agent shall promptly repay to each Grantor (without interest) all dividends, interest, principal or other distributions that such Grantor would otherwise be permitted to retain pursuant to the terms of paragraph (b)(iii) of Section 2.6 and that remain in such account.

(b)Upon the occurrence and during the continuance of an Event of Default, after the Collateral Agent shall have notified the Grantors of the suspension of their rights under paragraph (b)(i) of Section 2.6 and subject to the terms of the Intercreditor Agreement, all rights of any Grantor to exercise the voting and consensual rights and powers it is entitled to exercise pursuant to paragraph (b)(i) of Section 2.6, and the obligations of the Collateral Agent under paragraph (b)(ii) of Section 2.6, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers, provided that the Collateral Agent shall have the right from time to time following and during the continuance of an Event of Default to permit the Grantors to exercise such rights.

(c)Upon the occurrence and during the continuance of an Event of Default, upon not less than one (1) business day prior written notice, a transferee or assignee of Pledged Stock shall become a holder of such Pledged Stock to the same extent as such Grantor and be entitled to participate in the management of the issuer of such Pledged Stock and, upon the transfer of the entire interest of such Grantor, such Grantor shall, by operation of law, cease to be a holder of such Pledged Stock.

(d)Any notice given by the Collateral Agent to the Grantors suspending their rights under paragraph (b) of Section 2.6 (i) may be given by telephone if promptly confirmed in writing, (ii) may be given to one or more of the Grantors at the same or different times and (iii) may suspend the rights of the Grantors under paragraph (b)(i) or paragraph (b)(iii) of Section 2.6 in part without suspending all such rights (as specified by the Collateral Agent in its sole and absolute discretion) and without waiving or otherwise affecting the Collateral Agent's right to give additional notices from time to time suspending other rights so long as an Event of Default has occurred and is continuing.

ARTICLE VII

MISCELLANEOUS PROVISIONS

SECTION 7.1.Securities Document. This Security Agreement is a Securities Document executed pursuant to the Indenture and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof, including Article XI thereof.

SECTION 7.2.Binding on Successors, Transferees and Assigns; Assignment. This Security Agreement shall remain in full force and effect until the Indefeasible Payment and Performance of All Secured Obligations has occurred, shall be binding upon the Grantors and their successors, transferees and assigns and shall inure to the benefit of and be enforceable by each Secured Party and its successors, transferees and assigns; provided that no Grantor may (unless otherwise permitted under the terms of the Indenture or this Security Agreement) assign any of its obligations hereunder.

SECTION 7.3.Amendments, etc. (a) No amendment to or waiver of any provision of this Security Agreement, nor consent to any departure by any Grantor from its obligations under this Security Agreement, shall in any event be effective unless the same shall be in writing and signed by the Collateral Agent and the Grantors and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b)This Security Agreement shall be construed as a separate agreement with respect to each Grantor and may be amended, modified, supplemented, waived or released with respect to any Grantor without the approval of any other Grantor and without affecting the obligations of any other Grantor hereunder.

SECTION 7.4.Notices. All notices and other communications provided for hereunder shall be in writing or by facsimile and addressed, delivered or transmitted to the appropriate party at the address or facsimile number of such party specified in the Indenture in accordance with the notice provisions set forth in the Indenture.

SECTION 7.5.Release of Liens and Termination of Rights. Upon (a) the Disposition of Collateral in accordance with the Indenture or (b) the Indefeasible Payment and Performance of All Secured Obligations, the security interests granted herein and the power of attorney and license granted pursuant to Sections 5.1, 5.2 and 5.3 shall automatically terminate with respect to (i) such Collateral (in the case of clause (a)) or (ii) all Collateral (in the case of clause (b)), without delivery of any instrument or performance of any act by any party. Furthermore, a Grantor shall automatically be released from its obligations hereunder and the security interest in the Collateral of such Grantor shall be automatically released upon the consummation of any transaction permitted by the Indenture as a result of which such Grantor ceases to be a Restricted Subsidiary. Upon any such Disposition, termination or release the Collateral Agent will, at the Grantors' sole expense, deliver to the Grantors, without any representations, warranties or recourse of any kind whatsoever, all Collateral held by the Collateral Agent hereunder, and execute and deliver to the Grantors such documents as the Grantors shall reasonably request to evidence such termination.

SECTION 7.6.No Waiver; Remedies. No failure on the part of any Secured Party to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. No

waiver of any provision of this Security Agreement or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by Section 7.3(a). Without limiting the generality of the foregoing, the execution and delivery of this Security Agreement shall not be construed as a waiver of any Default, regardless of whether the Collateral Agent may have had notice or knowledge of such Default at such time.

SECTION 7.7.Headings. The various headings of this Security Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or any provisions thereof.

