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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, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 1-7677

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

Delaware	**73-1015226**
(State of Incorporation)	**(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. ☒ 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. ☐ 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 ☐ No

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(Facing Sheet Continued)

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

Indicate by check mark 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. ☐

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	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ 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, 2013, was approximately $581 million. As a result, the Registrant is a large accelerated filer as of December 31, 2013. 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, 2013. 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 14, 2014, the Registrant had 22,534,658 shares of common stock outstanding (excluding 4,320,462 shares of common stock held as treasury stock).

FORM 10-K OF LSB INDUSTRIES, INC.

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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 and marketing 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 produced 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”) for the agricultural, industrial, and mining markets. Our products include high purity and commercial grade anhydrous ammonia for industrial and agricultural applications, industrial and fertilizer grade ammonium nitrate (“AN”), urea ammonium nitrate (“UAN”), sulfuric acids, nitric acids in various concentrations, nitrogen solutions, diesel exhaust fluid (“DEF”) and various other products.
- Climate Control Business manufactures and sells a broad range of heating, ventilation and air conditioning (“HVAC”) products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers and other related products used to control the environment 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 Chemical Business is a supplier to some of the world’s leading chemical and industrial companies. By focusing on specific geographic areas, we have developed freight and distribution advantages over many of our competitors, and we believe our Chemical Business has established leading regional market positions.

We sell most of our industrial and mining products to customers pursuant to contracts containing minimum volumes and/or cost plus a profit provision. 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. Periodically we enter into forward sales commitments for agricultural products but we sell most of our agricultural products at the current spot market price in effect at time of shipment.

We believe our Climate Control Business has developed leadership positions in certain niche markets by offering extensive product lines, customized products and improved technologies. Under this focused strategy, we have developed what we believe to be the most extensive line of geothermal and water source heat pumps and hydronic fan coils in the United States (“U.S.”). Further, we believe that we were a pioneer in the use of geothermal technology in the climate control industry and we have used it to create what we believe to be the most energy efficient climate control systems commercially available today. We employ highly flexible production capabilities that allow us to custom design units for new construction as well as the retrofit and replacement markets. This flexibility positions us well for growth in commercial/institutional and residential construction markets.

In recent years, we have put heavy emphasis on our geothermal heating and air conditioning products, which 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 have the leading market share.

Certain statements contained in this Part I may be deemed to be forward-looking statements. See “Special Note Regarding Forward-Looking Statements.”

Issuance of Senior Secured Notes, Intended Use of Proceeds and Amended Working Capital Revolver Loan

On August 7, 2013, LSB sold $425 million aggregate principal amount of the 7.75% Senior Secured Notes due 2019 (the "Senior Secured Notes") in a private placement.

LSB has used or intends to use the proceeds, net of commissions and fees, from the sale of the Senior Secured Notes, as follows:

- $67.2 million was used to pay all outstanding borrowings, including the prepayment penalty, under a term loan agreement (the "Secured Term Loan"); and
- the balance is being used for general corporate purposes, including the construction of an ammonia plant, nitric acid plant, and concentrator at the El Dorado Facility; improvement of reliability, mechanical integrity, and safety at our chemical facilities; and the development of our acquired natural gas leaseholds during the next three years.

Using a portion of the net proceeds from the sale of the Senior Secured Notes, we are proceeding with the design, fabrication, engineering, and construction of an ammonia plant, a 65% strength nitric acid plant, and a 98% nitric acid concentrator at the El Dorado Facility. We have received the air permit from the Arkansas Department of Environmental Quality ("ADEQ") for the construction of these plants.

Pending application of proceeds discussed above, the net proceeds from the Senior Secured Notes are currently invested in highly rated money market funds, certificates of deposit, and U.S. Treasury bills.

The Senior Secured Notes are jointly and severally and fully and unconditionally guaranteed by all of LSB's subsidiaries and are collateralized with a substantial portion of LSB and most of its subsidiaries' assets.

See further discussion relating to the use of actual proceeds received from the offering of our Senior Secured Notes in our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contained in this report.

Current State of the Economy

Since our two core business segments serve several diverse markets, we consider fundamentals for each market individually as we evaluate economic conditions. From a macro standpoint, we believe the U.S. economy is poised for modest growth, based upon certain economic reports, including the Conference Board Composite Index of Leading Indicators.

Chemical Business - Our Chemical Business' primary markets are agricultural, industrial and mining. During 2013, sales were $381 million or 20% lower than 2012. Due to the significant downtime at certain of our chemical facilities, as discussed below under "Downtime at Certain Chemical Facilities and Related Programs," production and sales (in volumes and dollars) were lower in all three of our primary markets compared to the same period in 2012.

In normal circumstances, our agricultural sales volumes and prices depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat, cotton and forage. Although currently showing strength, nitrogen fertilizer prices are lower than the same time a year ago due in part to the significant increase in urea imports from China earlier during 2013. In addition, there was a significant increase in the 2013-2014 corn harvest and much lower forward corn prices as compared to a year ago. According to the USDA's World Agricultural Supply and Demand Estimates, the U.S. yield per harvested acre of corn increased significantly from approximately 123 bushels per acre to 158 bushels per acre and the year end corn stocks were approximately double a year ago, resulting in a significant increase in the stock-to-use ratio. Notwithstanding the current conditions, the fundamentals continue to be positive for nitrogen fertilizer products we produce and sell and gross margins, although lower, are still strong. However, the fertilizer outlook could change if there are unanticipated changes in domestic fertilizer production capacity, acres planted of crops requiring fertilizer, unfavorable weather conditions or continued low selling prices and increases in imported urea from China. Our industrial acids sales volume is dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemical Council, the outlook for these three sectors is generally positive. Our sales prices vary with the market price of our feedstock cost of ammonia or sulfur, as applicable, in our pricing arrangements with customers. Our mining sales volume is being impacted by lower customer demand for industrial grade AN, which we believe is primarily due to natural gas being a more attractive alternative feedstock than coal for utility companies. As reported by the U.S. Energy Information Administration, during 2013, coal production was down overall by 1.5%, although coal inventories declined by 43 million tons during the period. With such inventory decreases, the coal industry is now expected to see production growth of 3% to 4% in 2014 as inventories stabilize and short-term natural gas prices increase.

We use natural gas to produce anhydrous ammonia in two of our four facilities, in which ammonia is used to produce nitrogen fertilizer and industrial products, and also sold in its original form. We also produce agricultural grade and industrial grade AN from purchased ammonia. The current cost of purchased ammonia is significantly higher than producing it from natural gas, resulting in a cost disadvantage compared to nitrogen fertilizers and industrial AN producers that manufacture from natural gas. We are proceeding with the design, fabrication, engineering and construction of an ammonia plant at the El Dorado Facility in order to eliminate this current cost disadvantage.

Climate Control Business—Sales for 2013 were $285 million, or 7% higher than 2012, including a 16% increase in hydronic fan coil sales and a 13% increase in geothermal and water source heat pump sales (both increases were associated with a higher number of units shipped, unit pricing and product mix) partially offset by a 23% decrease in other HVAC sales, primarily in sales of our large custom air handlers. From a market sector perspective, the sales increase was due to an 8% improvement in commercial/institutional product sales, and a 3% improvement in residential product sales. The improvement in commercial/institutional and residential sales in 2013 is primarily due to higher new construction activity in those sectors, which resulted in higher customer order intake in the preceding periods for our commercial/institutional products in most of our product lines. For 2013, order levels of our products decreased 2% in both residential products and commercial/institutional products. Information available from the McGraw-Hill Construction Market forecast indicates that construction activity for the markets we serve in the commercial/institutional and single-family residential sectors are expected to increase in aggregate during 2014 although still significantly below pre-recession levels. Also see discussion concerning certain heat pump contracts that will not be renewed in 2014 under risk factors under Item 1 and “Overview-Climate Control Business” of our MD&A contained in this report.

See further discussion relating to the economy under various risk factors under Item 1A of this Part 1 and “Overview-Economic Conditions” of our MD&A contained in this report.

Downtime at Certain Chemical Facilities and Related Programs

During 2012, 2013 and the first quarter of 2014, our Chemical Business encountered a number of significant issues. These issues included an explosion in one of our nitric acid plants at the El Dorado Facility in May 2012, a pipe rupture at the Cherokee Facility in November 2012 that damaged the ammonia plant, and the suspension of production at the Pryor Facility from time to time during 2012, 2013 and into the first quarter of 2014 due to continued mechanical issues. All of these issues resulted in lost production causing an adverse effect on our sales, operating income and cash flow for 2012, 2013 and the first quarter of 2014. See “Management Discussion and Analysis” contained herein for a discussion as to the negative effect that the downtime of the El Dorado Facility, Cherokee Facility, and Pryor Facility has had and will have on us.

Although these issues are unrelated to each other, the severity and frequency of the events at our Pryor, Cherokee, and El Dorado Facilities caused us to undergo a thorough reexamination of our process safety management (“PSM”), reliability and mechanical integrity programs. As a result, we have undertaken a concerted program to attempt to improve the reliability and mechanical integrity of our chemical plant facilities. The improvement program includes engaging outside experts and consultants who specialize in risk management, reliability, mechanical integrity and PSM. We are also recruiting and hiring additional corporate and plant engineering and operational personnel, and accelerating acquisition of additional spare parts to supplement our existing spare parts program. The program also includes the installation of additional automation and improved diagnostics.

See further discussion relating to the downtime at certain chemical facilities (and various risk factors associated with our chemical facilities), cumulative negative effect on our operating income as a result of the downtime at certain of our chemical plants, and our property and business interruption insurance claims and recoveries under our Management Discussion and Analysis contained in this report.

Website Access to Company’s Reports

Our internet website address is www.lsbindustries.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website within a reasonable amount of time after they are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”).

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating income 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 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Chemical Business

General

Our Chemical Business manufactures products for three principal markets:

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

During October 2012 and August 2013, a subsidiary within our Chemical Business acquired certain natural gas working interests totaling approximately 12% (approximately 10% net revenue interest) in certain natural gas properties located in the Marcellus Shale Formation in the state of Pennsylvania. 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 royalty owners. Since our Chemical Business purchases a significant amount of natural gas as a feedstock for the production of anhydrous ammonia, management considers these working interests as an economic hedge against a portion of a potential rise in natural gas prices in the future for a portion of our future natural gas feedstock requirements. We are not the operator of the wells included in these working interests and have no, or very limited, ability to direct the operations of these wells. We report the working interests as part of the Chemical Business reportable segment.

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

	2013	2012	2011
Percentage of net sales of the Chemical Business:			
Agricultural products	44%	46%	45%
Industrial acids and other chemical products	37%	34%	32%
Mining products	17%	20%	23%
Natural gas (1)	2%	— %	— %
	100%	100%	100%
Percentage of LSB's consolidated net sales:			
Agricultural products	25%	29%	29%
Industrial acids and other chemical products	21%	21%	20%
Mining products	9%	13%	15%
Natural gas (1)	1%	— %	— %
	56%	63%	64%

(1) Less than 1% in 2012 and not applicable in 2011

Market Conditions—Chemical Business

As discussed above and in more detail below under "Overview-Economic Conditions" of the MD&A contained in this report, agricultural volumes are driven by fertilizer demand, which depends upon acres planted of crops requiring fertilizer to enhance yield. We believe the current outlook indicates a strong demand for grains that should in turn result in strong demand for the types of nitrogen fertilizer we produce. 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. The industrial and mining volumes are driven by general economic conditions, energy prices, and contractual arrangements with certain large customers.

Agricultural Products

Our Chemical Business produces UAN, agricultural grade AN, and anhydrous 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 barging to distributors on the Tennessee and Ohio rivers, and by railing into certain Western States. Our historical sales of agricultural products are shown in the following table. The sales shown do not reflect amounts used internally, such as ammonia, in the manufacture of other products, or intercompany sales.

	2013		2012		2011	
	Tons	Net Sales	Tons	Net Sales	Tons	Net Sales
				(In Thousands)		
Agricultural products:						
UAN	254	$ 67,588	262	$ 78,526	421	$129,507
AN	144	52,630	158	65,150	157	57,703
Ammonia	48	23,639	87	48,489	51	26,392
Other*		23,757		25,164		17,997
Total		$167,614		$217,329		$231,599

* Includes phosphate and potassium products purchased and sold through our retail and wholesale distribution centers.

Our Chemical Business establishes long-term relationships with wholesale agricultural distributors and retailers and also sells directly to agricultural end-users through its network of wholesale and retail distribution centers. In addition, our Chemical Business sells at market prices substantially all of the UAN produced at the Pryor Facility pursuant to an agreement with a third-party purchaser. The term of the agreement is through June 2016, but may be terminated earlier by either party pursuant to the terms of the agreement.

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. Our Chemical Business is also a niche market supplier of 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 one of the most technologically advanced nitric acid manufacturing units in the U.S., with demonstrated capacity exceeding 1,350 short tons per day. The operations of the Baytown Facility have been recognized in several publications and received numerous awards for safety and environmental leadership. The majority of the Baytown Facility's production is sold to Bayer Material Science, LLC pursuant to a long-term contract (the "Bayer Agreement") that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit. The term of the Bayer Agreement is through June 2021.

Our Chemical Business competes based upon service, price, 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 Chemical Business manufactures industrial grade AN and 83% AN solution for the mining industry. Pursuant to a long-term cost-plus supply agreement (the "Orica Agreement"), our Chemical Business sells to Orica International Pte Ltd. industrial grade AN produced at the El Dorado Facility. The agreement includes certain minimum payment obligations and requires a minimum one-year notice of termination, with the termination date to be no sooner than April 9, 2015.

Major Customer—Chemical Business

The following summarizes net sales to our major customer relating to our products of the Chemical Business:

	2013	2012	2011
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	11%	14%	17%
LSB's consolidated net sales	6%	9%	11%

Raw Materials—Chemical Business

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

The El Dorado Facility normally purchases approximately 200,000 tons of anhydrous ammonia annually and produces and sells approximately 470,000 tons of nitrogen-based products per year, if the facility is in production for the full year. Although anhydrous ammonia is produced from natural gas, the price does not necessarily follow the spot price of natural gas in the U.S. Anhydrous ammonia is an internationally traded commodity and the relative price is set in the world market while natural gas is primarily a nationally traded commodity. The ammonia supply to the El Dorado Facility is transported from the Gulf of Mexico by pipeline. Under an agreement with its principal supplier of anhydrous ammonia, our subsidiary, El Dorado Chemical Company ("EDC"), will purchase a majority of its anhydrous ammonia requirements through December 2015 from this supplier. We believe that we can obtain anhydrous ammonia from other sources in the event of an interruption of service under the above-referenced contract.

The Cherokee Facility normally purchases 5 million to 6 million MMBtu of natural gas to produce and sell approximately 300,000 to 370,000 tons of nitrogen-based products per year, if the facility is in production for the full year. Natural gas is the primary raw material for producing anhydrous ammonia, UAN and other products at this facility. Periodically, the Cherokee Facility purchases anhydrous ammonia to supplement its annual production capacity of approximately 175,000 tons. Anhydrous ammonia can be delivered to the Cherokee Facility by truck, rail or barge.

If the Pryor Facility is in production for a full year, it will normally purchase 5 million to 6 million MMBtu of natural gas to produce and sell approximately 300,000 to 335,000 tons of nitrogen-based products per year.

The Cherokee and Pryor Facilities' natural gas feedstock requirements are generally purchased at spot market price. Periodically, we will enter into firm purchase commitments and/or futures/forward contracts to economically hedge the cost of certain of the natural gas requirements. We believe that our investment in natural gas working interest in the Marcellus Shale Formation will provide a partial hedge for the cost of this key raw material.

The Baytown Facility consumes more than 125,000 tons of purchased anhydrous ammonia per year; however, the majority of the Baytown Facility's production is sold under the Bayer Agreement that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit.

Spot anhydrous ammonia and natural gas costs have fluctuated dramatically in recent years. The following table shows, for the periods indicated, the high and low published prices for:

- ammonia based upon the low Tampa price per metric ton as published by Fertecon and Argus FMB Ammonia reports and
- natural gas based upon the daily spot price at the Henry Hub pipeline pricing point.

	Ammonia Prices Per Metric Ton		Natural Gas Prices Per MMBtu	
	High	Low	High	Low
2013	$673	$ 450	$4.52	$ 3.08
2012	$720	$ 360	$3.77	$ 1.83
2011	$705	$ 475	$4.92	$ 2.80

As of February 14, 2014, the published price, as described above, for ammonia was $415 per metric ton and natural gas was $5.53 per MMBtu.

See further discussion relating to the outlook for the Chemical Business in our MD&A contained in this report.

Strategy—Chemical Business

Our Chemical Business has pursued a strategy of developing industrial and mining customers that purchase substantial quantities of products, including contractual obligations to purchase minimum quantities and pricing arrangements that provide for the pass through of raw material and other manufacturing costs. These arrangements help mitigate the volatility risk inherent in the raw material feedstocks and/or the changes in demand for our products. For 2013, approximately 54% of the Chemical Business' sales were into industrial and mining markets of which approximately 57% of these sales were pursuant to these types of arrangements. Approximately 44% of our 2013 sales were into agricultural markets primarily at the price in effect at time of sale. Periodically, we enter into firm purchase commitments and/or futures/forward contracts to economically hedge the cost of natural gas for the purpose of securing the profit margin on a certain portion of our firm sales price commitments in our Chemical Business. Also see our discussion above concerning acquisitions of working interests in certain natural gas properties.

The spot sales prices of our agricultural products may not have a correlation to the anhydrous ammonia and natural gas feedstock costs but rather reflect market conditions for like and competing nitrogen sources. This lack of correlation can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from reaching full performance potential. 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 Expenditures" of our MD&A contained in this report. Our strategy also calls for increased emphasis on the agricultural sector, while remaining committed to further developing industrial customers who assume the volatility risk associated with the cost of natural gas and ammonia and mitigate the effects of seasonality in the agricultural sector.

Our strategy is also to invest in 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 construct a new nitric acid plant and concentrator to replace the productive capacity lost when the El Dorado Facility strong nitric acid plant was damaged in 2012. We believe that upon completion of the ammonia plant and the nitric acid plant and concentrator, the El Dorado Facility will benefit from reduced feedstock costs, expanded capacity, improved efficiency and product mix flexibility.

Seasonality—Chemical Business

We believe that the only significant seasonal products that we market are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry. The selling seasons for those 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 and UAN 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 competes with several chemical companies in our markets, such as Agrium, CF Industries, Coffeyville Resources, Dyno Nobel, Koch, Potash Corporation of Saskatchewan, 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 geothermal and water source heat pumps and hydronic fan coils as well as large custom air handlers and modular chiller systems, including modular geothermal chillers and simultaneous heating and cooling modules. 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 Prudential Tower, Rockefeller Plaza, Trump Tower, Time Warner Center and many others. 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.

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

	2013	2012	2011
Percentage of net sales of the Climate Control Business:			
Geothermal and water source heat pumps	64%	61%	65%
Hydronic fan coils	23%	21%	19%
Other HVAC products	13%	18%	16%
	100%	100%	100%
Percentage of LSB’s consolidated net sales:			
Geothermal and water source heat pumps	27%	22%	23%
Hydronic fan coils	10%	7%	7%
Other HVAC products	5%	6%	5%
	42%	35%	35%

Market Conditions—Climate Control Business

Information available from the McGraw-Hill Construction Market forecast indicates that construction activity for the primary markets we serve in the commercial/industrial sector are expected to increase in aggregate during 2014 by approximately 9% (measured in dollars), remaining significantly below pre-recession levels. The McGraw-Hill Construction Market forecast has indicated construction growth in the single-family residential sector for 2014 of approximately 22% (measured in new housing units), also remaining significantly below pre-recession levels.

In addition, we believe that tax credits and incentives contained in the American Reinvestment and Recovery Act of 2009, have and could continue to stimulate sales of our geothermal heat pump products, as well as other “green” products.

Geothermal and Water Source Heat Pumps

We believe our Climate Control Business is a leading provider of geothermal and water source heat pumps to the commercial/institutional construction and renovation markets 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 the market share for commercial/institutional water source heat pumps, relative to other types of heating and air conditioning systems, should continue to grow due to the relative efficiency and longevity of such systems, as well as the replacement market for those systems.

We also provide geothermal heat pumps in residential and commercial/institutional applications. 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. We believe the energy efficiency and longer life of geothermal systems, as compared with other systems, as well as tax incentives that are available to homeowners and businesses when installing geothermal systems, will increase demand for our geothermal products. Our products are sold to the commercial/institutional markets, as well as single and multi-family residential new construction, renovation and replacements.

Hydronic Fan Coils

We believe that our Climate Control Business is a leading provider of hydronic fan coils targeting commercial and institutional markets. 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, have longer lives and lower maintenance costs than other comparable systems used where individual room control is required. Important components of our strategy for competing in the commercial/institutional renovation and replacement markets include the breadth of our product line coupled with customization capability provided by a flexible manufacturing process. Hydronic fan coils enjoy a broad range of commercial/institutional applications, particularly 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 purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial/institutional or residential structures. Most customers place their product orders well in advance of required delivery dates.

The backlog of confirmed customer product orders (purchase orders from customers that have been accepted and received credit approval) for our Climate Control Business was approximately $39.7 million and $55.5 million as of December 31, 2013 and 2012, respectively. The lower backlog in 2013 was due to sales exceeding order levels for both commercial/institutional and residential products during 2013. The backlog of product orders generally does not include amounts relating to shipping and handling charges, service orders or service contract orders. The backlog also excludes contracts for our construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.

Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders. We expect to ship substantially all of these orders within the next twelve months; however, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms.

Distribution—Climate Control Business

Our Climate Control Business sells its products primarily to mechanical contractors, original equipment manufacturers (“OEMs”) and distributors. Our sales to mechanical contractors primarily occur through independent manufacturers’ representatives, who also represent complementary product lines not manufactured by us. 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. As previously reported, in November 2013, Carrier Corporation (“Carrier”), which is one of our OEMs, advised one of our subsidiaries, Climate Master, Inc. (“CM”), that the heat pump contracts will not be renewed between

CM, as the manufacturer, and Carrier, as the purchaser, effective May 11, 2014. During 2013, 2012 and 2011, net sales pursuant to these heat pump contracts represented less that 5% of LSB's consolidated net sales during each of those periods. See addition discussions concerning these heat pump contracts under "Risk Factors – A substantial portion of our sales is dependent upon a limited number of customers" under Item 1A and "Overview-Climate Control Business" of our MD&A contained in this report. The following table summarizes net sales to OEMs relating to our products of the Climate Control Business:

	2013	2012	2011
Net sales to OEMs as a percentage of:			
Net sales of the Climate Control Business	18%	22%	21%
LSB's consolidated net sales	8%	8%	7%

Market—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. This includes, but is not limited to, custom designed geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular chiller systems including geothermal chillers and simultaneous heating and cooling modules in markets such as education, single-family residential, multi-family residential, hospitality, healthcare, retail, and government.

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, copper, steel, electric motors, valves and aluminum. Periodically, our Climate Control Business enters into futures contracts for copper. We do not anticipate any difficulties in obtaining 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 impact production of our Climate Control products.

Market—Climate Control Business

Our Climate Control Business competes with several companies, primarily Carrier, Nortek, Trane, McQuay, Energy Labs, and Bosch, 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

Based on business plans and key objectives submitted by subsidiaries within our Climate Control Business, we expect to continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new markets served by the Climate Control Business. Further, our plan to drive growth in our Climate Control Business includes:

- focusing on product niches;
- continuing to develop the market for geothermal products, as well as products for green and energy-efficient construction retrofit; and
- continuing to focus on operational excellence

Employees

As of December 31, 2013, we employed 1,885 persons. As of that date, our Chemical Business employed 530 persons, with 156 represented by unions under agreements that expire in November of 2016 through October of 2018, and our Climate Control Business employed 1,266 persons, none of whom were represented by a union.

Environmental, Health and Safety Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws ("Environmental Laws") and to other laws regarding health and safety matters ("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 the Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our Chemical Business facilities should we discontinue the operations of a facility. We do not operate the natural gas wells where we own an interest and compliance with Environmental Laws and Health Laws is controlled by others, with our Chemical Business being responsible for its proportionate share of the costs involved. As of December 31, 2013, our accrued liabilities for environmental matters totaled $1,234,000 relating primarily to matters discussed below. It is reasonably possible that a change in the estimate of our liability could occur in the near term. Also see discussion concerning AROs under "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates."

Discharge Water Matters

Each of our chemical manufacturing facilities generates process wastewater, which may include cooling tower and boiler water quality control streams, contact storm water (rain water inside the facility area that picks up contaminants) and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by various permits generally issued by the respective state environmental agencies as authorized by the U.S. Environmental Protection Agency ("EPA"), subject to oversight by the EPA. These permits limit the type and amount of effluents that can be discharged and controls the method of such discharge. The following are discharge water matters in relation to the respective permits.

The El Dorado Facility is subject to a state National Pollutant Discharge Elimination System ("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 ("2004 NPDES permit"). In November 2010, a preliminary draft of a discharge water permit renewal for the El Dorado Facility, which contains more restrictive limits, was issued by the ADEQ.

EDC believes that the El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit limits, but has, from time to time, had difficulty demonstrating consistent compliance with the more restrictive dissolved minerals permit levels. As part of the El Dorado Facility's long-term compliance plan, EDC has pursued a rulemaking and permit modification with the ADEQ as to the discharge requirements relating to its dissolved minerals. The ADEQ approved a rule change, but the EPA formally disapproved the rule change. In October 2011, EDC filed a lawsuit against the EPA in the United States District Court, El Dorado, Arkansas, appealing the EPA's decision disapproving the rule change. In March 2013, the District Court affirmed the EPA's decision. EDC has appealed the District Court's decision. We do not believe this matter regarding meeting the permit requirements as to the dissolved minerals will continue to be an issue now that the pipeline discussed below is operational and EDC's right to use the pipeline to dispose of its wastewater.

During 2012, EDC paid a penalty of $100,000 to settle an Administrative Complaint issued by the EPA, and thereafter handled by the United States Department of Justice ("DOJ"), relating to certain alleged violations of EDC's 2004 NPDES permit for alleged violations through December 31, 2010. The DOJ advised that some action would be taken for alleged violations occurring after December 31, 2010. As of the date of this report, no action has been filed by the DOJ. The cost (or range of costs) cannot currently be reasonably estimated regarding this matter. Therefore, no liability has been established at December 31, 2013.

During 2013, the City of El Dorado, Arkansas (the "City") completed the construction of a pipeline for disposal of wastewater generated by the City and by certain companies in the El Dorado area. EDC and other companies in the El Dorado area entered into a funding agreement and operating agreement with the City, pursuant to which each party agreed to contribute to the cost of construction and the annual operating costs of the pipeline for the right to use the pipeline to dispose its wastewater. EDC believes that the disposal of wastewater through this pipeline will enable EDC to comply with water discharge permit limits under current and foreseeable regulations. The City completed the construction of the pipeline and EDC began utilizing the pipeline during 2013. The initial term of the operating agreement is through December 2053.

In addition, the El Dorado Facility is currently operating under a consent administrative order ("2006 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 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, 2013, in connection with this matter.

Air Matters

In connection with a national enforcement initiative, the EPA had sent information requests to most, if not all, of the operators of nitric acid plants in the U.S., including our El Dorado Facility, our chemical production facility located in Cherokee, Alabama (the "Cherokee Facility") and the Baytown Facility operated by our subsidiary, EDN, under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years.

During 2013, we negotiated a global agreement in principle with the EPA/DOJ to settle this matter. During January 2014, we executed a formal Consent Decree to settle this matter and expect the DOJ to execute such and to obtain court approval of the executed Consent Decree to become effective during 2014. The agreement provides, among other things, the following:

- all of our Chemical Business' nitric acid plants are to achieve certain emission rates within a certain time period for each plant. In order to achieve these emission rates, six of our Chemical Business' eight nitric acid plants will require additional pollution control technology equipment to achieve the emission rates agreed upon. Currently, we have already completed necessary modifications at three of our Chemical Business' existing nitric acid plants. The cost of the necessary pollution control equipment is estimated to range from $2.0 million to $3.0 million for each of the remaining five nitric acid plants, the cost of which will be capitalized when incurred;
- our Chemical Business will provide a reforestation mitigation project that is unrelated to our emissions or activities and will not be located at one of our plant sites, which we estimate will cost approximately $150,000 and have included this amount in our accrued liabilities for environmental matters discussed above; and
- a civil penalty will be paid by our Chemical Business in the amount of $725,000 (which includes the $100,000 civil penalty to the ODEQ discussed below), which amount is included in our accrued liabilities for environmental matters discussed above.

One of our subsidiaries, Pryor Chemical Company ("PCC"), within our Chemical Business, has been advised that the Oklahoma Department of Environmental Quality ("ODEQ") is conducting an investigation into whether the chemical production facility located in Pryor, Oklahoma (the "Pryor Facility") was in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions relating primarily to 2011 were intentionally reported incorrectly to the ODEQ. Pursuant to the request of the ODEQ, PCC submitted information and a report to the ODEQ as to the reports filed by the Pryor Facility relating to the air emissions in question. Investigators with the ODEQ obtained documents from the Pryor Facility in connection with this investigation pursuant to a search warrant and interviewed several employees at the facility. PCC has cooperated with the ODEQ in connection with this investigation. We are not aware of any recommendations made or to be made by the ODEQ with respect to formal legal action to be taken or recommended as a result of this ongoing investigation.

By letter dated April 19, 2013 (the "letter"), ODEQ, based on its inspection of our Pryor Facility conducted in December 2012, identified fourteen issues of alleged non-compliance and concern from the evaluation relating to federal and state air quality regulations, some of which were the subject of the ongoing investigation by ODEQ described above. PCC engaged in

discussions with ODEQ and a settlement was reached to resolve the allegations identified in the letter. Three of the violations were resolved through the global settlement with the EPA/DOJ discussed above, and ODEQ agreed to resolve the remaining eleven violations by PCC paying a civil penalty for $100,000 (which amount is included in the $725,000 civil penalty discussed above) with the settlement being addressed as an addition to the global settlement discussed above. This settlement is unrelated to the pending ODEQ investigation at the Pryor Facility described above, which remains ongoing to our knowledge.

Other Environmental Matters

In 2002, two subsidiaries within our Chemical Business sold substantially all of their operating assets relating to a Kansas chemical facility ("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 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.

The successor ("Chevron") of a prior owner of the Hallowell Facility has agreed in writing, on a nonbinding basis and within certain other limitations, to pay and has been paying one-half of the costs of the interim measures relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

Our subsidiary and Chevron are pursuing with the state of Kansas a course of long-term surface and groundwater monitoring to track the natural decline in contamination. Currently, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing.

In addition during 2010, the Kansas Department of Health and Environment ("KDHE") notified our subsidiary and Chevron that the Hallowell Facility has been referred to the KDHE's Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in its evaluation. Currently, it is unknown what damages the KDHE would claim, if any. The ultimate required remediation, if any, is unknown.

The nature and extent of a portion of the requirements are also not currently defined, and the associated costs (or range of costs) are not currently reasonably estimable. Therefore, no liability has been established at December 31, 2013, in connection with the KDHE's Natural Resources Trustee matter.

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, 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 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, 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.

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. 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.

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 2013, certain of our chemical facilities had planned and unplanned downtime as a result of certain maintenance and equipment issues. It is customary when performing major equipment replacements at a facility for there to be subsequent unplanned downtime in order to ensure the facility is running at appropriate operating conditions. As a result, we have 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 utilize 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 impact our operating results, liquidity and financial condition.

Current and future legislative or regulatory requirements impacting our Chemical Business may result in increased costs and decreased revenues, cash flows and liquidity or could have other negative impacts 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 which 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 has in the past, and may in the future, 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 financial condition.

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

Explosions and/or losses at other chemical facilities not owned by us could also result in new or additional legislation or regulatory changes, particularly relating to public health and safety, that could negatively impact our Chemical Business.

In summary, new or changed laws and regulations 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 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 anhydrous 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 impact on our financial condition, results of operations, and liquidity. The cost of such regulatory changes, if significant enough, could lead some of our customers to choose alternate products to anhydrous ammonia and AN, which would have a significant impact 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") has published in the August 3, 2011 *Federal Register* a Notice of 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 certain other new requirements. We and other parties affected by this proposal have submitted appropriate comments to DHS regarding the proposed regulation. 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. It is reasonably possible that compliance with the final regulation may be required during 2014.

On August 1, 2013, the Obama Administration issued Executive Order 13650 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 Obama Administration is directing federal agencies to enhance existing regulations and make recommendations to the U.S. Congress to develop new laws that may affect our Chemical Business.

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

The manufacturing facilities within 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 courts and administrative agencies, including the EPA, are considering the scope and scale of greenhouse gas emission regulation. Legislation is being considered that would regulate greenhouse gas emissions at some point in the future for our facilities and has already impacted 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 impacts 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 anhydrous 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. As it relates to our Chemical Business' working interest in natural gas properties, legislative and regulatory proposals for restricting greenhouse gas 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. While future emission regulations or new laws appear possible, it is difficult to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

There is intense competition in the Climate Control and Chemical 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 a number of companies, domestic and foreign, that have greater financial, marketing and other resources. Competitive factors could require us to reduce prices or increase spending on product development, marketing and sales that would have a material adverse effect on our business, results of operation and financial condition.

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

For 2013, six customers of our Chemical Business accounted for approximately 50% of its net sales and 28% of our consolidated net sales, and our Climate Control Business had one customer, Carrier Corporation ("Carrier"), including affiliates and their distributors, that accounted for approximately 15% of its net sales and 6% of our consolidated net sales. During the latter part of 2013, Carrier Corporation ("Carrier") advised our Climate Control Business that effective May 11, 2014, that Carrier will not be renewing the contracts to purchase heat pumps from our Climate Control Business. During 2013,

net sales of heat pumps to Carrier represented approximately 5% of our 2013 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.

Anhydrous 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. 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. There can be no assurance that future price fluctuations in our raw materials will not 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.

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, as well as being subject to tariff controls and other international trade barriers, which may increase the uncertainty of raw material and component availability and pricing volatility.

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 impact 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 ammonium nitrate ("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, all imports of fertilizer grade AN from Russia 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%. The antidumping orders have substantially restrained the volumes of these imports. We have been recently notified that the U.S. Department of Commerce ("Commerce") has refused to investigate whether these Russian producers were acquiring natural gas produced in Russia below cost levels. These two Russian ammonium nitrate producers are currently undergoing legal processes in which they are seeking to reduce the duty rates applied to their ammonium nitrate exports to the United States, and this decision by Commerce could possibly result in much lower duty rates in the near future. If the anti-dumping duty rates applied to the Russian AN producers were to be significantly lowered, we could likely face much higher volumes of Russian and Ukrainian fertilizer grade AN in the U.S. possibly priced below our current cost to produce fertilizer grade AN. 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 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 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, it 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.

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 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. As a result, this level of indebtedness could, among other things:

- require us to dedicate a substantial portion of our cash flow to the payment of principal and interest, 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 impact our ability to obtain financing in the future and increase the cost of such financing.

Any of the foregoing could adversely impact 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. Jack E. Golsen has an employment agreement with us. No other principal executive has an employment agreement with us. 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 crisis, etc.), have negatively impacted and could negatively impact U.S. and foreign companies, the financial markets, the industries where we operate, our operations and profitability.

Terrorist attacks and natural disasters (such as hurricanes) have in the past negatively impacted, 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 impact our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could impact 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 impacted our operations and those of our customers. 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.

We are currently effectively controlled by the Golsen Group

Jack E. Golsen, our Chairman of the Board of Directors (the "Board of Directors") and Chief Executive Officer ("CEO"), members of his immediate family, including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") owned as of February 14, 2014, an aggregate of 2,916,464 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 votes as a class and represents approximately 16% 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. Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

Our business could be negatively affected as a result of a proxy contest.

We have received certain proposals as to our business and notice that there may be a slate of directors proposed in opposition to the three directors that are up for election at our 2014 Annual Meeting of Shareholders and that would be nominated by our Board of Directors. Our business, operating results, liquidity or financial condition have been and could continue to be adversely affected by the proposals and a potential proxy contest because, among other things:

- considering and responding to the proposals and a potential proxy contest has been, and may continue to be, disruptive, costly and time consuming and a significant distraction for our management;
- perceived uncertainties as to our future may result in the loss of current customers and potential business opportunities and may make it more difficult to attract and retain qualified personnel;
- it may adversely affect our ability to create additional value for our stockholders by effectively limiting the implementation of our business strategy; and
- future trading prices of our common stock could be affected by public statements and other actions in a proxy contest, which we cannot predict or control.

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

Although we have paid dividends on our outstanding series of preferred stock (two of the three outstanding series of preferred stock are owned by the Golsen Group), in the past we have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our Board of Directors has not made a decision whether or not to pay such dividends on our common stock in 2014. In addition, there are certain limitations contained in our loan agreements, which limit our subsidiaries from up streaming funds to LSB that may limit our ability to pay dividends on our outstanding common stock.

Future issuance or potential issuance of our common stock could adversely affect the price of our common stock, our ability to raise funds in new stock offerings and could dilute the percentage ownership of our common stockholders.

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the issuance of a substantial amount of our common stock as the result of 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, 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 or conversions could also significantly reduce the percentage ownership of our 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 of Directors 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, we must pay such officer an amount equal to 2.9 times the officer's average annual gross salary for the last five years preceding the change in control.

We have authorized and unissued (including shares held in treasury) 52,473,992 shares of common stock and 4,230,000 shares of preferred stock as of December 31, 2013. 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.

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 Directors 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 of Directors; or
- the stockholders of the corporation amend its articles of incorporation or by-laws electing not to be governed by this provision

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Chemical Business

Our Chemical Business primarily conducts manufacturing operations in facilities located:

- on 150 acres of a 1,400 acre tract of land in El Dorado, Arkansas,
- on 160 acres of a 1,300 acre tract of land in Cherokee, Alabama,
- on 47 acres of a 104 acre tract of land within an industrial park in Pryor, Oklahoma and
- on property within Bayer's manufacturing complex in Baytown, Texas.

We own all of these manufacturing facilities except the Baytown Facility. Except for certain assets that are owned by EDN for use in the production process within the Baytown Facility, the Baytown Facility is owned by Bayer. EDN operates and maintains the Baytown Facility pursuant to the Bayer Agreement.

As of December 31, 2013, 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).

Most of our real property and equipment located at our chemical facilities are being used to secure our long-term debt. All of the properties utilized by our Chemical Business are suitable and adequate to meet the current needs of that business.

For 2013, the following was our percentage of utilization based on continuous operation, which is adjusted for downtime for planned major maintenance activities ("Turnarounds").

	Percentage of Capacity
El Dorado Facility (1)	56%
Cherokee Facility (2)	67%
Pryor Facility (3)	43%
Baytown Facility	90%

(1) The percentage of capacity for the El Dorado Facility relates to its nitric acid capacity, which total capacity has been reduced as the result of the explosion of a nitric acid plant in 2012. The capacity utilization rate is negatively affected by the reduction in mining product tons produced. The El Dorado Facility has capacity to produce other nitrogen products in excess of its nitric acid capacity.