SECTION 7.8.Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.9.Governing Law, Entire Agreement, etc. THIS SECURITY AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK). This Security Agreement and the other Securities Documents constitute the entire understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede any prior agreements, written or oral, with respect thereto.

SECTION 7.10.Forum Selection; Consent to Jurisdiction; Service of Process. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, ANY SECURITIES DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE COLLATERAL AGENT, THE TRUSTEE, ANY SECURED PARTY OR ANY GRANTOR IN CONNECTION HEREWITH OR THEREWITH MAY BE BROUGHT AND MAINTAINED IN THE COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY PROPERTY MAY BE BROUGHT, AT THE COLLATERAL AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH PROPERTY MAY BE FOUND. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. EACH GRANTOR IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK AT THE ADDRESS FOR NOTICES

SPECIFIED FOR THE ISSUER IN SECTION 12.02 OF THE INDENTURE. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT ANY GRANTOR HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, SUCH GRANTOR HEREBY IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THE SECURITIES DOCUMENTS.

SECTION 7.11. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT, ANY OTHER SECURITIES DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS SECURITIES AGREEMENT AND THE OTHER SECURITIES DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.11.

SECTION 7.12. Counterparts. This Security Agreement may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Security Agreement by facsimile or via other electronic means shall be effective as delivery of a manually executed counterpart of this Security Agreement.

SECTION 7.13. Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantor for liquidation or reorganization, should any Grantor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Grantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee

of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance has not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

SECTION 7.14.Collateral Agent's Fees and Expenses. The Grantors jointly and severally agreed to reimburse the Collateral Agent for its fees and expenses incurred hereunder. Any such amounts payable as provided hereunder shall be additional Secured Obligations secured hereby and by the other Security Documents. The provisions of this Section 7.14 shall survive and remain in full force and effect regardless of the termination of this Security Agreement or any other Securities Document, the consummation of the transactions contemplated hereby or thereby, the repayment of any of the Secured Obligations, the invalidity or unenforceability of any term or provision of this Security Agreement or any other Securities Document or any investigation made by or on behalf of the Collateral Agent or any other Secured Party.

SECTION 7.15.Additional Subsidiaries. Pursuant to the Indenture, certain Subsidiaries not a party hereto on the Issue Date are required to enter into this Security Agreement. Upon the execution and delivery by the Collateral Agent and any such Subsidiary of a Supplement, such Subsidiary shall become a Grantor hereunder, with the same force and effect as if originally named as such herein. The execution and delivery of any Supplement shall not require the consent of any other Grantor. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Security Agreement.

SECTION 7.16.Delivery of Collateral. Notwithstanding anything in this Security Agreement to the contrary, prior to the Discharge of ABL Obligations, (x) to the extent any Grantor is required hereunder to deliver Collateral to the Collateral Agent for purposes of possession and control and is unable to do so as a result of having previously delivered such Collateral to the Bank Collateral Agent in accordance with the terms of the Amended ABL Revolver Loan and the Intercreditor Agreement, such Grantor's obligations hereunder with respect to such delivery shall be deemed satisfied by the delivery to the Bank Collateral Agent, acting as a gratuitous bailee for the Collateral Agent, and (y) for purposes of any representation in this Security Agreement, delivery of Collateral to, or the granting of control over Collateral to, the Bank Collateral Agent shall be deemed to include delivery of Collateral to, or the granting of control over Collateral to, the Collateral Agent.

SECTION 7.17.Intercreditor Agreement Governs. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE SECURITY INTEREST GRANTED TO THE COLLATERAL AGENT, FOR THE BENEFIT OF THE SECURED PARTIES, PURSUANT TO THIS SECURITY AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT AND THE OTHER SECURED PARTIES HEREUNDER ARE SUBJECT TO THE PROVISIONS OF THE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT OR INCONSISTENCY BETWEEN THE

PROVISIONS OF THE INTERCREDITOR AGREEMENT AND THIS SECURITY AGREEMENT, THE PROVISIONS OF THE INTERCREDITOR AGREEMENT SHALL CONTROL.

SECTION 7.18. Refinancings. (a) Pursuant to Section 5.3(a) of the Intercreditor Agreement, the ABL Loan Documents may be amended, restated, supplemented, or otherwise modified in accordance with their terms and the ABL Obligations may be Refinanced in accordance with the terms of the ABL Loan Documents, in each case without notice to, or the consent of, the Collateral Agent or any other Notes Claimholders, all without affecting the lien subordination or other provisions of the Intercreditor Agreement; provided, however, that, in the case of a Refinancing secured by any Collateral (as defined in the Intercreditor Agreement), the holders of such Refinancing debt (or an authorized representative on their behalf) bind themselves (in a writing addressed to the Collateral Agent for the benefit of itself and the other Notes Claimholders in a form reasonably acceptable to the Collateral Agent) to the terms of the Intercreditor Agreement; provided further, however, that any such amendment, restatement, supplement, modification, or Refinancing shall not result in a Notes Default under the Indenture; provided further, however, that, if such Refinancing debt is secured by a Lien on any Collateral (as defined in the Intercreditor Agreement) the holders of such Refinancing debt shall be deemed bound by the terms of the Intercreditor Agreement regardless of whether or not such writing is provided. For the avoidance of doubt, the sale or other transfer of indebtedness is not restricted by the Intercreditor Agreement but the provisions of the Intercreditor Agreement shall be binding on all holders of ABL Obligations and Notes Obligations.