(2) The percentage of capacity for the Cherokee Facility relates to its ammonia production capacity. The Cherokee Facility is able to purchase anhydrous ammonia by truck, rail or barge to supplement its ammonia production capacity. The low percentage of utilization is the direct result of the unplanned downtime during 2013.

(3) The percentage of capacity for the Pryor Facility relates to current operating ammonia production capacity estimated at 600 tons per day and 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. The low percentage of utilization is the direct result of the unplanned downtime during 2013.

Climate Control Business

Our Climate Control Business conducts its operations in seven facilities, all located in the greater Oklahoma City, Oklahoma area, totaling approximately 1 million square feet including the following:

Our Climate Control Business manufactures most of its geothermal and water source heat pump products in owned facilities totaling approximately 440,000 square feet. For 2013, we utilized approximately 79% of the production capacity of this manufacturing facility, based primarily on two ten-hour shifts per day and a four-day workweek and current staffing levels. Capacity could be increased within the confines of the existing facilities through additional staffing, the scheduling of supplemental shifts, and the purchase of more machinery and equipment. We also utilize approximately 126,000 square feet of an owned facility for a distribution center.

Our Climate Control Business conducts its fan coil manufacturing operation in facilities totaling approximately 230,000 square feet. We own a majority of these facilities. For 2013, our fan coil manufacturing operation utilized approximately 56% of the production capacity, based primarily on one ten-hour shift per day and a four-day workweek and current staffing levels. Capacity could be increased within the confines of the existing facilities through additional staffing, the scheduling of supplemental shifts, and the purchase of more machinery and equipment.

Our Climate Control Business conducts its large air handler manufacturing operation in an owned facility consisting of approximately 120,000 square feet. For 2013, we utilized approximately 46% of the production capacity of this manufacturing facility, based primarily on one eight-hour shift and a five-day workweek and a partial second shift in selected areas.

Our Climate Control Business conducts its modular chiller manufacturing operation in an area consisting of approximately 70,000 square feet within an owned facility. For 2013, we utilized approximately 39% of the production capacity of this manufacturing facility, based primarily on one ten-hour shift and a four-day workweek and current staffing levels. Capacity could be increased within the confines of the existing facilities through additional staffing, the scheduling of supplemental shifts, and the purchase of more machinery and equipment.

Capacity of the Climate Control Business can also be increased within the confines of the existing facilities by achieving certain operational efficiencies through LSB's LEAN Operational Excellence initiative.

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 Climate Control Business are suitable to meet the current needs of that business.

ITEM 3. LEGAL PROCEEDINGS

1. Environmental See "Business-Environmental, Health and Safety Matters" for a discussion as to:

(A) certain environmental matters relating to water and air issues in our Chemical Business, including, without limitation, the following:

- Discharge water matters at EDC;
- Settlement of an Administrative Complaint issued by the DOJ relating to certain alleged violations by EDC of its 2004 NPDES permit for alleged violations through December 31, 2010;
- Global settlement of Clean Air Act issues with EPA/DOJ, with EDC having executed the consent decree and DOJ expected to execute such and obtain court approval of such, during 2014;
- ODEQ investigation of PCC;
- EDC's appeal of a U.S. District Court decision in the case styled EDC v. EPA, filed in the U.S. District Court, El Dorado, Arkansas, as to permit and discharge requirements relating to dissolved minerals.

(B) certain environmental remediation matters at our former Hallowell Facility.

2. Other

West Fertilizer

During 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 had been a customer of EDC, purchasing ammonium nitrate ("AN") from EDC from time to time. LSB and EDC previously received letters from counsel purporting to represent subrogated insurance carriers, personal injury claimants and persons who suffered property damages informing them that their clients are conducting investigations into the cause of the explosion and fire to determine, among other things, whether AN manufactured by EDC and supplied to West Fertilizer was stored at West Fertilizer at the time of the explosion and, if so, whether such AN may have been one of the contributing factors of the explosion. Other manufacturers of AN also supplied AN to West Fertilizer. Initially, the lawsuits that had been filed named West Fertilizer and another supplier of AN as defendants. Although EDC does not believe that its product was in storage at West Fertilizer at the time of the explosion, there has been testimony in dispositions taken in connection with the pending lawsuits that some of the AN products at West Fertilizer at time of the explosion were produced by EDC. As a result, EDC and LSB have been named as defendants, together with other AN manufactures, in the case styled City of West, Texas v CF Industries, Inc., et al, in the District Court of McLennan County, Texas. Plaintiffs are alleging, among other things, that LSB and EDC were negligent in the production and inspection of fertilized products sold to West Fertilizer resulting in death, personal injury and property damage. EDC has retained a firm specializing in cause and origin investigations, with particular experience with fertilizer facilities, to assist EDC in its own investigation. LSB and EDC have placed its liability insurance carrier on notice of this matter. Our product liability insurance policies have aggregate limits of general liability totaling $100 million, with a self-insured retention of $250,000. As of December 31, 2013, no liability has been established in connection with this matter, but we have incurred professional fees of approximately $200,000 being applied against our self-insured retention amount.

Other Claims and Legal Actions

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of $250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible. At December 31, 2013, our accrued general liability insurance claims were $335,000 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

Our officers serve one-year terms, renewable on an annual basis by the Board of Directors. Information regarding LSB's executive officers is as follows:

Jack E. Golsen (1) **–** Mr. Golsen, age 85 and founder of LSB, is our Chairman of the Board of Directors and Chief Executive Officer and has served in those capacities since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen is a Trustee of Oklahoma City University and has served on its Finance Committee for many years. During his career, he acquired or started the companies which formed the Company. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A., which was formerly owned by the Company. In 1972 he was recognized nationally as the person who prevented a widespread collapse of the Wall Street investment banking industry. Refer to "The Second Crash" by Charles Ellis, and six additional books about the Wall Street crisis. Throughout his career he has been recognized as a turnaround specialist of industrial companies. In that capacity, he acquired the companies that presently comprise LSB Industries. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico.

Barry H. Golsen, J.D. (1) – Mr. Golsen, age 63, is our Board Vice-Chairman, President and Chief Operating Officer. Mr. Golsen joined LSB in 1978 as a product manager at International Environmental Corp. ("IEC") where he was responsible for the development and introduction of our first water source heat pump product line and the startup of CHP Corp. to manufacture and market those products. He became Executive Vice President of IEC in 1979 and IEC's President in 1980. Mr. Golsen spearheaded the growth of our Climate Control Business with a number of business startups as well as the acquisition of ClimateMaster, Inc. (and its merger with CHP Corp. and subsequent move to Oklahoma City). Under his leadership, our Climate Control Business attained leading shares of the U.S. markets for water source and geothermal heat pumps and hydronic fan coils. Mr. Golsen has served on our Board of Directors since 1981, has been our Board Vice-Chairman since 1993, and became our President and Chief Operating Officer in 2004. A native of Oklahoma City, Mr. Golsen attended Cornell University College of Engineering prior to earning both his B.A. and J.D. degrees from the University of Oklahoma. He was admitted to the Oklahoma Bar in 1978. Mr. Golsen is a past director of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City. Mr. Golsen served on the board of directors of Equity Bank for Savings, and on many of the bank's committees including the loan committee and investment committee. His professional affiliations have included the Oklahoma Bar Association, the American Bar Association, and the American Society of Heating, Refrigeration and Air-conditioning Engineers, Young Presidents Organization, and World Presidents Organization.

David R. Goss – Mr. Goss, age 73 and a certified public accountant previously with Arthur Andersen, is our Executive Vice President of Operations and has served in substantially the same capacity for more than ten years. He has served as a member of the executive management team since our inception in 1969. Mr. Goss is a graduate of Rutgers University.

Tony M. Shelby – Mr. Shelby, age 72 and a certified public accountant previously with Arthur Young & Co., a predecessor to Ernst & Young LLP, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than ten years. Mr. Shelby has served as a member of the LSB executive management team since our inception in 1969. Mr. Shelby is a graduate of Oklahoma City University.

Steven J. Golsen (1)—Mr. Golsen, age 61, is our Chief Operating Officer of our Climate Control Business. Mr. Golsen has been employed by the Company since 1976. Mr. Golsen has served as the Chief Operating Officer of our Machine Tool Business and Climate Control Business for more than ten years. Mr. Golsen attended the University of New Mexico and University of Oklahoma.

David M. Shear (1)—Mr. Shear, age 54, is our Senior Vice President and General Counsel and has served as Senior Vice President since July 2004 and as our General Counsel and Secretary since 1990. Mr. Shear attended Brandeis University, graduating cum laude in 1981. At Brandeis University, Mr. Shear was the founding Editor-In-Chief of Chronos, the first journal of undergraduate scholarly articles. Mr. Shear attended the Boston University School of Law, where he was a contributing Editor of the Annual Review of Banking Law. Mr. Shear acted as a staff attorney at the Bureau of Competition with the Federal Trade Commission from 1985 to 1986. From 1986 through 1989, Mr. Shear was an associate in the Boston law firm of Weiss, Angoff, Coltin, Koski and Wolf.

Harold L. Rieker Jr.—Mr. Rieker, age 53, is our Vice President and Principal Accounting Officer and has served as our Principal Account Officer since 2008 and has served as an officer of LSB since 2006. Mr. Rieker is a certified public accountant and was with the accounting firm of Grant Thornton LLP. Mr. Rieker is a graduate of the University of Central Oklahoma.

(1) Barry H. Golsen and Steven J. Golsen are the sons of Jack E. Golsen. David M. Shear is married to Heidi Brown, the niece of Jack E. Golsen, who serves as Vice President and Managing Counsel of our Company. Ms. Brown received her bachelor's degree from Tufts University and her J.D. and LLM Masters of Tax from Boston University School of Law.

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,			
	2013		2012	
Quarter	High	Low	High	Low
First	$42.79	$33.12	$42.28	$28.79
Second	$35.01	$28.15	$39.95	$24.85
Third	$36.00	$29.54	$44.29	$29.89
Fourth	$42.06	$29.39	$45.00	$30.48

Stockholders

As of February 14, 2014, we had 466 record holders of our common stock. This number does not include investors whose ownership is recorded in the name of their brokerage company.

Dividends

We have not paid cash dividends in 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" of the MD&A contained in this report.

Equity Compensation Plans

Discussions relating to our equity compensation plans are included in Item 12 of Part III, which are incorporated by reference to our definitive proxy statement which we intend to file with the SEC on or before April 30, 2014.

Sale of Unregistered Securities

There were no unregistered sales of equity securities in 2013 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the three months ended December 2013, there were no purchases of equity securities by the Company and affiliated purchasers.

Preferred Share Rights Plan

We have adopted a preferred share rights plan to protect us against certain creeping acquisitions, open market purchases and certain mergers and other combinations with acquiring companies. The rights plan will impact a potential acquirer unless the acquirer negotiates with our Board of Directors and the Board of Directors approves the transaction. Pursuant to the rights 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 Group and certain other limited excluded persons), 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 of Directors may exchange each Right (other than those held by the acquirer) for one share of our common stock, subject to adjustment. Our Board of Directors 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 of Directors 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.

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ITEM 6. SELECTED FINANCIAL DATA (1)

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars In Thousands, Except Per Share Data)				
Selected Statement of Income Data:					
Net sales	$ 679,287	$759,031	$805,256	$609,905	$531,838
Operating income	$ 105,308	$ 95,655	$136,443	$ 55,925	$ 40,710
Interest expense, net	$ 13,986	$ 4,237	$ 6,658	$ 7,427	$ 6,746
Provisions for income taxes	$ 35,421	$ 33,594	$ 46,208	$ 19,787	$ 15,024
Income from continuing operations	$ 55,141	$ 58,786	$ 83,984	$ 29,715	$ 21,849
Net income	$ 54,962	$ 58,604	$ 83,842	$ 29,574	$ 21,584
Net income applicable to common stock	$ 54,662	$ 58,304	$ 83,537	$ 29,269	$ 21,278
Income (loss) per common share applicable to common stock:					
Basic:					
Income from continuing operations	$ 2.44	$ 2.62	$ 3.81	$ 1.39	$ 1.01
Net loss from discontinued operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Net income	$ 2.43	$ 2.61	$ 3.80	$ 1.38	$ 1.00
Diluted:					
Income from continuing operations	$ 2.34	$ 2.50	$ 3.59	$ 1.33	$ 0.97
Net loss from discontinued operations	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Net income	$ 2.33	$ 2.49	$ 3.58	$ 1.32	$ 0.96
Selected Balance Sheet Data:					
Total assets	$1,083,097	$576,612	$502,009	$387,981	$338,633
Redeemable preferred stock	$ —	$ —	$ 44	$ 45	$ 48
Long-term debt, including current portion	$ 462,967	$ 72,441	$ 79,460	$ 95,392	$101,801
Stockholders' equity	$ 411,715	$354,497	$293,270	$179,370	$150,607
Selected other data:					
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ —

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

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 ("MD&A") should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2013 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

General

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

- Chemical Business manufactures and sells nitrogen-based chemical products produced from four facilities located in El Dorado, Arkansas; Cherokee, Alabama; Pryor, Oklahoma; and Baytown, Texas for the agricultural, industrial and mining markets. Our products include high purity and commercial grade anhydrous ammonia for industrial and agricultural applications, industrial and fertilizer grade AN, UAN, sulfuric acids, nitric acids in various concentrations, nitrogen solutions, DEF and various other products. For 2013, approximately 56% of our consolidated net sales relates to the Chemical Business compared to 63% for 2012.
- Climate Control Business manufactures and sells a broad range of HVAC products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers and other related products used to control the environment 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. For 2013, approximately 42% of our consolidated net sales relates to the Climate Control Business compared to 35% for 2012.

Issuance of Senior Secured Notes, Intended Use of Proceeds and Amended Working Capital Revolver Loan

On August 7, 2013, LSB sold $425 million aggregate principal amount of the 7.75% Senior Secured Notes due 2019 (the "Senior Secured Notes") in a private placement.

LSB has used, or intends to use, the proceeds, net of commissions and fees, from the sale of the Senior Secured Notes, as follows:

- $67.2 million was used to pay all outstanding borrowings, including the prepayment penalty, under a term loan agreement (the "Secured Term Loan");
- in connection with the construction and completion of the new ammonia plant at the El Dorado Facility, which when completed, we believe will significantly decrease our cost and exposure to fluctuations in the price of ammonia in the spot market;
- in connection with the construction of the 65% nitric acid plant and concentrator also at the El Dorado Facility, which, when completed, will replace lost capacity and add additional capacity to facilitation growth;
- to improve plant reliability and environmental and safety upgrades at our chemical facilities; and
- for the development of our natural gas working interest leasehold, which we believe will provide a partial hedge for our cost of natural gas, one of the key raw material imports.

Pending application of proceeds discussed above, the net proceeds from the Senior Secured Notes are currently invested in highly rated money market funds, certificates of deposit and U.S. Treasury bills.

The Senior Secured Notes are jointly and severally and fully and unconditionally guaranteed by all of LSB's subsidiaries and are collateralized with a substantial portion of LSB and most of its subsidiaries' assets.

On February 13, 2014, LSB entered into an Amended and Restated Loan Agreement, effective as of December 31, 2013, providing for a revolving line of credit up to $100 million subject to eligible collateral.

See further discussion relating to the Senior Secured Notes and the amended Working Capital Revolver Loan below under “Loan Agreements – Terms and Condition” of this MD&A.

Economic Conditions

Since our two core business segments serve several diverse markets, we consider fundamentals for each market individually as we evaluate economic conditions. From a macro standpoint, we believe the U.S. economy is poised for modest growth, based upon certain economic reports, including the Conference Board Composite Index of Leading Indicators.

Chemical Business—Our Chemical Business’ primary markets are agricultural, industrial and mining. During 2013, sales were $381 million or 20% lower than 2012. Due to the significant downtime at certain of our chemical facilities, as discussed below under “Downtime at Certain Chemical Facilities and Related Programs,” production and sales (in volumes and dollars) were lower in all three of our primary markets compared to the same period in 2012.

In normal circumstances, our agricultural sales volumes and prices depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat, cotton and forage. Although currently showing strength, nitrogen fertilizer prices are lower than the same time a year ago due in part to the significant increase in urea imports from China earlier during 2013. In addition, there was a significant increase in the 2013-2014 corn harvest and much lower forward corn prices as compared to a year ago. According to the USDA’s World Agricultural Supply and Demand Estimates, the U.S. yield per harvested acre of corn increased significantly from approximately 123 bushels per acre to 158 bushels per acre and the year end corn stocks were approximately double a year ago, resulting in a significant increase in the stock-to-use ratio. Notwithstanding the current conditions, the fundamentals continue to be positive for nitrogen fertilizer products we produce and sell and gross margins, although lower, are still strong. However, the fertilizer outlook could change if there are unanticipated changes in domestic fertilizer production capacity, acres planted of crops requiring fertilizer, unfavorable weather conditions or continued low selling prices and increases in imported urea from China. Our industrial acids sales volume is dependent upon general economic conditions primarily in the housing, automotive, and paper industries. According to the American Chemical Council, the outlook for these three sectors is generally positive. Our sales prices vary with the market price of our feedstock cost of ammonia or sulfur as applicable in our pricing arrangements with customers. Our mining sales volume is being impacted by lower customer demand for industrial grade AN, which we believe is primarily due to natural gas being a more attractive alternative feedstock than coal for utility companies. As reported by the U.S. Energy Information Administration, during 2013, coal production was down overall by 1.5%, although coal inventories declined by 43 million tons during the period. With such inventory decreases, the coal industry is now expected to see production growth of 3% to 4% in 2014 as inventories stabilize and short-term natural gas prices increase.

We use natural gas to produce anhydrous ammonia in two of our four facilities, in which ammonia is used to produce nitrogen fertilizer and industrial products, and sold in its original form. We also produce agricultural grade and industrial grade AN from purchased ammonia, which current cost is significantly higher than producing it from natural gas, resulting in a cost disadvantage compared to nitrogen fertilizers and industrial AN producers that manufacture from natural gas. Using a portion of the net proceeds from the sale of the Senior Secured Notes as discussed above under “Issuance of Senior Secured Notes, Intended Use of Proceeds and Amended Working Capital Revolver Loan”, and working capital, we are proceeding with the design, fabrication, engineering and construction of an ammonia plant at the El Dorado Facility in order to eliminate this current cost disadvantage.

Climate Control Business—Sales for 2013 were $285 million, or 7% higher than 2012, including a 16% increase in hydronic fan coil sales and a 13% increase in geothermal and water source heat pump sales (both increases were associated with a higher number of units shipped, unit pricing and product mix) partially offset by a 23% decrease in other HVAC sales, primarily in sales of our large custom air handlers. From a market sector perspective, the sales increase was due to an 8% improvement in commercial/institutional product sales, and a 3% improvement in residential product sales. The improvement in commercial/institutional and residential sales in 2013 is primarily due to higher new construction activity in those sectors, which resulted in higher customer order intake in the preceding periods for our commercial/institutional products in most of our product lines. For 2013, order levels of our products decreased 2% in both residential products and commercial/institutional products. Information available from the McGraw-Hill Construction Market forecast indicates that construction activity for the markets we serve in the commercial/institutional and single-family residential sectors are expected to increase in aggregate during 2014 although still significantly below pre-recession levels.

2013 Results

Our consolidated net sales for 2013 were $679 million, a decrease of $80 million compared to 2012. The sales decrease included a decrease of $97 million in our Chemical Business partially offset by an increase of $19 million in our Climate Control Business as discussed in more detail below.

Our consolidated operating income was $105 million for 2013, including $94.6 million business interruption and property damage insurance recoveries, compared to $96 million in 2012 which included $7.3 million insurance recoveries. Excluding insurance recoveries, our Chemical Business operating income decreased $82 million and our Climate Control Business increased $5 million, as discussed in more detail below.

Our resulting effective income tax rate for 2013 was 39% compared to 36% for 2012.

Chemical Business

Our Chemical Business operates four chemical facilities. The Cherokee and Pryor Facilities produce anhydrous ammonia and nitrogen products from natural gas delivered by pipeline but can also receive supplemental anhydrous ammonia by other modes of delivery. The El Dorado and Baytown Facilities produce nitrogen products from anhydrous ammonia delivered by pipeline.

Our Chemical Business sales for 2013 were $381 million, a decrease of $97 million compared to 2012, which includes a $50 million decrease in agricultural products sales, a $21 million decrease in industrial acids and other products sales, and a $33 million decrease in mining products sales.

The percentage change in sales (volume and dollars) for 2013 compared to 2012 is as follows (excluding natural gas sales):

	Percentage Change of	
	Tons	Dollars
Chemical products:		
Agricultural	(12)%	(23)%
Industrial acids and other	(6)%	(13)%
Mining	(44)%	(35)%
Total weighted-average change	(15)%	(22)%

The decrease in agricultural sales was due to the lack of available products as the result of unplanned downtime at our facilities, lower sales prices, and periodic adverse weather conditions during 2013.

The decrease in industrial acids and other sales was primarily due to lower sales prices as a result of pass through of raw material costs provisions (primarily ammonia) included in contractual pricing agreements with certain of our customers.

The decrease in mining sales was primarily due to lower demand for coal due to natural gas being a more attractive alternative feedstock than coal for utility companies and the downtime experienced at the Cherokee Facility.

Our primary raw material feedstocks (anhydrous ammonia and natural gas) are commodities subject to significant price fluctuations. Generally, we purchase at prices in effect at the time of delivery; however, periodically, we enter into contracts to purchase natural gas for anticipated production needs, which contract prices will vary from the spot market prices. In addition, our Chemical Business owns working interests in certain natural gas properties. Management considers these working interests as a partial economic hedge against a potential rise in natural gas prices in the future. During 2013, the average prices for those commodities compared to 2012 were as follows:

	2013	2012
Natural gas average price per MMBtu based upon Henry Hub pipeline pricing point	$3.72	$2.75
Ammonia average price based upon low Tampa price per metric ton	$ 543	$ 600

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 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 Chemical Business' operating income for 2013 was $87.8 million compared to $82.1 million for 2012. The increase in operating income was due to insurance recoveries of $94.6 million recognized in 2013 (compared to $7.3 million in 2012) offset by lower selling prices for nitrogen fertilizers, lower sales volumes due to the impact of unplanned downtime at certain of our Chemical facilities and higher natural gas costs. See additional discussions below under "Property and Business Interruption Insurance Claims and Recoveries" and "Downtime at Certain Chemical Facilities and Related Programs."

The following table shows the estimated range of the adverse effect on operating income by facility resulting from the lost productions due to the downtime related to these issues offset by insurance recoveries:

	2013 (Estimated Range)	
	Low	High
	(In Millions)	
Estimated adverse effect by facility:		
El Dorado	$ 10.0	$ 12.0
Cherokee	30.6	35.6
Pryor	64.0	73.0
Total estimated adverse effect	104.6	120.6
Insurance recoveries	(94.6)	(94.6)
Total estimated effect, net of insurance recoveries	$ 10.0	$ 26.0

The estimated adverse effect shown above includes lost absorption and gross profit margins, based on current market conditions, and additional expenses incurred.

Pursuant to a long-term cost-plus supply agreement, EDC sells to a customer a significant annual volume of industrial grade AN produced at the El Dorado Facility. In April 2013, this agreement was amended to update and correct the specification of AN solution to be manufactured by EDC. The amendment also modified the required notice of termination from two years to one year, with the effective termination date in such notice to be no sooner than April 9, 2015.

During 2013, the ADEQ issued an air permit for the new 65% strength nitric acid plant, the new 98% concentrator, the new ammonia plant, and the associated infrastructure. Obtaining the air permit was a key requirement before construction activities could commence on these projects, which construction began during the fourth quarter of 2013.

Climate Control Business

Our Climate Control sales for 2013 were $285 million, or approximately $19 million higher than 2012, and included an approximate $21 million increase in geothermal and water source heat pump sales, a $9 million increase in hydronic fan coil sales partially offset by a $11 million decrease in other HVAC sales, primarily due to a reduction in sales of our custom air handler products. We do not believe the decline in our other HVAC sales to be indicative of a trend. From a market sector perspective, the increase included a $17 million improvement in commercial/institutional product sales and a $2 million improvement in residential product sales.

We continue to follow economic indicators and monitor their the impact on the commercial/institutional and residential construction sectors that we serve, including, but not limited to, new construction and/or renovation of facilities in the following sectors:

- Education
- Single-Family Residential
- Multi-Family Residential
- Hospitality
- Healthcare
- Retail
- Government

During 2013, approximately 83% of our Climate Control Business' sales were to the commercial/institutional and multi-family construction markets, and the remaining 17% were sales of geothermal heat pumps ("GHPs") to the single-family residential market.

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)	
	2013	2012	2013	2012	2013	2012
	(In Millions)					
First Quarter	$ 67.5	$ 62.9	$ 70.3	$ 62.8	$ 57.3	$ 47.4
Second Quarter	65.4	66.8	77.3	67.5	$ 48.9	$ 50.2
Third Quarter	64.6	65.7	69.9	68.0	$ 46.3	$ 51.3
Fourth Quarter	58.8	66.8	67.5	67.9	$ 39.7	$ 55.5
Fiscal Year	$256.3	$262.2	$285.0	$266.2		

(1) Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval. Our backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we expect to ship substantially all of these orders within the next twelve months; however, 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 2014, our new orders received were approximately $20 million and our backlog was approximately $39 million at January 31, 2014.

Our GHPs use a form of renewable energy and, under certain conditions, we believe can reduce energy costs up to 80% compared to some conventional HVAC systems. Tax legislation continues to provide incentives for customers purchasing products using forms of renewable energy and is effective through December 31, 2016.

We expect the Climate Control Business to experience moderate sales growth in the short-term compared to 2013. Although a significant part of the Climate Control Business' sales are products that are used for renovation and replacement applications, sales increases in the medium-term and long-term are expected to be primarily driven by growth in new construction, as well as the introduction of new products. We continue to focus our sales and marketing efforts to increase our share of the existing market for our products as well as expand the market for and application of our products, including GHPs.

As previously reported, in November 2013, Carrier Corporation ("Carrier") advised one of our subsidiaries, Climate Master, Inc. ("CM"), that the heat pump contracts will not be renewed between CM, as the manufacturer, and Carrier, as the purchaser, effective May 11, 2014. During 2013, 2012 and 2011, net sales pursuant to these heat pump contracts represented less than 5% of LSB's consolidated net sales during each of those periods.

Potential Proxy Contest

We have received certain proposals as to our business and notice that there may be a slate of directors proposed in opposition to the three directors that are up for election at our 2014 Annual Meeting of Shareholders and that would be nominated by our Board of Directors. Our business, operating results, liquidity or financial condition have been and could continue to be adversely affected by the proposals and a potential proxy contest because, among other things:

- considering and responding to the proposals and a potential proxy contest has been, and may continue to be, disruptive, costly and time consuming and a significant distraction for our management;
- perceived uncertainties as to our future may result in the loss of current customers and potential business opportunities and may make it more difficult to attract and retain qualified personnel;
- it may adversely affect our ability to create additional value for our stockholders by effectively limiting the implementation of our business strategy.

See “Risk Factors-Our business could be negatively affected as a result of a proxy contest.”

Downtime at Certain Chemical Facilities and Related Programs

During 2012, 2013 and the first quarter of 2014, our Chemical Business encountered a number of significant issues. These issues included an explosion in one of our nitric acid plants at the El Dorado Facility in May 2012, a pipe rupture at the Cherokee Facility in November 2012 that damaged the ammonia plant, and the suspension of production at the Pryor Facility from time to time during 2012, 2013 and into the first quarter of 2014 due to continued mechanical issues. All of these issues resulted in lost production causing an adverse effect on our sales, operating income and cash flow for 2012 and 2013 and the first quarter of 2014. The following table shows the estimated range of the adverse effect on operating income by facility resulting from the lost productions due to the downtime related to these issues offset by insurance recoveries:

	2013 (Estimated Range)	
	Low	High
	(In Millions)	
Estimated adverse effect by facility:		
El Dorado	$ 10.0	$ 12.0
Cherokee	30.6	35.6
Pryor	64.0	73.0
Total estimated adverse effect	104.6	120.6
Insurance recoveries	(94.6)	(94.6)
Total estimated effect, net of insurance recoveries	$ 10.0	$ 26.0

The estimated adverse effect shown above includes lost absorption and gross profit margins, based on current market conditions, and additional expenses incurred.

Although we believe these issues are unrelated to each other, the severity and frequency of the events at our Pryor, Cherokee, and El Dorado Facilities caused us to undergo a thorough reexamination of our process safety management (“PSM”), reliability and mechanical integrity programs. As a result, we have undertaken a concerted program to attempt to improve the reliability and mechanical integrity of our chemical plant facilities, which program is expected to take several years to complete. The improvement program includes engaging outside experts and consultants who specialize in risk management, reliability, mechanical integrity and PSM. We are also recruiting and hiring additional corporate and plant engineering and operational personnel, and accelerating acquisition of additional spare parts to supplement our existing spare parts program. For 2013, we incurred expenses of approximately $3.2 million in connection with this program and anticipates that we will incur additional expenses of $1.8 million during 2014 in connection with this program. The program also includes the installation of additional automation and improved diagnostics.

El Dorado Facility – During May, 2012, the El Dorado Facility suffered significant damage when a reactor in its DSN plant exploded. As a result, the DSN plant was damaged beyond repair and several other plants and infrastructure within the El Dorado Facility sustained various degrees of damage. The DSN plant, which supplied approximately 20% of the nitric acid produced at this facility, will be replaced with a new 65% strength nitric acid plant and a 98% concentrator. The design, fabrication, and engineering of the new nitric acid plant and concentrator are in process, and most equipment has been ordered.

We estimate that the monthly negative effect on operating income at the El Dorado Facility will approximate $1 million until the new 65% strength nitric acid plant and the 98% concentrator are constructed and begin production during 2015. The estimated combined construction cost for the new nitric acid plant and concentrator is approximately $120 million, of which $48 million has been capitalized as of December 31, 2013. Together, these new plants are designed to be more efficient and provide higher production capacity.

Cherokee Facility – During November, 2012, a pipe ruptured within the Cherokee Facility causing damage primarily to the heat exchanger portion of its ammonia plant. 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 that directly reduced our net sales and gross profit margins. The Cherokee Facility restarted in May 2013 and has been running consistently at normal production rates since resuming production during 2013, with normal interruptions for maintenance.

Pryor Facility – During November 2012, production was stopped at the primary ammonia plant to perform unplanned maintenance on a compressor. During this downtime, we also replaced the ammonia converter and restarted the primary ammonia plant in April 2013; however, after the facility resumed production, we have continued to experience frequent operational issues that have required extensive equipment repairs and maintenance and related costs. As a result, the Pryor Facility's ammonia production during 2013 was only 42%, directly reducing our ammonia and UAN sales and gross profit margins.

During the first part of January 2014, our Pryor Facility ceased production at the ammonia plant to make repairs and perform additional maintenance. We estimate the adverse impact to our operating income will be approximately $8.0 million per month, including maintenance and repair costs, until the plant resumes production.

Property and Business Interruption Insurance Claims and Recoveries

El Dorado Facility

Our insurance covering the claim relating to the explosion of the DSN plant at the El Dorado Facility in May 2012, 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, of which $60 million had been paid to us prior to the conclusion of these claims and the remaining $53 million was paid to us during October and November of 2013. For financial reporting purposes, we allocated $90.7 million to our property insurance claim and $22.3 million to our business interruption claim primarily based on negotiations with our insurance carriers concerning our claims.

The $90.7 million allocated to the property insurance claim was partially applied against the recoverable costs totaling $24.7 million (primarily relating to the loss on disposal of the damaged property and certain repairs and clean-up costs incurred). 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

Our insurance policy covering the claim related to the pipe rupture that damaged the ammonia plant at the Cherokee Facility in November 2012, provided 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, which insurance claims were settled with our insurance carriers in January 2014 as discussed below.

As of December 31, 2013, our insurance carriers approved and funded advance payments relating to our business interruption claim totaling $15 million. We received correspondence associated with the approval of these payments, which stated that our insurance carriers are still investigating the circumstances surrounding this event (including the cause of this event, scope of our losses and support for our claim) under a reservation of rights.

The business interruption insurance recovery of $15 million 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 in 2013. 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.

As of December 31, 2013, the balance of the insurance claim receivable, included in accounts receivable, relating to this event was $1.9 million, consisting of recoverable costs associated with our property insurance claim.

Effective January 10, 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 and $28.5 million paid to us in January 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 will be recognized as income associated with this settlement in the first quarter of 2014.

Due to the increase in the total value of property, plant and equipment ("PP&E") and the insurance claims discussed above relating to our Chemical Business, our insurance premiums have increased (a portion of which was financed through short-term financing agreements) and are expected to increase in future periods.

Liquidity and Capital Resources

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

	December 31, 2013	December 31, 2012
	(In Millions)	
Cash and cash equivalents	$ 143.8	$ 98.0
Noncurrent restricted cash and investments (1)	291.0	—
	$ 434.8	$ 98.0
Long-term debt:		
Senior Secured Notes	$ 425.0	$ —
Secured Promissory Note	29.6	—
Secured Term Loan	—	68.4
Other	8.4	4.0
Total long-term debt, including current portion	$ 463.0	$ 72.4
Total stockholders' equity	$ 411.7	$ 354.5
Long-term debt to stockholders' equity ratio (2)	1.1	0.2

(1) This balance includes U.S. Treasury bills with an original maturity of 13 weeks and certificates of deposits with an original maturity no longer than approximately 26 weeks. We have designated this balance for specific purposes relating to capital projects. All of these investments were held by financial institutions within the U.S.

(2) This ratio is based on total long-term debt divided by total stockholders' equity and excludes the use of cash or noncurrent restricted cash and investments to pay down debt.

As of December 31, 2013, our cash, cash equivalents and noncurrent restricted cash and investments totaled $435 million. In addition as discussed below, our $100 million revolving credit facility is currently undrawn and available to fund operations, if needed, subject to the amount of our eligible collateral and outstanding letters of credit.

For 2014 and 2015, we have extensive committed and planned capital expenditures. Our primary cash needs for this period of time will be to fund these capital expenditures, as well as, our operations, our general obligations, and our interest payment requirements. We expect to fund these cash needs from the noncurrent restricted cash and investments (provided from the proceeds from the Senior Secured Notes), working capital, internally generated cash flows, insurance proceeds, and third-party financing. See additional discussions below under “Capital Expenditures” and “Loan Agreements-Terms and Conditions.” Our internally generated cash flows and liquidity have been, and could be, affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions and production inefficiency of our facilities.

As discussed above under “Issuance of Senior Secured Notes and Intended Use of Proceeds” and below under “Loan Agreements-Terms and Conditions,” on August 7, 2013, LSB closed the transaction whereby LSB sold $425 million aggregate principal amount of the Senior Secured Notes in a private placement.

LSB has used, or intends to use, the proceeds of $418 million, net of commissions and fees, from the sale of the Senior Secured Notes, in connection with the following:

- $67.2 million was used to repay all outstanding borrowings, including prepayment penalty, under the Secured Term Loan,
- for the construction and completion of an ammonia plant at the El Dorado Facility, which investment, when completed, will significantly decrease our costs and eliminate our exposure to fluctuations in the price of ammonia in the spot market,
- for the new 65% nitric acid plant and concentrator also at the El Dorado facility, which investment will replace lost capacity and add additional capacity to facilitate growth,
- for plant reliability enhancements, and environmental and safety upgrades at all of our chemical facilities, and
- for the development of our natural gas leasehold, which investment provides a partial hedge for the cost of natural gas, one of our key raw material inputs.

Pending application of proceeds discussed above, the net proceeds from the Senior Secured Notes are invested in highly rated money market funds, certificates of deposit and U.S. Treasury bills.

In connection with the closing, LSB entered into an indenture (the “Indenture”) governing the Senior Secured Notes. The Indenture contains covenants that, among other things, limit LSB’s ability, with certain exceptions and as defined in the Indenture, to certain transactions discussed below under “Loan Agreements-Terms and Conditions.”

Also, as discussed below under “Loan Agreements-Terms and Conditions,” on February 13, 2014, we and certain of our subsidiaries (the “Borrowers”) entered into an amended and restated revolving credit facility (the “Amended Working Capital Revolver Loan”), effective December 31, 2013. Pursuant to the terms of the Amended Working Capital Revolver Loan, the principal amount the Borrowers may borrow is up to $100.0 million, based on specific percentages of eligible accounts receivable and inventories. At December 31, 2013, there were no outstanding borrowings under the Amended Working Capital Revolver Loan. At December 31, 2013, the net credit available for borrowings under our Amended Working Capital Revolver Loan was approximately $67.0 million, based on our eligible collateral, less outstanding letters of credit as of that date.

As discussed below under “Loan Agreements-Terms and Conditions”, 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.

Due to the overall increase in our outstanding long-term debt, our interest payment obligations have increased and will continue during future periods, of which a portion has and will be capitalized.

In November 2012, we filed a universal shelf registration statement on Form S-3, with the Securities and Exchange Commission (“SEC”). The shelf registration statement provides that we could offer and sell up to $200 million of our securities consisting of equity (common and preferred), debt (senior and subordinated), warrants and units, or a combination thereof. The shelf registration statement expires in November 2015 unless we decide to file a post-effective amendment. **This disclosure shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.**

Income Taxes

We recognize and pay federal income taxes at regular corporate tax rates. With few exceptions, the 2010-2012 years remain open for all purposes of examination by the U.S. Internal Revenue Service ("IRS") and other major tax jurisdictions. We are under examination by the IRS for the tax years 2008-2010. As of December 31, 2013, the IRS has proposed certain adjustments, which we are protesting. We anticipate that the adjustments, if any, will not result in a material change to our financial position. We had approximately $2.4 million accrued for various uncertain tax liabilities at December 31, 2013.

Capital Expenditures

Capital Expenditures-2013

Cash used for capital expenditures (including acquisition of working interests in natural gas properties for $9.2 million) during 2013 was $166.6 million, including $160.0 million for the benefit of our Chemical Business and $6.0 million for the benefit of our Climate Control Business. The Chemical Business capital expenditures relate primarily to expenditures to replace or rebuild damaged PP&E discussed above under "Downtime at Certain Chemical Facilities and Related Programs" and certain capital projects discussed below under "Committed and Planned Capital Expenditures," but also includes approximately $3.0 million associated with maintaining compliance with environmental laws, regulations and guidelines. The capital expenditures were funded primarily from working capital, insurance proceeds, the net proceeds received in connection with the offering of our Senior Secured Notes, and other third-party financing. Due to the increase in the amount of capital expenditures incurred and committed, our depreciation, depletion and amortization expenses have increased and are expected to continue to increase during 2014.

Committed and Planned Capital Expenditures

	Committed			
	2014	2015 and thereafter	Additional Planned	Total
	(In Millions)			
Chemical	$220 - $250	$110 - $135	$160 - $175	$490 - $560
Climate Control	— - 1	— - —	5 - 10	5 - 11
Other	7 - 10	9 - 13	— - —	16 - 23
	$227 - $261	$119 - $148	$165 - $185	$511 - $594

Our committed capital expenditures are the capital projects that have been approved by management as of December 31, 2013 and include projects which are already in progress and funded or projects supported by cost benefit analysis. The additional planned capital expenditures are subject to economic conditions and continued review by management. The amount of planned capital expenditures may increase or decrease as new information is obtained or circumstances change. Total capital expenditures include all committed capital expenditures as well as expenditures that have been brought to the attention of management for approval through our budget and forecasting process.