(b) Terms used in paragraph (a) of this Section 7.18 and not otherwise defined in this Agreement have the meanings provided in the Intercreditor Agreement.

Remainder of page intentionally left blank.
Signatures on following page.

IN WITNESS WHEREOF, the parties hereto have duly executed this Security Agreement as of the date first written above.

LSB INDUSTRIES, INC.

by: /s/ Jack E. Golsen
Name: Jack E. Golsen
Title: Chief Executive Officer

CEPOLK HOLDINGS, INC.
CHEMEX I CORP.
CHEMICAL PROPERTIES L.L.C.
CHEMICAL TRANSPORT L.L.C.
CHEROKEE NITROGEN COMPANY
CHEROKEE NITROGEN HOLDINGS, INC.
CLIMACOOL CORP.
THE CLIMATE CONTROL GROUP, INC.
CLIMATECRAFT, INC.
CLIMATECRAFT TECHNOLOGIES, INC.
CLIMATE MASTER, INC.
CONSOLIDATED INDUSTRIES CORP.
EDC AG PRODUCTS COMPANY L.L.C.
EL DORADO CHEMICAL COMPANY
EL DORADO NITRIC COMPANY
INTERNATIONAL ENVIRONMENTAL CORPORATION
NORTHWEST FINANCIAL CORPORATION
KOAX CORP.
LSB CHEMICAL CORP.
LSB-EUROPA LIMITED
PRIME FINANCIAL L.L.C.
PRIME HOLDINGS CORPORATION
PRYOR CHEMICAL COMPANY
SUMMIT MACHINE TOOL MANUFACTURING L.L.C.
THERMACLIME, L.L.C.
THERMACLIME TECHNOLOGIES, INC.
XPEDIAIR, INC.

by: /s/ Jack E. Golsen

Name: Jack E. Golsen
Title: Chairman of the Board

LSB CAPITAL L.L.C.

by: /s/ Jack E. Golsen
Name: Jack E. Golsen
Title: President

TRISON CONSTRUCTION, INC.

by: /s/ Jack E. Golsen
Name: Jack E. Golsen
Title: Executive Vice President

EL DORADO ACID, L.L.C.
EL DORADO ACID II, L.L.C.
EL DORADO AMMONIA L.L.C.

by: /s/ David R. Goss
Name: David R. Goss
Title: Executive Vice President

UMB BANK, N.A., as Collateral Agent,

by:/s/ Janet Lambert

Name: Janet Lambert
Title: Vice President

Issue Date Real Property Collateral

Street Address	Name of Record Owner
1080 Industrial Drive Cherokee, AL 35616	Cherokee Nitrogen Holdings, Inc.
7300 S.W. 44th Street Oklahoma City, OK 73149	Climate Master, Inc.
4500 North West Avenue El Dorado, AR 71730	Northwest Financial Corporation
5000 I-40 West Oklahoma City, OK 73128	Prime Holdings L.L.C.
4463 Hunt Street Pryor, OK 74361	Pryor Chemical Company
510 North Indiana Avenue Oklahoma City, OK 73106	LSB Industries, Inc.
1431 NW 3rd Street Oklahoma City, OK 73106	Summit Machine Tool Manufacturing L.L.C.
15 South Virginia Avenue Oklahoma City, OK 73106	Prime Financial L.L.C.
4700 West Point Boulevard Oklahoma City, OK 73179	Prime Financial L.L.C.

Pledged Collateral

Pledged Certificated Stock

[●]

Pledged Uncertificated Stock

[●]

Pledged Debt Instruments

[●]

SUPPLEMENT NO. __, dated as of [ ] (this "Supplement"), to the Security Agreement dated as of August 7, 2013 (the "Security Agreement"), among LSB Industries, Inc., a Delaware corporation (the "Issuer"), and each of the other entities listed on the signature page thereof or that become a party thereto (together with the Issuer, the "Grantors") in favor of UMB Bank, n.a., as collateral agent under the Indenture (as defined below) (together with its successor(s) thereto in such capacity, the "Collateral Agent") for each of the Secured Parties.

A. Reference is made to the Indenture dated as of August 7, 2013 (as amended, supplemented or otherwise modified from time to time, the "Indenture"), among the Issuer, the Guarantors party thereto and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture or the Security Agreement, as applicable.