At December 31, 2013, we had committed and planned capital expenditures as indicated in the table above. We plan to fund the committed and planned capital expenditures from noncurrent restricted cash and investments (provided from the proceeds from the Senior Secured Notes), working capital, internally generated cash flows, insurance proceeds, and third-party financing.

During the fourth quarter of 2013, we received the necessary permits to proceed with expansion projects at the El Dorado Facility which include the ammonia production plant discussed below under "Ammonia Plant"; a new 65% strength nitric acid plant and concentrator to replace the lost production from the DSN plant explosion; and for other support infrastructure. The expected cost of these projects is outlined below.

		Committed			
	Spent to Date	2014	2015 and thereafter	Additional Planned	Total
		(In Millions)			
El Dorado Facility Expansion Projects					
Ammonia Plant	$ 36	$ 90 - $ 110	$ 75 - $ 90	$50 - $65	$251 - $301
Nitric Acid Plant and Concentrator	48	50 - 55	15 - 20	— - —	113 - 123
Other Support Infrastructure	—	55 - 60	10 - 15	— - —	65 - 75
	$ 84	$195 - $225	$100 - $125	$50 - $65	$429 - $499

Additionally at December 31, 2013, the committed and planned capital expenditures in the Chemical Business included $30 million to $35 million in connection with natural gas leaseholds during the next three years (which we are investing as a partial hedge against the rise in natural gas prices) and $25 million to $30 million associated with environmental laws, regulations and guidelines at our various chemical plant facilities.

The committed capital expenditures for Corporate and Other include $15 million to $20 million for the replacement of our enterprise financial and operations management software.

Ammonia Plant

Our El Dorado Facility produces nitric acid and agricultural and industrial grade AN from purchased ammonia, which is currently at a cost disadvantage compared to products produced from natural gas. We believe this cost disadvantage will continue to be significant for the medium and long-term. Using a portion of the net proceeds from the sale of the Senior Secured Notes, we are proceeding with the addition of an anhydrous ammonia production plant at the El Dorado Facility. During August 2013, a subsidiary of EDC entered into an agreement with SAIC Constructors, LLC to engineer and construct the ammonia plant and certain support facilities. The estimated construction cost of this project ranges from $250 million to $300 million and is expected to be complete by the end of 2015.

Purchase of Additional Gas Working Interest

During 2013, Zena, which is a subsidiary within our Chemical Business, acquired certain additional working interests in natural gas properties located in the Marcellus Shale in Wyoming County, Pennsylvania as a partial hedge against cost increases in natural gas that is a primary feedstock in the production of ammonia. The purchase represents an increase from approximately 10% to 12% in the total working interest (an increase from approximately 8% to 10% in total net revenue interest) for proven reserves in the same natural gas properties purchased by Zena in October 2012. The purchase price for the additional working interest paid by Zena was $9.2 million in cash, which was funded using our existing working capital. Our working interest represents our share of the costs and expenses incurred in connection with the underlying natural gas working interest leaseholds 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 the royalty owners. We are not the operator of these natural gas properties.

The current development plan for the leaseholds includes 63 natural gas wells, of which 27 wells have been developed and are producing as of December 31, 2013. Zena's portion of the estimated capital cost to fully develop the remaining leaseholds is approximately $32 million to be incurred through 2016. During 2013, Zena sold from their working interest approximately 2,600 MMcf of natural gas. Zena's share of the estimated remaining proved reserves that are economically feasible to be recovered from known reservoirs based on current market conditions is approximately 70,000 MMcf of natural gas as estimated by an independent reservoir engineering firm based on petroleum and geoscience engineering data.

Information Request from EPA

As discussed above under "Environmental, Health and Safety Matters" of Part I of this report, in connection with a national enforcement initiative, the EPA had sent information requests pursuant to Section 114 of the Clean Air Act to most, if not all, of the operators of nitric acid plants in the U.S., including our El Dorado and Cherokee Facilities and the Baytown Facility operated by our subsidiary, El Dorado Nitric Company and its subsidiaries ("EDN").

During 2013, we negotiated a global agreement in principle with the EPA/DOJ to settle this matter. During January 2014, we executed a formal Consent Decree to settle this matter and expect the DOJ to execute such and to obtain court approval of the executed Consent Decree to become effective during 2014. The agreement provides, among other things, the following:

- all of our Chemical Business' nitric acid plants are to achieve certain emission rates within a certain time period for each plant. In order to achieve these emission rates, six of our Chemical Business' eight nitric acid plants will require additional pollution control technology equipment to achieve the emission rates agreed upon for continued future operation of units. Currently, we have already completed necessary modifications at three of our Chemical Business' existing nitric acid plants. The cost of the necessary pollution control equipment is estimated to range from $2.0 million to $3.0 million for each of the remaining five nitric acid plants, the cost of which will be capitalized when incurred;

- our Chemical Business will provide a reforestation mitigation project that is unrelated to our emissions or activities and will not be located at one of our plant sites, which we estimate will cost approximately $150,000; and
- a civil penalty will be paid by our Chemical Business in the amount of $725,000.

Estimated Plant Turnaround Costs – 2014

Our Chemical Business expenses the costs for planned maintenance, repairs and minor renewal activities ("Turnarounds") as they are incurred and are classified as cost of sales. Based on our current plan for Turnarounds during 2014, we estimate that we will incur approximately $5.0 million to $5.5 million of these Turnaround costs. These costs do not include the costs relating to lost absorption or reduced margins due to the associated plants being shut down. These costs also do not include maintenance and repair costs related to the current repairs and maintenance to bring the Pryor Facility back into production. We plan to fund these expenditures from our available working capital. However, it is possible that the actual costs could be significantly different from our estimates.

Expenses Associated with Environmental Regulatory Compliance

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of $5.2 million in 2013 in connection with environmental projects. For 2014, we expect to incur expenses ranging from $4.0 million to $5.0 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

Dividends

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

Holders of our common stock and preferred stocks are entitled to receive dividends only when and if declared by our Board of Directors. We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our Board of Directors has not made a decision whether or not to pay such dividends on our common stock in 2014**.**

During the first quarter of 2013, dividends totaling $300,000 were declared on our outstanding preferred stock and subsequently paid in April 2013 using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our Board of Directors, payable as follows:

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

In January 2014, our Board of Directors declared the following dividends:

- $0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of $60,000, which were paid in February 2014, and
- $12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of $240,000, which were paid in February 2014.

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

Compliance with Long—Term Debt Covenants

As discussed below under "Loan Agreements—Terms and Conditions", 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.

Loan Agreements—Terms and Conditions

Senior Secured Notes –As discussed above under "Issuance of Senior Secured Notes and Intended Use of Proceeds," on August 7, 2013, LSB sold $425 million aggregate principal amount of the Senior Secured Notes in a 144A transaction pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Act"). The Senior Secured Notes are eligible for resale by the investors under Rule 144A under the Act. LSB received net proceeds of approximately $351 million, after the payoff of the Secured Term Loan, commissions and fees. In connection with the closing, LSB entered into an indenture (the "Indenture") with UMB Bank, as trustee, and UMB Bank will also act as the collateral agent, in connection with the Senior Secured Notes, and will receive customary compensation from us for such services.

The 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, beginning on February 1, 2014.

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 subsidiaries, with all of the guarantees, except two, being senior secured guarantees and two being senior unsecured guarantees. The Senior Secured Notes will 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 below, and will be 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 be effectively senior to all existing and future obligations under the Amended Working Capital Revolver Loan and other debt to the extent of the value of the certain collateral ("Priority Collateral").

The Senior Secured Notes will be secured on a first-priority basis by the Notes' Priority Collateral owned by LSB and the guarantors (other than the two unsecured guarantors) providing security 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 two unsecured guarantors), 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 guarantors with respect to any obligations under any equally ranked lien obligations subsequently incurred.

The Senior Secured Notes will be effectively 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	Percentage
2016	103.875%
2017	101.938%
2018 and thereafter	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.

Amended Working Capital Revolver Loan – On February 13, 2014, LSB and certain of its subsidiaries (the "Borrowers") entered into an amendment to the existing senior secured revolving credit facility (the "Amended Working Capital Revolver"). The Amended Working Capital Revolver is effective as of December 31, 2013. 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 and permits the Senior Secured Notes and the secured guarantees to be secured on a first-priority basis by the Priority Collateral and on a second-priority basis by the certain collateral securing the Amended Working Capital Revolver Loan and provides that the Amended Working Capital Revolver Loan be secured on a second-priority basis by the Priority Collateral. 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, 2013, the interest rate was 3.75% based on LIBOR. Interest is paid monthly, if applicable.

At December 31, 2013, there were no outstanding borrowings under the Amended Working Capital Revolver Loan. At December 31, 2013, the net credit available for borrowings under our Amended Working Capital Revolver Loan was approximately $67.0 million, based on our eligible collateral, less outstanding letters of credit as of that date.

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. 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. As of December 31, 2013, as defined in the agreement, the fixed charge coverage ratio was 6.6 to 1. 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 of assets.

The Amended Working Capital Revolver Loan allows the Borrowers and subsidiaries under the Senior Secured Notes to guarantee those notes.

So long as 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;
- investments in joint ventures and certain subsidiaries of LSB in an aggregate amount not exceeding $35.0 million; and
- other investments in an aggregate amount not exceeding $50.0 million at any one time outstanding.

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

Secured Promissory Note—On February 1, 2013, Zena, a subsidiary within our Chemical Business, entered into the Secured Promissory Note with a lender in the original principal amount of $35 million. The Secured Promissory Note follows the original acquisition by Zena of 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 proceeds of the Secured Promissory Note were used to reimburse our general working capital. The Secured Promissory Note matures on February 1, 2016. Principal and interest are payable monthly based on a five-year amortization at a defined LIBOR rate plus 300 basis points with a final balloon payment of $15.3 million due at maturity. The interest rate at December 31, 2013 was 3.24%. The loan is secured by the Working Interests and related properties and proceeds.

Seasonality

We believe that our only significant seasonal products are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry. The selling seasons for those 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 increases its inventory of agricultural products prior to the beginning of each planting season. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Related Party Transactions

On March 15, 2013, our Board of Directors appointed Mr. Lance Benham as a new member of our Board of Directors. Mr. Benham's appointment fills the board vacancy resulting from the passing of Mr. Horace Rhodes in January 2013. At the 2013 annual meeting of stockholders held in May, Mr. Benham was elected to serve with the class of directors having a term that will expire in 2016. In January 2013, Mr. Benham retired as Senior Vice President of SAIC Energy, Environment & Infrastructure, LLC ("SAIC Energy"), a subsidiary of Science Applications International Corporation ("SAIC"). There are no arrangements or understandings between Mr. Benham and any other person pursuant to which Mr. Benham was appointed as a director of LSB. During 2012, we incurred approximately $0.1 million with SAIC Energy for engineering services relating to our chemical facilities. During 2013, we incurred approximately $11.7 million with SAIC Energy for engineering services and deconstruction services relating to our chemical facilities. During 2013, we negotiated several agreements with SAIC Constructors, LLC ("SAIC Constructors"), a subsidiary of SAIC, to engineer, procure and construct the ammonia plant, the Nitric Acid Plant, a nitric acid concentrator and certain support facilities. We expect SAIC Constructor's fees in connection with these agreements to be approximately $39 million.

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

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2013, 2012, and 2011 and accompanying notes and the discussions above under “Overview” and “Liquidity and Capital Resources.”

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

	2013	2012	2011
		(In Thousands)	
Net sales:			
Chemical	$380,669	$ 477,813	$511,854
Climate Control	285,018	266,171	281,565
Other	13,600	15,047	11,837
	$679,287	$ 759,031	$805,256
Gross profit:			
Chemical	$ 46,165	$ 97,692	$130,687
Climate Control	92,907	80,981	88,178
Other	4,484	5,063	4,153
	$143,556	$ 183,736	$223,018
Operating income:			
Chemical	$ 87,784	$ 82,101	$116,503
Climate Control	30,386	25,834	32,759
Other	1,699	2,091	1,584
General corporate expenses	(14,561)	(14,371)	(14,403)
	105,308	95,655	136,443
Interest expense, net	13,986	4,237	6,658
Losses on extinguishment of debt	1,296	—	136
Non-operating expense (income), net:			
Chemical	(1)	(1)	(1)
Climate Control	(1)	(1)	(2)
Corporate and other business operations	(98)	(279)	3
Provisions for income taxes	35,421	33,594	46,208
Equity in earnings of affiliate – Climate Control	(436)	(681)	(543)
Income from continuing operations	$ 55,141	$ 58,786	$ 83,984

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2013 and 2012:

	2013	2012	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$167,614	$217,329	$(49,715)	(22.9)%
Industrial acids and other chemical products	141,936	162,498	(20,562)	(12.7)%
Mining products	63,042	96,538	(33,496)	(34.7)%
Natural gas	8,077	1,448	6,629	457.8%
Total Chemical	$380,669	$477,813	$(97,144)	(20.3)%
Gross profit—Chemical	$ 46,165	$ 97,692	$(51,527)	(52.7)%
Gross profit percentage—Chemical (1)	12.1%	20.4%	(8.3)%	
Operating income—Chemical	$ 87,784	$ 82,101	$ 5,683	6.9%

(1) As a percentage of net sales

Net Sales—Chemical

- Agricultural products sales decreased due to the lack of available products as the result of the downtime experienced at our Cherokee and Pryor Facilities, lower sales prices for nitrogen fertilizer, and periodic adverse weather conditions during 2013.
- Industrial acids and other chemical products sales decreased due to the reduction in the average Tampa ammonia price by more than $57 per metric ton in 2013 compared to 2012 and its impact to pricing to certain of our industrial acid customers, the unplanned downtime at our Cherokee Facility, the reduction in production at our El Dorado Facility, and the timing and duration of a Turnaround performed at our Baytown Facility to coincide with a significant customer's planned maintenance outage.
- Mining products sales decreased primarily due to a 44% decrease in volumes as the result of lower customer demand due to the current low cost of natural gas as an alternative fuel for utility companies and the downtime experienced at the Cherokee Facility.
- Natural gas sales relates to working interests in certain natural gas properties acquired in October 2012 and August 2013 by a subsidiary within our Chemical Business. Management considers these working interests as an economic hedge against a portion of a potential rise in natural gas prices in the future for a portion of our future natural gas production requirements.

Gross Profit—Chemical

Our Chemical Business' gross profit was $46.2 million, including $28.6 million business interruption insurance recovery recognized. Excluding the insurance recovery, the decrease in gross profit of $72.8 million was primarily attributable to lower sales volume, unabsorbed fixed overhead costs, maintenance and repair costs, and costs associated with purchased ammonia and other products to meet some of our customers' needs, all of which are primarily attributable to the downtime experienced at certain of our facilities, partially offset by $4.5 million precious metals recoveries during 2013. Additionally, gross margin percentages were impacted as the result of lower nitrogen fertilizer sale prices and higher natural gas feedstock costs. For 2012, the estimated cumulative impact from the downtime experienced at our facilities was approximately $32 million, which included unabsorbed fixed overhead costs, losses incurred on firm sales commitments, maintenance and repair costs, and other expenses, partially offset by $7.3 million business interruption insurance recovery.

Operating Income—Chemical

Our Chemical Business' operating income was $87.8 million, including the $66.0 million property insurance recovery recognized (classified as property insurance recoveries in excess of losses incurred) during 2013 partially offset by the decrease in gross profit as discussed above. Selling, general and administrative expenses increased approximately $3.3 million primarily due to consulting and other fees related to the El Dorado Facility, professional fees incurred at our Pryor Facility in connection with improving plant reliability. Additionally, other net expenses increased approximately $5.5 million primarily as a result of dismantle and demolition costs incurred at the El Dorado Facility and other income of $2.3 million recognized in 2012 (none in 2013) relating to a litigation settlement with a certain vendor.

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2013 and 2012:

	2013	2012	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	$183,757	$162,697	$ 21,060	12.9%
Hydronic fan coils	64,541	55,812	8,729	15.6%
Other HVAC products	36,720	47,662	(10,942)	(23.0)%
Total Climate Control	$285,018	$266,171	$ 18,847	7.1%
Gross profit—Climate Control	$ 92,907	$ 80,981	$ 11,926	14.7%
Gross profit percentage—Climate Control (1)	32.6%	30.4%	2.2%	
Operating income—Climate Control	$ 30,386	$ 25,834	$ 4,552	17.6%

(1) As a percentage of net sales

Net Sales – Climate Control

- Net sales of our geothermal and water source heat pump products increased primarily as a result of a 17% improvement in sales of our commercial/institutional products with an increase in the number of units sold and higher unit pricing associated with product mix as well as reducing the level of backlog and an increase in new product orders during the year. Residential product sales improved 3% as a result of reducing the level of backlog, increased orders and higher unit pricing. During 2013, we continued to maintain a market share leadership position of approximately 40%, based on market data supplied by the Air-Conditioning, Heating and Refrigeration Institute ("AHRI").
- Net sales of our hydronic fan coils increased primarily as a result of an increase in the number of units sold, unit pricing and product mix related to reducing the level of backlog and an increase in new product orders during the year. During 2013, we continued to have a market share leadership position of approximately 32% based on market data supplied by the AHRI.
- Net sales of our other HVAC products decreased primarily due to a decline in incoming orders for our large custom air handlers and for our engineering and construction services partially offset by increased sales of our modular chillers.

Gross Profit – Climate Control

The increase in gross profit in our Climate Control Business was primarily the result of the higher sales volume and unit pricing and change in product mix as discussed above. Gross profit as a percentage of sales improved primarily due to an improvement in raw material costs (copper, steel and aluminum) and overhead absorption related to the higher sales volume.

Operating Income—Climate Control

Operating income increased as the result of the increase in gross profit discussed above partially offset by higher variable selling expenses of $2.0 million (including commission of $0.7 million, warranty of $0.6 million, and freight of $0.6 million) primarily as the result of higher sales volume, increased consulting fees of $1.2 million primarily for services focused on future process and cost savings improvements, and increased personnel costs of $3.9 million primarily related to the increase in the number of employees and healthcare benefits.

Interest Expense, net

Interest expense for 2013 was $14.0 million compared to $4.2 million for 2012. The increase is due primarily to the issuance of the Senior Secured Notes as discussed above under “Loan Agreements – Terms and Conditions” partially offset by $4.0 million of capitalized interest on capital projects, while under development and construction, during 2013 compared to $0.4 million capitalized during 2012.

Loss on Extinguishment of Debt

As the result of the payoff of the Secured Term Loan 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 2013 was approximately $35.4 million compared to an income tax provision of $33.6 million for 2012. The resulting effective tax rate for 2013 and 2012 was 40% (excluding the benefit of $0.5 million associated with the retroactive tax relief on certain 2012 tax provisions that expired in 2012) and 36%, respectively. The increase in the effective tax rate was due primarily to the inability to take advantage of “domestic manufacturing deduction” as a result of the lower manufacturing income in 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2012 and 2011:

	2012	2011	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$217,329	$231,599	$(14,270)	(6.2)%
Industrial acids and other chemical products	162,498	161,776	722	0.4%
Mining products	96,538	118,479	(21,941)	(18.5)%
Natural gas	1,448	—	1,448	100.0%
Total Chemical	$477,813	$511,854	$(34,041)	(6.7)%
Gross profit—Chemical	$ 97,692	$130,687	$(32,995)	(25.2)%
Gross profit percentage—Chemical (1)	20.4%	25.5%	(5.1)%	
Operating income—Chemical	$ 82,101	$116,503	$(34,402)	(29.5)%

(1) As a percentage of net sales

Net Sales – Chemical

Our Chemical Business reported a sales decrease for 2012 as a result of the following:

- Agricultural products sales—Agricultural products sales decreased $14.3 million, or 6%, primarily due to decreased sales volumes for UAN, which despite strong customer demand were lower due to reduced production as a result of downtime at our Cherokee and Pryor Facilities. This decrease was partially offset by increased ammonia sales as the Pryor Facility was able to produce and sell ammonia during a portion of the downtime. Due to strong market demand for crop nutrients and strong grain commodity prices, our agricultural grade AN and other products sold at our El Dorado Facility and distribution centers increased, which also helped to offset the loss of UAN sales.
- Industrial acids and other chemical products sales—Industrial acids and other products sales increased slightly primarily as the result of increased raw material costs including ammonia passed through pursuant to the terms of our contractual pricing contracts with customers.
- Mining products sales—Mining products sales decreased $21.9 million, or 19% primarily due to lower volumes as the result of the unplanned downtime at the El Dorado and Cherokee Facilities and the lower customer demand due to the current low cost of natural gas as an alternative fuel for utility companies and the current higher coal supply carried over from the warm winter in North America.
- Also see our discussion above under “Liquidity and Capital Resources – Capital Expenditures” concerning an acquisition of working interests in certain natural gas properties.

Gross Profit – Chemical

The decrease in gross profit of $33.0 million is primarily attributable to costs totaling $32.0 million due to the planned and unplanned downtime at our facilities during 2012, which includes unabsorbed fixed overhead costs, losses incurred on firm sales commitments, maintenance and repair costs, and other expenses.

Operating Income – Chemical

In spite of very strong agricultural supply and demand fundamentals, operating income declined $34.4 million primarily due to the decrease in gross profit as discussed above.

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2012 and 2011:

	2012	2011	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	$162,697	$183,789	$(21,092)	(11.5)%
Hydronic fan coils	55,812	54,379	1,433	2.6%
Other HVAC products	47,662	43,397	4,265	9.8%
Total Climate Control	$266,171	$281,565	$(15,394)	(5.5)%
Gross profit—Climate Control	$ 80,981	$ 88,178	$ (7,197)	(8.2)%
Gross profit percentage—Climate Control (1)	30.4%	31.3%	(0.9)%	
Operating income—Climate Control	$ 25,834	$ 32,759	$ (6,925)	(21.1)%

(1) As a percentage of net sales

Net Sales – Climate Control

- Net sales of our geothermal and water source heat pump products decreased primarily as a result of a 21% decline in sales of our residential products, primarily due to the softness in the sector of the single-family residential construction market we serve. Sales of our commercial/institutional products also declined by 7% primarily due to the lower beginning backlog and lower order levels in the first part of the year, although order levels increased overall throughout the balance of 2012. During 2012, we continued to maintain a market share leadership position of approximately 40%, based on market data supplied by the AHRI.
- Net sales of our hydronic fan coils increased primarily due to increases in the number of units sold, the average unit selling price and in the sale of parts. During 2012, we continued to have a market share leadership position of approximately 30% based on market data supplied by the AHRI.
- Net sales of our other HVAC products in 2012 were 10% above the 2011 results and related to increased sales of our large custom air handlers.

Gross Profit—Climate Control

The decrease in gross profit in our Climate Control Business was primarily the result of the lower sales volume as discussed above. The gross profit percentage decline of 0.9% was primarily due to product mix, including a higher content of commercial products with lower gross margins than our residential products, and overhead absorption related to the lower sales volume.

Operating Income—Climate Control

Operating income decreased primarily as the result of the decrease in gross profit discussed above.

Provision For Income Taxes

The provision for income taxes for 2012 was $33.6 million compared to $46.2 million for 2011. The resulting effective tax rate for 2012 and 2011 was 36% for both periods. See additional discussion relating to income taxes above under “Liquidity and Capital Resources – Income Taxes.”

Cash Flow From Continuing Operating Activities – 2013

Historically, our primary cash needs have been for operating expenses, working capital and capital expenditures. We have financed our cash requirements primarily through internally generated cash flow and various forms of financing. See additional discussions concerning cash flow relating to our Chemical and Climate Control Businesses under “Overview” and “Liquidity and Capital Resources” of this MD&A.

For 2013, net cash provided by continuing operating activities was $54.1 million primarily as the result of net income of $55.0 million plus adjustments of $35.3 million for deferred income taxes, and $28.3 million for depreciation, depletion and amortization of PP&E, partially offset by $66.3 million for gains on property insurance recoveries associated with PP&E.

Cash Flow from Continuing Investing Activities – 2013

Net cash used by continuing investing activities for 2013 was $389.6 million that consisted primarily of $290.9 million used for restricted cash and investments designated by management for specific capital projects primarily relating to our Chemical Business, $157.4 million for expenditures for PP&E of which $150.8 million is for the benefit of our Chemical Business, and $9.2 million for working interests in natural gas properties by our Chemical Business partially offset by $66.4 million of proceeds from property insurance recovery associated with PP&E.

Cash Flow from Continuing Financing Activities – 2013

Net cash provided by continuing financing activities for 2013 was $381.5 million that primarily consisted of net proceeds from long-term and short-term financing of $407.2 million, largely relating to the Senior Secured Notes and the Secured Promissory Note, partially offset by payments totaling $24.5 million on short-term financing and long-term debt.

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. For each of the last three years ended December 31, 2013, 2012, and 2011, we did not experience a material change in accounting estimates. However, it is reasonably possible that the estimates and assumptions utilized as of December 31, 2013 could change in the near term. In addition, the more critical areas of financial reporting impacted by management’s judgment, estimates and assumptions include the following:

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 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.

At December 31, 2013 and 2012, our accrued product warranty obligations were $7.3 million and $6.2 million, respectively and are included in current and noncurrent accrued and other liabilities in the consolidated balance sheets. For 2013, 2012, and 2011, our warranty expense was $7.4 million, $6.7 million, and $6.5 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 a party to various litigation and other contingencies, the ultimate outcome of which is not presently known. Should the ultimate outcome of these contingencies be adverse, such outcome could adversely impact our liquidity, capital resources and results of operations.

Regulatory Compliance – 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. At December 31, 2013, liabilities totaling $1.2 million have been accrued relating to these issues as discussed under “Environmental, Health and Safety Matters in Item 1 of this report. This liability is included in current accrued and other liabilities and is based on current estimates that may be revised in the near term.

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. At December 31, 2013 and 2012, the balance of the insurance claim receivable was $1.9 million and $10.1 million, respectively. An insurance recovery in excess of recoverable costs relating to a business interruption claim is a reduction to cost of sales. An insurance recovery in excess of recoverable costs relating to a property insurance claim is included in property insurance recoveries in excess of losses incurred. Also see discussion above under “Property and Business Interruption Insurance Claims and Recoveries”.

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.

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, 2013, we have agreed to indemnify the sureties for payments, up to $9.9 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2014.

Off-Balance Sheet Arrangements

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

Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2013 are summarized in the following table (1) (2):

Contractual Obligations	Total	Payments Due in the Year Ending December 31, 2014	2015	2016	2017	2018	Thereafter
		(In Thousands)					
Long-term debt:							
Senior Secured Notes	$ 425,000	$ —	$ —	$ —	$ —	$ —	$425,000
Capital leases	212	97	63	52	—	—	—
Other	37,755	9,165	8,817	16,302	477	2,994	—
Total long-term debt	462,967	9,262	8,880	16,354	477	2,994	425,000
Interest payments on long-term debt (3)	200,159	34,133	33,815	33,194	33,086	32,993	32,938
Interest rate contract (4)	1,240	624	517	99	—	—	—
Ammonia plant (5)	200,000	110,000	90,000	—	—	—	—
Nitric acid plant and concentrator (5)	75,000	55,000	20,000	—	—	—	—
Other capital expenditures (6)	134,000	96,000	37,170	330	250	250	—
Operating leases	13,581	4,451	2,775	1,929	1,675	1,421	1,330
Natural gas pipeline commitment (7)	16,421	1,787	1,787	1,787	1,787	1,787	7,486
Firm purchase commitments	11,673	11,673	—	—	—	—	—
Other contractual obligations	8,310	3,560	125	125	125	125	4,250
Other contractual obligations included in noncurrent accrued and other liabilities (8)	5,252	—	91	88	88	89	4,896
Total	$1,128,603	$326,490	$195,160	$53,906	$37,488	$39,659	$475,900

(1) The table does not include amounts relating to future purchases of anhydrous ammonia by EDC pursuant to a supply agreement through December 2015. 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 $7.3 million at December 31, 2013 as discussed above 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, 2013.
(4) The estimated future cash flows are based on the estimated fair value of these contracts at December 31, 2013.
(5) Capital expenditures are based on estimates (high end of range) at December 31, 2013.
(6) Other capital expenditures include only the estimated committed amounts (high end of range) at December 31, 2013 but exclude amounts relating to the ammonia plant, nitric acid plant, and concentrator.
(7) Our proportionate share of the minimum costs to ensure capacity relating to a gathering and pipeline system.
(8) The future cash flows relating to executive and death benefits are based on estimates at December 31, 2013.

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 copper, steel, anhydrous ammonia and natural gas, changes in market currency exchange rates, and changes in market interest 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, 2013, we had a minimal amount of embedded losses associated with sales commitments with firm sales prices in our Chemical Business.

Commodity Price Risk

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

During 2013, certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs. A portion of these contracts are considered derivatives and are accounted for on a mark-to-market basis and a portion of these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2013, the natural gas contracts accounted for on a mark-to-market basis were for approximately 1.5 million MMBtu of natural gas through October 2014 at a weighted-average cost of $3.98 per MMBtu ($6.1 million) and a weighted-average market value of $4.00 per MMBtu ($6.1 million). The natural gas contracts exempt from mark-to-market accounting were for approximately 1.6 million MMBtu of natural gas through May 2014 at the weighted-average cost of $3.47 per MMBtu ($5.6 million) and a weighted-average market value of $4.20 per MMBtu ($6.8 million) at December 31, 2013.

At December 31, 2013, we had no outstanding futures/forward copper contracts.

Interest Rate Risk

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

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. At December 31, 2013, we have an interest rate swap, which sets a fixed three-month LIBOR of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning April 2012 through March 2016. This contract is a free-standing derivative and is accounted for on a mark-to-market basis. At December 31, 2013, the fair value of these contracts (unrealized loss) was $1.2 million.

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, 2013:

	Years ending December 31,						
	2014	2015	2016	2017	2018	Thereafter	Total
	(Dollars In Thousands)						
Expected maturities of long-term debt (1):							
Variable interest rate debt	$6,741	$6,966	$15,848				$ 29,555
Weighted-average interest rate	3.24%	3.24%	3.24%				3.24%
Fixed interest rate debt	$2,521	$1,914	$ 506	$ 477	$2,994	$425,000	$433,412
Weighted-average interest rate	7.69%	7.71%	7.72%	7.73%	7.74%	7.75%	7.75%
Estimated future cash flows of interest rate swaps (2):							
Variable to Fixed	$ 624	$ 517	$ 99				$ 1,240
Weighted-average pay rate	3.23%	3.23%	3.23%				3.23%
Weighted-average receive rate	0.30%	0.64%	1.15%				0.54%

(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, 2013.

(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, 2013.

The following table presents our purchase commitments under firm purchase commitments and related weighted-average contract costs by contract terms as of December 31, 2013:

	Years ending December 31,						
	2014	2015	2016	2017	2018	Thereafter	Total
	(Dollars In Thousands, Except For Per MMBtu)						
Firm purchase commitments:							
Natural Gas:							
Total cost of contracts	$11,673						$11,673
Weighted-average cost per MMBtu	$ 3.72						$ 3.72

At December 31, 2013 and 2012, we did not have any financial instruments with fair values significantly different from their carrying amounts, except for the Senior Secured Notes at December 31, 2013. The estimated fair value of the Senior Secured Notes exceeded the carrying value by approximately $20 million. The valuation is classified as Level 2 and is based on the range of ask/bid prices (104.5 to 104.9) for these notes but are currently traded in a limited and low volume market since these notes have not yet been registered. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurement of our long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities.

ITEM 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 Securities Exchange Act of 1934). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. 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 assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. 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 (1992 Framework). Based on our assessment, we believe that, as of December 31, 2013, 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, 2013 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 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, 2013, 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, 2013 and 2012, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of LSB Industries, Inc. and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 26, 2014

ITEM 9B. OTHER INFORMATION

None.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- invest in projects that will generate best returns for our stockholders;
- modest growth of the U.S. economy;
- the construction outlook for the commercial/institutional sector and single-family sector;
- anticipated losses while certain chemical plants are down;
- the outlook for the types of nitrogen fertilizer products we produce and sell;
- demand for our geothermal products;
- growth in the coal industry;
- reduction in operating income within our chemical facilities due to damaged facilities;
- use of net proceeds from sale of Senior Secured Notes;
- shipment of backlog;
- cost of new chemical plants and when these plants will become operational;
- cost for PSM program for the balance of 2014;
- ability to pass to our customers cost increases in the form of higher prices;
- sufficient sources for materials and components;
- customer demand for our industrial, mining and agricultural products for 2014;
- fertilizer outlook;
- planned capital spending;
- ability to obtain anhydrous ammonia from other sources;
- compliance by the El Dorado Facility of the terms of its permits;
- dissolved mineral issue should not be an issue since the pipeline is operational;
- sales growth of the Climate Control Business;
- sales in the medium-term and long-term will be primarily driven by growth in new construction, as well as the introduction of new products;
- our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to some conventional HVAC systems;
- reserves of Zena’s natural gas working interest;
- cash needs for 2014;
- we plan to rely upon working capital, internally generated cash flows, noncurrent restricted cash and investments, insurance proceeds, and third-party financing;
- fund committed capital expenditures;
- El Dorado Facility’s use of the wastewater pipeline will ensure EDC’s ability to comply with future permit limits;
- cost relating to settlement with the EPA relating to issues involving the Clean Air Act;
- when the Pryor Facility will resume production;
- costs of Turnarounds during 2014 for our chemical facilities;
- the expenses in connection with environmental projects for 2014;
- cash needs and how we expect to fund our cash requirements;
- depreciation, depletion and amortization expected to increase in 2014;
- costs and other negative effects relating to proxy contests;
- if we should repurchase stock, we currently intend to fund any repurchases from our available working capital;
- benefits relating to construction of new plants at the El Dorado Facility; and

- meeting all required covenant tests for all quarters and the year ending in 2014.

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 coming due in the near future,
- substantial existing indebtedness;
- material changes in the cost of certain precious metals, anhydrous 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,
- additional 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 Ukraine and Russian AN products resulting in an increase in foreign AN 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.

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 30, 2014.

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:

(a) (2) Financial Statement Schedule

The Company has included the following schedule in this report:

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

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 for the fiscal year ended December 31, 2012, filed 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, and February 4, 2014.
4.1	Redemption Notice for Convertible Noncumulative Preferred Stock, dated February 21, 2012, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed February 27, 2012.
4.2	Specimen Certificate for the Company's Series B Preferred Stock, having a par value of $100 per share, which the Company hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848. See SEC file number 001-0767.
4.3	Specimen of Certificate of Series D 6% Cumulative, Convertible Class C Preferred Stock, which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 10-K for the fiscal year ended December 31, 2010.
4.4	Specimen Certificate for the Company's Common Stock, which the Company incorporates by reference from Exhibit 4.4 to the Company's Registration Statement No. 333-184995, filed November 6, 2012.
4.5	Renewed Rights Agreement, dated as of December 2, 2008, between the Company and UMB Bank, n.a., which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated December 5, 2008.
4.6	First Amendment to Renewed Rights Agreement, dated December 3, 2008, between LSB Industries, Inc. and UMB Bank, n.a., which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 8-K, dated December 5, 2008.
4.7	Indenture, dated August 7, 2013, among LSB Industries, Inc., the subsidiary guarantors named therein, UMB Bank, n.a., as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, filed August 14, 2013.
4.8	Registration Rights Agreement, dated August 7, 2013, among LSB Industries, Inc., the subsidiary guarantors named therein and Wells Fargo Securities, LLC, as representative of the initial purchasers named therein, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 8-K, filed August 14, 2013.
4.9	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.

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, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed August 14, 2013.

4.11 Amended and Restated Term Loan Agreement, dated as of March 29, 2011, among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., the Lenders signatory thereto, Banc of America Leasing & Capital, LLC as the Administrative and Collateral Agent, and Bank of Utah as Payment Agent, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, filed by April 4, 2011.

4.12 Exhibits and Schedules to the Amended and Restated Term Loan Agreement, dated as of March 29, 2011, among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., the Lenders signatory thereto, Banc of America Leasing & Capital, LLC as the Administrative and Collateral Agent, and Bank of Utah as Payment Agent, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, filed April 4, 2011.

4.13 Amendment Number One to the Amended and Restated Term Loan Agreement, dated as of April 21, 2011, among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., the Required Lenders signatory thereto, Banc of America Leasing & Capital, LLC as the Administrative and Collateral Agent, and Bank of Utah as Payment Agent, which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 10-Q, filed May 5, 2011.

4.14 Joining Lender Agreement, dated as of May 26, 2011, by and among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., Consolidated Industries Corp., Banc of America Leasing & Capital, LLC, as Administrative Agent, and MassMutual Asset Finance LLC, which the Company hereby incorporates by reference from Exhibit 4.4 to the Company's Form 8-K, filed June 2, 2011.

4.15 Amendment Number Two to the Amended and Restated Term Loan Agreement, dated as of April 4, 2012, among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., Consolidated Industries Corp., the Required Lenders signatory thereto, Banc of America Leasing & Capital, LLC as the Administrative and Collateral Agent, and Bank of Utah as Payment Agent, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed April 9, 2012.

4.16 Amendment Number Four and Addendum to Amended and Restated Term Loan Agreement, dated effective August 16, 2012, among LSB Industries, Inc., ThermaClime, L.L.C. and certain subsidiaries of ThermaClime, L.L.C., Cherokee Nitrogen Holdings, Inc., the Required Lenders signatory thereto, Banc of America Leasing & Capital, LLC as the Administrative and Collateral Agent, and Bank of Utah as Payment Agent, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed September 18, 2012.

10.1 Limited Partnership Agreement dated as of May 4, 1995 between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner, which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995. See SEC file number 001-07677.

10.2 Form of Death Benefit Plan Agreement between the Company and the employees covered under the plan, which the Company incorporates by reference from Exhibit 10.2 to the Company's Form 10-K for the fiscal year ended December 31, 2005. See SEC file number 001-0767.

10.3 The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the fiscal year ended December 31, 1998. See SEC file number 001-07677.

10.4 LSB Industries, Inc. Outside Directors Stock Option Plan, which the Company hereby incorporates by reference from Exhibit "C" to the Company's Proxy Statement, dated May 24, 1999 for its 1999 Annual Meeting of Stockholders. See SEC file number 001-07677.

10.5 Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and Dan Ellis, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form S-8, dated September 10, 2007. See SEC file number 001-0767.

10.6 Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and John Bailey, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form S-8, dated September 10, 2007. See SEC file number 001-0767.

10.7 LSB Industries, Inc. 2008 Incentive Stock Plan, effective June 5, 2008, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated June 6, 2008.

10.8 Severance Agreement, dated January 17, 1989 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended December 31, 2005. See SEC file number 001-0767. The Company also entered into substantially the same agreements with Tony M. Shelby, David R. Goss, Barry H. Golsen, David M. Shear, and Jim D. Jones and the Company will provide copies thereof to the Commission upon request.

10.9 Amendment to Severance Agreement, dated December 17, 2008, between Barry H. Golsen and the Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, dated December 23, 2008. 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.

10.10 Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996, which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995. See SEC file number 001-07677.

10.11 First Amendment to Employment Agreement, dated April 29, 2003 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.52 to the Company's Form 10-K/A Amendment No. 1 for the fiscal year ended December 31, 2002. See SEC file number 001-0767.