C. Section 7.15 of the Security Agreement provides that additional Subsidiaries of the Issuer shall become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Subsidiary") is executing this Supplement in accordance with the requirements of Section 4.12 of the Indenture to become a Grantor under the Security Agreement.

Accordingly, the Collateral Agent and the New Subsidiary agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, the New Subsidiary by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor, and the New Subsidiary hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Subsidiary, as security for the payment and performance in full of the Secured Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, their successors and assigns, a security interest in all of the New Subsidiary's right, title and interest in and to the Collateral of the New Subsidiary. Each reference to a "Grantor" in the Security Agreement shall be deemed to include the New Subsidiary. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary hereby represents and warrants to the Collateral Agent and the other Secured Parties that (a) set forth on Schedule I attached hereto is a schedule with the true and correct legal name of the New Subsidiary, its

jurisdiction of formation and the location of its chief executive office and (b) set forth on Schedule II attached hereto is a true and correct schedule of all the Pledged Collateral of the New Subsidiary.

SECTION 3. The New Subsidiary hereby represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received a counterpart of this Supplement that bears the signature of the New Subsidiary and the Collateral Agent has executed a counterpart hereof. Delivery of an executed signature page to this Supplement by facsimile or electronic transmission shall be effective as delivery of a manually signed counterpart of this Supplement.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. Any provision of this Supplement which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Supplement or the Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 7.4 of the Security Agreement.

SECTION 9. The New Subsidiary agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent, as provided in Section 7.14 of the Security Agreement.

SECTION 10. REFERENCE IS MADE TO THE INTERCREDITOR AGREEMENT DATED AS OF AUGUST 7, 2013 (AS AMENDED, RESTATED SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE “INTERCREDITOR AGREEMENT”), AMONG THE COLLATERAL AGENT AND THE ABL AGENT (AS DEFINED THEREIN). NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE SECURITY INTEREST GRANTED TO THE COLLATERAL AGENT, FOR THE BENEFIT OF THE SECURED PARTIES, PURSUANT TO THIS SUPPLEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT AND THE OTHER SECURED PARTIES

HEREUNDER ARE SUBJECT TO THE PROVISIONS OF THE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT OR INCONSISTENCY BETWEEN THE PROVISIONS OF THE INTERCREDITOR AGREEMENT AND THIS SUPPLEMENT, THE PROVISIONS OF THE INTERCREDITOR AGREEMENT SHALL CONTROL.

IN WITNESS WHEREOF, the New Subsidiary and the Collateral Agent have duly executed this Supplement as of the date first written above.

[NAME OF NEW SUBSIDIARY],

by ______________________________

Name:
Title:

UMB BANK, n.a., as Collateral Agent

by ______________________________

Name:
Title:

Schedule I to Supplement No. ___

New Subsidiary Information

Name	Jurisdiction of Formation	Chief Executive Office

Pledged Collateral

Pledged Certificated Stock

[●]

Pledged Uncertificated Stock

[●]

Pledged Debt Instruments

[●]

SUPPLEMENT NO. 1, dated as of February 12, 2014 (this "Supplement"), to the Security Agreement dated as of August 7, 2013 (the "Security Agreement"), among LSB Industries, Inc., a Delaware corporation (the "Issuer"), and each of the other entities listed on the signature page thereof or that become a party thereto (together with the Issuer, the "Grantors") in favor of UMB Bank, n.a., as collateral agent under the Indenture (as defined below) (together with its successor(s) thereto in such capacity, the "Collateral Agent") for each of the Secured Parties.

A. Reference is made to the Indenture dated as of August 7, 2013 (as amended, supplemented or otherwise modified from time to time, the "Indenture"), among the Issuer, the Guarantors party thereto and the Collateral Agent.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture or the Security Agreement, as applicable.

C. Section 7.15 of the Security Agreement provides that certain Subsidiaries of the Issuer that are not a party to the Security Agreement shall become Grantors under the Security Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary, El Dorado Nitrogen, L.P., a Texas limited partnership ("EDNLP") is executing this Supplement in accordance with the requirements of Section 4.12 of the Indenture to become a Grantor under the Security Agreement.

Accordingly, the Collateral Agent and EDNLP agree as follows:

SECTION 1. In accordance with Section 7.15 of the Security Agreement, EDNLP by its signature below becomes a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor, and EDNLP hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a Grantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Grantor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, EDNLP, as security for the payment and performance in full of the Secured Obligations, does hereby create and grant to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, their successors and assigns, a security interest in all of the EDNLP's right, title and interest in and to the Collateral of EDNLP; provided however, that the Nitric Acid Supply, Operating and Maintenance Agreement (the "Bayer Agreement") by and among EDNLP, El Dorado Chemical Company (as guarantor) and Bayer MaterialScience, LLC, dated effective October 23, 2008, as amended and as may be substituted therefor, and all proceeds thereof shall not be included as Collateral, and EDNLP grants no security interest in the Bayer Agreement, any interests therein, or any of the proceeds or products

thereof. Each reference to a "Grantor" in the Security Agreement shall be deemed to include EDNLP. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. EDNLP hereby represents and warrants to the Collateral Agent and the other Secured Parties that (a) set forth on Schedule I attached hereto is a schedule with the true and correct legal name of EDNLP, its jurisdiction of formation and the location of its chief executive office and (b) set forth on Schedule II attached hereto is a true and correct schedule of all the Pledged Collateral of EDNLP.

SECTION 3. EDNLP hereby represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 4. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received a counterpart of this Supplement that bears the signature of EDNLP and the Collateral Agent has executed a counterpart hereof. Delivery of an executed signature page to this Supplement by facsimile or electronic transmission shall be effective as delivery of a manually signed counterpart of this Supplement.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. Any provision of this Supplement which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Supplement or the Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 7.4 of the Security Agreement.

SECTION 9. EDNLP agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, other charges and disbursements of counsel for the Collateral Agent, as provided in Section 7.14 of the Security Agreement.

SECTION 10. REFERENCE IS MADE TO THE INTERCREDITOR AGREEMENT DATED AS OF AUGUST 7, 2013 (AS AMENDED, RESTATED SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "INTERCREDITOR AGREEMENT"), AMONG THE COLLATERAL AGENT AND

THE ABL AGENT (AS DEFINED THEREIN). NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE SECURITY INTEREST GRANTED TO THE COLLATERAL AGENT, FOR THE BENEFIT OF THE SECURED PARTIES, PURSUANT TO THIS SUPPLEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT AND THE OTHER SECURED PARTIES HEREUNDER ARE SUBJECT TO THE PROVISIONS OF THE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT OR INCONSISTENCY BETWEEN THE PROVISIONS OF THE INTERCREDITOR AGREEMENT AND THIS SUPPLEMENT, THE PROVISIONS OF THE INTERCREDITOR AGREEMENT SHALL CONTROL.

IN WITNESS WHEREOF, EDNLP and the Collateral Agent have duly executed this Supplement as of the date first written above.

EL DORADO NITROGEN, L.P., a Texas limited partnership

by

/s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

UMB BANK, n.a., as Collateral Agent

by

/s/ Janet Lambert
Name: Janet Lambert
Title: Vice President

EDNLP's Information

Name	Jurisdiction of Formation	Chief Executive Office
El Dorado Nitrogen, L.P.	Texas	16 South Pennsylvania Ave Oklahoma City, OK 73107

Pledged Collateral

Pledged Certificated Stock

● None.

Pledged Uncertificated Stock

● None.

Pledged Debt Instruments

● Global Intercompany Note, dated as of August 7, 2013, by and among the Obligors and Payees listed on Schedule 1 thereto, as supplemented by the Joinder Agreement, dated February 12, 2014.

Exhibit 12.1

LSB Industries, Inc.
Unaudited Computation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends
(Dollars in Thousands)

	2011	2012	2013	2014	2015
Income (loss) from continuing operations before provisions (benefit) for income taxes and equity in earnings of affiliate	$ 129,649	$ 91,699	$ 90,126	$ 32,044	$ (58,257)
Add:					
Fixed charges	6,548	5,365	19,027	37,166	40,319
Amortization of capitalized interest	—	1	26	79	152
Share of distributed income of 50% owned affiliate	1,649	1,782	1,719	590	—
Less:					
Interest capitalized (1)	—	(398)	(3,959)	(14,104)	(30,625)
Adjusted earnings	$ 137,846	$ 98,449	$ 106,939	$ 55,775	$ (48,411)
Fixed charges:					
Interest expense, net (2)	$ 4,733	$ 3,715	$ 13,953	$ 21,528	$ 7,334
Interest capitalized	—	398	3,959	14,104	30,625
Estimate of interest in rental expense	1,815	1,252	1,115	1,534	2,360
Fixed charges	6,548	5,365	19,027	37,166	40,319
Preferred stock dividends (3)	473	472	493	489	3,273
Combined fixed charges and preferred stock dividends	$ 7,021	$ 5,837	$ 19,520	$ 37,655	$ 43,592
Ratio of earnings to fixed charges	21.1	18.4	5.6	1.5	—
Insufficient coverage (4)	—	—	—	—	88,730
Ratio of earnings to combined fixed charges and preferred stock dividends	19.6	16.9	5.5	1.5	—
Insufficient coverage (4)	—	—	—	—	92,003

(1) Interest capitalized during the period is deducted because fixed charges include all interest, whether capitalized or expensed. Only fixed charges that were deducted from income from continuing operations before income taxes should be added back in the earnings computation.
(2) Interest expense includes amortization of deferred debt issuance costs and excludes realized and unrealized gains or losses on interest rate financial instruments that are reported as interest expense.
(3) Preferred stock dividends include the accretion of the carrying value of preferred stock, when applicable.
(4) For 2015, earnings were inadequate to cover fixed charges and combined fixed charges and preferred stock dividends.