10.12 Third Amendment to Employment Agreement, dated December 17, 2008, between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated December 23, 2008.

10.13 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, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 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.

10.14 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., which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 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.

10.15 Third Amendment to Nitric Acid Supply, Operating and Maintenance Agreement between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience LLC, dated June 25, 2013, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 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.

10.16 AN Supply Agreement, dated effective January 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd., which the Company hereby incorporates by reference from Exhibit 10.27 to the Company's Form 10-K for the fiscal year ended December 31, 2009. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #24842, DATED MARCH 25, 2010, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

10.17 First Amendment to AN Supply Agreement, dated effective March 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd., which the Company hereby incorporates by reference from Exhibit 10.28 to the Company's Form 10-K for the fiscal year ended December 31, 2009.

10.18 Third Amendment to AN Supply Agreement, dated effective April 9, 2013, between El Dorado Chemical Company and Orica International Pte Ltd., which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed May 1, 2013.

10.19 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, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed October 11, 2013.

10.20 Agreement, dated effective October 17, 2013, between International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224 and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed October 11, 2013.

10.21 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, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed February 13, 2014.

10.22 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, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8-K, dated December 12, 2002. See SEC file number 001-0767.

10.23 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., which the Company hereby incorporates by reference from Exhibit 10.1b to the Company's Form 10-Q for the fiscal quarter ended June 30, 2010.

10.24 Anhydrous Ammonia Sales Agreement, dated effective January 1, 2009 between Koch Nitrogen International Sàrl and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Form 10-K for the fiscal year ended December 31, 2008. 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.

10.25 Second Amendment to Anhydrous Ammonia Sales Agreement, dated February 23, 2010, between Koch Nitrogen International Sàrl and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.35 to the Company's Form 10-K for the fiscal year ended December 31, 2009. 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.

10.26 Fifth Amendment to the Anhydrous Ammonia Sales Agreement, dated August 22, 2012, between KOCH Nitrogen International Sàrl and El Dorado Chemical Company, which the Company hereby incorporates by reference from 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.

10.27 Urea Ammonium Nitrate Purchase and Sale Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC., which the Company hereby incorporates by reference from 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.

10.28 Amendment No. 1 to Urea Ammonium Nitrate Purchase and Sale Agreement, dated October 29, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC, which the Company hereby incorporates by reference from 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.

10.29	Railcar Management Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed May 13, 2009.
10.30	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, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q, filed November 7, 2011.
10.31	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, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q, filed November 7, 2011.
10.32	First Amendment to Real Estate Purchase Contract, effective October 20, 2011, by and among South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q, filed November 7, 2011.
10.33	Second Amendment to Real Estate Purchase Contract, effective December 16, 2011, by and among South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed December 22, 2011.
10.34	Common Stock Purchase Warrant granted by Landmark Land Company to Prime Financial, L.L.C., dated February 7, 2012, which the Company hereby incorporates by reference from Exhibit 99.4 to the Company's Form 8-K, filed February 16, 2012.
10.35	Geothermal Use Contract, between South Padre Island Development, LLC and Prime Financial, L.L.C., dated February 7, 2012, which the Company hereby incorporates by reference from Exhibit 99.5 to the Company's Form 8-K, filed February 16, 2012.
10.36	Purchase and Sale Agreement, dated October 31, 2012, between Clearwater Enterprises, L.L.C. and Zena Energy, L.L.C., which the Company hereby incorporates by reference from 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.
10.37	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., which the Company hereby incorporates by reference from 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.
10.38	Contract, between Weatherly Inc. and El Dorado Chemical Company, dated November 30, 2012, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed December 6, 2012.
10.39	Engineering Procurement and Construction Agreement, dated August 12, 2013, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 8-K, filed August 15, 2013.
10.40	Construction Agreement-DMW2, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed November 12, 2013.
10.41	Construction Agreement-NACSAC, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed November 12, 2013.
10.42	Engineering, Procurement and Construction Agreement, dated December 31, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed January 7, 2014.

10.43	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, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed February 7, 2013.
10.44	Leasehold Mortgage, Security Agreement, Assignment and Fixture Filing, dated February 1, 2013, from Zena Energy L.L.C. to International Bank of Commerce, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed February 7, 2013.
10.45	Guaranty, dated February 1, 2013, issued by LSB Industries, Inc. in favor of International Bank of Commerce, which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K, filed February 7, 2013.
12.1	Calculation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends.
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Jack E. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
31.2	Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
32.1	Certification of Jack E. Golsen, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
32.2	Certification of Tony M. Shelby, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

LSB Industries, Inc.

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 26, 2014

By: /s/ Jack E. Golsen
Jack E. Golsen, 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 26, 2014

By: /s/ Jack E. Golsen
Jack E. Golsen, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Dated: February 26, 2014

By: /s/ Tony M. Shelby
Tony M. Shelby, Executive Vice President of Finance, Chief Financial Officer (Principal Financial Officer)

Dated: February 26, 2014

By: /s/ Harold L. Rieker Jr.
Harold L. Rieker Jr., Vice President and Principal Accounting Officer

Dated: February 26, 2014

By: /s/ Barry H. Golsen
Barry H. Golsen, Director

Dated: February 26, 2014

By: /s/ Webster L. Benham
Webster L. Benham, Director

Dated: February 26, 2014

By: /s/ Charles A. Burtch
Charles A. Burtch, Director

Dated: February 26, 2014

By: /s/ Robert A. Butkin
Robert A. Butkin, Director

Dated: February 26, 2014

By: /s/ Robert H. Henry
Robert H. Henry, Director

Dated: February 26, 2014

By: /s/ Gail P. Lapidus
Gail P. Lapidus, Director

Dated: February 26, 2014

By: /s/ Donald W. Munson
Donald W. Munson, Director

Dated: February 26, 2014

By: /s/ Ronald V. Perry
Ronald V. Perry, Director

Dated: February 26, 2014

By: /s/ John A. Shelley
John A. Shelley, Director

LSB Industries, Inc.

Consolidated Financial Statements
And Schedule for Inclusion in Form 10-K
For the Fiscal Year ended December 31, 2013

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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, 2013 and 2012, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 26, 2014

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2013	2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 143,750**	$ 98,020
Restricted cash	**—**	31
Accounts receivable, net	**80,570**	82,801
Inventories	**55,872**	64,973
Supplies, prepaid items and other:		
Prepaid insurance	**15,073**	10,049
Precious metals	**14,927**	13,528
Supplies	**13,523**	9,855
Prepaid income taxes	**12,644**	—
Other	**3,867**	2,266
Total supplies, prepaid items and other	**60,034**	35,698
Deferred income taxes	**13,613**	3,224
Total current assets	**353,839**	284,747
Property, plant and equipment, net	**416,801**	281,871
Other assets:		
Noncurrent restricted cash	**80,974**	—
Noncurrent restricted investments	**209,990**	—
Debt issuance costs, net	**8,027**	876
Other, net	**13,466**	9,118
Total other assets	**312,457**	9,994
	$1,083,097	$576,612

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 2013	2012
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 61,775**	$ 68,333
Short-term financing	**13,749**	9,254
Accrued and other liabilities	**49,107**	34,698
Current portion of long-term debt	**9,262**	4,798
Total current liabilities	**133,893**	117,083
Long-term debt	**453,705**	67,643
Noncurrent accrued and other liabilities	**17,086**	16,369
Deferred income taxes	**66,698**	21,020
Commitments and contingencies (Note 11)		
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, 26,846,470 shares issued (26,731,360 shares at December 31, 2012)	**2,685**	2,673
Capital in excess of par value	**167,550**	165,006
Retained earnings	**266,854**	212,192
	440,089	382,871
Less treasury stock, at cost:		
Common stock, 4,320,462 shares	**28,374**	28,374
Total stockholders' equity	**411,715**	354,497
	$1,083,097	$576,612

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Income

	Year Ended December 31,		
	2013	2012	2011
	(In Thousands, Except Per Share Amounts)		
Net sales	**$ 679,287**	$ 759,031	$ 805,256
Cost of sales	**535,731**	575,295	582,238
Gross profit	**143,556**	183,736	223,018
Selling, general and administrative expense	**100,674**	89,988	86,343
Provisions for (recovery of) losses on accounts receivable	**478**	(214)	347
Property insurance recoveries in excess of losses incurred	**(66,255)**	—	—
Other expense (income), net	**3,351**	(1,693)	(115)
Operating income	**105,308**	95,655	136,443
Interest expense, net	**13,986**	4,237	6,658
Losses on extinguishment of debt	**1,296**	—	136
Non-operating other income, net	**(100)**	(281)	—
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	**90,126**	91,699	129,649
Provisions for income taxes	**35,421**	33,594	46,208
Equity in earnings of affiliate	**(436)**	(681)	(543)
Income from continuing operations	**55,141**	58,786	83,984
Net loss from discontinued operations	**179**	182	142
Net income	**54,962**	58,604	83,842
Dividends on preferred stocks	**300**	300	305
Net income applicable to common stock	**$ 54,662**	$ 58,304	$ 83,537
Income (loss) per common share:			
Basic:			
Income from continuing operations	**$ 2.44**	$ 2.62	$ 3.81
Net loss from discontinued operations	**(0.01)**	(0.01)	(0.01)
Net income	**$ 2.43**	$ 2.61	$ 3.80
Diluted:			
Income from continuing operations	**$ 2.34**	$ 2.50	$ 3.59
Net loss from discontinued operations	**(0.01)**	(0.01)	(0.01)
Net income	**$ 2.33**	$ 2.49	$ 3.58

See accompanying notes.

LSB Industries, Inc.

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, 2010	25,477	$ 3,000	$ 2,548	$131,845	$ 70,351	$(28,374)	$179,370
Net income					83,842		83,842
Dividends paid on preferred stocks					(305)		(305)
Stock-based compensation				1,099			1,099
Conversion of convertible debt to common stock	983		98	26,806			26,904
Exercise of stock options	178		18	1,179			1,197
Excess income tax benefit associated with stock-based compensation				1,162			1,162
Conversion of 13 shares of redeemable preferred stock to common stock				1			1
Balance at December 31, 2011	26,638	3,000	2,664	162,092	153,888	(28,374)	293,270
Net income					58,604		58,604
Dividends paid on preferred stocks					(300)		(300)
Stock-based compensation				1,652			1,652
Exercise of stock options	90		9	758			767
Excess income tax benefit associated with stock-based compensation				498			498
Conversion of 68 shares of redeemable preferred stock to common stock	3			6			6
Balance at December 31, 2012	26,731	3,000	2,673	165,006	212,192	(28,374)	354,497
Net income					**54,962**		**54,962**
Dividends paid on preferred stocks					**(300)**		**(300)**
Stock-based compensation				**1,542**			**1,542**
Exercise of stock options	**115**		**12**	**1,002**			**1,014**
Balance at December 31, 2013	**26,846**	**$ 3,000**	**$ 2,685**	**$167,550**	**$266,854**	**$(28,374)**	**$411,715**

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2013	2012	2011
	(In Thousands)		
Cash flows from continuing operating activities			
Net income	**$ 54,962**	$ 58,604	$ 83,842
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Net loss from discontinued operations	**179**	182	142
Deferred income taxes	**35,289**	245	8,688
Gains on property insurance recoveries associated with property, plant and equipment	**(66,255)**	—	—
Depreciation, depletion and amortization of property, plant and equipment	**28,310**	20,681	18,762
Other	**4,819**	4,614	6,127
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Accounts receivable	**2,268**	7,935	(13,451)
Inventories	**8,203**	(6,607)	60
Prepaid and accrued income taxes	**(13,278)**	11,013	(12,805)
Other supplies, prepaid items and other	**(10,048)**	(2,243)	(7,994)
Accounts payable	**(6,032)**	980	2,175
Accrued interest	**13,356**	(6)	(768)
Other current and noncurrent liabilities	**2,282**	4,073	5,193
Net cash provided by continuing operating activities	**54,055**	99,471	89,971
Cash flows from continuing investing activities			
Expenditures for property, plant and equipment	**(157,377)**	(92,644)	(44,221)
Acquisition of working interests in natural gas properties	**(9,205)**	(50,219)	—
Proceeds from property insurance recovery associated with property, plant and equipment	**66,437**	11,415	—
Proceeds from sales of property and equipment	**1,459**	307	112
Purchases of short-term investments	**—**	(10,032)	(10,014)
Proceeds from short-term investments	**—**	20,037	10,012
Deposits of current and noncurrent restricted cash	**(80,943)**	—	—
Purchase of noncurrent restricted investments	**(209,990)**	—	—
Proceeds from sales of carbon credits	**—**	761	2,597
Payments on contractual obligations—carbon credits	**—**	(786)	(2,266)
Other assets	**(4)**	(508)	(816)
Net cash used by continuing investing activities	**(389,623)**	(121,669)	(44,596)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31,		
	2013	2012	2011
		(In Thousands)	
Cash flows from continuing financing activities			
Proceeds from senior secured notes, net of pay off of secured term loan and fees	**$350,957**	$ —	$ —
Proceeds from other long-term debt, net of fees	**39,825**	—	—
Payments on other long-term debt	**(12,647)**	(7,019)	(15,345)
Payments of debt issuance costs	**(1,872)**	(88)	(112)
Proceeds from short-term financing	**16,385**	11,192	6,775
Payments on short-term financing	**(11,890)**	(7,584)	(4,950)
Proceeds from revolving debt facility	**—**	209,238	669,739
Payments on revolving debt facility	**—**	(209,238)	(669,739)
Proceeds from secured term loan, net of fees	**—**	—	14,766
Proceeds from modification of secured term loan, net of fees	**—**	—	10,347
Payments associated with induced conversion of 5.5% convertible debentures	**—**	—	(558)
Payments on loans secured by cash value of life insurance policies	**—**	(1,918)	(84)
Proceeds from exercises of stock options	**1,014**	767	1,197
Excess income tax benefit associated with stock-based compensation	**—**	498	1,160
Acquisition of redeemable preferred stock	**—**	(39)	—
Dividends paid on preferred stocks	**(300)**	(300)	(305)
Net cash provided (used) by continuing financing activities	**381,472**	(4,491)	12,891
Cash flows of discontinued operations:			
Operating cash flows	**(174)**	(220)	(283)
Net increase (decrease) in cash and cash equivalents	**45,730**	(26,909)	57,983
Cash and cash equivalents at beginning of year	**98,020**	124,929	66,946
Cash and cash equivalents at end of year	**$143,750**	$ 98,020	$ 124,929

See accompanying notes.

LSB Industries, Inc.

Notes to Consolidated Financial Statements

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 geothermal and water source heat pumps and air handling products (the “Climate Control Business”). LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. Our Chemical Business’ ownership of working interests in natural gas properties is accounted for as an undivided interest, whereby we reflect our proportionate share of the underlying assets, liabilities, revenues and expenses. Our working interest represents our share of the costs and expenses incurred primarily to develop the underlying leaseholds and to produce natural gas while our net revenue interest represents our share of the revenues from the sale of natural gas. The net revenue interest is less than our working interest as the result of royalty interest due to others. We are not the operator of these natural gas properties. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

Reclassifications - Reclassifications have been made in our consolidated balance sheet at December 31, 2012 to conform to our consolidated balance sheet at December 31, 2013, which reclassifications combined various current asset line items and combined various noncurrent other asset line items. These reclassifications did not impact the total amount of current assets or noncurrent other assets at December 31, 2012. In addition, reclassifications have been made in our consolidated statement of cash flows for 2011 and 2012 to conform to our consolidated statement of cash flows for 2013, which reclassifications combined various operating activities line items. These reclassifications did not impact the total amount of net cash provided by continuing operating activities for 2011 and 2012.

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.

Business Combinations - We account for an acquired business using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. If applicable, any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related costs are recognized separately from the business combination and are expensed as incurred.

Cash and Cash Equivalents - Investments, which consist of highly liquid investments with original maturities of three months or less, are considered cash equivalents. At December, 31, 2013, the cash and cash equivalents balance exceeded the FDIC-insured limits by approximately $0.6 million. All of these cash balances were held by financial institutions within the U.S.

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.

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.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

As it relates to natural gas properties, leasehold costs, intangible drilling and other costs of successful wells and development dry holes are capitalized in PP&E based on successful efforts accounting. The costs of exploratory wells are initially capitalized in PP&E, but expensed if and when the well is determined to be nonproductive.

Interest cost on borrowings incurred during a significant construction or development project is capitalized primarily in PP&E. Capitalized interest is added to the underlying asset and amortized over the estimated useful lives of the assets. 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. 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 proved or proved developed reserves, as applicable, as estimated by our independent consulting petroleum engineer. 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. 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. 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.

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, 2013 and 2012, we had no long-lived assets classified as assets held for sale.

Noncurrent Restricted Cash - Noncurrent restricted cash consists of cash and cash equivalent balances that are designated by us for specific purposes relating to capital projects. At December 31, 2013, the noncurrent restricted cash balance exceeded the FDIC-insured limits by approximately $49.8 million. All of these cash balances were held by financial institutions within the U.S.

Noncurrent Restricted Investments - Noncurrent restricted investments consist of investment balances that are designated by us for specific purposes relating to capital projects. At December 31, 2013, the balance includes investments of $130 million of U.S. Treasury bills with an original maturity of 13 weeks and $80 million of certificates of deposits with an original maturity no longer than approximately 26 weeks. The investments in these U.S. Treasury bills are classified as held-to-maturity and are carried at amortized cost, which approximates fair value. The investments in certificates of deposits are carried at cost, which approximates fair value. The investments in certificates of deposits exceeded the FDIC-insured limits by approximately $79.8 million. All of these investments were held by financial institutions within the U.S.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Debt Issuance Costs - Debt issuance costs are amortized over the term of the associated debt instrument. In general, if debt is extinguished prior to maturity, the associated debt issuance costs, if any, are written off and included in the gain or loss on extinguishment of debt.

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 2013, 2012, or 2011. Goodwill relates to business acquisitions in prior periods in the following business segments:

	December 31, 2013	2012
	(In Thousands)	
Chemical	**$1,621**	$1,621
Climate Control	**103**	103
Total goodwill	**$1,724**	$1,724

Short-Term Financing - Our short-term financing relates to agreements entered into to finance a portion of our annual premiums for certain of our insurance policies.

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.

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 term.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Stock Options - 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, we issue new shares of common stock upon the exercise of stock options.

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 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.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

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 and warehousing costs (excluding certain handling costs directly related to loading product being shipped to customers in our Chemical Business which are included in selling, general and administrative expense). 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, office and occupancy costs associated with the sales, marketing and administrative functions. SG&A also includes certain handling costs directly related to product being shipped to customers in our Chemical Business and outbound freight in our Climate Control Business. These handling costs primarily consist of personnel costs for loading product into transportation equipment, rent and maintenance costs related to the transportation equipment, and certain indirect costs. In addition, professional fees are included in SG&A.

Shipping and Handling Costs – Shipping and handling costs included in net sales and SG&A for each business segment are as follows:

	2013	2012	2011
		(In Thousands)	
Chemical:			
Shipping costs - Net sales (1)	**$21,954**	$23,395	$26,179
Handling costs - SG&A (2)	**$ 5,437**	$ 5,746	$ 5,024
Climate Control:			
Shipping and handling costs - SG&A (2)	**$ 9,520**	$ 8,897	$ 8,564

(1) These costs relate to amounts billed to our customers.
(2) See discussions above under "Selling, General and Administrative Expense."

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.

	2013	2012	2011
		(In Thousands)	
Advertising costs	**$3,157**	$3,365	$4,528

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

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 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 per Common Share - Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends and dividend requirements, if applicable. Basic income per common share is based upon net income applicable to common stock and the weighted-average number of common shares outstanding during each year. Diluted income per share is based on net income applicable to common stock plus preferred stock dividends and dividend requirements on preferred stock assumed to be converted, if dilutive, and interest expense including amortization of debt issuance cost, net of income taxes, on convertible debt assumed to be converted, if dilutive, and the weighted-average number of common shares and dilutive common equivalent shares outstanding, and the assumed conversion of dilutive convertible securities outstanding.

2. Income Per Common Share

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

	2013	2012	2011
	(Dollars In Thousands, Except Per Share Amounts)		
Numerator:			
Net income:	**$ 54,962**	$ 58,604	$ 83,842
Dividends on Series B Preferred	**(240)**	(240)	(240)
Dividends on Series D Preferred	**(60)**	(60)	(60)
Dividends on Noncumulative Preferred	**—**	—	(5)
Total dividends on preferred stocks	**(300)**	(300)	(305)
Numerator for basic net income per common share - net income applicable to common stock	**54,662**	58,304	83,537
Dividends on preferred stocks assumed to be converted, if dilutive	**300**	300	305
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	**—**	—	299
Numerator for diluted net income per common share	**$ 54,962**	$ 58,604	$ 84,141
Denominator:			
Denominator for basic net income per common share - weighted-average shares	**22,465,176**	22,359,967	21,962,294
Effect of dilutive securities:			
Convertible preferred stocks	**916,666**	917,006	935,432
Stock options	**215,124**	261,596	325,752
Convertible notes payable	**—**	—	275,764
Dilutive potential common shares	**1,131,790**	1,178,602	1,536,948
Denominator for dilutive net income per common share - adjusted weighted-average shares and assumed conversions	**23,596,966**	23,538,569	23,499,242
Basic net income per common share	**$ 2.43**	$ 2.61	$ 3.80
Diluted net income per common share	**$ 2.33**	$ 2.49	$ 3.58

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

	2013	2012	2011
Stock options	**246,391**	254,000	35,701

3. Accounts Receivable, net

	December 31, 2013	2012
	(In Thousands)	
Trade receivables	**$77,899**	$72,505
Insurance claims	**1,865**	10,059
Other	**1,633**	873
	81,397	83,437
Allowance for doubtful accounts	**(827)**	(636)
	$80,570	$82,801

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. Nine customers (including their affiliates), primarily relating to the Chemical Business, account for approximately 31% of our total net receivables at December 31, 2013.

One of our subsidiaries, El Dorado Chemical Company ("EDC"), is party to an agreement with Bank of America, N.A. (the "Bank") to sell our accounts receivables generated from product sales to a certain customer. We agreed to enter into this agreement as a courtesy to this customer. The term of this agreement matures in August 2014, with renewal options, but either party has an option to terminate the agreement pursuant to the terms of the agreement. In addition, we amended our sales agreement with the customer to offer extended payment terms under the condition that they pay an extended payment terms premium equal to the discount taken by the Bank when the accounts receivables are sold. Thus, there is no gain or loss from the sale of these receivables to the Bank. We have no continuing involvement or risks associated with the transferred accounts receivable. Pursuant to the terms of the agreement, EDC is to receive payment from the Bank no later than one business day after the Bank's acceptance of EDC's offer to sell the accounts receivables. As of December 31, 2013, EDC has been paid by the Bank for the accounts receivables sold to the Bank. We account for these transfers as sales under ASC 860 – Transfers and Servicing.

4. Inventories

	Finished Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
December 31, 2013:				
Chemical products	**$18,744**	**$ —**	**$ 2,593**	**$21,337**
Climate Control products	**7,552**	**2,838**	**21,278**	**31,668**
Industrial machinery and components	**2,867**	**—**	**—**	**2,867**
	$29,163	**$ 2,838**	**$23,871**	**$55,872**
December 31, 2012:				
Chemical products	$25,487	$ —	$ 4,194	$29,681
Climate Control products	7,045	3,576	20,352	30,973
Industrial machinery and components	4,319	—	—	4,319
	$36,851	$ 3,576	$24,546	$64,973

At December 31, 2013 and 2012, inventory reserves for certain slow-moving inventory items (Climate Control products) were $1,389,000 and $1,818,000, respectively. In addition, because cost exceeded the net realizable value, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were $1,623,000 and $975,000 at December 31, 2013 and 2012, respectively.

4. Inventories (continued)

Changes in our inventory reserves for slow-moving items are as follows:

	2013	2012	2011
		(In Thousands)	
Balance at beginning of year	**$1,818**	$1,767	$1,616
Provisions for losses	**249**	181	751
Write-offs and disposals	**(678)**	(130)	(600)
Balance at end of year	**$1,389**	$1,818	$1,767

The provisions for losses are included in cost of sales in the accompanying consolidated statements of income.

5. Property, Plant and Equipment

	Useful lives in years	December 31, 2013	2012
		(In Thousands)	
Machinery, equipment and automotive	**3 - 30**	**$319,088**	$253,317
Proved natural gas properties	*****	**66,764**	49,801
Buildings and improvements	**8 - 30**	**48,379**	44,248
Furniture, fixtures and store equipment	**3 - 10**	**6,933**	6,718
Assets under capital leases	**10**	**1,672**	1,468
Land improvements	**10 - 40**	**6,214**	1,148
Construction in progress	**N/A**	**110,376**	52,673
Capital spare parts	**N/A**	**9,718**	5,430
Land	**N/A**	**9,780**	10,386
		578,924	425,189
Less accumulated depreciation, depletion and amortization		**162,123**	143,318
		$416,801	$281,871

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); certain processing plant components (3-10 years); and trucks, automobiles, trailers, and other rolling stock (3-7 years). At December 31, 2013 and 2012, assets capitalized under capital leases consist of machinery and equipment. Accumulated amortization for assets capitalized under capital leases were $714,000 and $567,000 at December 31, 2013 and 2012, respectively. During 2013 and 2012, interest cost capitalized in PP&E was $3,986,000 and $398,000, 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, 2013	2012
	(In Thousands)	
Accrued interest	**$13,925**	$ 569
Accrued payroll and benefits	**8,981**	6,612
Deferred revenue on extended warranty contracts	**7,407**	7,007
Accrued warranty costs	**7,297**	6,172
Customer deposits	**5,500**	8,189
Other	**23,083**	22,518
	66,193	51,067
Less noncurrent portion	**17,086**	16,369
Current portion of accrued and other liabilities	**$49,107**	$34,698

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:

	2013	2012	2011
		(In Thousands)	
Balance at beginning of year	**$ 6,172**	$ 5,370	$ 3,996
Amounts charged to costs and expenses	**7,388**	6,710	6,539
Costs incurred	**(6,263)**	(5,908)	(5,165)
Balance at end of year	**$ 7,297**	$ 6,172	$ 5,370

8. Asset Retirement Obligations

Currently, we have various requirements 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 these facilities has been established. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made. In addition, our Chemical Business owns working interests

8. Asset Retirement Obligations (continued)

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, 2013 and 2012, our accrued liability for AROs was $304,000 and $154,000, respectively.

9. Long-Term Debt

	December 31, 2013	2012
	(In Thousands)	
Working Capital Revolver Loan (A)	**$ —**	$ —
7.75% Senior Secured Notes due 2019 (B)	**425,000**	—
Secured Promissory Note (C)	**29,555**	—
Secured Term Loan (B)	**—**	68,438
Other, with a current weighted-average interest rate of 3.99%, most of which is secured primarily by machinery and equipment	**8,412**	4,003
	462,967	72,441
Less current portion of long-term debt (D)	**9,262**	4,798
Long-term debt due after one year (D)	**$453,705**	$67,643

(A) Effective December 31, 2013, LSB and certain of its wholly-owned subsidiaries (the "Borrowers") entered into an amendment to the existing senior secured revolving credit facility (the "Amended Working Capital Revolver"). 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. In addition, the Amended Working Capital Revolver Loan and the Senior Secured Notes are cross collateralized as discussed in (B) below. 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, 2013, the interest rate was 3.75% 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, 2013, the amount available for borrowing under the Amended Working Capital Revolver Loan was approximately $67.0 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:

9. Long-Term Debt (continued)

- 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 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;
- investments in joint ventures and certain subsidiaries of LSB in an aggregate amount not exceeding $35.0 million; and
- other investments in an aggregate amount not exceeding $50.0 million at any one time outstanding.

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

(B) On August 7, 2013, LSB sold $425 million aggregate principal amount of the 7.75% Senior Secured Notes due 2019 (the “Senior Secured Notes”) in a 144A transaction pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the “Act”). The Senior Secured Notes are eligible for resale by the investors under Rule144A under the Act. LSB received net proceeds of approximately $351 million, after the payoff of a secured term loan (discussed below), commissions and fees. In connection with the closing, LSB entered into an indenture (the “Indenture”) with UMB Bank, as trustee, governing the Senior Secured Notes and as collateral agent, and will receive customary compensation from us for such services.

The 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, beginning on February 1, 2014.

The Senior Secured Notes are general senior secured obligations of LSB. The Senior Secured Notes are jointly and severally and fully and unconditionally guaranteed by all of LSB’s current wholly-owned subsidiaries, with all of the guarantees, except two, being senior secured guarantees and two being senior unsecured guarantees. The Senior Secured Notes will 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 below, and will be 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:

9. Long-Term Debt (continued)

- 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 be effectively senior to all existing and future obligations under the Amended Working Capital Revolver Loan and other debt to the extent of the value of the certain collateral ("Priority Collateral").

The Senior Secured Notes will be secured on a first-priority basis by the Priority Collateral owned by LSB and the guarantors (other than the two unsecured guarantors) 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 two unsecured guarantors), 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 guarantors with respect to any obligations under any equally ranked lien obligations subsequently incurred. At December 31, 2013, the carrying value of the assets secured on a first-priority basis was approximately $410 million and the carrying value of the assets secured on a second-priority basis was approximately $128 million.

The Senior Secured Notes will be effectively 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	Percentage
2016	103.875%
2017	101.938%
2018 and thereafter	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:

9. Long-Term Debt (continued)

- 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.

As discussed above, approximately $67.2 million of the proceeds from Senior Secured Notes was used to pay all outstanding borrowings, including the prepayment premium, under a term loan facility (the "Secured Term Loan"). As a result of the payoff of the Secured Term Loan, we incurred a loss on extinguishment of debt of $1.3 million, consisting of the prepayment premium and writing off unamortized debt issuance costs.

In connection with the Senior Secured Notes, LSB entered into a Registration Rights Agreement (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, we have agreed to use our reasonable best efforts to file with the SEC a registration statement ("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 August 7, 2013 (the date of closing) and under certain other conditions, the annual interest rate on the notes will be increased by (i) 0.25% (or approximately $3,000 per day) for the first 90 day period immediately following such default and (ii) 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 $12,000 per day).

(C) 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 follows 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 matures on February 1, 2016.

Principal and interest are payable monthly based on a five-year amortization at a defined LIBOR rate plus 300 basis points with a final balloon payment of $15.3 million due at maturity. The interest rate at December 31, 2013 was 3.24%. The loan is secured by the Working Interests and related properties and proceeds.

(D) Maturities of long-term debt for each of the five years after December 31, 2013 are as follows (in thousands):

2014	$ 9,262
2015	8,880
2016	16,354
2017	477
2018	2,994
Thereafter	425,000
	$462,967

10. Income Taxes

Provisions for income taxes are as follows:

	2013	2012	2011
		(In Thousands)	
Current:			
Federal	**$ (1,225)**	$28,654	$33,006
State	**1,357**	4,695	4,514
Total Current	**$ 132**	$33,349	$37,520
Deferred:			
Federal	**$32,197**	$ 559	$ 7,543
State	**3,092**	(314)	1,145
Total Deferred	**$35,289**	$ 245	$ 8,688
Provisions for income taxes	**$35,421**	$33,594	$46,208

The current provision 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. 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 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, 2013, 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 $905,000. These credits carryforward for 20 years.

We utilized approximately $0.1 million, $0.1 million and $0.2 million of state NOL carryforwards to reduce tax liabilities in 2013, 2012 and 2011, respectively. At December 31, 2013, we have remaining federal and state tax NOL carryforwards of $29.9 million and $43.6 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 $22 million of alternative minimum tax (“AMT”) NOL carryforwards, net of unrecognized tax benefits, available as a deduction against future AMT income. The state NOL carryforwards begin expiring in 2014.

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. For 2013, 2012 and 2011, we determined it was more-likely-than-not that approximately $8.3 million, $6.8 million and $6.9 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 $0.3 million for each of the respective years.

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, $0.5 million and $1.3 million in 2012 and 2011, respectively, (none in 2013) which is included in the net change in capital in excess of par value rather than a decrease in the provision 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, 2013 totaled $1.4 million and $1.0 million, respectively. At December 31, 2013, we had $0.5 million of unrecognized federal and state tax benefits resulting from the exercise of NSOs (none at December 31, 2012).

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

	December 31, 2013	2012
	(In Thousands)	
Deferred tax assets		
Allowance for doubtful accounts	**$ 755**	$ 696
Asset impairment	**782**	764
Inventory	**2,168**	2,792
Deferred compensation	**3,977**	3,660
Other accrued liabilities	**6,429**	5,772
Hedging	**467**	700
Net operating loss carryforwards	**12,046**	310
Other	**3,823**	3,001
Total deferred tax assets	**30,447**	17,695
Less valuation allowance on deferred tax assets	**(298)**	(273)
Net deferred tax assets	**$ 30,149**	$ 17,422
Deferred tax liabilities		
Property, plant and equipment	**$ 77,126**	$ 30,235
Prepaid and other insurance reserves	**5,182**	3,855
Investment in unconsolidated affiliate	**239**	433
Other	**687**	695
Total deferred tax liabilities	**$ 83,234**	$ 35,218
Net deferred tax liabilities	**$(53,085)**	$(17,796)
Consolidated balance sheet classification:		
Net current deferred tax assets	**$ 13,613**	$ 3,224
Net noncurrent deferred tax liabilities	**(66,698)**	(21,020)
Net deferred tax liabilities	**$(53,085)**	$(17,796)
Net deferred tax liabilities by tax jurisdiction:		
Federal	**$(48,503)**	$(16,324)
State	**(4,582)**	(1,472)
Net deferred tax liabilities	**$(53,085)**	$(17,796)

10. Income Taxes (continued)

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

	2013	2012	2011
		(In Thousands)	
Provisions for income taxes at federal statutory rate	**$31,697**	$32,391	$45,567
State current and deferred income taxes	**3,916**	3,533	5,088
Domestic production activities deduction	**—**	(1,933)	(3,091)
Effect of tax return to tax provision reconciliation	**(318)**	(216)	(958)
Other	**126**	(181)	(398)
Provisions for income taxes	**$35,421**	$33,594	$46,208

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

	2013	2012	2011
		(In Thousands)	
Balance at beginning of year	**$2,292**	$ 709	$ 700
Additions based on tax positions related to the current year	**97**	131	217
Additions based on tax positions of prior years	**255**	1,937	—
Reductions for tax positions of prior years	**(123)**	(485)	(51)
Settlements	**(112)**	—	(157)
Balance at end of year	**$2,409**	$2,292	$ 709

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 the financial condition. The total amount of unrecognized tax benefits that would impact the effective tax rate, if recognized, was $204,000, $236,000, and $461,000, net of federal expense, in 2013, 2012, and 2011, respectively.

We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense. During 2013, 2012, and 2011, we recognized $121,000, $430,000, and $42,000, respectively, in interest and penalties associated with unrecognized tax benefits. We had approximately $585,000, and $464,000 accrued for interest and penalties at December 31, 2013 and 2012, respectively.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2010-2012 years remain open for all purposes of examination by the U.S. Internal Revenue Service ("IRS") and other major tax jurisdictions. We are under examination by the IRS for the tax years 2008-2010. As of December 31, 2013, the IRS has proposed certain adjustments, which we are protesting. We anticipate that the adjustments, if any, will not result in a material change to our financial position.

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, 2013, are as follows:

	Operating Leases
2014	$ 4,451
2015	2,775
2016	1,929
2017	1,675
2018	1,421
Thereafter	1,330
Total minimum lease payments	$ 13,581

Expenses associated with our operating lease agreements, including month-to-month leases, were $6,401,000 in 2013, $6,830,000 in 2012, and $7,773,000 in 2011. 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.

Bayer Agreement—Subsidiaries within our Chemical Business, El Dorado Nitric Company and its subsidiaries (“EDN”) and EDC, are party to an agreement (the “Bayer Agreement”) with Bayer Material Science LLC (“Bayer”). EDN operates Bayer’s nitric acid plant (the “Baytown Facility”) located within Bayer’s chemical manufacturing complex. Under the terms of the Bayer Agreement, Bayer purchases from EDN all of Bayer’s requirements for nitric acid for use in Bayer’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, Bayer has the right to terminate the Bayer Agreement upon payment of certain fees to EDN. In June 2013, the Bayer Agreement was amended, dated effective July 1, 2014, to extend the term of the agreement for an additional seven years, beginning July 1, 2014. The amendment also provides incentives to EDN for meeting certain safety, environmental, and reliability thresholds.

Anhydrous ammonia purchase agreement—During August 2012, EDC entered into an amendment to EDC’s anhydrous ammonia purchase agreement with Koch Nitrogen International Sarl (“Koch”). Under the amendment, Koch agrees to supply certain of EDC’s requirements of anhydrous ammonia through December 31, 2015. The terms of this agreement do not include minimum volumes or take-or-pay provisions.

Ammonium nitrate supply agreement—Pursuant to a long-term cost-plus supply agreement, EDC supplies Orica International Pte Ltd (“Orica”) with an annual minimum of 240,000 tons of industrial grade ammonium nitrate (“AN”) produced at our chemical production facility located in El Dorado, Arkansas (the “El Dorado Facility”) through December 2014. The agreement includes a provision for Orica to pay for product not taken. In April 2013, this agreement was amended to update and correct the specification of AN solution to be manufactured by EDC. The amendment also modified the required notice of termination from two years to one year, with the termination date to be no sooner than April 9, 2015.

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).

11. Commitments and Contingencies (continued)

Natural gas gathering agreements – Zena owns 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 the next five years and approximately $7.5 million thereafter for a total of approximately $16.5 million.

Other purchase and sales commitments—See Note 12—Derivatives, Hedges, Financial Instruments and Carbon Credits for our commitments relating to derivative contracts and carbon credits at December 31, 2013. During 2013, 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, 2013, our purchase commitments under these contracts were for approximately 1.6 million MMBtu of natural gas through May 2014 at the weighted-average cost of $3.47 per MMBtu ($5.6 million) and a weighted-average market value of $4.20 per MMBtu ($6.8 million). In addition, we had standby letters of credit outstanding of approximately $2.7 million at December 31, 2013. We also had deposits from customers of $5.5 million for forward sales commitments, most of which relate to our Chemical Business at December 31, 2013.

Capital Project Commitments – During 2012, EDC entered into an agreement with Weatherly Inc. for the licensing, engineering, and procurement of major manufacturing equipment for a new 65% strength nitric acid plant ("Nitric Acid Plant") to be constructed at the El Dorado Facility. During 2013, EDC entered into various agreements with SAIC Constructors, LLC to engineer, procure and construct the Nitric Acid Plant, a nitric acid concentrator and certain support facilities at the El Dorado Facility. The estimated cost for this project is approximately $120 million, of which $48 million has been incurred and capitalized at December 31, 2013.

During 2013, a subsidiary of EDC entered into various agreements with SAIC Constructors, LLC to engineer, procure and construct an ammonia plant and certain support facilities. The estimated cost for this project ranges from $250 million to $300 million, of which $36 million has been incurred and capitalized at December 31, 2013.

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, 2013, we have agreed to indemnify the sureties for payments, up to $9.9 million, made by them in respect of such bonds. All of these insurance bonds are expected to expire or be renewed in 2014.