Exhibit 21.1

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
As of December 31, 2015

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

- ***Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)***
  - The Climate Control Group, Inc. (f/k/a APR Corporation)
    - CEPOLK Holdings, Inc. (f/k/a ThermalClime, Inc.; f/k/a LSB South America Corporation)
    - ClimaCool Corp. (f/k/a MultiClima Holdings, Inc., f/k/a LSB International Corp.)
    - Climate Master, Inc.
    - ClimateCraft, Inc. (f/k/a Summit Machine Tool Systems, Inc.)
    - International Environmental Corporation
    - Koax Corp.
    - ThermaClime Technologies, Inc. (f/k/a ACP International Limited, f/k/a ACP Manufacturing Corp.)
    - TRISON Construction, Inc.
    - XpediAir, Inc. (f/k/a The Environmental Group, Inc.)
  - LSB Chemical L.L.C. (f/k/a/ LSB Chemical Corp.)
    - Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)
    - Cherokee Nitrogen Holdings, Inc. (f/k/a Cherokee Nitrogen Company)
    - Chemical Properties L.L.C.
    - Chemical Transport L.L.C.
    - El Dorado Chemical Company
      - EDC Ag Products Company L.L.C.
      - Chemex I Corp. (f/k/a Slurry Explosive Corporation)
      - El Dorado Ammonia L.L.C.
    - El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company, f/k/a El Dorado Nitrogen Company, f/k/a LSB Nitrogen Corporation, f/k/a LSB Import Corp.)
      - El Dorado Acid, L.L.C. (General Partner of El Dorado Nitrogen, L.P.)
        - El Dorado Nitrogen, L.P. (1% ownership)
      - El Dorado Acid II, L.L.C. (Limited Partner of El Dorado Nitrogen, L.P.)
        - El Dorado Nitrogen, L.P. (99% ownership)
    - LSB Capital L.L.C.
    - Pryor Chemical Company (f/k/a Pryor Plant Chemical Company, f/k/a LSB Financial Corp.)
    - Zena Energy L.L.C.

  - Summit Machine Tool Manufacturing L.L.C. (f/k/a Summit Machine Tool Manufacturing Corp.)
  - LSB-Europa Limited
  - ClimateCraft Technologies, Inc.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

1. Registration Statement (Form S-8 No. 333-199864) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan, as amended by the First Amendment;
2. Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan;
3. Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees; and
4. Registration Statement (Form S-8 No. 333-153103) pertaining to the 2008 Incentive Stock Plan or any combination of the foregoing

of our reports dated February 29, 2016, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. and the effectiveness of internal control over financial reporting of LSB Industries, Inc., included in this Annual Report (Form 10-K) of LSB Industries, Inc. for the year ended December 31, 2015.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 29, 2016

Exhibit 23.2

CONSENT OF PINNACLE ENERGY SERVICES, LLC

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

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

1. Registration Statement (Form S-8 No. 333-199864) pertaining to the LSB Industries, Inc. 2008 Incentive Stock Plan, as amended by the First Amendment;
2. Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan;
3. Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees; and
4. Registration Statement (Form S-8 No. 333-153103) pertaining to the 2008 Incentive Stock Plan or any combination of the foregoing

We hereby also consent to the references to our firm and to the use of our name, as it appears under the caption "Experts," in the LSB Form 10-K.

PINNACLE ENERGY SERVICES, LLC

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

February 29, 2016
Oklahoma City, Oklahoma

Exhibit 31.1

CERTIFICATION

I, Daniel D. Greenwell, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 29, 2016

/s/ Daniel D. Greenwell

Daniel D. Greenwell
President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark T. Behrman, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 29, 2016

/s/ Mark T. Behrman

Mark T. Behrman
Executive Vice President of Finance
and Chief Financial Officer

Exhibit 32.1

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 annual report of LSB Industries, Inc. (“LSB”) on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”). I, Daniel D. Greenwell, 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/ Daniel D. Greenwell
Daniel D. Greenwell
President and
Chief Executive Officer
(Principal Executive Officer)

February 29, 2016

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.

Exhibit 32.2

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 annual report of LSB Industries, Inc. ("LSB") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark T. Behrman, 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/ Mark T. Behrman
Mark T. Behrman
Executive Vice President of Finance and
Chief Financial Officer
(Principal Financial Officer)

February 29, 2016

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.

PINNACLE ENERGY
SERVICIES, L.L.C.