Universal Shelf Registration Statement—In November 2012, we filed a universal shelf registration statement on Form S-3, with the SEC. The shelf registration statement provides that we could offer and sell up to $200 million of our securities consisting of equity (common and preferred), debt (senior and subordinated), warrants and units, or a combination thereof. The shelf registration statement expires in November 2015 unless we decide to file a post effective amendment.

Employment and Severance Agreements—We have an employment agreement 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 $14.3 million at December 31, 2013.

11. Commitments and Contingencies (continued)

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

A. Environmental Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws ("Environmental Laws") and to other laws regarding health and safety matters ("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 the Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our Chemical Business facilities should we discontinue the operations of a facility. We do not operate the natural gas wells where we own an interest and compliance with Environmental Laws and Health Laws is controlled by others, with our Chemical Business being responsible for its proportionate share of the costs involved. As of December 31, 2013, our accrued liabilities for environmental matters totaled $1,234,000 relating primarily to matters discussed below. It is reasonably possible that a change in the estimate of our liability could occur in the near term. Also see discussion in Note 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 by the United States Environmental Protection Agency ("EPA"), subject to oversight by the EPA. These permits limit the type and amount of effluents that can be discharged and controls the method of such discharge. The following are discharge water matters in relation to the respective permits.

The El Dorado Facility is subject to a state National Pollutant Discharge Elimination System ("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 ("2004 NPDES permit"). In November 2010, a preliminary draft of a discharge water permit renewal for the El Dorado Facility, which contains more restrictive limits, was issued by the ADEQ.

EDC believes that the El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit limits, but has, from time to time, had difficulty demonstrating consistent compliance with the more restrictive dissolved minerals permit levels. As part of the El Dorado Facility's long-term compliance plan, EDC has pursued a rulemaking and permit modification with the ADEQ as to the discharge requirements relating to its dissolved minerals. The ADEQ approved a rule change, but the EPA formally disapproved the rule change. In October 2011, EDC filed a lawsuit against the EPA in the United States District Court, El Dorado, Arkansas, appealing the EPA's decision disapproving the rule change. In March 2013, the District Court affirmed the EPA's decision. EDC has appealed the District Court's decision. We do not believe this matter regarding meeting the permit requirements as to the dissolved minerals will continue to be an issue now that the pipeline discussed below is operational and EDC's right to use the pipeline to dispose of its wastewater.

During 2012, EDC paid a penalty of $100,000 to settle an Administrative Complaint issued by the EPA, and thereafter handled by the United States Department of Justice ("DOJ"), relating to certain alleged violations of EDC's 2004 NPDES permit for alleged violations through December 31, 2010. The DOJ advised that some action would be taken for alleged violations occurring after December 31, 2010. As of the date of this report, no action has been filed by the DOJ. The cost (or range of costs) cannot currently be reasonably estimated regarding this matter. Therefore, no liability has been established at December 31, 2013.

11. Commitments and Contingencies (continued)

During 2013, the City of El Dorado, Arkansas (the "City") completed the construction of a pipeline for disposal of wastewater generated by the City and by certain companies in the El Dorado area. EDC and other companies in the El Dorado area entered into a funding agreement and operating agreement with the City, pursuant to which each party agreed to contribute to the cost of construction and the annual operating costs of the pipeline for the right to use the pipeline to dispose its wastewater. EDC believes that the disposal of wastewater through this pipeline will enable EDC to comply with water discharge permit limits under current and foreseeable regulations. The City completed the construction of the pipeline and EDC began utilizing the pipeline during 2013. 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.

In addition, the El Dorado Facility is currently operating under a consent administrative order ("2006 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 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, 2013, in connection with this matter.

2. Air Matters

In connection with a national enforcement initiative, the EPA had sent information requests to most, if not all, of the operators of nitric acid plants in the United States, including our El Dorado Facility, our chemical production facility located in Cherokee, Alabama (the "Cherokee Facility") and the Baytown Facility operated by our subsidiary, EDN, under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years.

During 2013, we negotiated a global agreement in principle with the EPA/DOJ to settle this matter. The agreement provides, among other things, the following:

- all of our Chemical Business' nitric acid plants are to achieve certain emission rates within a certain time period for each plant. In order to achieve these emission rates, six of our Chemical Business' eight nitric acid plants will require additional pollution control technology equipment to achieve the emission rates agreed upon. We have already completed necessary modifications at two of our Chemical Business' existing nitric acid plants. The cost of the necessary pollution control equipment is estimated to range from $2.0 million to $3.0 million for each of the remaining six nitric acid plants, the cost of which will be capitalized when incurred;
- our Chemical Business will provide a reforestation mitigation project that is unrelated to our emissions or activities and will not be located at one of our plant sites, which we estimate will cost approximately $150,000 and have included this amount in our accrued liabilities for environmental matters discussed above; and
- a civil penalty will be paid by our Chemical Business in the amount of $725,000 (which includes the $100,000 civil penalty to the ODEQ discussed below), which amount is included in our accrued liabilities for environmental matters discussed above.

See additional discussion in Note 21 – Subsequent Events – Formal Consent Decree

11. Commitments and Contingencies (continued)

One of our subsidiaries, Pryor Chemical Company ("PCC"), within our Chemical Business, has been advised that the Oklahoma Department of Environmental Quality ("ODEQ") is conducting an investigation into whether the chemical production facility located in Pryor, Oklahoma (the "Pryor Facility") was in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions relating primarily to 2011 were intentionally reported incorrectly to the ODEQ. Pursuant to the request of the ODEQ, PCC submitted information and a report to the ODEQ as to the reports filed by the Pryor Facility relating to the air emissions in question. In February 2013, investigators with the ODEQ obtained documents from the Pryor Facility in connection with this investigation pursuant to a search warrant and interviewed several employees at the facility. PCC has cooperated with the ODEQ in connection with this investigation. As of December 31, 2013, we are not aware of any recommendations made or to be made by the ODEQ with respect to formal legal action to be taken or recommended as a result of this ongoing investigation. By letter dated April 19, 2013 (the "letter"), ODEQ, based on its inspection of our Pryor Facility conducted in December 2012, identified fourteen issues of alleged non-compliance and concern from the evaluation relating to federal and state air quality regulations, some of which were the subject of the ongoing investigation by ODEQ described above. PCC engaged in discussions with ODEQ and a settlement was reached to resolve the allegations identified in the letter. Three of the violations were resolved through the global settlement with the EPA/DOJ discussed above, and ODEQ agreed to resolve the remaining eleven violations by PCC paying a civil penalty for $100,000 (which amount is included in the $725,000 civil penalty discussed above) with the settlement being addressed as an addition to the global settlement discussed above. This settlement is unrelated to the pending ODEQ investigation at the Pryor Facility described above, which remains ongoing to our knowledge.

3. Other Environmental Matters

In 2002, two subsidiaries within our Chemical Business sold substantially all of their operating assets relating to a Kansas chemical facility ("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 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.

The successor ("Chevron") of a prior owner of the Hallowell Facility has agreed in writing, on a nonbinding basis and within certain other limitations, to pay and has been paying one-half of the costs of the interim measures relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

Our subsidiary and Chevron are pursuing with the state of Kansas a course of long-term surface and groundwater monitoring to track the natural decline in contamination. Currently, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing. We have accrued for our allocable portion of costs 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.

In addition during 2010, the Kansas Department of Health and Environment ("KDHE") notified our subsidiary and Chevron that the Hallowell Facility has been referred to the KDHE's Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in its evaluation. Currently, it is unknown what damages the KDHE would claim, if any. The ultimate required remediation, if any, is unknown.

11. Commitments and Contingencies (continued)

The nature and extent of a portion of the requirements are also not currently defined, and the associated costs (or range of costs) are not currently reasonably estimable. Therefore, no liability has been established at December 31, 2013, in connection with the KDHE's Natural Resources Trustee matter.

B. Other Pending, Threatened or Settled Litigation

During 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 had been a customer of EDC, purchasing ammonium nitrate ("AN") from EDC from time to time. LSB and EDC previously received letters from counsel purporting to represent subrogated insurance carriers, personal injury claimants and persons who suffered property damages informing them that their clients are conducting investigations into the cause of the explosion and fire to determine, among other things, whether AN manufactured by EDC and supplied to West Fertilizer was stored at West Fertilizer at the time of the explosion and, if so, whether such AN may have been one of the contributing factors of the explosion. Other manufacturers of AN also supplied AN to West Fertilizer. Initially, the lawsuits that had been filed named West Fertilizer and another supplier of AN as defendants. Although EDC does not believe that its product was in storage at West Fertilizer at the time of the explosion, there has been testimony in depositions taken in connection with the pending lawsuits that some of the AN products at West Fertilizer at the time of the explosion were produced by EDC. As a result, EDC and LSB have been named as defendants, together with other AN manufactures, in the case styled City of West, Texas v CF Industries, Inc., et al, in the District Court of McLennan County, Texas. Plaintiffs are alleging, among other things, that LSB and EDC were negligent in the production and inspection of fertilizer products sold to West Fertilizer resulting in death, personal injury and property damage. EDC has retained a firm specializing in cause and origin investigations, with particular experience with fertilizer facilities, to assist EDC in its own investigation. LSB and EDC have placed its liability insurance carrier on notice of this matter. Our product liability insurance policies have aggregate limits of general liability totaling $100 million, with a self-insured retention of $250,000. As of December 31, 2013, no liability has been established in connection with this matter, but we have incurred professional fees of approximately $200,000 being applied against our self-insured retention amount.

Other Claims and Legal Actions

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of $250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible. At December 31, 2013, our accrued general liability insurance claims were $335,000 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 Bayer. The assets for carbon credits are accounted for on a fair value basis as discussed below. Also, the contractual obligations to give the related proceeds to Bayer are accounted for on a fair value basis (as discussed below) unless we enter into a firm sales commitment to sell the carbon credits as discussed in Note 1—Summary of Significant Accounting Policies. The valuations of these assets and liabilities were determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values.

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

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At December 31, 2013 and 2012, the valuations of contracts classified as Level 2 related to interest rate swap contracts. 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, 2013, the valuation inputs included the contractual weighted-average pay rate of 3.23% and the estimated market weighted-average receive rate of 0.54%. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts.

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, 2013 and 2012, the valuations ($1.00 and $0.50 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 range of ask/bid prices obtained from a broker adjusted downward due to minimal market volume activity. The valuations are using undiscounted cash flows based on management's assumption that the carbon credits would be sold and the associated contractual obligations would be extinguished in the near term. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the carbon credits and associated contractual obligations.

Commodities Contracts

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and anhydrous ammonia and natural gas 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, 2013, we did not have any futures/forward copper contracts. At December 31, 2012, our futures/forward copper contracts were for 625,000 pounds of copper through May 2013 at a weighted-average cost of $3.53 per pound. At December 31, 2013, our futures/forward natural gas contracts were for 1,530,000 MMBtu of natural gas through October 2014 at a weighted-average cost of $3.98 per MMBtu. At December 31, 2012, we did not have any futures/forward natural gas contracts requiring mark-to-market accounting. 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. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2013 and 2012, we did not have any foreign exchange contracts. 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 April 2008, we entered into an interest rate swap at no cost, which set a fixed three-month LIBOR rate of 3.24% on $25 million and matured in April 2012. In September 2008, we acquired an interest rate swap at a cost basis of $0.4 million, which set a fixed three-month LIBOR rate of 3.595% on $25 million and matured in April 2012.

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, 2013, no cash flows occurred relating to the purchase or sale of interest rate contracts. The cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

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 Bayer, a certain portion of the carbon credits are to be used to recover the costs of the Project, and any balance thereafter to be allocated between Bayer and EDN. We have no obligation to reimburse Bayer for their costs associated with the Project, except through the transfer or sale of the carbon credits when such credits are issued to us. The assets for carbon credits are accounted for on a fair value basis and the contractual obligations associated with these carbon credits are also accounted for on a fair value basis (unless we enter into a sales commitment to sell the carbon credits). At December 31, 2013, we had approximately 1,284,000 carbon credits (a minimal amount at December 31, 2012), all of which were subject to contractual obligations. The cash flows associated with the carbon credits and the associated contractual obligations are included in cash flows from continuing investing activities.

The following details our assets and liabilities that are measured at fair value on a recurring basis at December 31, 2013 and 2012:

		Fair Value Measurements at December 31, 2013 Using			
Description	Total Fair Value at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at December 31, 2012
			(In Thousands)		
Assets—Supplies, prepaid items and other:					
Commodities contracts	**$ 31**	**$ 31**	**$ —**	**$ —**	$ 79
Carbon credits	**1,284**	**—**	**—**	**1,284**	91
Total	**$ 1,315**	**$ 31**	**$ —**	**$ 1,284**	$ 170
Liabilities—Current and noncurrent accrued and other liabilities:					
Contractual obligations—carbon credits	**$ 1,284**	**$ —**	**$ —**	**$ 1,284**	$ 91
Interest rate contracts	**1,240**	**—**	**1,240**	**—**	1,874
Total	**$ 2,524**	**$ —**	**$ 1,240**	**$ 1,284**	$ 1,965

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. 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		
	2013	2012	2011	2013	2012	2011
	(In Thousands)					
Beginning balance	**$ 91**	$ 42	$ 644	**$ (91)**	$ (42)	$ (644)
Transfers into Level 3	**—**	—	—	**—**	—	—
Transfers out of Level 3	**—**	—	—	**—**	—	—
Total realized and unrealized gains (losses) included in earnings	**1,233**	876	1,995	**(1,233)**	(721)	(1,844)
Purchases	**—**	—	—	**—**	—	—
Issuances	**—**	—	—	**—**	—	—
Sales	**(40)**	(827)	(2,597)	**—**	—	—
Settlements	**—**	—	—	**40**	672	2,446
Ending balance	**$1,284**	$ 91	$ 42	**$(1,284)**	$ (91)	$ (42)
Total gains (losses) for the period included in earnings attributed to the change in unrealized gains or losses on assets and liabilities still held at the reporting date	**$1,193**	$ 78	$ 42	**$(1,193)**	$ (78)	$ (42)

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

	2013	2012	2011
	(In Thousands)		
Cost of sales—Commodities contracts	**$ (244)**	$ 14	$ (523)
Cost of sales—Foreign exchange contracts	**—**	(19)	46
Other income—Carbon credits	**1,233**	876	1,995
Other expense—Contractual obligations relating to carbon credits	**(1,233)**	(721)	(1,844)
Interest expense—Interest rate contracts	**(33)**	(523)	(1,925)
Total net losses included in earnings	**$ (277)**	$(373)	$(2,251)

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

At December 31, 2013 and 2012, we did not have any financial instruments with fair values significantly different from their carrying amounts, except for the Senior Secured Notes at December 31, 2013. The estimated fair value of the Senior Secured Notes exceeded the carrying value by approximately $20 million. The valuation is classified as Level 2 and is based on the range of ask/bid prices (104.5 to 104.9) for these notes but are currently traded in a limited and low volume market since these notes have not yet been registered. The valuations of our other long-term debt agreements are classified as Level 3 and are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. The fair value measurement of our long-term debt agreements are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the debt agreements and applies estimated current market interest rates. The estimated current market interest rates are based primarily on interest rates currently being offered on borrowings of similar amounts and terms. In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for our debt agreements. The fair value of financial instruments is not indicative of the overall fair value of our assets and liabilities since financial instruments do not include all assets, including intangibles, and all liabilities. Also see discussions concerning certain assets and liabilities initially accounted for on a fair value basis under Note 8 – Asset Retirement Obligations.

13. Stockholders' Equity

2008 Stock Incentive Plan—During 2008, our stockholders approved an Incentive Stock Plan (the "2008 Plan"). The number of shares of our common stock available for issuance under the 2008 Plan was 1,000,000 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 of directors.

Our board of directors 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 of directors, the 2008 Plan expires on June 5, 2018.

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

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

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

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

Outside Directors Stock Option Plan—In addition to the 2008 Plan discussed above, we have an Outside Directors 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 of directors who is not an officer or employee of LSB or its subsidiaries. The Outside Director Plan

13. Stockholders' Equity (continued)

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. The maximum number of shares that may be issued, or for which options may be granted, under the Outside Director Plan is 400,000 of which 280,000 were available for issuance, or grant of options, at December 31, 2013.

Stock-Based Compensation—During 2013 and 2012, the Committee did not grant any awards under the 2008 Plan. During 2011, the Committee approved the grants under the 2008 Plan of 249,000 shares of qualified stock options (the "2011 Qualified Options") to certain employees and our board of directors (with the recipient abstaining) approved the grant of 5,000 shares of non-qualified stock options ("2011 Non-Qualified Options") to one of our outside directors. The exercise price of the 2011 Qualified and Non-Qualified Options was equal to the market value of our common stock at the date of grant. The 2011 Qualified and Non-Qualified 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. Pursuant to the terms of the 2011 Non-Qualified Options, if a termination event occurs, as defined, the non-vested 2011 Non-Qualified Options will become fully vested and exercisable for a period of one year from the date of the termination event. Excluding the non-qualified stock options relating to a termination event, the 2011 Qualified and Non-Qualified Options expire in 2021. The fair value for the 2011 Qualified and Non-Qualified Options was estimated, using an option pricing model, as of the date of the grant, which date was also the service inception date.

The fair value for the 2011 Qualified and Non-Qualified 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:

	2013	2012	2011
Weighted-average risk-free interest rate	**N/A**	N/A	1.21%
Dividend yield	**N/A**	N/A	—
Weighted-average expected volatility	**N/A**	N/A	48.59%
Total weighted-average expected forfeiture rate	**N/A**	N/A	2.97%
Weighted-average expected life (years)	**N/A**	N/A	5.90
Total weighted-average remaining vesting period in years (1)	**2.45**	3.38	4.30
Total fair value of options granted	**N/A**	N/A	$4,064,000
Stock-based compensation expense—Cost of sales (1)	**$ 227,000**	$ 278,000	$ 60,000
Stock-based compensation expense—SG&A (1)	**$1,315,000**	$1,374,000	$1,039,000
Income tax benefit (1)	**$ (601,000)**	$ (603,000)	$ (390,000)

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

At December 31, 2013, the total stock-based compensation expense not yet recognized is $4,405,000 relating to non-vested stock options, which we will be amortizing (subject to adjustments for forfeitures) through the respective remaining vesting periods.

13. Stockholders' Equity (continued)

Qualified Stock Option Plans—At December 31, 2013, we have options outstanding under a 1998 Stock Option Plan ("1998 Plan") and the 2008 Plan as discussed above. The 1998 Plan has expired, and accordingly, no additional options may be granted from the 1998 Plan. Options granted prior to the expiration of this plan continue to remain valid thereafter in accordance with their terms. The exercise price of the outstanding options granted under the 1998 and 2008 Plans was equal to the market value of our common stock at the date of grant.

The following information relates to our qualified stock option plans:

	December 31, 2013	
	2008 Plan	1998 Plan
Maximum number of securities for issuance	1,000,000	N/A
Number of awards available to be granted	372,130	N/A
Number of qualified options outstanding	402,405	11,000
Number of qualified options exercisable	190,670	11,000

	2013	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	478,915	$ 22.28
Granted	—	N/A
Exercised	(43,285)	$ 10.16
Cancelled, forfeited or expired	(22,225)	$ 32.21
Outstanding at end of year	413,405	$ 23.01
Exercisable at end of year	201,670	$ 18.39

	2013	2012	2011
Weighted-average fair value per option granted during year	N/A	N/A	$ 16.00
Total intrinsic value of options exercised during the year	$1,149,000	$895,000	$3,294,000
Total fair value of options vested during the year	$ 828,000	$861,000	$ 208,000

The following table summarizes information about qualified stock options outstanding and exercisable at December 31, 2013:

	Stock Options Outstanding			
Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 5.10	11,000	1.92	$ 5.10	$ 395,000
$ 7.86 – $8.17	41,755	4.92	$ 7.87	1,384,000
$ 9.69 – $9.97	132,650	4.83	$ 9.69	4,156,000
$29.99 – $34.50	228,000	7.90	$ 34.40	1,509,000
$5.10 – $34.50	413,405	6.46	$ 23.01	$7,444,000

13. Stockholders' Equity (continued)

Exercise Prices	Stock Options Exercisable: Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 5.10	**11,000**	**1.92**	**$ 5.10**	**$ 395,000**
$ 7.86 – $8.17	**30,030**	**4.92**	**$ 7.86**	**996,000**
$ 9.69 – $9.97	**85,400**	**4.83**	**$ 9.69**	**2,675,000**
$29.99 – $34.50	**75,240**	**7.90**	**$ 34.40**	**498,000**
$5.10 – $34.50	**201,670**	**5.83**	**$ 18.39**	**$4,564,000**

Non-Qualified Stock Option Plans—In 2006, our stockholders approved the grants of non-qualified stock options to our outside directors and certain key employees, including the grant of 450,000 shares of non-qualified 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, 2013, there were 31,225 options outstanding related to the 2008 Plan, of which 22,625 are exercisable, and no options outstanding related to the Outside Director Plan.

The following information relates to our non-qualified stock option plans:

	2013: Shares	2013: Weighted-Average Exercise Price
Outstanding at beginning of year	**258,050**	**$ 8.50**
Granted	**—**	**N/A**
Exercised	**(71,825)**	**$ 8.00**
Surrendered, forfeited or expired	**—**	**N/A**
Outstanding at end of year	**186,225**	**$ 8.70**
Exercisable at end of year	**42,625**	**$ 8.96**

	2013	2012	2011
Weighted-average fair value per option granted during year	**N/A**	N/A	$ 16.25
Total intrinsic value of options exercised during the year	**$1,821,000**	$1,574,000	$2,110,000
Total fair value of options vested during the year	**$ 737,000**	$ 731,000	$ 730,000

13. Stockholders' Equity (continued)

The following tables summarize information about non-qualified stock options outstanding and exercisable at December 31, 2013:

	Stock Options Outstanding			
Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 7.86	26,225	4.33	$ 7.86	$ 870,000
$ 8.01	155,000	2.75	$ 8.01	5,116,000
$34.50	5,000	7.92	$ 34.50	33,000
$7.86 – $34.50	186,225	3.11	$ 8.70	$6,019,000

	Stock Options Exercisable			
Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 7.86	20,975	4.33	$ 7.86	$ 695,000
$ 8.01	20,000	2.75	$ 8.01	660,000
$34.50	1,650	7.92	$ 34.50	11,000
$7.86 – $34.50	42,625	3.73	$ 8.96	$1,366,000

Debt Conversion into Common Stock—During 2011, the remaining $26.9 million of the 5.5% convertible debentures ("2007 Debentures") were converted into 979,160 shares of LSB common stock including the portion of 2007 debentures held by Jack E. Golsen ("Golsen"), our chairman of the board and chief executive officer ("CEO"), members of his immediate family, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") as discussed in Note 19-Related Party Transactions. In addition for financial reporting purposes, one of the conversion transactions with an unrelated third party was considered an induced conversion.

Preferred Share Rights Plan—On January 5, 2009, a renewed shareholder rights plan became effective upon the expiration of our previous shareholder rights plan. The rights plan will impact a potential acquirer unless the acquirer negotiates with our board of directors and the board of directors 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 Group and certain other limited excluded persons), 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 of directors may exchange each Right (other than those held by the acquirer) for one share of our common stock, subject to adjustment. Our board of directors 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 of directors 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.

13. Stockholders' Equity (continued)

Other—As of December 31, 2013, we have reserved 1.5 million shares of common stock issuable upon potential conversion of preferred stocks and stock options pursuant to their respective terms.

14. Non-Redeemable Preferred Stock

Series 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 Group.

Series 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 Group.

Cash Dividends Paid—During 2013, 2012 and 2011, we paid the following 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, 2013, there were no dividends in arrears.

Other—At December 31, 2013, we are authorized to issue an additional 230,000 shares of $100 par value preferred stock and an additional 4,000,000 shares of no par value preferred stock. Upon issuance, our board of directors will determine the specific terms and conditions of such preferred stock.

15. Executive Benefit Agreements and Employee Savings Plans

We are party to various individual benefit agreements ("1992 Agreements") and death benefit agreements ("1981 Agreements") with certain key executives and a death benefit agreement ("2005 Agreement") with our CEO. 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 CEO's death, we will pay to our CEO'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 CEO'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 CEO and the Company.

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

The following table includes information about these agreements:

	December 31, 2013	2012
	(In Thousands)	
Total undiscounted death benefits	**$6,417**	$6,667
Total accrued death benefits	**$4,121**	$4,185
Total undiscounted executive benefits	**$1,904**	$1,928
Total accrued executive benefits	**$1,280**	$1,365

	2013	December 31, 2012	2011
		(In Thousands)	
Costs associated with executive benefits included in SG&A, net	**$ (2)**	$ 186	$158

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

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

	December 31, 2013	2012
	(In Thousands)	
Total face value of life insurance policies	**$26,242**	$21,242
Total cash surrender values of life insurance policies	**$ 6,184**	$ 5,439

Cash surrender values of life insurance policies are included in other assets.

	2013	2012	2011
		(In Thousands)	
Cost of life insurance premiums	**$1,159**	$ 851	$ 851
Increases in cash surrender values	**(745)**	(479)	(499)
Net cost of life insurance premiums included in SG&A	**$ 414**	$ 372	$ 352

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, 2013.

16. 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.

Based upon our assessment that it was probable that the amount of coverage for property damages would exceed our property loss deductible, the net book value of the damaged property and other recoverable costs incurred through the period of the claims, we recorded an insurance claim receivable relating to this event, which offset the loss on disposal of the damaged property and certain repairs and clean-up costs incurred ("recoverable costs").

In October 2013, we settled these claims with our insurance carriers for the aggregate amount of $113 million, of which $60 million had been paid to us prior to the conclusion of these claims and the remaining $53 million was paid to us during October and November of 2013. For financial reporting purposes, we allocated $90.7 million to our property insurance claim and $22.3 million to our business interruption claim primarily based on negotiations with our insurance carriers concerning our claims.

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

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

Cherokee Facility

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

Based upon our assessment that it was probable that the amount of coverage for property damages would exceed our property loss deductible, the net book value of the damaged property and other recoverable costs incurred, we recorded an insurance claim receivable relating to this event, which offset the loss on the disposal of the damaged property and other recoverable costs incurred.

As of December 31, 2013, our insurance carriers approved and funded advance payments relating to our business interruption claim totaling $15 million. We received correspondence associated with the approval of these payments, which stated that our insurance carriers are still investigating the circumstances surrounding this event (including the cause of this event, scope of our losses and support for our claim) under a reservation of rights.

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

The business interruption insurance recovery of $15 million 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 in 2013. 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. The deferred portion of this recovery, and any additional recoveries, will be recognized when, realized or realizable and earned.

As of December 31, 2013, the balance of the insurance claim receivable, included in accounts receivable, relating to this event was $1.9 million, consisting of recoverable costs associated with our property insurance claim. See additional information regarding the conclusion of insurance claims relating to this event discussed under Note 21-Subsequent Events.

Pryor Facility

In June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility was unable to produce anhydrous ammonia or UAN during substantially all of third quarter of 2010. Our insurance policy provided, for the policy period covering this claim, for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period. Therefore, we filed an insurance claim for business interruption. During 2011, we recognized an insurance recovery of $8.6 million relating to this business interruption claim, which was recorded as a reduction to cost of sales. We do not have any remaining insurance claims associated with our business interruption coverage relating to this event.

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

	2013	2012	2011
		(In Thousands)	
Other income:			
Realized and unrealized gains on carbon credits	**$ 1,233**	$ 876	$1,995
Settlements of litigation and potential litigation (1)	**545**	2,303	1,562
Miscellaneous income (2)	**545**	632	381
Total other income	**$ 2,323**	**$3,811**	**$3,938**
Other expense:			
Dismantle and demolition expense (3)	**$ 2,578**	$ —	$ —
Realized and unrealized losses on contractual obligations associated with carbon credits	**1,233**	721	1,844
Miscellaneous penalties	**824**	112	168
Losses on sales and disposals of property and equipment	**737**	996	1,280
Miscellaneous expense (2)	**302**	289	531
Total other expense	**$ 5,674**	$2,118	$3,823
Other income (expense), net	**$(3,351)**	$1,693	$ 115
Non-operating other income, net:			
Interest income	**$ 165**	$ 87	$ 77
Miscellaneous income (2)	**1**	263	—
Miscellaneous expense (2)	**(66)**	(69)	(77)
Total non-operating other income, net	**$ 100**	$ 281	$ —

(1) Amounts relate primarily to settlements reached with certain vendors of our Chemical Business.
(2) Amounts represent numerous unrelated transactions, none of which are individually significant requiring separate disclosure.
(3) Amount relates to the dismantling and demolition of certain plant and equipment at our chemical facilities.

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. Our reportable segments are based on business units that offer similar products and services. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

We evaluate performance and allocate resources based on operating income or loss. 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:

- anhydrous ammonia, fertilizer grade AN, UAN, and AN ammonia solution for agricultural applications,
- high purity and commercial grade anhydrous 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 2012 and 2013, our Chemical Business encountered a number of significant issues including an explosion in one of our nitric acid plants at the El Dorado Facility in May 2012, a pipe rupture that damaged the ammonia plant at the Cherokee Facility in November 2012 and numerous mechanical issues at the Pryor Facility during 2012 and 2013, all resulting in lost production and causing an adverse effect on 2012 and 2013 sales and operating income. Also see Note 16 – Property and Business Interruption Insurance Claims and Recoveries and Note 21 – Subsequent Events.

In October 2012 and August 2013, a subsidiary within our Chemical Business acquired working interests in certain natural gas properties. Since our Chemical Business purchases a significant amount of natural gas as a feedstock for the production of anhydrous 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).

As of December 31, 2013, our Chemical Business employed 530 persons, with 156 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:

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

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 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.

18. Segment Information (continued)

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.

	2013	2012	2011
		(In Thousands)	
Net sales:			
Chemical:			
Agricultural products	**$167,614**	$217,329	$231,599
Industrial acids and other chemical products	**141,936**	162,498	161,776
Mining products	**63,042**	96,538	118,479
Natural gas	**8,077**	1,448	—
Total Chemical	**380,669**	477,813	511,854
Climate Control:			
Geothermal and water source heat pumps	**183,757**	162,697	183,789
Hydronic fan coils	**64,541**	55,812	54,379
Other HVAC products	**36,720**	47,662	43,397
Total Climate Control	**285,018**	266,171	281,565
Other	**13,600**	15,047	11,837
	$679,287	$759,031	$805,256
Gross profit:			
Chemical	**$ 46,165**	$ 97,692	$130,687
Climate Control	**92,907**	80,981	88,178
Other	**4,484**	5,063	4,153
	$143,556	$183,736	$223,018
Operating income:			
Chemical	**$ 87,784**	$ 82,101	$116,503
Climate Control	**30,386**	25,834	32,759
Other	**1,699**	2,091	1,584
General corporate expenses (1)	**(14,561)**	(14,371)	(14,403)
	105,308	95,655	136,443
Interest expense, net	**13,986**	4,237	6,658
Losses on extinguishment of debt	**1,296**	—	136
Non-operating expense (income), net:			
Chemical	**(1)**	(1)	(1)
Climate Control	**(1)**	(1)	(2)
Corporate and other business operations	**(98)**	(279)	3
Provisions for income taxes	**35,421**	33,594	46,208
Equity in earnings of affiliate—Climate Control	**(436)**	(681)	(543)
Income from continuing operations	**$ 55,141**	$ 58,786	$ 83,984

18. Segment Information (continued)

(1) General corporate expenses consist of the following:

	2013	2012	2011
		(In Thousands)	
Selling, general and administrative:			
Personnel costs	**$ (8,096)**	$ (8,110)	$ (6,791)
Professional fees	**(4,813)**	(4,116)	(3,804)
All other	**(2,208)**	(2,533)	(3,404)
Total selling, general and administrative	**(15,117)**	(14,759)	(13,999)
Other income	**584**	388	226
Other expense	**(28)**	—	(630)
Total general corporate expenses	**$(14,561)**	$(14,371)	$(14,403)

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

	2013	2012	2011
		(In Thousands)	
Depreciation, depletion and amortization of PP&E:			
Chemical	**$ 23,497**	$ 16,355	$ 14,659
Climate Control	**4,707**	4,250	3,853
Other	**49**	32	107
Corporate assets	**57**	44	143
Total depreciation, depletion and amortization of PP&E	**$ 28,310**	$ 20,681	$ 18,762
Additions to PP&E:			
Chemical	**$ 160,343**	$141,399	$ 39,835
Climate Control	**5,576**	5,816	5,746
Other	**65**	889	54
Corporate assets	**435**	2,701	2,322
Total additions to PP&E	**$ 166,419**	$150,805	$ 47,957
Total assets at December 31:			
Chemical	**$ 842,725**	$394,479	$294,886
Climate Control	**159,960**	139,526	160,515
Other	**6,832**	8,204	7,857
Corporate assets	**73,580**	34,403	38,751
Total assets	**$1,083,097**	$576,612	$502,009

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.

18. Segment Information (continued)

Our chief operating decision makers use operating income by business segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income by business segment represents gross profit by business segment less SG&A incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses. General corporate expenses consist of SG&A, other income and other expense that are not allocated to one of our business segments.

Identifiable assets by business segment are those assets used in the operations of each business. Corporate 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 as follows:

Geographic Area	2013	2012	2011
		(In Thousands)	
Canada	**$19,976**	$21,079	$23,765
Other	**14,178**	11,091	12,450
	$34,154	$32,170	$36,215

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

Major Customer

Net sales to one customer, Orica, of our Chemical Business segment represented approximately 6%, 9% and 11% of our total net sales for 2013, 2012 and 2011, respectively. See discussion concerning the supply agreement in Note 11 – Commitments and Contingencies.

19. Related Party Transactions

Golsen Group

In January 2011, we paid interest of $137,500 relating to $5,000,000 of the 2007 Debentures held by the Golsen Group that was accrued at December 31, 2010. In March 2011, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred. In March 2011, the Golsen Group sold $3,000,000 of the 2007 Debentures it held to a third party. In July 2011, the Golsen Group converted $2,000,000 of the 2007 Debentures into 72,800 shares of LSB common stock in accordance with the terms of the 2007 Debentures. During 2011, we incurred interest expense of $60,500 relating to the $2,000,000 of the 2007 Debentures that was held by the Golsen Group, of which $55,000 was paid in June 2011 and the remaining amount was forfeited and credited to capital in excess of par value as the result of the conversion. In addition in July 2011, the Golsen Group converted an $8,000 convertible promissory note into 4,000 shares of LSB common stock in accordance with the terms of such note.

In March 2012, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred. In March 2013, we declared and subsequently paid 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 Group.

Appointment of New Director

On March 15, 2013, our Board of Directors appointed Mr. Lance Benham as a new member of our Board of Directors. Mr. Benham’s appointment fills the board vacancy resulting from the passing of Mr. Horace Rhodes in January 2013. At the 2013 annual meeting of stockholders held in May, Mr. Benham was elected to serve with the class of directors having a term that will expire in 2016. In January 2013, Mr. Benham retired as Senior Vice President of SAIC Energy, Environment & Infrastructure, LLC (“SAIC Energy”), a subsidiary of Science Applications International Corporation (“SAIC”). There are no

19. Related Party Transactions (continued)

arrangements or understandings between Mr. Benham and any other person pursuant to which Mr. Benham was appointed as a director of LSB. During 2012, we incurred approximately $0.1 million with SAIC Energy for engineering services relating to our chemical facilities. During 2013, we incurred approximately $11.7 million with SAIC Energy for engineering services and deconstruction services relating to our chemical facilities. During 2013, we negotiated several agreements with SAIC Constructors, LLC ("SAIC Constructors"), a subsidiary of SAIC, to engineer, procure and construct the ammonia plant, the Nitric Acid Plant, a nitric acid concentrator and certain support facilities. We expect SAIC Constructor's fees in connection with these agreements to be approximately $39 million.

20. Supplemental Cash Flow Information

The following provides additional information relating to cash flow activities:

	Year Ended December 31,		
	2013	**2012**	**2011**
	(In Thousands)		
Cash payments for:			
Interest on long-term debt and other	**$ 451**	$ 4,325	$ 6,547
Income taxes, net of refunds	**$13,320**	$21,766	$49,129
Noncash investing and financing activities:			
Insurance claims receivable associated with property, plant and equipment	**$ 249**	$ 546	$ —
Other assets, accounts payable, other liabilities, and long-term debt associated with additions of property, plant and equipment	**$14,465**	$15,522	$ 6,289
Long-term debt associated with additions of capitalized internal-use software and software development	**$ 4,011**	$ —	$ —
Secured term loan extinguished	**$66,563**	$ —	$ —
Debt issuance costs incurred associated with senior secured notes	**$ 6,498**	$ —	$ —
Debt issuance costs written off associated with secured term loan	**$ 630**	$ —	$ —
Prepayment premium incurred associated with secured term loan	**$ 666**	$ —	$ —
Debt issuance costs incurred associated with secured term loan	**$ —**	$ —	$ 839
Debt issuance costs written off associated with 5.5% debentures	**$ —**	$ —	$ 353
Accrued liabilities extinguished associated with 5.5% debentures	**$ —**	$ —	$ 349
5.5% debentures converted to common stock	**$ —**	$ —	$26,900

21. Subsequent Events

Conclusion of Insurance Claims-Cherokee Facility-As discussed in Note 16, we filed an insurance claim for losses and damages in connection with a November 2012 pipe rupture within the Cherokee Facility. During 2013, our insurance carriers advanced $15 million on the insurance claim. 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 and $28.5 million paid to us in January 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 will be recognized as income associated with this settlement in the first quarter of 2014.

Downtime at the Pryor Facility – As discussed in Note 18 – Segment Information, the Pryor Facility has encountered numerous mechanical issues during 2012 and 2013. In January 2014, the Pryor Facility suspended production as the result of continued mechanical issues.

21. Subsequent Events (continued)

Dividends Declared on Preferred Stock – In January 2014, our board of directors declared dividends totaling $300,000 on our Series B Preferred and our Series D Preferred, which dividends were paid on February 15, 2014. The Series B Preferred and Series D Preferred are non-redeemable preferred stocks issued in 1986 and 2001, respectively, of which all outstanding shares are owned by the Golsen Group.

Formal Consent Decree – In January 2014, we executed a formal consent decree to settle certain air emission matters with the EPA/DOJ as discussed in Note 11 – Commitments and Contingencies.