February 4, 2016

Zena Energy, LLC.
16 South Pennsylvania
Oklahoma City, OK 73107

Re: Engineering Evaluation Effective Jan 1, 2016
Zena Energy- Ardent II Marcellus
Wyoming County, Pennsylvania
Jan 1, 2016 SEC Price - REVISED

An engineering and economic evaluation was performed on the interests owned by Zena Energy, L.L.C. ("Zena"), a subsidiary of LSB Industries, Inc. ("LSB") in the Warren Resources, Inc. ("Warren") operated Ardent II Marcellus Shale project in Wyoming County, Pennsylvania. Information used and reviewed was supplied by Warren and Zena, and was supplemented by information gathered from public sources. The reserves included herein include Proven Developed Producing (PDP) and Proven Undeveloped (PUD) reserves based on current engineering and geologic interpretations of the Marcellus formation. The attached Exhibit A lists the wells and interests evaluated.

The Ardent II area comprises a contiguous block of acreage with approximately 6,600 acres in Northeastern Pennsylvania. As of January 1, 2016, thirty-four (34) horizontal wells have been drilled and are producing in the Ardent II area, one (1) location is listed as Proved Non-Producing (PDNP), four (4) locations are listed as Proven Undeveloped (PUD) wells, and four (4) locations are listed as Probable Undeveloped (Prob UD) wells.

An economic evaluation was performed using an effective date of January l, 2016. Working and net revenue interests were provided by Zena, while estimated capital costs were provided by Warren and are listed in the attached Exhibit A. The January 1, 2016 SEC futures pricing was employed in the economic evaluation. The results of the economic evaluation are attached, and are summarized as follows:

Reserve Category	# Wells	Gross Rsv Gas (MMcf)	Net Rsv Gas (MMcf)	Net Cap M$	Net Cashflow M$	Net Pres Val Disc 10%, M$
PDP	34	240,185	23,404	0	17,360	10,107
PDNP	1	12,938	1,403	503	653	248
PUD	4	76,957	8,096	3,849	3,119	592
Prob UD	4	73,164	6,924	3,198	2,696	523
Grand Total	43	403,244	39,827	7,550	23,828	11,470

Pricing

The SEC gas price for January 1, 2016 was calculated to be $2.59/Mcf and was used in the economic evaluation. Product prices are adjusted to reflect differential, BTU content, field losses and usage, or gathering and processing costs, which were estimated to be a net of -$1.60/Mcf for all the wells.

The SEC price is determined according to the SEC pricing regulations for the twelve months ending on December 31, 2015. The prices for each product are calculated by using the unweighted arithmetic average of the first-day-of-the-month price for each month of the prior 12- month reporting period. The natural gas price is based on the NYMEX Henry Hub postings

Operating and Capital Expenses, Taxes

Historical monthly well operating expenses for the existing wells were provided by Zena. Estimates of $12,000 per month for the first 12 months a well produces, then $8,000 per month for the next 48 months, and finally $4,000 per month thereafter was used for the non-producing and undeveloped wells. Expenses are intended to include fixed well operating costs, overhead, and miscellaneous producing costs, and the expenses were held flat for the life of the wells. Future abandonment costs were assumed to be offset by salvage values from equipment.

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Capital expenditures for future development drilling were provided by Warren for all wells. Due to varying unit configurations and sizes, horizontal well lateral lengths are projected to vary from 3,000' to near 7,500' and estimated capital expenditures were based on the lateral lengths and projected number of stimulations. Capital costs for the undeveloped locations are projected to range from $5.90MM to $8.42, averaging approximately $6.793 MM per well. The provided costs appear reasonable for the area and projected activities.

Pennsylvania does not currently have a severance tax system in place. Instead, they have put in place an impact fee that went into effect in 2012. The impact fee begins the year the well is spud and is based on average yearly natural gas prices. A summary of the 2012 Pennsylvania impact fee is as follows:

Year	**$0-2.25/Mcf**	**$2.26-2.99/Mcf**	**$3.00-4.99/Mcf**	**$5-5.99/Mcf**	**$6/Mcf +**
1	$40,000	$45,000	$50,000	$55,000	$60,000
2	$30,000	$35,000	$40,000	$45,000	$55,000
3	$25,000	$30,000	$30,000	$40,000	$50,000
4	$10,000	$15,000	$20,000	$20,000	$20,000
5	$10,000	$15,000	$20,000	$20,000	$20,000
6	$10,000	$15,000	$20,000	$20,000	$20,000
7	$10,000	$15,000	$20,000	$20,000	$20,000
8	$10,000	$15,000	$20,000	$20,000	$20,000
9	$10,000	$15,000	$20,000	$20,000	$20,000
10	$10,000	$15,000	$20,000	$20,000	$20,000
11	$5,000	$5,000	$10,000	$10,000	$10,000
12	$5,000	$5,000	$10,000	$10,000	$10,000
13	$5,000	$5,000	$10,000	$10,000	$10,000
14	$5,000	$5,000	$10,000	$10,000	$10,000
15	$5,000	$5,000	$10,000	$10,000	$10,000

Interests

Working and net revenue interests for each well were provided by Zena and are shown in the attached Exhibit A. No reversions or other interest changes are known or modeled.

Marcellus Reservoir and Wells

The Marcellus Shale is a middle Devonian, black and organic-rich shale in the Appalachian Basin, productive throughout Pennsylvania and continues into West Virginia and New York. In the Ardent II area of Wyoming County, in Northeastern Pennsylvania, the shale is located at a depth of approximately 8,000 feet and has an estimated average thickness of approximately 350'.

As noted, thirty-four (34) wells have been completed and are producing in the Ardent II area, with initial rates ranging from 5 MMcf/d to over 30 MMcf/d.

Reserve and Rate Estimates

Reserve estimates for the producing and non-producing wells and undeveloped locations are based on volumetric calculations, the limited new-well production information available, and the projected horizontal lateral lengths and number of completion stages. The eight (8) undeveloped wells are being developed on 1000' spacing between wells on the leases/units in the field.

Recoverable reserves and initial rates for the Marcellus are expected to vary proportionately with completed horizontal lateral lengths and the number of completion stages. Well recoveries and initial are calculated based on the actual or projected completed horizontal lateral length within the Marcellus formation. Volumetrically, the Marcellus is calculated to have recoveries of approximately 2.90

Bcf per 1000 feet of completed lateral length. Initial rates are projected to be approximately 3.32 MMcf/d per 1000 feet of completed lateral length.

Reserves Definitions

Remaining recoverable reserves are those quantities of petroleum, which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty which depends primarily on the amount of reliable geologic and engineering (production, pressure) data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty is conveyed by classifying reserves as Proved (reasonable certainty) or Non-Proved (less certain).

The estimated reserves and revenues shown in this report were determined by SEC and SPE/SPEE standards for Proved Developed Producing (PDP), Proved Non-Producing (PDNP), Proved Undeveloped (PUD), and Non-Proved (Probable) Undeveloped reserve categories.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be economically producible: from a given date forward, from known reservoirs , and under existing economic conditions, operating methods, and government regulations-prior to the time at which contracts providing for the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within reasonable time.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved Developed Producing (PDP) is assigned to wells with sufficient production history to allow material balance and decline curve analysis to be the primary methods of estimation. PDP reserves are the most reliable reserves, generally with a high degree of confidence that actually recovered quantities will equal or exceed published reserve estimates.

Proved Developed Non-Producing (PNP) reserves include reserves from zones that have been penetrated by drilling but have not produced sufficient quantities to allow material balance or decline curve analysis with a high degree of confidence. This category includes wells awaiting pipeline connections, production equipment, or completion.

Proved undeveloped (PUD) oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with reasonably certainty that there is continuity of production from the existing productive formation. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. The Undeveloped and Non-Producing wells are forecasted based on geological data presented, volumetric calculations, and analog comparisons to existing completions.

The future locations in this evaluation categorized as Non-Proved (Probable) Undeveloped had previously been categorized as Proved Undeveloped (PUD) but had not been drilled and are not currently scheduled by the operator of the field to be drilled within the five (5) year-period since they were first categorized as Proved Undeveloped (PUD). These wells otherwise have the technical merit to be classified as Proved.

General Comments

The reserves and values included in this report are estimates only and should not be construed as being exact quantities. The reserve estimates were performed using accepted engineering practices and were based on volumetric analysis of the reservoir and rate decline analysis for existing producers. As additional pressure and production performance data becomes available, reserve estimates may increase or decrease in the future. The revenue from such reserves and the actual costs related may be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the prices actually received for the reserves included in this report and the costs incurred in recovering such reserves may vary from the price and cost assumptions referenced. Therefore, in all cases, estimates of reserves may increase or decrease as a result of future operations.

In evaluating the information available for this analysis, items excluded from consideration were all matters as to which legal or accounting, rather than engineering interpretation, may be controlling. As in all aspects of oil and gas evaluation, there are

uncertainties inherent in the interpretation of engineering data and such conclusions necessarily represent only informed professional judgments.

The titles to the properties have not been examined nor has the actual degree or type of interest owned been independently confirmed. A field inspection of the properties is not usually considered necessary for the purpose of this report. Attached and made part of this evaluation include the following:

1) Detailed yearly projections Production, Expenses, Revenues, Prices, Capital, and Cashflows by reserve category and for the field

2) Production Graphs of current producers and projected reserve category totals

Additional information reviewed will be retained and is available for review at any time. Pinnacle Energy Services, L.L.C. can take no responsibility for the accuracy of the data used in the analysis, whether gathered from public sources or otherwise.

Pinnacle Energy Services, LLC

/s/ J.P. Dick	/s/ Keith Drennen
J.P. Dick	Keith Drennen, P.E.
Petroleum Engineer	Petroleum Engineer

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