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Amounts)			
2013 (1)				
Net sales	$150,679	$202,223	$ 177,350	$ 149,035
Gross profit (2)	$ 25,422	$ 38,659	$ 48,909	$ 30,566
Income (loss) from continuing operations (2) (3)	$ (68)	$ 7,486	$ 10,250	$ 37,473
Net loss (income) from discontinued operations	—	59	(10)	130
Net income (loss)	$ (68)	$ 7,427	$ 10,260	$ 37,343
Net income (loss) applicable to common stock	$ (368)	$ 7,427	$ 10,260	$ 37,343
Income (loss) per common share:				
Basic:				
Income (loss) from continuing operations	$ (0.02)	$ 0.33	$ 0.46	$ 1.67
Net loss from discontinued operations	—	—	—	(0.01)
Net income (loss)	$ (0.02)	$ 0.33	$ 0.46	$ 1.66
Diluted:				
Income (loss) from continuing operations	$ (0.02)	$ 0.31	$ 0.43	$ 1.59
Net loss from discontinued operations	—	—	—	(0.01)
Net income (loss)	$ (0.02)	$ 0.31	$ 0.43	$ 1.58
2012 (1)				
Net sales	$190,245	$209,275	$ 182,374	$ 177,137
Gross profit (2)	$ 44,444	$ 65,735	$ 33,187	$ 40,370
Income from continuing operations (2)	$ 14,324	$ 26,130	$ 6,710	$ 11,622
Net loss from discontinued operations	21	97	2	62
Net income	$ 14,303	$ 26,033	$ 6,708	$ 11,560
Net income applicable to common stock	$ 14,003	$ 26,033	$ 6,708	$ 11,560
Income per common share:				
Basic:				
Income from continuing operations	$ 0.63	$ 1.17	$ 0.30	$ 0.52
Net loss from discontinued operations	—	—	—	—
Net income	$ 0.63	$ 1.17	$ 0.30	$ 0.52
Diluted:				
Income from continuing operations	$ 0.61	$ 1.11	$ 0.28	$ 0.49
Net loss from discontinued operations	—	—	—	—
Net income	$ 0.61	$ 1.11	$ 0.28	$ 0.49

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

(1) During 2012 and 2013, our Chemical Business encountered a number of significant issues including an explosion in one of our nitric acid plants at the El Dorado Facility in May 2012, a pipe rupture that damaged the ammonia plant at the Cherokee Facility in November 2012 and numerous mechanical issues at the Pryor Facility during 2012 and 2013, all resulting in lost production and significant adverse effect on 2012 and 2013 operating results.

(2) The following items increased gross profit and income from continuing operations:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Business interruption insurance recoveries:				
2013	$10,810	$3,400	$ 4,227	$ 10,203
2012	$ —	$ —	$ —	$ 7,300
Precious metals recoveries:				
2013	$ —	$ —	$ 4,493	$ —
2012	$ 29	$ —	$ 250	$ 301

(3) The following items increased income from continuing operations:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Property insurance recoveries:				
2013	$ —	$ —	$ 255	$ 66,000
Interest expense, net:				
2013	$ 731	$ 536	$ 5,395	$ 7,324
2012	$ 1,132	$1,179	$ 1,489	$ 437

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2013, 2012, and 2011

(In Thousands)

Description	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 (1):				
2013	$ 636	$ 478	$ 287	$ 827
2012	$ 955	$ (214)	$ 105	$ 636
2011	$ 636	$ 347	$ 28	$ 955
Inventory-reserve for slow-moving items (1):				
2013	$ 1,818	$ 249	$ 678	$ 1,389
2012	$ 1,767	$ 181	$ 130	$ 1,818
2011	$ 1,616	$ 751	$ 600	$ 1,767
Notes receivable—allowance for doubtful accounts (1):				
2013	$ 970	$ —	$ —	$ 970
2012	$ 970	$ —	$ —	$ 970
2011	$ 970	$ —	$ —	$ 970
Deferred tax assets—valuation allowance (1):				
2013	$ 273	$ 25	$ —	$ 298
2012	$ 344	$ —	$ 71	$ 273
2011	$ 310	$ 34	$ —	$ 344

(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.

LSB INDUSTRIES, INC.
(a Delaware Corporation)
AMENDED AND RESTATED BYLAWS
(as amended February 18, 2010, January 17, 2014, and February 4, 2014)

ARTICLE I
Offices

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

ARTICLE II
Seal

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 10. Consent of Stockholders in Lieu of Meeting.

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

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

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

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

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

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

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

(i) The number of valid consents;

(ii) The number of valid revocations;

(iii) The number of valid and unrevoked consents;

(iv) The number of invalid consents;

(v) The number of invalid revocations;

(vi) Whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

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

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

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

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

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

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

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

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

(i) the name and address, as they appear on the Corporation books, of the stockholder proposing such business;

(ii) the class or series and number of shares of the Corporation's securities that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by the Proposing Person, except the Proposing Person will be deemed to beneficially own any shares or class or series of the Corporation's securities which the Proposing Person has a right to acquire beneficially ownership at any time in the future (collectively, the "Stockholder Information");

(iii) as to each item of business that the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and

(iv) a reasonably detailed description of all agreements, arrangements and understandings, oral or in writing (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other record or beneficial holder of the shares of any class or series of the Corporation (including their names) in connection with the proposal of such business by such stockholder or (z) between or among any Proposing Person and any other persons or entities (including their names) acting in concert with the Proposing Person.

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

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

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

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

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

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

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

Section 13. Election to the Board of Directors.

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

(i) By or at the direction of the Board of Directors; or

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

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

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

(i) As to each person whom such stockholder proposes to nominate for election or reelection as a director, (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (y) a representation that such a person shall also provide any other information reasonably requested by the Corporation within 10 business days after such request); and

(ii) As to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's voting capital stock that are beneficially owned by such stockholder.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 13, and, if the stockholder desires or requests access to the Corporation's Proxy Statement with respect to the election of a director, Article III, Section 14 of these Bylaws.

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

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

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

(i) the information set forth in Sections 13.2 of these Bylaws,

(ii) the written undertakings described in subsections (d) and (e) below, and

(iii) any accompanying statement from the Eligible Stockholder to be included in the Corporation's proxy statement, which statement in order to be so included shall not exceed 500 words and must fully comply with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, including without limitation Rule 14a-9.

(b) For purposes of this Section:

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

(ii) An "Eligible Stockholder" means a stockholder of the Corporation that, together with its Affiliates, has continuously held Beneficial Ownership and Economic Interest of not less than the Required Interest for at least one year preceding the Advance Notice Date, and that complies with all applicable provisions of these Bylaws.

(iii) "Beneficial Ownership" means the power to vote or direct the voting of, or to dispose or direct the disposition of, the securities in question.

(iv) An "Economic Interest" in a security means having or sharing the opportunity, directly or indirectly, to profit or share in any profit (or loss) derived from a transaction in the security, including through options, swaps or other derivative securities or synthetic arrangements.

(v) "Independent" with respect to a nominee for director pursuant to this Section 14 shall mean (a) that the nominee would be considered an independent director in accordance with the listing standards of the principal U.S. securities market in which the common stock of the Corporation trades or, if no such listing standards are applicable at the time, in accordance with the standards used by the Board of Directors or a duly authorized committee thereof in determining and disclosing the independence of the Corporation's directors in accordance with the rules of the SEC and (b) the nominee is not an employee or officer of, or consultant to, the Eligible Stockholder or any of its Affiliates and has no other material association, by agreement, understanding or familial or other relationship, with the Eligible Stockholder or any of its Affiliates.

(vi) A "Disqualified Repeat Nominee" in respect of an election shall mean an individual as to whom access to the Corporation's proxy materials for the immediately preceding election was provided and who (i) withdrew from or became ineligible or unavailable for election at the meeting, or (ii) received at such meeting votes in favor of his or her election representing less than 50% of the total votes cast for or withheld from his or her election.

(vii) The "Required Interest" means 5% of the voting power of the outstanding voting securities of the Corporation entitled to vote in the Election, based upon the number of outstanding voting securities of the Corporation most recently disclosed prior to the Advance Notice Date by the Corporation in a filing with the Securities and Exchange Commission.

(viii) "Affiliate" of a specified person means a person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the specified person, and, with respect to any investment company (as defined in the Investment Company Act of 1940, whether or not exempt from registration thereunder), shall also include all other investment companies managed by the same investment adviser or any of its Affiliates.

(c) Subject to the following sentence and any undertaking previously provided by an Eligible Stockholder pursuant to Section 14(d) below, each Eligible Stockholder, together with its Affiliates, may nominate one, and not more than one, individual under this Section for inclusion in the Corporation's proxy statement and on its proxy card. If the Corporation shall

receive more than the Permitted Number of proposed nominations from Eligible Stockholders in compliance with these Bylaws, then the nominee nominated by the Eligible Stockholder possessing the largest Beneficial Ownership of voting securities of the Corporation as of the Advance Notice Date shall be the only nominee for purposes of this Section 14.

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

(i) not sell or otherwise dispose of its Beneficial Ownership and Economic Interest of voting securities of the Corporation so as to reduce the Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, below the Required Interest on or prior to the date of the Election (and representing that they have no present intention of reducing, within one year following the Election, their aggregate Beneficial Ownership and Economic Interest below the greater of (x) the Required Interest and (y) 75% of their aggregate Beneficial and Economic Interest as of the Advance Notice Date),

(ii) comply with the provisions of the Corporation's Certificate of Incorporation and Bylaws and all laws and regulations relating to the accompanying statement submitted by the Eligible Stockholder and any solicitation or communications with stockholders of the Corporation in connection with such nomination,

(iii) indemnify the Corporation and its agents and representatives in respect of any and all liabilities that may arise out of the accompanying statement submitted by the Eligible Stockholder or any solicitation or communications with stockholders of the Corporation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection with such nomination, including as a result of any violation of law or regulation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection therewith,

(iv) not use any proxy card other than the Corporation's proxy card in soliciting stockholders in connection with the matters to be voted on at the meeting at which the Election is held,

(v) file all solicitation materials used by it or on its behalf with the Securities and Exchange Commission under cover of Schedule 14A promulgated under the Exchange Act, and

(vi) for a period of one year from the date of the Election, not (x) nominate any individual to be a director of the Corporation or conduct any solicitation with respect to an election for directors of the Corporation other than with respect to the Election and in accordance with this Section, or (y) acquire

or propose to acquire Beneficial Ownership of or an Economic Interest in any voting securities of the Corporation such that such Eligible Stockholder, together with its Affiliates, would have aggregate Beneficial Ownership of, and/or an Economic Interest in, more than the greater of (I) 10% of the voting power of the outstanding voting securities of the Corporation or (II) an additional 5% of the voting power of the Corporation's outstanding voting securities in excess of the aggregate Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, as of the Advance Notice Date (the "Aggregate Beneficial Ownership"); provided that the Aggregate Beneficial Ownership shall not equal or exceed the amount that would equal or exceed the beneficial ownership threshold necessary to trigger the Corporation preferred share rights plan as may be in effect during such time.

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

(i) any of the information provided to the Corporation by the Eligible Stockholder or the nominee pursuant to this Bylaw is determined to be inaccurate in any material respect, or

(ii) the Eligible Stockholder or any of its Affiliates shall breach their obligations under the undertakings described in subsection (d) above in any material respect.

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

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

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

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

ARTICLE IV
Directors

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

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

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

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

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

Section 4. Removal. Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors. For purposes of this Article IV, Section 4, cause for removal shall be deemed to exist only if the director whose removal is

proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such director's duty to the Corporation and, in each case, such adjudication is no longer subject to direct appeal.

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

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

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

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

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

Section 10. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of

Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

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

Section 12. Compensation. Each director shall be entitled to reimbursement of his reasonable expenses incurred in attending meetings or otherwise in connection with his attention to the affairs of the Corporation. Each director who is not a salaried officer of the Corporation or of a subsidiary of the Corporation shall, as such director and as a member of any committee, be entitled to receive such amounts as may be fixed from time to time by the Board of Directors, in the form either of fees for attendance at meetings of the Board and of committees thereof, or of payment at the rate of a fixed sum per month, or both.

Section 13. Additional Powers. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers of the

Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, as from time to time amended, or by these Bylaws, as from time to time amended, directed or required to be exercised or done by the stockholders.

ARTICLE V
Officers

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

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

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

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

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

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

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

Section 8. Chairman of the Board of Directors and Vice Chairman of the Board of Directors. The Chairman of the Board of Directors and, in his absence or inability to serve, the Vice Chairman of the Board of Directors, if such offices be occupied, shall serve as Chairman of the meetings of the Board of Directors and shall further advise and consult with the Chief

Executive Officer and the President concerning the business and affairs of the Corporation and shall also have such powers and duties as the Bylaws or the Board of Directors may from time to time prescribe.

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

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

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

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

Section 13. Treasurer. The Treasurer shall ~~be~~manage the ~~chief accounting officer~~ funds of the Corporation and ~~shall have care of all funds and~~manage the securities of the Corporation that are held by the Corporation and shall exercise the powers and shall perform the duties incident to the office of Treasurer, subject to the direction of the Board of Directors.

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

ARTICLE VI
Capital Stock

Section 1. Stock Certificates. The interest of each holder of stock of the Corporation shall be (a) evidenced by a certificate or certificates in such form as the Board of Directors may from time to time prescribe or (b) represented by uncertificated shares as issued by the Corporation. The issuance of shares in uncertificated form shall not affect shares already

represented by a certificate until the certificate is surrendered to the Corporation. In the case of certificated shares, each certificate shall be signed by or, in the name of the Corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation. If such certificate is countersigned (a) by a transfer agent other than the Corporation or its employee, or (b) by a registrar other than the Corporation or its employee, any other signature on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

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

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

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

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

ARTICLE VII
Checks

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

ARTICLE VIII
Fiscal Year

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

ARTICLE IX
Dividends

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

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

ARTICLE X
Notice

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

Section 2. Mailing of Notice. Whenever under the provisions of these Bylaws notice is required to be given to any director, officer or shareholder and such notice is not waived as provided in Section 1 of this Article X, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in post- paid sealed wrapper, addressed to such shareholder, officer or director at such address as appears on the books of the Corporation, or, in default of other address, to such director, officer or shareholder at the General Post Office in Oklahoma City, Oklahoma, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

ARTICLE XI
Amendment of Bylaws

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

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

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board

/s/ David M. Shear
David M. Shear, Secretary

SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

by and among

LSB INDUSTRIES, INC.,

as Parent,

EACH OF THE PARENT'S SUBSIDIARIES THAT ARE SIGNATORIES HERETO AS BORROWERS,

as Borrowers,

THE LENDERS THAT ARE FROM TIME TO TIME PARTIES HERETO

as the Lenders,

and

WELLS FARGO CAPITAL FINANCE, LLC

as the Arranger and Administrative Agent

Dated as of December 31, 2013

SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Agreement"), is entered into as of December 31, 2013 (the "Restatement Effective Date"), between and among, on the one hand, the lenders identified on the signature pages hereof (such lenders, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), **WELLS FARGO CAPITAL FINANCE, LLC**, a California limited liability company, as successor in interest to Wells Fargo Capital Finance, Inc. ("WFCF"), as the arranger and administrative agent for the Lenders (in such capacity, the "Agent"), and, on the other hand, **LSB INDUSTRIES, INC.**, a Delaware corporation ("Parent"), each of the Subsidiaries of Parent identified on the signature pages hereof as Borrowers (such Subsidiaries, together with Parent, are referred to hereinafter each individually as a "Borrower", and individually and collectively, jointly and severally, as "Borrowers").

WHEREAS, the Existing Borrowers (as defined below), the Existing Guarantors (as defined below), the Agent and the Lenders are parties to the Amended and Restated Loan and Security Agreement, dated as of November 5, 2007 (as heretofore amended or otherwise modified, the "Amended and Restated Loan Agreement"), pursuant to which the Lenders extended credit to the Borrowers consisting of a revolving credit facility, in an aggregate principal amount of $100,000,000 at any time outstanding, as reduced in accordance with the terms thereof (the "Existing Revolver Facility"), which included a $15,000,000 sub-facility for the issuance of letters of credit; and

WHEREAS, the Parent has requested that (i) certain of its Subsidiaries that are not Existing Borrowers or Existing Guarantors be joined as Additional Borrowers, (ii) existing Guarantors be designated as Additional Borrowers and (iii) that the Agent and the Lenders make certain additional modifications to the Amended and Restated Loan Agreement, and the Agent and the Lenders have agreed to join such additional parties and make such additional changes, subject to the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, and subject to the terms and conditions of this Agreement, the parties hereto agree to amend and restate the Amended and Restated Loan Agreement as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"ABL Priority Collateral" shall have the meaning set forth in the Intercreditor Agreement.

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account, chattel paper, or a General Intangible constituting Collateral.

"Accounts" means all of Borrowers' now owned or hereafter acquired right, title, and interest with respect to "accounts" (as that term is defined in the Code), and any and all supporting obligations in respect thereof.

"ACH Transactions" means any cash management or related services (including the Automated Clearing House processing of electronic funds transfers through the direct Federal Reserve Fedline system) provided by the Bank Product Provider for the account of a Loan Party or its Subsidiaries.

"Additional Borrowers" means LSB Industries, Inc., Consolidated Industries L.L.C., ClimateCraft Technologies, Inc., Summit Machine Tool Manufacturing L.L.C., LSB-Europa Limited, Cherokee Nitrogen Holdings, Inc., Pryor Chemical Company, Chemical Properties L.L.C., Chemical Transport L.L.C., The Climate Control Group, Inc., CEPOLK Holdings Inc., El Dorado Nitric L.L.C., LSB Capital L.L.C., El Dorado Acid II, L.L.C., El Dorado Acid, L.L.C., and El Dorado Nitrogen, L.P.

"Additional Documents" has the meaning set forth in Section 4.4.

"Administrative Borrower" has the meaning set forth in Section 17.9.

"Advances" has the meaning set forth in Section 2.1.

"Affiliate" means, as applied to any Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person, whether through the ownership of Stock, by contract, or otherwise; provided, however, that, in any event: (a) any Person which owns directly or indirectly 15% or more of the securities having ordinary voting power for the election of directors or other members of the governing body of a Person or 15% or more of the partnership or other ownership interests of a Person (other than as a limited partner of such Person) shall be deemed to control such Person; (b) each director (or comparable manager) of a Person shall be deemed to be an Affiliate of such Person; and (c) each partnership or joint venture in which a Person is a general partner or joint venturer shall be deemed to be an Affiliate of such Person.

"Agent" means WFCF, solely in its capacity as agent for the Lenders hereunder, and any successor thereto.

"Agent's Account" means an account at a bank designated by Agent from time to time as the account into which Loan Parties shall make all payments to Agent for the benefit of the Lender Group and into which the Lender Group shall make all payments to Agent under this Agreement and the other Loan Documents; unless and until Agent notifies Administrative Borrower and the Lender Group to the contrary, Agent's Account shall be that certain deposit account bearing account number 323-266193 and maintained by Agent with The Chase Manhattan Bank, 4 New York Plaza, 15th Floor, New York, New York 10004, ABA #021000021.

"Agent Advances" has the meaning set forth in Section 2.3(e)(i).

"Agent's Liens" means the Liens granted by the Loan Parties to Agent for the benefit of the Lender Group under this Agreement or the other Loan Documents.

"Agent-Related Persons" means Agent together with its Affiliates, officers, directors, employees, and agents.

"Agreement" has the meaning set forth in the preamble hereto.

"Assignee" has the meaning set forth in Section 14.1.

"Assignment and Acceptance" means an Assignment and Acceptance substantially in the form of Exhibit A-1.

"Authorized Person" means any officer or other employee of Administrative Borrower.

"Availability" means, as of any date of determination, if such date is a Business Day, and determined at the close of business on the immediately preceding Business Day, if such date of determination is not a Business Day, the amount that Borrowers are entitled to borrow as Advances under Section 2.1 (after giving effect to all then outstanding Obligations (other than Bank Products Obligations) and all sublimits and reserves applicable hereunder).

"Bank Product Agreements" means those agreements entered into from time to time by a Loan Party or its Subsidiaries in connection with any of the Bank Products.

"Bank Product Obligations" means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by the Loan Parties or their Subsidiaries to Bank Product Provider pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all such amounts that Loan Parties are obligated to reimburse to Agent or any member of the Lender Group as a result of Agent or such member of the Lender Group purchasing participations or executing indemnities or reimbursement obligations with respect to the Bank Products provided to Loan Parties or their Subsidiaries pursuant to the Bank Product Agreements.

"Bank Product Provider" means WFCF or any of its Affiliates.

"Bank Product Collateralization" means providing cash collateral (pursuant to documentation reasonably satisfactory to Agent) to be held by Agent for the benefit of the Bank Product Providers in an amount determined by Agent as sufficient to satisfy the reasonably estimated credit exposure with respect to the then existing Bank Product Obligations (other than Hedge Obligations).

"Bank Product Reserves" means, as of any date of determination, the amount of reserves that Agent has established (based upon Bank Product Provider's reasonable determination of the credit exposure in respect of then extant Bank Products) for Bank Products then provided or outstanding.

"Bank Products" means any service or facility extended to Loan Parties or their Subsidiaries by Bank Product Provider including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, procurement cards or p-cards, (e) ACH Transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) transactions under Hedge Agreements.

"Bankruptcy Code" means the United States Bankruptcy Code, as in effect from time to time.

"Base LIBOR Rate" means the rate per annum, determined by Agent in accordance with its customary procedures, and utilizing such electronic or other quotation sources as it considers appropriate (rounded upwards, if necessary, to the next 1/16%), on the basis of the rates at which Dollar deposits are offered to major banks in the London interbank market on or about 11:00 a.m. (California time) 2 Business Days prior to the commencement of the applicable Interest Period, for a term and in amounts comparable to the Interest Period and amount of the LIBOR Rate Loan requested by Administrative Borrower in accordance with this Agreement, which determination shall be conclusive in the absence of manifest error.

"Base Rate" means, the rate of interest announced within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publication or publications as Wells Fargo may designate.

"Base Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the Base Rate.

"Base Rate Margin" means, as of any date of determination, (i) if Excess Availability is greater than $25,000,000, 0.50 percentage point, and (ii) if Excess Availability is less than or equal to $25,000,000, 0.75 percentage point.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Loan Party or any Subsidiary or ERISA Affiliate of any Loan Party has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Board of Directors" means the board of directors (or comparable managers) of Parent or any committee thereof duly authorized to act on behalf thereof.

"Books" means all of each Loan Parties' 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).

"Borrower" and "Borrowers" have the respective meanings set forth in the preamble to this Agreement.

"Borrowing" means a borrowing hereunder of Advances made on the same day by the Lenders (or Agent on behalf thereof), or by Swing Lender in the case of a Swing Loan, or by Agent in the case of an Agent Advance, as the case may be.

"Borrowing Base" has the meaning set forth in Section 2.1.

"Borrowing Base Certificate" means a certificate in the form of Exhibit B-1.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banks are authorized or required to close, except that, if a determination of a Business Day shall relate to a LIBOR Rate Loan, the term "Business Day" also shall exclude any day on which banks are closed for dealings in Dollar deposits in the London interbank market.

"Capital Assets" has the meaning set forth in Section 2.2.

"Capital Lease" means a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Capitalized Lease Obligation" means any Indebtedness represented by obligations under a Capital Lease, but excluding all Indebtedness under any operating lease that is entered into between any Loan Party and any of its Subsidiaries, as lessee, and any "related party" (as defined in paragraph 5 of Financial Accounting Standards Board Statement No. 13, "Accounting for leases (FAS13)") or Affiliate of such lessee, as lessor, that is required to be treated as capital lease obligations under GAAP, pursuant to FAS 13, as amended from time to time.

"Cash Equivalents" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within 2 years from the date of acquisition thereof, (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within 2 years from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's, (c) commercial paper maturing no more than 2 years from the date of acquisition thereof and, at the time of acquisition, having a rating of A-1 or P-1, or better, from S&P or Moody's, and (d) certificates of deposit or bankers' acceptances maturing within 2 years from the date of acquisition thereof either (i) issued by any bank organized under the laws of the United States or any state thereof which bank has a rating of A or A2, or better, from S&P or Moody's, or (ii) certificates of deposit less than or equal to $250,000 in the aggregate issued by any other bank insured by the Federal Deposit Insurance Corporation.

"Cash Management Bank" has the meaning set forth in Section 2.7(a).

"Cash Management Account" has the meaning set forth in Section 2.7(a).

"Cash Management Agreements" means those certain cash management service agreements, in form and substance satisfactory to Agent, each of which is among Administrative Borrower, Agent, and one of the Cash Management Banks with respect to a Cash Management Account.

"Change of Control" means (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of a greater number of shares of Parent's Stock having the right to vote for the election of members of the Board of Directors than the number of shares of such Stock held by the Permitted Holders, or (b) a majority of the members of the Board of Directors do not constitute Continuing Directors, or (c) the Parent ceases to directly or indirectly own and control 100% of the outstanding voting Stock of each Loan Party (other than Parent).

"ClimaCool" means ClimaCool Corp., an Oklahoma corporation.

"ClimateCraft" means ClimateCraft, Inc., an Oklahoma corporation.

"Climate Control Business" means the business consisting of the manufacture and sale of hydronic fan coils and water source heat pumps as well as other products used in commercial and residential heating, ventilation and air conditioning systems conducted by TTI, CMI, IEC, Koax, ClimateCraft, Trison and ClimaCool.

"Climate Control Raw Inventory" means Eligible Raw Inventory that is used or consumed in the Climate Control Business.

"CMI" means Climate Master, Inc., a Delaware corporation.

"Code" means the New York Uniform Commercial Code, as in effect from time to time.

"Collateral" means all of each Loan Party's now owned or hereafter acquired right, title, and interest in and to each of the following:

(a) Accounts,

(b) Books,

(c) General Intangibles,

(d) Inventory,

(e) Investment Property,

(f) Negotiable Collateral,

(g) money or other assets of each such Loan Party that arise from or relate to Accounts, Books, General Intangibles and Inventory and that now or hereafter come into the possession, custody, or control of any member of the Lender Group,

(h) Equipment, and

(i) any other Notes Priority Collateral (other than Notes Priority Collateral consisting of Real Property), and

(j) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all Accounts, Books, General Intangibles, Inventory, Investment Property, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

Notwithstanding the foregoing or anything herein or in any Loan Document to the contrary, Collateral shall not include (i) any Excluded Property (as defined in the Intercreditor Agreement), except that, other than as set forth in clause (iv) below, the assets and property of El Dorado Nitrogen, L.P. shall be excluded from subsection (xiii) of the definition of "Excluded Property" for the purposes of this Agreement, (ii) the proceeds of the LSB Notes, (iii) any Excluded Accounts, so long as such accounts are used solely to hold such proceeds of the LSB Notes; (iv) the Nitric Acid Supply, Operating and Maintenance Agreement by and among El Dorado Nitrogen, L.P., 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 and (v) equity shares, assets or any other interest in or to Unrestricted Subsidiaries.

"Collateral Access Agreement" means a landlord waiver, bailee letter, or acknowledgement agreement of any lessor, warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Inventory, in each case, in form and substance satisfactory to Agent.

"Collections" means all cash, checks, notes, instruments, and other items of payment (including insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) of Loan Parties, in each case either constituting ABL Priority Collateral or in respect of ABL Priority Collateral.

"Commitment" means, with respect to each Lender, its Revolver Commitment or its Total Commitment, as the context requires, and, with respect to all Lenders, their Revolver Commitments or their Total Commitments, as the context requires, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 delivered by the chief financial officer of Parent to Agent.

"Consolidated Industries" means Consolidated Industries L.L.C., an Oklahoma limited liability company.

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

"Continuing Director" means (a) any member of the Board of Directors who was a director (or comparable manager) of Parent on the Original Closing Date, and (b) any individual who becomes a member of the Board of Directors after the Original Closing Date if such individual was appointed or nominated for election to the Board of Directors by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors in office at the Original Closing Date in an actual or threatened election contest relating to the election of the directors (or comparable managers) of Parent (as such terms are used in Rule 14a-11 under the Exchange Act) and whose initial assumption of office resulted from such contest or the settlement thereof.

"Contribution Agreement" means that certain Contribution Agreement among the Loan Parties, in form and substance satisfactory to Agent.

"Covenant Condition" means, as of any date of determination, (i) no Default or Event of Default has occurred and is continuing and (ii) Excess Availability is equal to or greater than the greater of (x) 20% of the Maximum Revolver Commitment or (y) $20,000,000.

"Daily Balance" means, with respect to each day during the term of this Agreement, the amount of an Obligation owed at the end of such day.

"DDA" means any checking or other demand deposit account maintained by any Borrower.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Defaulting Lender" means any Lender that fails to make any Advance (or other extension of credit) that it is required to make hereunder on the date that it is required to do so hereunder.

"Defaulting Lender Rate" means (a) the Base Rate for the first 3 days from and after the date the relevant payment is due, and (b) thereafter, at the interest rate then applicable to Advances that are Base Rate Loans (inclusive of the Base Rate Margin applicable thereto).

"Designated Account" means account number 4009580149 of Administrative Borrower maintained with the Designated Account Bank or such other deposit account of Administrative Borrower (located within the United States) that has been designated as such, in writing, by Administrative Borrower to Agent.

"Designated Account Bank" means BancFirst of Oklahoma, whose office is located at 4500 West Memorial, Oklahoma City, Oklahoma 73126, and whose ABA number is 103003632.

"Dilution" means, as of any date of determination, a percentage, based upon the experience of the immediately prior 90 days, that is the result of dividing the Dollar amount of (a) bad debt write-downs, discounts, advertising allowances, credits, or other dilutive items with respect to the Accounts during such period, by (b) Borrowers' billings during such period plus the Dollar amount of clause (a).

"Dilution Reserve" means, as of any date of determination, an amount sufficient to reduce the advance rate against Eligible Accounts by one percentage point for each percentage point by which Dilution is in excess of 5%.

"Dollars" or "$" means United States dollars.

"EBITDA" means, with respect to any fiscal period, the result of (i) Parent's and its Subsidiaries' consolidated net earnings (or loss), minus (ii) the aggregate amount of all extraordinary gains of Parent and its Subsidiaries for such period, plus (iii) the aggregate amount of (a) all extraordinary losses, interest expense, income taxes, and depreciation and amortization of Parent and its Subsidiaries for such period and (b) other non-operating, non-cash, one time charges of Parent and its Subsidiaries for such period, all as determined in accordance with GAAP.

"EDC" means El Dorado Chemical Company, an Oklahoma corporation.

"EDN" means El Dorado Nitric, L.L.C., an Oklahoma limited liability company.

"Eligible Accounts" means those Accounts created by one of Borrowers in the ordinary course of its business, that arise out of its sale of goods or rendition of services, that comply with each of the representations and warranties respecting Eligible Accounts made by Borrowers under the Loan Documents, and that are not excluded as ineligible by virtue of one or more of the criteria set forth below; provided, however, that such criteria may be fixed and revised from time to time by Agent in Agent's Permitted Discretion to address the results of any audit performed by Agent from time to time after the Original Closing Date. In determining the amount to be included, Eligible Accounts shall be calculated net of customer deposits and unapplied cash remitted to Borrowers. Eligible Accounts shall not include the following:

(a) Accounts that the Account Debtor has failed to pay within 120 days of original invoice date or Accounts which are more than 60 days past due,

(b) Accounts owed by an Account Debtor (or its Affiliates) where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (a) above,

(c) Accounts with respect to which the Account Debtor is an employee or Affiliate of any Borrower,

(d) Accounts arising in a transaction wherein goods are placed on consignment or are sold pursuant to a guaranteed sale, a sale or return, a sale on approval, a bill and hold (except Accounts of the Borrowers having an aggregate invoice amount for all such Borrowers of up to $1,500,000 with respect to goods that are subject to a bill and hold letter in form and substance satisfactory to Agent), or any other terms by reason of which the payment by the Account Debtor may be conditional,

(e) Accounts that are not payable in Dollars,

(f) Accounts with respect to which the Account Debtor either (i) does not maintain its chief executive office in the United States or Canada, or (ii) is not organized under the laws of the United States or Canada or any state or province thereof, or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof, unless (y) the Account is supported by an irrevocable letter of credit satisfactory to Agent in its Permitted Discretion, or (z) the Account is covered by credit insurance in form, substance, and amount, and by an insurer, satisfactory to Agent,

(g) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (exclusive, however, of Accounts with respect to which the applicable Borrower has complied, to the reasonable satisfaction of Agent, with the Assignment of Claims Act, 31 USC § 3727), or (ii) any state of the United States (exclusive, however, of (y) Accounts owed by any state that does not have a statutory counterpart to the Assignment of Claims Act or (z) Accounts owed by any state that does have a statutory counterpart to the Assignment of Claims Act as to which the applicable Borrower has complied to Agent's satisfaction),

(h) Accounts with respect to which the Account Debtor is a creditor of any Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to its obligation to pay the Account, to the extent of such claim, right of setoff, or dispute,

(i) Accounts with respect to an Account Debtor whose total obligations owing to Borrowers exceed 10% (or, in the case of Carrier Corporation and Orica USA Inc., 20%) of all Eligible Accounts, to the extent of the obligations owing by such Account Debtor in excess of such percentage,

(j) Accounts with respect to which the Account Debtor is subject to an Insolvency Proceeding, is not Solvent, has gone out of business, or as to which a Borrower has received notice of an imminent Insolvency Proceeding or a material impairment of the financial condition of such Account Debtor,

(k) Accounts with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, or West Virginia (or any other state that requires a creditor to file a business activity report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state), unless the applicable Borrower has qualified to do business in New Jersey, Minnesota,

West Virginia, or such other states, or has filed a business activities report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement,

(l) Accounts, the collection of which, Agent, in its Permitted Discretion, believes to be doubtful by reason of the Account Debtor's financial condition,

(m) Accounts that are not subject to a valid and perfected first priority Agent's Lien,

(n) Accounts with respect to which (i) the goods giving rise to such Account have not been shipped and billed (except Accounts of the Borrowers having an aggregate invoice amount for all such Borrowers of up to $1,500,000 with respect to goods that are subject to a bill and hold letter in form and substance satisfactory to Agent) to the Account Debtor, or (ii) the services giving rise to such Account have not been performed and billed to the Account Debtor,

(o) Accounts that represent the right to receive progress payments or other advance billings that are due prior to the completion of performance by the applicable Borrower of the subject contract for goods or services, or

(p) Accounts with respect to which the Account Debtor is Orica or any of its Affiliates.

"Eligible Inventory" means Inventory of Borrowers consisting of first quality finished goods held for sale in the ordinary course of Borrowers' business located at one of the business locations of Borrowers set forth on Schedule E-1 (or in-transit between any such locations), that complies with each of the representations and warranties respecting Eligible Inventory made by Borrowers in the Loan Documents, and that is not excluded as ineligible by virtue of the one or more of the criteria set forth below; provided, however, that such criteria may be fixed and revised from time to time by Agent in Agent's Permitted Discretion to address the results of any audit or appraisal performed by Agent from time to time after the Original Closing Date. In determining the amount to be so included, Inventory shall be valued at the lower of cost or market on a basis consistent with Borrowers' historical accounting practices. An item of Inventory shall not be included in Eligible Inventory if:

(a) a Borrower does not have good, valid, and marketable title thereto,

(b) it is not located at one of the locations in the United States set forth on Schedule E-1 or in transit from one such location to another such location,

(c) it is located on real property leased by a Borrower or in a contract warehouse, in each case, unless it is subject to a Collateral Access Agreement executed by the lessor, warehouseman, or other third party, as the case may be, and unless it is segregated or otherwise separately identifiable from goods of others, if any, stored on the premises,

(d) it is not subject to a valid and perfected first priority security Agent's Lien,

(e) it consists of goods returned or rejected by a Borrower's customers, or

(f) it consists of goods that are obsolete or slow moving, restrictive or custom items, work-in-process, raw materials or component parts, or goods that constitute spare parts, packaging and shipping materials, supplies used or consumed in a Borrower's business, bill and hold goods, defective goods, "seconds," or Inventory acquired on consignment.

"Eligible Raw Inventory" means Inventory of Borrowers that would qualify as Eligible Inventory but for the fact that it consists of goods that are raw materials or component parts used or consumed in a Borrower's business.

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $250,000,000, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country and which has total assets in excess of $250,000,000, provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having (together with its Affiliates) total assets in excess of $250,000,000, (d) any Affiliate (other than individuals) of a Lender that was party hereto as of the Original Closing Date, or any fund, money market account, investment account or other account managed by a Lender or an Affiliate of a Lender, (e) so long as no Event of Default has occurred and is continuing, any other Person approved by Agent and Administrative Borrower, and (f) during the continuation of an Event of Default, any other Person approved by Agent.

"Environmental Actions" means any complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Materials from (a) any assets, properties, or businesses of any Loan Party or any predecessor in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Materials generated by any Loan Party or any predecessor in interest.

"Environmental Law" means any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, to the extent binding on Loan Parties, relating to the environment, employee health and safety, or Hazardous Materials, including CERCLA; RCRA; the Federal Water Pollution Control Act, 33 USC § 1251 et seq; the Toxic Substances Control Act, 15 USC, § 2601 et seq; the Clean Air Act, 42 USC § 7401 et seq.; the Safe Drinking Water Act, 42 USC. § 3803 et seq.; the Oil Pollution Act of 1990, 33 USC. § 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 USC. § 11001 et seq.; the Hazardous Material Transportation Act, 49 USC § 1801 et seq.; and the Occupational Safety and Health Act, 29 USC. §651 et seq. (to the extent it regulates occupational exposure to Hazardous Materials); any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

"Environmental Liabilities and Costs" means all liabilities, monetary obligations, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand by any Governmental Authority or any third party, and which relate to any Environmental Action.

"Environmental Lien" means any Lien in favor of any Governmental Authority for Environmental Liabilities and Costs.

"Equipment" means all of Loan Parties' 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.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto.

"ERISA Affiliate" means (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of a Loan Party under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of a Loan Party under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which a Loan Party is a member under IRC Section 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any Person subject to ERISA that is a party to an arrangement with a Loan Party and whose employees are aggregated with the employees of a Loan Party under IRC Section 414(o).

"Event of Default" has the meaning set forth in Section 8.

"Excess Availability" means the amount, as of the date any determination thereof is to be made, equal to Availability minus the aggregate amount, if any, of (i) all trade payables of Borrowers aged in excess of their historical levels with respect thereto, and (ii) the amount determined by Agent that is necessary to maintain Borrowers' liabilities reasonably within terms, in each case as determined by Agent in its Permitted Discretion.

"Exchange Act" means the Securities Exchange Act of 1934, as in effect from time to time.

"Excluded Accounts" means the investment and bank accounts set forth on Schedule A-1 hereto.

"Existing Borrower" means any Borrower party to the Amended and Restated Loan Agreement and with each other Subsidiary of Parent that executed a joinder agreement and became a "Borrower" thereunder, prior to the Restatement Effective Date.

"Existing Guarantor" means any Guarantor party to the Amended and Restated Loan Agreement and with Parent and each other Subsidiary of Parent that executed a joinder agreement and became a "Guarantor" thereunder, prior to the Restatement Effective Date.

"Fair Market Value" means, with respect to any asset or property of a Person, the price which could be negotiated in an arm's length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

"Family Member" means, with respect to any individual, any other individual having a relationship by blood (to the second degree of consanguinity), marriage, or adoption to such individual.

"Family Entities" means, with respect to any individual, any trust, corporation, limited liability company, or partnership for which (i) all of the beneficiaries, shareholders, members, or partners, as the case may be, are Family Members of such individual, and (ii) such individual or a Family Member of such individual is the controlling trustee, shareholder, member, or partner of such entity.

"Fee Letter" means that certain fee letter, dated as of the Original Closing Date, between Borrowers and Agent, in form and substance satisfactory to Agent, as amended, supplemented or otherwise modified from time to time.

"FEIN" means Federal Employer Identification Number.

"Fixed Charge Coverage Ratio" means, for any period, the ratio of (i) EBITDA for such period, to (ii) the sum of (A) all principal of Indebtedness of Parent and its Subsidiaries scheduled to be paid or prepaid during such period (not including prepayments of Advances unless such prepayments are accompanied by a reduction of the Revolver Commitment and not including the final scheduled payment of the Obligations at the Maturity Date), plus (B) Consolidated Net Interest Expense of Parent and its Subsidiaries for such period, plus (C) all amounts paid or payable by Parent and its Subsidiaries on Capitalized Lease Obligations having a scheduled due date during such period.

"Funding Date" means the date on which a Borrowing occurs.

"Funding Losses" has the meaning set forth in Section 2.13(b)(ii).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied; provided, that, with respect to the computation of any financial ratio in any Loan Document or any computation required under the provisions of Section 7 hereof, that computation shall be computed in accordance with GAAP in effect on the Restatement Effective Date.

"General Intangibles" means all of Loan Parties' now owned or hereafter acquired right, title, and interest with respect to "general intangibles" as that term is defined in the Code (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.

"Governing Documents" means, with respect to any Person, the certificate or articles of incorporation, by-laws, or other organizational documents of such Person.

"Governmental Authority" means any federal, state, local, or other governmental or administrative body, instrumentality, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

"Guaranties" means, collectively, (i) the guaranties made by the Guarantors party hereto contained in Section 18 hereof and (ii) those certain general continuing guaranties executed and delivered by Guarantors in favor of Agent, for the benefit of the Lender Group, in form and substance satisfactory to Agent.

"Guarantor Security Agreement" means a security agreement made by certain Guarantors in favor of Agent for the benefit of Lenders, the form and substance of which is satisfactory to Agent.

"Guarantors" means any Subsidiary of the Parent that becomes a Guarantor hereunder or delivers a Guaranty to the Agent.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means any and all transactions, agreements, or documents now existing or hereafter entered into between Loan Party or its Subsidiaries and Bank Product Provider, which provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap,

currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Loan Parties' or its Subsidiaries' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Hedge Obligations" means any and all obligations or liabilities, whether absolute or contingent, due or to become due, now existing or hereafter arising, of each Loan Party and its Subsidiaries arising under, owing pursuant to, or existing in respect of Hedge Agreements with a Bank Product Provider.

"IEC" means International Environmental Corporation, an Oklahoma corporation.

"Indebtedness" means (a) all obligations of a Loan Party for borrowed money, (b) all obligations of a Loan Party evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of a Loan Party in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all Capitalized Lease Obligations, (d) all obligations or liabilities of others secured by a Lien on any asset of a Loan Party, irrespective of whether such obligation or liability is assumed, (e) all obligations of a Loan Party for the deferred purchase price of assets (other than trade debt incurred in the ordinary course of a Loan Parties' business and repayable in accordance with customary trade practices), and (f) any obligation of a Loan Party guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse to a Loan Party) any obligation of any other Person.

"Indemnified Liabilities" has the meaning set forth in Section 11.3.

"Indemnified Person" has the meaning set forth in Section 11.3.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intangible Assets" means, with respect to any Person, that portion of the book value of all of such Person's assets that would be treated as intangibles under GAAP.

"Intercreditor Agreement" means that certain Intercreditor Agreement dated as of August 7, 2013 by and between the Agent and UMB Bank, N.A., in its capacity as collateral agent under the Notes Documents (as defined therein).

"Interest Period" means, with respect to each LIBOR Rate Loan, a period commencing on the date of the making of such LIBOR Rate Loan and ending 1, 2, or 3 months thereafter; provided, however, that (a) if any Interest Period would end on a day that is not a Business Day, such Interest Period shall be extended (subject to clauses (c)-(e) below) to the next succeeding Business Day, (b) interest shall accrue at the applicable rate based upon the LIBOR Rate from and including the first day of each Interest Period to, but excluding, the day on which any Interest Period expires, (c) any Interest Period that would end on a day that is not a Business

Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day, (d) with respect to an Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period), the Interest Period shall end on the last Business Day of the calendar month that is 1, 2, or 3 months after the date on which the Interest Period began, as applicable, and (e) Borrowers (or Administrative Borrower on behalf thereof) may not elect an Interest Period which will end after the Maturity Date.

"In-Transit Inventory" means Eligible Inventory that is in-transit (via rail car or truck) between any of the locations set forth on Schedule E-1 with respect to which Agent has received reports in form and substance satisfactory to Agent.

"Inventory" means all Loan Parties' 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 Loan Party as lessor, goods that are furnished by a Loan Party under a contract of service, and raw materials, work in process, or materials used or consumed in a Loan Parties' business.

"Investment" means, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, or capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) bona fide Accounts arising from the sale of goods or rendition of services in the ordinary course of business consistent with past practice), purchases or other acquisitions for consideration of Indebtedness or Stock, and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"Investment Property" means all of the Loan Parties' now owned or hereafter acquired right, title, and interest with respect to "investment property" as that term is defined in the Code (but excluding the Stock and ownership interests of EDN and its Subsidiaries), and any and all supporting obligations in respect thereof.

"IRC" means the Internal Revenue Code of 1986, as in effect from time to time.

"Issuing Lender" means WFCF or any other Lender that, at the request of Administrative Borrower and with the consent of Agent agrees, in such Lender's sole discretion, to become an Issuing Lender for the purpose of issuing L/Cs or L/C Undertakings pursuant to Section 2.12.

"Koax" means Koax Corp., an Oklahoma corporation.

"L/C" has the meaning set forth in Section 2.12(a).

"L/C Disbursement" means a payment made by the Issuing Lender pursuant to a Letter of Credit.

"L/C Undertaking" has the meaning set forth in Section 2.12(a).

"Lender" and "Lenders" have the respective meanings set forth in the preamble to this Agreement, and shall include any other Person made a party to this Agreement in accordance with the provisions of Section 14.1.

"Lender Group" means, individually and collectively, each of the Lenders (including the Issuing Lender), the Bank Product Provider and Agent.

"Lender Group Expenses" means all (a) out-of-pocket costs or expenses (including taxes, and insurance premiums) required to be paid by a Loan Party under any of the Loan Documents that are paid or incurred by any one or more members of the Lender Group, (b) fees or charges paid or incurred by any one or more members of Lender Group in connection with any one or more members of the Lender Group's transactions with Loan Party under the Loan Documents, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, judgment, and UCC searches and including searches with the patent and trademark office, the copyright office), filing, recording, (including, without limitation, mortgage recordation taxes and other similar fees or taxes in connection with the recordation or filing or any mortgage from time to time together with any penalties, interest or costs arising therefrom or related thereto)publication, appraisal (including periodic Collateral appraisals or business valuations to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement), and environmental audits, (c) costs and expenses incurred by any one or more members of Lender Group in the disbursement of funds to or for the account of Loan Parties' (by wire transfer or otherwise), (d) charges paid or incurred by any one or more members of Lender Group resulting from the dishonor of checks, (e) reasonable costs and expenses paid or incurred by any one or more members of the Lender Group to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated, (f) audit fees and expenses of any one or more members of Lender Group related to audit examinations of the Books to the extent of the fees and charges (and up to the amount of any limitation) contained in this Agreement, (g) reasonable costs and expenses of third party claims or any other suit paid or incurred by any one or more members of the Lender Group in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents, (h) any one or more members of Lender Group's reasonable fees and expenses (including attorneys' fees) incurred in advising, structuring, drafting, reviewing, administering, or amending the Loan Documents, and (i) any one or more members of Lender Group's reasonable fees and expenses (including attorneys' fees) incurred in terminating, enforcing (including attorneys' fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning any Loan Party or in exercising rights or remedies under the Loan Documents), or defending the Loan Documents, irrespective of whether suit is brought, or in taking any Remedial Action concerning the Collateral.

"Lender-Related Person" means, with respect to any Lender, such Lender, together with such Lender's Affiliates, and the officers, directors, employees, and agents of such Lender.

"Letter of Credit" means an L/C or an L/C Undertaking, as the context requires.

"Letter of Credit Usage" means, as of any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit plus 100% of the amount of outstanding time drafts accepted by an Underlying Issuer as a result of drawings under Underlying Letters of Credit.

"LIBOR Deadline" has the meaning set forth in Section 2.13(b)(i).

"LIBOR Notice" means a written notice in the form of Exhibit L-1.

"LIBOR Rate" means, for each Interest Period for each LIBOR Rate Loan, the rate per annum determined by Agent (rounded upwards, if necessary, to the next 1/16%) by dividing (a) the Base LIBOR Rate for such Interest Period, by (b) 100% minus the Reserve Percentage. The LIBOR Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

"LIBOR Rate Loan" means each portion of an Advance that bears interest at a rate determined by reference to the LIBOR Rate.

"LIBOR Rate Margin" means, as of any date of determination, (i) if Excess Availability is greater than $25,000,000, 1.50 percentage points, and (ii) if Excess Availability is less than or equal to $25,000,000, 1.75 percentage points.

"Lien" means any interest in an asset securing an obligation owed to, or a claim by, any Person other than the owner of the asset, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Loan Account" has the meaning set forth in Section 2.10.

"Loan Documents" means this Agreement, the Cash Management Agreements, the Contribution Agreement, the Disbursement Letter, the Fee Letter, the Guaranties, Guarantor Security Agreement, the Letters of Credit, the Officers' Certificate, the Patent Security Agreement, the Trademark Security Agreement, any note or notes executed by a Borrower in connection with this Agreement and payable to a member of the Lender Group, and any other agreement entered into, now or in the future, by any Loan Party and the Lender Group in connection with this Agreement.

"Loan Party" means any Borrower and any Guarantor.

"LSB Notes" means the general senior secured notes of Parent maturing in 2019 in the aggregate principal amount of $425,000,000.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Loan Parties taken as a whole, (b) a material impairment of the ability of Loan Parties, taken as a whole, to perform their obligations under the Loan Documents or of the Lender Group's ability to enforce the Obligations or realize upon the Collateral, or (c) a material impairment of the enforceability or priority of the Agent's Liens with respect to the Collateral as a result of an action or failure to act on the part of a Loan Party.

"Maturity Date" has the meaning set forth in Section 3.4.

"Maximum Revolver Amount" means $100,000,000.

"Negotiable Collateral" means all of Loan Parties' now owned and hereafter acquired right, title, and interest with respect to letters of credit, letter of credit rights, 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.

"Net Orderly Liquidation Value" means, with respect to an item of Eligible Inventory and Eligible Raw Inventory, as of any date of determination, the orderly liquidation value thereof as determined by Agent in its Permitted Discretion, which determination may be made by Agent in reliance on periodic appraisals.

"Notes Priority Collateral" has the meaning set forth in the Intercreditor Agreement.

"Non-Recourse Debt" means Indebtedness: (a) as to which neither the Parent nor any of its Subsidiaries (x) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (y) is directly or indirectly liable as a guarantor or otherwise; and (b) as to which the lenders or investors of such Indebtedness will have no recourse to the equity interests or the assets of the Parent or any of its Restricted Subsidiaries (other than the equity interests or assets of an Unrestricted Subsidiary).

"Obligations" means (a) all loans, Advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations with respect to outstanding Letters of Credit, premiums, liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees (including the fees provided for in the Fee Letter), charges, costs, Lender Group Expenses (including any fees or expenses that, but for the provisions of the Bankruptcy Code, would have accrued), guaranties, covenants, and duties of any kind and description owing by the Loan Parties to the Lender Group pursuant to or evidenced by the Loan Documents and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all Lender Group Expenses that Loan Parties are required to pay or reimburse by the Loan Documents, by law, or otherwise, and (b) all Bank Product Obligations. Any reference in this Agreement or in the Loan Documents to the Obligations shall include all

amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable, both prior and subsequent to any Insolvency Proceeding.

"Officers' Certificate" means the representations and warranties of officers form submitted by Agent to Administrative Borrower, together with Loan Parties' completed responses to the inquiries set forth therein, the form and substance of such responses to be satisfactory to Agent.

"Operating Lease Obligations" means all obligations for the payment of rent for any real or personal property under leases or agreements to lease, other than Capitalized Lease Obligations.

"Orica" means Orica International Pte Ltd."

"Orica Account Purchaser" means Bank of America, N.A.

"Orica Sale Documents" means the SCF Supplier Receivables Purchase Agreement, dated on or about August 1, 2012, by and among the Orica Account Purchaser, EDC, and Orica, together with any other agreements, documents and instruments related thereto.

"Original Closing Date" means April 13, 2001, the date on which the Original Loan Agreement became effective.

"Original Loan Agreement" means the Loan and Security Agreement, dated as of April 13, 2001, by and among the Loan Parties that were party thereto, the Agent and the Lenders that were party thereto, as amended or otherwise modified prior to the date of the Amended and Restated Loan Agreement.

"Original Revolver Facility" has the meaning set forth in the recitals to this Agreement.

"Original Revolver Indebtedness" has the meaning set forth in Section 2.1(h).

"Originating Lender" has the meaning set forth in Section 14.1(e).

"Overadvance" has the meaning set forth in Section 2.5.

"Parent" has the meaning set forth in the preamble to this Agreement.

"Partial Release" means that certain Partial Release dated as of November 5, 2007 by and among the Parent, Northwest Financial Corporation, The Climate Control Group, Inc., Cepolk Holdings, Inc. f/k/a ThermalClime, Inc. and the Agent.

"Participant" has the meaning set forth in Section 14.1(e).

"Patent Security Agreement" means a patent security agreement executed and delivered by certain Loan Parties and Agent, the form and substance of which is satisfactory to Agent.

"Permitted Discretion" means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

"Permitted Dispositions" means (a) sales or other dispositions by the Loan Parties of Equipment that is substantially worn, damaged, or obsolete in the ordinary course of the applicable Loan Parties' business, (b) sales by the Loan Parties of Inventory to buyers in the ordinary course of business, (c) the use or transfer of money or Cash Equivalents by the Loan Parties in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents, (d) the licensing by the Loan Parties, on a non-exclusive basis, of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of the applicable Loan Parties business, (e) sales, transfers leases or other dispositions of assets by any Loan Party or any of its Subsidiaries to any other Loan Parties, and (f) sales or other dispositions by the Loan Parties of Accounts which are not Eligible Accounts, provided that (i) the consideration payable in connection with the sale or disposition of such non-Eligible Accounts shall be in cash and shall equal no less than 100% of the aggregate original invoice amount of such Accounts and (ii) the proceeds from such sales or dispositions shall be deposited in a Cash Management Account and applied to the Obligations.

"Permitted Holders" means Jack E. Golsen, Barry H. Golsen, Steven J. Golsen, David Goss, David Shear, Tony Shelby, Robert Brown, their respective Family Members, and their respective Family Entities.

"Permitted Investments" means (a) Investments in Cash Equivalents, (b) Investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) Investments by any Loan Party in any other Loan Party, (e) guarantees by a Loan Party of Indebtedness permitted under Section 7.1(m), (f) guarantees permitted under Section 7.6, (g) other Investments set forth on Schedule 7.13 hereto, (h) Investments made by any Loan Party in the Parent, (i) Investments in any newly created Subsidiary by means of purchase or other acquisition of the equity interests of such Subsidiary including by way of merger, provided there is no investment of Collateral, (j) Investments in joint ventures and Unrestricted Subsidiaries in an aggregate amount not exceeding $35,000,000 at any one time outstanding, provided, that neither Zena nor any other Unrestricted Subsidiary may receive Investments under this clause (j) so long as Zena or such other Unrestricted Subsidiary maintains a separate bank financing facility, (k) Investments in Unrestricted Subsidiaries in an amount not to exceed 50% of the consolidated net earnings of the Parent and its Subsidiaries' for the most recently ended four consecutive quarter period, in each case measured as of the time any such Investment is made and deducting any other Investments made under this clause (k) in respect of such four consecutive quarter period, provided, that at the time any such Investment is made, there shall be no Advances outstanding and no Advances may be borrowed until the date that is 30 days after the date of such Investment, (l) additional Investments (other than Investments in joint ventures and Unrestricted Subsidiaries) in an aggregate amount not exceeding $50,000,000 at any one time outstanding, (m) Investments in

KAC Acquisition Company in an amount not exceeding $100,000 during each fiscal year, and (n) Investments in respect of Hedge Obligations and Third Party Hedge Obligations; provided, that both immediately before and after giving effect to the making of any Investments pursuant to clauses (j), (k), (l) or (n), the Covenant Condition has been satisfied; provided, that the Covenant Condition shall not apply to Hedge Obligations entered into with a Bank Product Provider.

"Permitted Liens" means (a) Liens held by Agent for the benefit of Agent and the Lenders, (b) Liens for unpaid taxes that either (i) are not yet delinquent, or (ii) do not constitute an Event of Default hereunder and are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases, (e) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as such Lien attaches only to the asset purchased or acquired and the proceeds thereof, (f) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of Loan Parties' business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests, (g) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, social security and other similar laws (h) Liens or deposits to secure performance of bids, tenders, or leases incurred in the ordinary course of Loan Parties' business and not in connection with the borrowing of money, (i) Liens granted as security for surety, payment, performance or appeal bonds in connection with obtaining such bonds in the ordinary course of Loan Parties' business, (j) Liens resulting from any judgment or award that is not an Event of Default hereunder, (k) with respect to any Real Property, easements, exceptions, reservations, encroachments, restrictions, rights of way, zoning restrictions and other similar title policy exceptions or encumbrances that do not materially interfere with or impair the use or operation thereof by the Loan Parties; (l) [intentionally omitted]; (m) Liens of the Orica Account Purchaser on the Specified Orica Accounts sold by a Borrower to the Orica Account Purchaser in accordance with Section 7.4(c) hereof; (n) [intentionally omitted]; (o) [intentionally omitted]; (p) Liens arising in connection with Third Party Hedging Obligations; (q) Liens securing the LSB Notes so long as (i) to the extent any such Liens are on assets not currently constituting Collateral, the Agent is granted a second priority Lien on such assets (subject to Section 6.16) and (ii) such Liens are subject to an intercreditor agreement in form and substance satisfactory to the Agent, and (r) other Liens securing obligations or Indebtedness not in excess of $50,000,000 in the aggregate at any one time outstanding.

"Permitted Protest" means the right of the applicable Loan Party to protest any Lien (other than any such Lien that secures the Obligations), taxes (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the Books in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by the applicable Loan Party in good faith, and (c) Agent is satisfied in its Permitted Discretion that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Agent's Liens.

"Permitted Purchase Money Indebtedness" means, as of any date of determination, Purchase Money Indebtedness outstanding as of such date of determination not to exceed the greater of (x) $35,000,000 and (y) 5.0% of the total consolidated assets of the Loan Parties and their Subsidiaries as reflected on their balance sheet in accordance with GAAP.

"Person" means natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Projections" means Parent's forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a consistent basis with Parent's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Pro Rata Share" means:

(a) with respect to a Lender's obligation to make Advances and receive payments of principal, interest, fees, costs, and expenses with respect thereto, the percentage obtained by dividing (i) such Lender's Revolver Commitment, by (ii) the aggregate Revolver Commitments of all Lenders,

(b) with respect to a Lender's obligation to participate in Letters of Credit, to reimburse the Issuing Lender, and to receive payments of fees with respect thereto, the percentage obtained by dividing (i) such Lender's Revolver Commitment, by (ii) the aggregate Revolver Commitments of all Lenders,

(c) [intentionally omitted], and

(d) with respect to all other matters (including the indemnification obligations arising under Section 16.7), the percentage obtained by dividing (i) such Lender's Total Commitment, by (ii) the aggregate amount of Total Commitments of all Lenders; provided, however, that, in each case, in the event all Commitments have been terminated, Pro Rata Share shall be determined according to the Commitments in effect immediately prior to such termination.

"Purchase Money Indebtedness" means Indebtedness (other than the Obligations, but including Capitalized Lease Obligations), incurred at the time of, or within 90 days after, the acquisition of any fixed assets for the purpose of financing all or any part of the acquisition cost thereof.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Loan Party and the improvements thereto.

"Record" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

"Remedial Action" means all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Materials in

the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Materials so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) perform any pre-remedial studies, investigations, or post-remedial operation and maintenance activities, or (d) conduct any other actions authorized by 42 USC § 9601.

"Report" has the meaning set forth in Section 16.17.

"Required Lenders" means, at any time, Lenders whose Pro Rata Shares aggregate 66-2/3 % of the Total Commitments, or if the Commitments have been terminated irrevocably, 66-2/3% of the Obligations (other than Bank Product Obligations) then outstanding.

"Reserve Percentage" means, on any day, for any Lender, the maximum percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor Governmental Authority) for determining the reserve requirements (including any basic, supplemental, marginal, or emergency reserves) that are in effect on such date with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities") of that Lender, but so long as such Lender is not required or directed under applicable regulations to maintain such reserves, the Reserve Percentage shall be zero.

"Restatement Closing Date" has the meaning set forth in Section 3.2.

"Restatement Effective Date" has the meaning set forth in the preamble to this Agreement, but in any event after the effectiveness of the corporate realignment of Parent and certain of Parent's Subsidiaries under the Realignment Agreement dated December 20, 2013.

"Revolver Commitment" means, with respect to each Lender, its Revolver Commitment, and, with respect to all Lenders, their Revolver Commitments, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Revolver Usage" means, as of any date of determination, the sum of (a) the then extant amount of outstanding Advances, plus (b) the then extant amount of the Letter of Credit Usage.

"Risk Participation Liability" means, as to each Letter of Credit, all reimbursement obligations of Loan Parties to the Issuing Lender with respect to an L/C Undertaking, consisting of (a) the amount available to be drawn or which may become available to be drawn, (b) all amounts that have been paid by the Issuing Lender to the Underlying Issuer to the extent not reimbursed by the Loan Parties, whether by the making of an Advance or otherwise, and (c) all accrued and unpaid interest, fees, and expenses payable with respect thereto.

"SEC" means the United States Securities and Exchange Commission and any successor thereto.

"Securities Account" means a "securities account" as that term is defined in the Code.

"Settlement" has the meaning set forth in Section 2.3(f)(i).

"Settlement Date" has the meaning set forth in Section 2.3(f)(i).

"Solvent" means, with respect to any Person on a particular date, that such Person is not insolvent (as such term is defined in the Uniform Fraudulent Transfer Act).

"Special Distribution Amount" has the meaning set forth in Section 7.11(a).

"Special Permitted Investment" means any and all of the following:

(a) marketable direct obligations issued or unconditionally guaranteed by the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within two years from the date of acquisition thereof;

(b) marketable direct obligations of Fannie Mae or Freddie Mac, in each case maturing within two years from the date of acquisition thereof;

(c) repurchase agreements, reverse repurchase agreements, or obligations that have a term not to exceed thirty (30) days with respect to any security described in clause (a) or (b) above, and that are entered into with a depository institution or trust company (acting as a principal) rated in the highest available short-term rating category by each of at least two Nationally Recognized Statistical Rating Organizations (each an "NRSRO") at the time of that investment;

(d) certificates of deposit maturing within two years from the date of acquisition thereof, and that are (i) issued by any bank organized under the laws of the United States or any state thereof to the extent that those deposits are fully insured by the FDIC or (ii) secured by any security described in clause (a) or (b) above;

(e) commercial paper maturing no more than two years from the date of acquisition thereof and, at the time of that acquisition, and having a short-term unsecured debt rating in the highest available rating category of at least two of NRSROs at the time of that investment;

(f) debt securities that bear interest or are sold at a discount, that are issued by any corporation incorporated under the laws of the United States or any state thereof, and that, at the time of that investment, are rated AA or higher (or the equivalent thereof) by at least two NRSROs;

(g) debt securities that bear interest or are sold at a discount, that are issued by any municipality existing under the laws of any state of the United States, and that, at the time of that investment, are rated AA or higher (or the equivalent thereof) by at least two NRSROs;

(h) floating-rate bonds that bear interest or are sold at a discount that, at the time of that investment, are (i) rated AA or higher (or the equivalent thereof) by at least two NRSROs or (ii) secured by an irrevocable, unconditional, standby letter of credit issued by a commercial bank that (X) is issued by a commercial bank that, at the time of issuance of the said letter of credit, has a long-term unsecured debt rating of AA or higher (or the equivalent thereof) from at least two NRSROs and (Y) has a drawing amount at least equal to one hundred percent (100%) of the face values of the floating-rate bonds that it is securing; and

(i) money market funds having ratings in the highest available rating categories of at least two NRSROs at the time of that investment.

"Specified Orica Accounts" means those Accounts owing by Orica or one or more of its Affiliates to a Loan Party which are sold by such Loan Party to the Orica Account Purchaser pursuant to the applicable Orica Sale Documents in accordance with Section 7.4(c) hereof.

"Stock" means all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of Stock having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity. All references to a "Subsidiary" or "Subsidiaries" in this Agreement and the other Loan Documents shall exclude any Unrestricted Subsidiaries once such Subsidiary is properly designated as such and meets the requirements set forth in the definition of "Unrestricted Subsidiary".

"Swing Lender" means WFCF or any other Lender that, at the request of Administrative Borrower and with the consent of Agent agrees, in such Lender's sole discretion, to become the Swing Lender hereunder.

"Swing Loan" has the meaning set forth in Section 2.3(d)(i).

"Taxes" has the meaning set forth in Section 2.2.

"Third Party Hedge Agreement" means any and all transactions, agreements, or documents now existing or hereafter entered into between any Loan Party or its Subsidiaries and any party other than a Bank Product Provider, which provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging that Loan Parties' or its Subsidiaries' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Third Party Hedge Obligations" means any and all obligations or liabilities, whether absolute or contingent, due or to become due, now existing or hereafter arising, of each Loan Party and its Subsidiaries arising under, owing pursuant to, or existing in respect of Third Party Hedge Agreements.

"Total Commitment" means, with respect to each Lender, its Total Commitment, and, with respect to all Lenders, their Total Commitments, in each case as such Dollar amounts are set forth beside such Lender's name under the applicable heading on Schedule C-1 attached hereto or on the signature page of the Assignment and Acceptance pursuant to which such Lender became a Lender hereunder in accordance with the provisions of Section 14.1.

"Trademark Security Agreement" means a trademark security agreement executed and delivered by certain Loan Parties and Agent, the form and substance of which is satisfactory to Agent.

"Trison" means Trison Construction, Inc., an Oklahoma corporation.

"TTI" means ThermaClime Technologies, Inc., an Oklahoma corporation.

"Underlying Issuer" means a third Person which is the beneficiary of an L/C Undertaking and which has issued a letter of credit at the request of the Issuing Lender for the benefit of Loan Parties.

"Underlying Letter of Credit" means a letter of credit that has been issued by an Underlying Issuer.

"Unrestricted Subsidiary" means any subsidiary of the Parent that (i) is acquired or formed after the Restatement Effective Date (except as set forth below), (ii) is designated in writing to the Agent as an Unrestricted Subsidiary and (iii) satisfies each of the following conditions:

(a) such Subsidiary is not a Loan Party,

(b) such Subsidiary has no Indebtedness other than Non-Recourse Debt, except for (i) the guaranty by the Parent of Indebtedness incurred by Zena under the Zena Credit Documents, to the extent such guaranty is permitted hereunder and (ii) Indebtedness of Zena in respect of its guaranty of the LSB Notes;

(c) such Subsidiary is not party to any agreement, contract, arrangement or understanding with the Parent or any of its Subsidiaries unless the terms of any such agreement, contract, arrangement or understanding are in compliance with Section 7.14,

(d) neither the Parent nor any of its Subsidiaries has any direct or indirect obligation (x) to subscribe for additional equity interests in such Subsidiary or (y) to maintain or preserve such Subsidiary's financial condition or to cause such Subsidiary to achieve any specified levels of operating results,

(e) such Subsidiary has not guaranteed or otherwise directly or indirectly provided credit support (including by granting Liens on its assets) for any Indebtedness of the Parent or any of its Subsidiaries, other than the guaranty by Zena of the Parent's obligations under the LSB Notes,

(f) such Subsidiary does not and will not commingle its funds or assets with those of the Parent or its Subsidiaries; and

(g) any Investment made after the Restatement Closing Date by the Parent and its Subsidiaries in such Subsidiary, when aggregated with all other Investments by the Parent and its Restricted Subsidiaries in all other Unrestricted Subsidiaries, does not exceed the amounts permitted under clauses (j) and (k) of the definition of Permitted Investments.

As of the Restatement Effective Date, the Parent hereby designates Zena as an Unrestricted Subsidiary and confirms and acknowledges that Zena satisfies the requirements set forth in clauses (a) through (g) above. The Parent may designate any newly created (or acquired) Subsidiary of the Parent to be an Unrestricted Subsidiary by notifying the Agent in writing of such designation.

"Voidable Transfer" has the meaning set forth in Section 17.7.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association.

"WFCF" has the meaning set forth in the preamble to this Agreement.

"Zena" means Zena Energy L.L.C., an Oklahoma limited liability company.

"Zena Credit Documents" means (i) that certain Promissory Note, dated February 1, 2013, in the principal face amount of $35,000,000, executed by Zena in favor of International Bank of Commerce ("IBC"), and (ii) that certain Leasehold Mortgage, Security Agreement, Assignment and Fixture Filing, dated February 1, 2013 from Zena to IBC, in each case entered into in connection with the acquisition or development of working interests in certain natural gas properties, together with the related documents thereto, in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including one or more promissory notes, credit agreements, loan agreements, indentures or similar agreements extending the maturity of, refinancing, replacing, renewing or otherwise restructuring all or any portion of the Indebtedness under such agreement or agreements or any successor or replacement agreement or agreements and whether by the same or any other lender or group of lenders.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the terms "Borrowers", "Guarantors", "Loan Parties" or the term "Parent" is used in respect of a financial covenant or a related definition, it shall be understood to mean Parent and its Subsidiaries on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement or any other Loan Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in the other Loan Documents to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein). Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in the other Loan Documents shall be satisfied by the transmission of a Record and any Record transmitted shall constitute a representation and warranty as to the accuracy and completeness of the information contained therein.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 Advances.

(a) Subject to the terms and conditions of this Agreement, and during the term of this Agreement, each Lender with a Revolver Commitment agrees (severally, not jointly or jointly and severally) to make advances ("Advances") to Borrowers in an amount at any one time outstanding not to exceed such Lender's Pro Rata Share of an amount equal to the lesser of (i) the Maximum Revolver Amount less the Letter of Credit Usage or (ii) the Borrowing Base less the Letter of Credit Usage. For purposes of this Agreement, "Borrowing Base," as of any date of determination, shall mean the result of the following for all Borrowers:

(A) the lesser of

(1) 85% of the amount of Eligible Accounts of such Borrowers, less the amount, if any, of the sum of the Dilution Reserve, and

(2) an amount equal to such Borrowers' Collections with respect to Accounts for the immediately preceding 75 day period, plus

(B) the lowest of

(1) $60,000,000, and

(2) the sum of

(x) the lesser of (i) 70% of the value of such Borrowers' Eligible Inventory, and (ii) 85% of the Net Orderly Liquidation Value of such Borrowers' Eligible Inventory, plus

(y) the lesser of (i) 60% (or, in the case of Climate Control Raw Inventory, 65%) of the value of such Borrowers' Eligible Raw Inventory, and (ii) 85% of the Net Orderly Liquidation Value of such Borrowers' Eligible Raw Inventory, minus

(C) (z) the sum of (1) the Bank Products Reserve, and (2) the aggregate amount of reserves, if any, established by Agent under Section 2.1(b).

(b) Anything to the contrary in this Section 2.1 notwithstanding, Agent shall have the right to establish reserves in such amounts, and with respect to such matters, as Agent in its Permitted Discretion shall deem necessary or appropriate, against the Borrowing Base, including reserves with respect to (i) sums that Borrowers are required to pay (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases) and has failed to pay under any Section of this Agreement or any other Loan Document, and (ii) amounts owing by Borrowers to any Person to the extent secured by a Lien on, or trust over, any of the Collateral (other than any existing Permitted Lien set forth on Schedule P-1 which is specifically identified thereon as entitled to have priority over the Agent's Liens), which Lien or trust, in the Permitted Discretion of Agent likely would have a priority superior to the Agent's Liens (such as Liens or trusts in favor of landlords, warehousemen, carriers, mechanics, materialmen, laborers, or suppliers, or Liens or trusts for ad valorem, excise, sales, or other taxes where given priority under applicable law) in and to such item of the Collateral. In addition to the foregoing, Agent shall have the right to have the Inventory reappraised by a qualified appraisal company selected by Agent from time to time after the Original Closing Date for the purpose of redetermining the Net Orderly Liquidation Value of the Eligible Inventory and/or the Eligible Raw Inventory, which appraisals, so long as no Default or Event of Default shall have occurred and be continuing, shall be conducted at Borrowers' expense no more frequently than once during any twelve month period, and, after the occurrence and during the continuance of a Default or an Event of Default, at Borrowers' expense as frequently as Agent shall determine; provided, that, the Borrower shall not be required to reimburse the Agent for the costs of any such appraisal if, at the time of such appraisal, (x) no Default or Event of Default has occurred and is continuing and (y) no Advances have been outstanding since April 4, 2012. Based upon the results of any such redetermination, and any other information received from the collateral reporting required under Section 6.2, Agent may, in its Permitted Discretion, redetermine the Borrowing Base.

(c) Intentionally deleted.

(d) Notwithstanding the foregoing, the aggregate principal amount of Advances made by the Lenders based upon the aggregate value of Borrowers' Eligible Inventory included in the Borrowing Base shall not exceed the aggregate principal amount of Advances made by the Lenders based upon the aggregate amount of Borrowers' Eligible Accounts included in the Borrowing Base.

(e) Notwithstanding the foregoing, the aggregate principal amount of Advances made by the Lenders based upon the aggregate value of Borrowers' In-Transit Inventory shall not exceed $2,000,000. In addition, all amounts payable to common carriers in respect of Borrowers' In-Transit Inventory shall be deducted by Agent from the proceeds of Advances made by Lenders in respect of such In-Transit Inventory.

(f) The Lenders with Revolver Commitments shall have no obligation to make additional Advances hereunder to the extent such additional Advances would cause the Revolver Usage to exceed the Maximum Revolver Amount.

(g) Amounts borrowed pursuant to this Section may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

(h) Notwithstanding anything to the contrary contained in this Section 2.1, the Borrowers hereby acknowledge, confirm and agree that immediately prior to the Restatement Effective Date, the existing outstanding principal amount of the Advances under and as defined in the Original Loan Facility is equal to $0.00 (such Indebtedness being hereinafter referred to as the "Original Revolver Indebtedness").

2.2 [intentionally omitted].

2.3 Borrowing Procedures and Settlements.

(a) **Procedure for Borrowing**. Each Borrowing shall be made by an irrevocable written request by an Authorized Person delivered to Agent, which notice must be received by Agent no later than 10:00 a.m. (California time) on the Business Day prior to the date that is the requested Funding Date in the case of a request for an Advance specifying (i) the amount of such Borrowing, and (ii) the requested Funding Date, which shall be a Business Day; provided, however, that in the case of a request for Swing Loan in an amount of $10,000,000 or less, such notice will be timely received if it is received by Agent no later than 10:00 a.m. (California time) on the Business Day that is the requested Funding Date. At Agent's election, in lieu of delivering the above-described written request, any Authorized Person may give Agent telephonic notice of such request by the required time, with such telephonic notice to be confirmed in writing within 24 hours of the giving of such notice.

(b) **Agent's Election**. Promptly after receipt of a request for a Borrowing pursuant to Section 2.3(a), Agent shall elect, in its discretion, (i) to have the terms of Section 2.3(c) apply to such requested Borrowing, or (ii) if the Borrowing is for an Advance, to request Swing Lender to make a Swing Loan pursuant to the terms of Section 2.3(d) in the

amount of the requested Borrowing; provided, however, that if Swing Lender declines in its sole discretion to make a Swing Loan pursuant to Section 2.3(d), Agent shall elect to have the terms of Section 2.3(c) apply to such requested Borrowing.

(c) **Making of Advances**.

(i) In the event that Agent shall elect to have the terms of this Section 2.3(c) apply to a requested Borrowing as described in Section 2.3(b), then promptly after receipt of a request for a Borrowing pursuant to Section 2.3(a), Agent shall notify the Lenders, not later than 1:00 p.m. (California time) on the Business Day immediately preceding the Funding Date applicable thereto, by telecopy, telephone, or other similar form of transmission, of the requested Borrowing. Each Lender shall make the amount of such Lender's Pro Rata Share of the requested Borrowing available to Agent in immediately available funds, to Agent's Account, not later than 10:00 a.m. (California time) on the Funding Date applicable thereto. After Agent's receipt of the proceeds of such Advances, upon satisfaction of the applicable conditions precedent set forth in Section 3 hereof, Agent shall make the proceeds thereof available to Administrative Borrower on the applicable Funding Date by transferring immediately available funds equal to such proceeds received by Agent to Administrative Borrower's Designated Account; provided, however, that, subject to the provisions of Section 2.3(i), Agent shall not request any Lender to make, and no Lender shall have the obligation to make, any Advance if Agent shall have actual knowledge that (1) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing unless such condition has been waived, or (2) the requested Borrowing would exceed the Availability on such Funding Date.

(ii) Unless Agent receives notice from a Lender at least 1 Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to Agent for the account of Borrowers the amount of that Lender's Pro Rata Share of the Borrowing, Agent may assume that each Lender has made or will make such amount available to Agent in immediately available funds on the Funding Date and Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrowers on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to Agent in immediately available funds and Agent in such circumstances has made available to Borrowers such amount, that Lender shall on the Business Day following such Funding Date make such amount available to Agent, together with interest at the Defaulting Lender Rate for each day during such period. A notice submitted by Agent to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is so made available, such payment to Agent shall constitute such Lender's Advance on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to Agent on the Business Day following the Funding Date, Agent will notify Administrative Borrower of such failure to fund and, upon demand by Agent, Borrowers shall pay such amount to Agent for

Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Advances composing such Borrowing. The failure of any Lender to make any Advance on any Funding Date shall not relieve any other Lender of any obligation hereunder to make an Advance on such Funding Date, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on any Funding Date.

(iii) Agent shall not be obligated to transfer to a Defaulting Lender any payments made by Borrowers to Agent for the Defaulting Lender's benefit, and, in the absence of such transfer to the Defaulting Lender, Agent shall transfer any such payments to each other non-Defaulting Lender member of the Lender Group ratably in accordance with their Commitments (but only to the extent that such Defaulting Lender's Advance was funded by the other members of the Lender Group) or, if so directed by Administrative Borrower and if no Default or Event of Default had occurred and is continuing (and to the extent such Defaulting Lender's Advance was not funded by the Lender Group), retain same to be re-advanced to Borrowers as if such Defaulting Lender had made Advances to Borrowers. Subject to the foregoing, Agent may hold and, in its Permitted Discretion, re-lend to Borrowers for the account of such Defaulting Lender the amount of all such payments received and retained by it for the account of such Defaulting Lender. Solely for the purposes of voting or consenting to matters with respect to the Loan Documents, such Defaulting Lender shall be deemed not to be a "Lender" and such Lender's Commitment shall be deemed to be zero. This Section shall remain effective with respect to such Lender until (x) the Obligations under this Agreement shall have been declared or shall have become immediately due and payable, (y) the non-Defaulting Lenders, Agent, and Borrowers shall have waived such Defaulting Lender's default in writing, or (z) the Defaulting Lender makes its Pro Rata Share of the applicable Advance and pays to Agent all amounts owing by Defaulting Lender in respect thereof. The operation of this Section shall not be construed to increase or otherwise affect the Commitment of any Lender, to relieve or excuse the performance by such Defaulting Lender or any other Lender of its duties and obligations hereunder, or to relieve or excuse the performance by the Loan Party of its duties and obligations hereunder to Agent or to the Lenders other than such Defaulting Lender. Any such failure to fund by any Defaulting Lender shall constitute a material breach by such Defaulting Lender of this Agreement and shall entitle Administrative Borrower at its option, upon written notice to Agent, to arrange for a substitute Lender to assume the Commitment of such Defaulting Lender, such substitute Lender to be acceptable to Agent. In connection with the arrangement of such a substitute Lender, the Defaulting Lender shall have no right to refuse to be replaced hereunder, and agrees to execute and deliver a completed form of Assignment and Acceptance Agreement in favor of the substitute Lender (and agrees that it shall be deemed to have executed and delivered such document if it fails to do so) subject only to being repaid its share of the outstanding Obligations (other than Bank Product Obligations) (including an assumption of its Pro Rata Share of the Risk Participation Liability) without any premium or penalty of any

kind whatsoever; provided further, however, that any such assumption of the Commitment of such Defaulting Lender shall not be deemed to constitute a waiver of any of the Lender Groups' or Loan Parties' rights or remedies against any such Defaulting Lender arising out of or in relation to such failure to fund.

(d) **Making of Swing Loans**.

(i) In the event Agent shall elect, with the consent of Swing Lender, as a Lender, to have the terms of this Section 2.3(d) apply to a requested Borrowing as described in Section 2.3(b), Swing Lender as a Lender shall make such Advance in the amount of such Borrowing (any such Advance made solely by Swing Lender as a Lender pursuant to this Section 2.3(d) being referred to as a "Swing Loan" and such Advances being referred to collectively as "Swing Loans") available to Borrowers on the Funding Date applicable thereto by transferring immediately available funds to Administrative Borrower's Designated Account. Each Swing Loan is an Advance hereunder and shall be subject to all the terms and conditions applicable to other Advances, except that no such Swing Loan shall be eligible for the LIBOR Option and all payments on any Swing Loan shall be payable to Swing Lender as a Lender solely for its own account (and for the account of the holder of any participation interest with respect to such Swing Loan). Subject to the provisions of Section 2.3(i), Agent shall not request Swing Lender as a Lender to make, and Swing Lender as a Lender shall not make, any Swing Loan if Agent has actual knowledge that (i) one or more of the applicable conditions precedent set forth in Section 3 will not be satisfied on the requested Funding Date for the applicable Borrowing unless such condition has been waived, or (ii) the requested Borrowing would exceed the Availability on such Funding Date. Swing Lender as a Lender shall not otherwise be required to determine whether the applicable conditions precedent set forth in Section 3 have been satisfied on the Funding Date applicable thereto prior to making, in its sole discretion, any Swing Loan.

(ii) The Swing Loans shall be secured by the Agent's Liens, shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to Advances that are Base Rate Loans.

(e) **Agent Advances**.

(i) Agent hereby is authorized by Borrowers and the Lenders, from time to time in Agent's sole discretion, (1) after the occurrence and during the continuance of a Default or an Event of Default, or (2) at any time that any of the other applicable conditions precedent set forth in Section 3 have not been satisfied, to make Advances to Borrowers on behalf of the Lenders that Agent, in its Permitted Discretion deems necessary or desirable (A) to preserve or protect the Collateral, or any portion thereof, (B) to enhance the likelihood of repayment of the Obligations (other than the Bank Product Obligations), or (C) to pay any other amount chargeable to Borrowers pursuant to the terms of this Agreement, including Lender Group Expenses and the costs, fees, and expenses described in

Section 10 (any of the Advances described in this Section 2.3(e) shall be referred to as "Agent Advances"). Each Agent Advance is an Advance hereunder and shall be subject to all the terms and conditions applicable to other Advances, except that no such Agent Advance shall be eligible for the LIBOR Option and all payments thereon shall be payable to Agent solely for its own account (and for the account of the holder of any participation interest with respect to such Agent Advance).

(ii) The Agent Advances shall be repayable on demand and secured by the Agent's Liens granted to Agent under the Loan Documents, shall constitute Advances and Obligations hereunder, and shall bear interest at the rate applicable from time to time to Advances that are Base Rate Loans.

(f) **Settlement**. It is agreed that each Lender's funded portion of the Advances is intended by the Lenders to equal, at all times, such Lender's Pro Rata Share of the outstanding Advances. Such agreement notwithstanding, Agent, Swing Lender, and the other Lenders agree (which agreement shall not be for the benefit of or enforceable by the Loan Parties) that in order to facilitate the administration of this Agreement and the other Loan Documents, settlement among them as to the Advances, the Swing Loans, and the Agent Advances shall take place on a periodic basis in accordance with the following provisions:

(i) Agent shall request settlement ("Settlement") with the Lenders on a weekly basis, or on a more frequent basis if so determined by Agent, (1) on behalf of Swing Lender, with respect to each outstanding Swing Loan, (2) for itself, with respect to each Agent Advance, and (3) with respect to Collections received, as to each by notifying the Lenders by telecopy, telephone, or other similar form of transmission, of such requested Settlement, no later than 2:00 p.m. (California time) on the Business Day immediately prior to the date of such requested Settlement (the date of such requested Settlement being the "Settlement Date"). Such notice of a Settlement Date shall include a summary statement of the amount of outstanding Advances, Swing Loans, and Agent Advances for the period since the prior Settlement Date. Subject to the terms and conditions contained herein (including Section 2.3(c)(iii)): (y) if a Lender's balance of the Advances, Swing Loans, and Agent Advances exceeds such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, then Agent shall, by no later than 12:00 p.m. (California time) on the Settlement Date, transfer in immediately available funds to the account of such Lender as such Lender may designate, an amount such that each such Lender shall, upon receipt of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Swing Loans, and Agent Advances, and (z) if a Lender's balance of the Advances, Swing Loans, and Agent Advances is less than such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, such Lender shall no later than 12:00 p.m. (California time) on the Settlement Date transfer in immediately available funds to the Agent's Account, an amount such that each such Lender shall, upon transfer of such amount, have as of the Settlement Date, its Pro Rata Share of the Advances, Swing Loans, and Agent Advances. Such amounts made available to Agent under

clause (z) of the immediately preceding sentence shall be applied against the amounts of the applicable Swing Loan or Agent Advance and, together with the portion of such Swing Loan or Agent Advance representing Swing Lender's Pro Rata Share thereof, shall constitute Advances of such Lenders. If any such amount is not made available to Agent by any Lender on the Settlement Date applicable thereto to the extent required by the terms hereof, Agent shall be entitled to recover for its account such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate.

(ii) In determining whether a Lender's balance of the Advances, Swing Loans, and Agent Advances is less than, equal to, or greater than such Lender's Pro Rata Share of the Advances, Swing Loans, and Agent Advances as of a Settlement Date, Agent shall, as part of the relevant Settlement, apply to such balance the portion of payments actually received in good funds by Agent with respect to principal, interest, fees payable by Borrowers and allocable to the Lenders hereunder, and proceeds of Collateral. To the extent that a net amount is owed to any such Lender after such application, such net amount shall be distributed by Agent to that Lender as part of such next Settlement.

(iii) Between Settlement Dates, Agent, to the extent no Agent Advances or Swing Loans are outstanding, may pay over to Swing Lender any payments received by Agent, that in accordance with the terms of this Agreement would be applied to the reduction of the Advances, for application to Swing Lender's Pro Rata Share of the Advances. If, as of any Settlement Date, Collections received since the then immediately preceding Settlement Date have been applied to Swing Lender's Pro Rata Share of the Advances other than to Swing Loans, as provided for in the previous sentence, Swing Lender shall pay to Agent for the accounts of the Lenders, and Agent shall pay to the Lenders, to be applied to the outstanding Advances of such Lenders, an amount such that each Lender shall, upon receipt of such amount, have, as of such Settlement Date, its Pro Rata Share of the Advances. During the period between Settlement Dates, Swing Lender with respect to Swing Loans, Agent with respect to Agent Advances, and each Lender (subject to the effect of letter agreements between Agent and individual Lenders) with respect to the Advances other than Swing Loans and Agent Advances, shall be entitled to interest at the applicable rate or rates payable under this Agreement on the daily amount of funds employed by Swing Lender, Agent, or the Lenders, as applicable.

(g) **Notation**. Agent shall record on its books the principal amount of the Advances owing to each Lender, including the Swing Loans owing to Swing Lender, and Agent Advances owing to Agent, and the interests therein of each Lender, from time to time. In addition, each Lender is authorized, at such Lender's option, to note the date and amount of each payment or prepayment of principal of such Lender's Advances in its books and records, including computer records, such books and records constituting conclusive evidence, absent manifest error, of the accuracy of the information contained therein.

(h) **Lenders' Failure to Perform**. All Advances (other than Swing Loans and Agent Advances) shall be made by the Lenders contemporaneously and in accordance with their Pro Rata Shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Advance (or other extension of credit) hereunder, nor shall any Commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligations hereunder, and (ii) no failure by any Lender to perform its obligations hereunder shall excuse any other Lender from its obligations hereunder.

(i) **Optional Overadvances**. Any contrary provision of this Agreement notwithstanding, the Lenders hereby authorize Agent or Swing Lender, as applicable, and Agent or Swing Lender, as applicable, may, but is not obligated to, knowingly and intentionally, continue to make Advances (including Swing Loans) to Borrowers notwithstanding that an Overadvance exists or thereby would be created, so long as (i) after giving effect to such Advances (including a Swing Loan), the Revolver Usage with respect to the Borrowers does not exceed the Borrowing Base by more than $5,000,000, (ii) after giving effect to such Advances (including a Swing Loan) the outstanding Revolver Usage (except for and excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) does not exceed the Maximum Revolver Amount, and (iii) at the time of the making of any such Advance (including a Swing Loan), Agent does not believe, in good faith, that the Overadvance created by such Advance will be outstanding for more than 90 days. The foregoing provisions are for the exclusive benefit of Agent, Swing Lender, and the Lenders and are not intended to benefit Loan Parties in any way. The Advances and Swing Loans, as applicable, that are made pursuant to this Section 2.3(i) shall be subject to the same terms and conditions as any other Advance or Swing Loan, as applicable, except that they shall not be eligible for the LIBOR Option and the rate of interest applicable thereto shall be the rate applicable to Advances that are Base Rate Loans under Section 2.6(c) hereof without regard to the presence or absence of a Default or Event of Default.

(i) In the event Agent obtains actual knowledge that the Revolver Usage exceeds the amounts permitted by the preceding paragraph, regardless of the amount of, or reason for, such excess, Agent shall notify Lenders as soon as practicable (and prior to making any (or any additional) intentional Overadvances (except for and excluding amounts charged to the Loan Account for interest, fees, or Lender Group Expenses) unless Agent determines that prior notice would result in imminent harm to the Collateral or its value), and the Lenders with Revolver Commitments thereupon shall, together with Agent, jointly determine the terms of arrangements that shall be implemented with Borrowers and intended to reduce, within a reasonable time, the outstanding principal amount of the Advances to Borrowers to an amount permitted by the preceding paragraph. In the event Agent or any Lender disagrees over the terms of reduction or repayment of any Overadvance, the terms of reduction or repayment thereof shall be implemented according to the determination of the Required Lenders.

(ii) Each Lender with a Revolver Commitment shall be obligated to settle with Agent as provided in Section 2.3(f) for the amount of such Lender's Pro Rata Share of any unintentional Overadvances by Agent reported to such Lender, any intentional Overadvances made as permitted under this Section 2.3(i), and any Overadvances resulting from the charging to the Loan Account of interest, fees, or Lender Group Expenses.

2.4 Payments.

(a) **Payments by Borrowers**.

(i) Except as otherwise expressly provided herein, all payments by Borrowers shall be made to Agent's Account for the account of the Lender Group and shall be made in immediately available funds, no later than 11:00 a.m. (California time) on the date specified herein. Any payment received by Agent later than 11:00 a.m. (California time), shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(ii) Unless Agent receives notice from Administrative Borrower prior to the date on which any payment is due to the Lenders that Borrowers will not make such payment in full as and when required, Agent may assume that Borrowers have made (or will make) such payment in full to Agent on such date in immediately available funds and Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrowers do not make such payment in full to Agent on the date when due, each Lender severally shall repay to Agent on demand such amount distributed to such Lender, together with interest thereon at the Defaulting Lender Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(iii) [intentionally omitted].

(iv) [intentionally omitted].

(b) **Apportionment and Application of Payments**.

(i) Except as otherwise provided with respect to Defaulting Lenders and except as otherwise provided in the Loan Documents (including letter agreements between Agent and individual Lenders), aggregate principal and interest payments shall be apportioned ratably among the Lenders (according to the unpaid principal balance of the Obligations to which such payments relate held by each Lender) and payments of fees and expenses (other than fees or expenses that are for Agent's separate account, after giving effect to any letter agreements between Agent and individual Lenders) shall be apportioned ratably

among the Lenders having a Pro Rata Share of the type of Commitment or Obligation to which a particular fee relates. All payments shall be remitted to Agent and all such payments (other than payments received while no Default or Event of Default has occurred and is continuing and which relate to the payment of principal or interest of specific Obligations or which relate to the payment of specific fees), and, subject to clauses (ii) through (vi) below, all proceeds of Accounts or other Collateral received by Agent, shall be applied as follows:

A. first, to pay any Lender Group Expenses then due to Agent under the Loan Documents, until paid in full,

B. second, to pay any Lender Group Expenses then due to the Lenders under the Loan Documents, on a ratable basis, until paid in full,

C. third, to pay any fees then due to Agent (for its separate accounts, after giving effect to any letter agreements between Agent and the individual Lenders) under the Loan Documents until paid in full,

D. fourth, to pay any fees then due to any or all of the Lenders (after giving effect to any letter agreements between Agent and individual Lenders) under the Loan Documents, on a ratable basis, until paid in full,

E. fifth, to pay interest due in respect of all Agent Advances, until paid in full,

F. sixth, ratably to pay interest due in respect of the Advances (other than Agent Advances) and the Swing Loans until paid in full,

G. seventh, to pay the principal of all Agent Advances until paid in full,

H. eighth, to pay the principal of all Swing Loans until paid in full,

I. ninth, so long as no Event of Default has occurred and is continuing, and at Agent's election (which election Agent agrees will not be made if an Overadvance would be created thereby), to pay amounts then due and owing by any Loan Party or its Subsidiaries in respect of Bank Products, until paid in full,

J. tenth, so long as no Event of Default has occurred and is continuing, to pay the principal of all Advances until paid in full,

K. eleventh, if an Event of Default has occurred and is continuing, ratably (i) to pay the principal of all Advances until paid in full, and (ii) to Agent, to be held by Agent, for the benefit of Wells Fargo or its Affiliates, as applicable, as cash collateral in an amount up to the amount of the Bank Products Reserve established prior to the occurrence

of, and not in contemplation of, the subject Event of Default until Loan Parties' and their Subsidiaries' obligations in respect of the then extant Bank Products have been paid in full or the cash collateral amount has been exhausted,

L. twelfth, if an Event of Default has occurred and is continuing, to Agent, to be held by Agent, for the ratable benefit of Issuing Lender and those Lenders having a Revolver Commitment, as cash collateral in an amount up to 105% of the then extant Letter of Credit Usage until paid in full,

M. thirteenth, to pay any other Obligations (including Bank Product Obligations) until paid in full, and

N. fourteenth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law.

(ii) Agent promptly shall distribute to each Lender, pursuant to the applicable wire instructions received from each Lender in writing, such funds as it may be entitled to receive, subject to a Settlement delay as provided in Section 2.3(h).

(iii) In each instance, so long as no Default or Event of Default has occurred and is continuing, Section 2.4(b) shall not be deemed to apply to any payment by the Loan Parties specified by the Loan Parties to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement.

(iv) For purposes of the foregoing, "paid in full" means payment of all amounts owing under the Loan Documents according to the terms thereof, including loan fees, service fees, professional fees, interest (and specifically including interest accrued after the commencement of any Insolvency Proceeding), default interest, interest on interest, and expense reimbursements, whether or not the same would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(v) In the event of a direct conflict between the priority provisions of this Section 2.4 and other provisions contained in any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.4 shall control and govern.

(vi) Notwithstanding anything to the contrary contained in this Agreement or any other Loan Document, all proceeds from the sale or other disposition of, or in connection with any casualty or loss of, any Notes Priority Collateral shall be applied, first, by the Loan Parties in accordance with the terms

of the Notes Documents and the Indenture (as such terms are defined in the Intercreditor Agreement), second, upon the payment in full of the LSB Notes, to the Obligations, to the extent such proceeds constitute proceeds of Collateral under this Agreement or the other Loan Documents at the time of receipt of such proceeds, in accordance with Section 2.4(b)(i), subject to the terms of the Intercreditor Agreement.

2.5 Overadvances. If, at any time or for any reason, the amount of Obligations (other than Bank Product Obligations) owed by Borrowers to the Lender Group pursuant to Sections 2.1 and 2.12 is greater than either the Dollar or percentage limitations set forth in Sections 2.1 or 2.12, (an "Overadvance"), Borrowers immediately shall pay to Agent, in cash, the amount of such excess, which amount shall be used by Agent to reduce such Overadvances in accordance with the priorities set forth in Section 2.4(b). In addition, Borrowers hereby promise to pay the Obligations (including principal, interest, fees, costs, and expenses) in Dollars in full to the Lender Group as and when due and payable under the terms of this Agreement and the other Loan Documents.

2.6 Interest Rates and Letter of Credit Fee: Rates, Payments, and Calculations.

(a) **Interest Rates**. Except as provided in clause (c) below, all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof as follows (i) if the relevant Obligation is an Advance that is a LIBOR Rate Loan, at a per annum rate equal to the LIBOR Rate plus the LIBOR Rate Margin, (ii) otherwise, at a per annum rate equal to the Base Rate plus the Base Rate Margin.

(b) **Letter of Credit Fee**. Borrowers shall pay Agent (for the ratable benefit of the Lenders with a Revolver Commitment, subject to any letter agreement between Agent and individual Lenders), a Letter of Credit fee (in addition to the charges, commissions, fees, and costs set forth in Section 2.12(e)) which shall accrue at a rate equal to 1.00% per annum times the Daily Balance of the undrawn amount of all outstanding Letters of Credit.

(c) **Default Rate**. Upon the occurrence and during the continuation of an Event of Default (and at the election of Agent or the Required Lenders),

(i) all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to 2 percentage points above the per annum rate otherwise applicable hereunder, and

(ii) the Letter of Credit fee provided for above shall be increased to 2 percentage points above the per annum rate otherwise applicable hereunder.

(d) **Payment**. Interest, Letter of Credit fees, and all other fees payable hereunder shall be due and payable, in arrears, on the first day of each month at any time that

Obligations or Commitments are outstanding. Borrowers hereby authorize Agent, from time to time, without prior notice to Borrowers, to charge such interest and fees, all Lender Group Expenses (as and when incurred), the charges, commissions, fees, and costs provided for in Section 2.12(e) (as and when accrued or incurred), the fees and costs provided for in Section 2.11 (as and when accrued or incurred), and all other payments as and when due and payable under any Loan Document (including any amounts due and payable to Wells Fargo or its Affiliates in respect of Bank Products up to the amount of the then extant Bank Products Reserve) to Borrowers' Loan Account, which amounts thereafter constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded by being charged to Borrowers' Loan Account and shall thereafter constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances that are Base Rate Loans hereunder.

(e) **Computation**. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed. In the event the Base Rate is changed from time to time hereafter, the rates of interest hereunder based upon the Base Rate automatically and immediately shall be increased or decreased by an amount equal to such change in the Base Rate.

(f) **Intent to Limit Charges to Maximum Lawful Rate**. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Loan Parties and the Lender Group, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto, as of the date of this Agreement, Loan Parties are and shall be liable only for the payment of such maximum as allowed by law, and payment received from the Loan Parties in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7 Cash Management.

(a) Loan Parties shall (i) establish and maintain cash management services of a type and on terms satisfactory to Agent at one or more of the banks set forth on Schedule 2.7(a) (each a "Cash Management Bank"), and shall request in writing and otherwise take such reasonable steps to ensure that all of its Account Debtors forward payment of the amounts owed by them directly to such Cash Management Bank, and (ii) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all Collections (including those sent directly by Account Debtors to a Cash Management Bank) into a bank account in Administrative Borrower's name (a "Cash Management Account") at one of the Cash Management Banks.

(b) On or before the Restatement Closing Date, each Cash Management Bank shall establish and maintain Cash Management Agreements with Agent and certain Loan Parties in form and substance acceptable to Agent. Each such Cash Management

Agreement shall provide, among other things, that (i) all items of payment deposited in such Cash Management Account and proceeds thereof are held by such Cash Management Bank as agent or bailee-in-possession for Agent, (ii) the Cash Management Bank has no rights of setoff or recoupment or any other claim against the applicable Cash Management Account, other than for payment of its service fees and other charges directly related to the administration of such Cash Management Account and for returned checks or other items of payment, and (iii) it immediately will forward by daily sweep all amounts in the applicable Cash Management Account to the Agent's Account; provided, that, the requirement set forth in this clause (iii) shall not be required so long as (A) no Event of Default has occurred and is continuing and (B) Excess Availability is $20,000,000 or greater at all times, and if the conditions set forth in clauses (A) and (B) are satisfied, Agent shall direct the Cash Management Bank to forward all amounts in the Cash Management Account to Borrowers' Account in accordance with the wire instructions set forth on Schedule 2.7(b) hereto.

(c) So long as no Default or Event of Default has occurred and is continuing, Administrative Borrower may amend Schedule 2.7(a) or (b) to add or replace a Cash Management Account Bank or Cash Management Account; provided, however, that (i) such prospective Cash Management Bank shall be satisfactory to Agent and Agent shall have consented in writing in advance to the opening of such Cash Management Account with the prospective Cash Management Bank, and (ii) prior to the time of the opening of such Cash Management Account, Loan Parties and such prospective Cash Management Bank shall have executed and delivered to Agent a Cash Management Agreement. Loan Parties shall close any of their Cash Management Accounts (and establish replacement cash management accounts in accordance with the foregoing sentence) promptly and in any event within 30 days of notice from Agent that the creditworthiness of any Cash Management Bank is no longer acceptable in Agent's reasonable judgment, or as promptly as practicable and in any event within 60 days of notice from Agent that the operating performance, funds transfer, or availability procedures or performance of the Cash Management Bank with respect to Cash Management Accounts or Agent's liability under any Cash Management Agreement with such Cash Management Bank is no longer acceptable in Agent's reasonable judgment.

(d) The Cash Management Accounts shall be cash collateral accounts, with all cash, checks and similar items of payment in such accounts securing payment of the Obligations, and in which Loan Parties are hereby deemed to have granted a Lien to Agent.

2.8 Crediting Payments. The receipt of any payment item by Agent (whether from transfers to Agent by the Cash Management Banks pursuant to the Cash Management Agreements or otherwise) shall not be considered a payment on account unless such payment item is a wire transfer of immediately available federal funds made to the Agent's Account or unless and until such payment item is honored when presented for payment. Should any payment item not be honored when presented for payment, then Loan Parties shall be deemed not to have made such payment and interest shall be calculated accordingly. Anything to the contrary contained herein notwithstanding, any payment item shall be deemed received by Agent only if it is received into the Agent's Account on a Business Day on or before 11:00 a.m. (California time). If any payment item is received into the Agent's Account on a non-Business Day or after 11:00 a.m. (California time) on a Business Day, it shall be deemed to have been received by Agent as of the opening of business on the immediately following Business Day.

2.9 Designated Account. Agent is authorized to make the Advances, and Issuing Lender is authorized to issue the Letters of Credit, under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person, or without instructions if pursuant to Section 2.6(d). Administrative Borrower agrees to establish and maintain a Designated Account for Borrowers with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrowers and made by Agent or the Lenders hereunder. Unless otherwise agreed by Agent and Administrative Borrower, any Advance, Agent Advance or Swing Loan requested by Borrowers and made by Agent or the Lenders hereunder shall be made to the Designated Account.

2.10 Maintenance of Loan Account; Statements of Obligations. Agent shall maintain an account on its books in the name of Borrowers and (the "Loan Account") on which Borrowers will be charged with all Advances (including Agent Advances and Swing Loans) made by Agent, Swing Lender, or the Lenders to Borrowers or for Borrowers' account, the Letters of Credit issued by Issuing Lender for Borrowers' account, and with all other payment Obligations hereunder or under the other Loan Documents (except for Bank Product Obligations), including, accrued interest, fees and expenses, and Lender Group Expenses. In accordance with Section 2.8, the Loan Account will be credited with all payments received by Agent from Borrowers or for Borrowers' account, including all amounts received in the Agent's Account from any Cash Management Bank. Agent shall render statements regarding the Loan Account to Administrative Borrower, including principal, interest, fees, and including an itemization of all charges and expenses constituting Lender Group Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and the Lender Group unless, within 45 days after receipt thereof by Administrative Borrower, Administrative Borrower shall deliver to Agent written objection thereto describing the error or errors contained in any such statements.

2.11 Fees. Borrowers shall pay to Agent the following fees and charges, which fees and charges shall be non-refundable when paid (irrespective of whether this Agreement is terminated thereafter) and shall be apportioned among the Lenders in accordance with the terms of letter agreements between Agent and individual Lenders:

(a) Unused Line Fee. On the first day of each month during the term of this Agreement, an unused line fee in the amount equal to 0.25% per annum times the result of (a) the Maximum Revolver Amount, less (b) the sum of (i) the average Daily Balance of Advances that were outstanding during the immediately preceding month, plus (ii) the average Daily Balance of the Letter of Credit Usage during the immediately preceding month,

(b) Fee Letter Fees. As and when due and payable under the terms of the Fee Letter, Borrowers shall pay to Agent the fees set forth in the Fee Letter, and

(c) For the separate account of each member of the Lender Group, audit, appraisal, and valuation fees and charges as follows, (i) a fee of $1,000 per day, per auditor, plus out-of-pocket expenses for each financial audit of a Borrower performed by personnel employed by Agent and each Lender that accompanies Agent's personnel in connection with such financial audit conducted by Agent; provided, that, in the absence of a continuing Event of Default, the Borrowers shall not be obligated to pay for more than two (2)

financial audits in any 12 month period; provided, further, that, the Borrower shall not be required to reimburse the Agent for the costs of more than one (1) financial audit in any 12 month period if, at the time of such financial audit, (x) no Default or Event of Default has occurred and is continuing and (y) no Advances have been outstanding since the Restatement Effective Date, (ii) if implemented, for the sole account of the Agent, a one-time charge of $3,000 plus out-of-pocket expenses for expenses for the establishment of electronic collateral reporting systems, (iii) a fee of $1,500 per day per appraiser, plus out-of-pocket expenses, for each appraisal of the Collateral consisting of Inventory and Capital Assets performed by personnel employed by Agent; provided, that, in the absence of a continuing Event of Default, the Borrowers shall not be obligated to pay for more than one (1) appraisal in any 12 month period; provided, further, that, the Borrower shall not be required to reimburse the Agent for the costs of any such appraisal if, at the time of such appraisal, (x) no Default or Event of Default has occurred and is continuing and (y) no Advances have been outstanding since the Restatement Effective Date, and (iv) the actual charges paid or incurred by the Agent (and, subject to clause (i) above, each Lender) if it elects to employ the services of one or more third Persons to perform financial audits of Loan Parties, to appraise the Collateral, or any portion thereof, or to assess a Loan Parties' business valuation.

2.12 Letters of Credit.

(a) Subject to the terms and conditions of this Agreement, the Issuing Lender agrees to issue letters of credit (each, an "L/C") for the account of Borrowers or to purchase participations or execute indemnities or reimbursement obligations (each such undertaking, an "L/C Undertaking") with respect to letters of credit issued by an Underlying Issuer (as of the Restatement Effective Date, the prospective Underlying Issuer is to be Wells Fargo) for the account of Borrowers. To request the issuance of an L/C or an L/C Undertaking (or the amendment, renewal, or extension of an outstanding L/C or L/C Undertaking), Administrative Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Lender) to the Issuing Lender and Agent (reasonably in advance of the requested date of issuance, amendment, renewal, or extension) a notice requesting the issuance of an L/C or L/C Undertaking, or identifying the L/C or L/C Undertaking to be amended, renewed, or extended, the date of issuance, amendment, renewal, or extension, the date on which such L/C or L/C Undertaking is to expire, the amount of such L/C or L/C Undertaking, the name and address of the beneficiary thereof (or of the Underlying Letter of Credit, as applicable), and such other information as shall be necessary to prepare, amend, renew, or extend such L/C or L/C Undertaking. If requested by the Issuing Lender, Borrowers also shall be an applicant under the application with respect to any Underlying Letter of Credit that is to be the subject of an L/C Undertaking. The Issuing Lender shall have no obligation to issue a Letter of Credit if any of the following would result after giving effect to the requested Letter of Credit:

(i) the Letter of Credit Usage would exceed the Borrowing Base less the amount of outstanding Advances, or

(ii) the Letter of Credit Usage would exceed $15,000,000, or

(iii) the Letter of Credit Usage would exceed (A) the Maximum Revolver Amount less (B) the then extant amount of outstanding Advances.

Each Letter of Credit (and corresponding Underlying Letter of Credit) shall have an expiry date no later than 30 days prior to the Maturity Date and all such Letters of Credit (and corresponding Underlying Letter of Credit) shall be in form and substance acceptable to the Issuing Lender (in the exercise of its Permitted Discretion), including the requirement that the amounts payable thereunder must be payable in Dollars. If Issuing Lender is obligated to advance funds under a Letter of Credit, Borrowers immediately shall reimburse such L/C Disbursement to Issuing Lender by paying to Agent an amount equal to such L/C Disbursement not later than 11:00 a.m., California time, on the date that such L/C Disbursement is made, if Administrative Borrower shall have received written or telephonic notice of such L/C Disbursement prior to 10:00 a.m., California time, on such date, or, if such notice has not been received by Administrative Borrower prior to such time on such date, then not later than 11:00 a.m., California time, on (i) the Business Day that Administrative Borrower receives such notice, if such notice is received prior to 10:00 a.m., California time, on the date of receipt, and, in the absence of such reimbursement, the L/C Disbursement immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances that are Base Rate Loans under Section 2.6. To the extent an L/C Disbursement is deemed to be an Advance hereunder Borrowers' obligation to reimburse such L/C Disbursement shall be discharged and replaced by the resulting Advance. Promptly following receipt by Agent of any payment from Borrowers pursuant to this paragraph, Agent shall distribute such payment to the Issuing Lender or, to the extent that Lenders have made payments pursuant to Section 2.12(c) to reimburse the Issuing Lender, then to such Lenders and the Issuing Lender as their interest may appear.

(b) Promptly following receipt of a notice of L/C Disbursement pursuant to Section 2.12(a), each Lender with a Revolver Commitment agrees to fund its Pro Rata Share of any Advance deemed made pursuant to the foregoing subsection on the same terms and conditions as if Borrowers had requested such Advance and Agent shall promptly pay to Issuing Lender the amounts so received by it from the Lenders. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Lender or the Lenders with Revolver Commitment, the Issuing Lender shall be deemed to have granted to each Lender with a Revolver Commitment, and each Lender with a Revolver Commitment shall be deemed to have purchased, a participation in each Letter of Credit, in an amount equal to its Pro Rata Share of the Risk Participation Liability of such Letter of Credit, and each such Lender agrees to pay to Agent, for the account of the Issuing Lender, such Lender's Pro Rata Share of any payments made by the Issuing Lender under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender with a Revolver Commitment hereby absolutely and unconditionally agrees to pay to Agent, for the account of the Issuing Lender, such Lender's Pro Rata Share of each L/C Disbursement made by the Issuing Lender and not reimbursed by Borrowers on the date due as provided in clause (a) of this Section, or of any reimbursement payment required to be refunded to Borrowers for any reason. Each Lender with a Revolver Commitment acknowledges and agrees that its obligation to deliver to Agent, for the account of the Issuing Lender, an amount equal to its respective Pro Rata Share pursuant to this Section 2.12(b) shall be absolute and unconditional and such remittance shall be made notwithstanding the occurrence or continuation

of an Event of Default or Default or the failure to satisfy any condition set forth in Section 3 hereof. If any such Lender fails to make available to Agent the amount of such Lender's Pro Rata Share of any payments made by the Issuing Lender in respect of such Letter of Credit as provided in this Section, Agent (for the account of the Issuing Lender) shall be entitled to recover such amount on demand from such Lender together with interest thereon at the Defaulting Lender Rate until paid in full.

(c) Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless from any loss, cost, expense, or liability, and reasonable attorneys' fees incurred by the Lender Group arising out of or in connection with any Letter of Credit; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability that is caused by the gross negligence or willful misconduct of the Issuing Lender or any other member of the Lender Group. Each Borrower agrees to be bound by the Underlying Issuer's regulations and interpretations of any Underlying Letter of Credit or by Issuing Lender's interpretations of any L/C issued by Issuing Lender to or for such Borrower's account, even though this interpretation may be different from such Borrower's own, and each Borrower understands and agrees that the Lender Group shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following Borrowers' instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that the L/C Undertakings may require Issuing Lender to indemnify the Underlying Issuer for certain costs or liabilities arising out of claims by Borrowers against such Underlying Issuer. Each Borrower hereby agrees to indemnify, save, defend, and hold the Lender Group harmless with respect to any loss, cost, expense (including reasonable attorneys' fees), or liability incurred by the Lender Group under any L/C Undertaking as a result of the Lender Group's indemnification of any Underlying Issuer; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability that is caused by the gross negligence or willful misconduct of the Issuing Lender or any other member of the Lender Group.

(d) Each Borrower hereby authorizes and directs any Underlying Issuer to deliver to the Issuing Lender all instruments, documents, and other writings and property received by such Underlying Issuer pursuant to such Underlying Letter of Credit and to accept and rely upon the Issuing Lender's instructions with respect to all matters arising in connection with such Underlying Letter of Credit and the related application.

(e) Any and all charges, commissions, fees, and costs incurred by the Issuing Lender relating to Underlying Letters of Credit shall be Lender Group Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrowers to Agent for the account of the Issuing Lender; it being acknowledged and agreed by each Borrower that, as of the Restatement Effective Date, the issuance charge imposed by the prospective Underlying Issuer is [.825]% per annum times the face amount of each Underlying Letter of Credit, that such issuance charge may be changed from time to time, and that the Underlying Issuer also imposes a schedule of charges for amendments, extensions, drawings, and renewals.

(f) If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application thereof by any Governmental Authority, or (ii) compliance by the Underlying Issuer or the Lender Group with any direction,

request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, Regulation D of the Federal Reserve Board as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letter of Credit issued hereunder, or

(ii) there shall be imposed on the Underlying Issuer or the Lender Group any other condition regarding any Underlying Letter of Credit or any Letter of Credit issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the Lender Group of issuing, making, guaranteeing, or maintaining any Letter of Credit or to reduce the amount receivable in respect thereof by the Lender Group, then, and in any such case, Agent may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Administrative Borrower, and Borrowers shall pay on demand such amounts as Agent may specify to be necessary to compensate the Lender Group for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate then applicable to Base Rate Loans hereunder. The determination by Agent of any amount due pursuant to this Section, as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.13 LIBOR Option.

(a) **Interest and Interest Payment Dates**. In lieu of having interest charged at the rate based upon the Base Rate, Borrowers shall have the option (the "LIBOR Option") to have interest on all or a portion of the Advances be charged at the LIBOR Rate. Interest on LIBOR Rate Loans shall be payable on the earliest of (i) the last day of the Interest Period applicable thereto, (ii) the occurrence of an Event of Default in consequence of which the Required Lenders or Agent on behalf thereof elect to accelerate the maturity of the Obligations, or (iii) termination of this Agreement pursuant to the terms hereof. On the last day of each applicable Interest Period, unless Administrative Borrower properly has exercised the LIBOR Option with respect thereto, the interest rate applicable to such LIBOR Rate Loan automatically shall convert to the rate of interest then applicable to Base Rate Loans of the same type hereunder. At any time that an Event of Default has occurred and is continuing, Borrowers no longer shall have the option to request that Advances bear interest at the LIBOR Rate and Agent shall have the right to convert the interest rate on all outstanding LIBOR Rate Loans to the rate then applicable to Base Rate Loans hereunder.

(b) LIBOR Election.

(i) Administrative Borrower may, at any time and from time to time, so long as no Event of Default has occurred and is continuing, elect to exercise the LIBOR Option by notifying Agent prior to 11:00 a.m. (California time) at least 3 Business Days prior to the commencement of the proposed Interest Period (the "LIBOR Deadline"). Notice of Administrative Borrower's

election of the LIBOR Option for a permitted portion of the Advances and an Interest Period pursuant to this Section shall be made by delivery to Agent of a LIBOR Notice received by Agent before the LIBOR Deadline, or by telephonic notice received by Agent before the LIBOR Deadline (to be confirmed by delivery to Agent of a LIBOR Notice received by Agent prior to 5:00 p.m. (California time) on the same day. Promptly upon its receipt of each such LIBOR Notice, Agent shall provide a copy thereof to each of the Lenders having a Revolver Commitment.

(ii) Each LIBOR Notice shall be irrevocable and binding on Borrowers. In connection with each LIBOR Rate Loan, each Borrower shall indemnify, defend, and hold Agent and the Lenders harmless against any loss, cost, or expense incurred by Agent or any Lender as a result of (a) the payment of any principal of any LIBOR Rate Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any LIBOR Rate Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure to borrow, convert, continue or prepay any LIBOR Rate Loan on the date specified in any LIBOR Notice delivered pursuant hereto (such losses, costs, and expenses, collectively, "Funding Losses"). Funding Losses shall, with respect to Agent or any Lender, be deemed to equal the amount determined by Agent or such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such LIBOR Rate Loan had such event not occurred, at the LIBOR Rate that would have been applicable thereto, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period therefor), minus (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which Agent or such Lender would be offered were it to be offered, at the commencement of such period, Dollar deposits of a comparable amount and period in the London interbank market. A certificate of Agent or a Lender delivered to Administrative Borrower setting forth any amount or amounts that Agent or such Lender is entitled to receive pursuant to this Section shall be conclusive absent manifest error.

(iii) Borrowers shall have not more than 5 LIBOR Rate Loans in effect at any given time. Borrowers only may exercise the LIBOR Option for LIBOR Rate Loans of at least $1,000,000 and integral multiples of $500,000 in excess thereof.

(c) **Prepayments**. Borrowers may prepay LIBOR Rate Loans at any time; provided, however, that in the event that LIBOR Rate Loans are prepaid on any date that is not the last day of the Interest Period applicable thereto, including as a result of any automatic prepayment through the required application by Agent of proceeds of Collections in accordance with Section 2.4(b) or for any other reason, including early termination of the term of this Agreement or acceleration of the Obligations pursuant to the terms hereof, each Borrower shall indemnify, defend, and hold Agent and the Lenders and their Participants harmless against any and all Funding Losses in accordance with clause (b) above.

(d) **Special Provisions Applicable to LIBOR Rate**.

(i) The LIBOR Rate may be adjusted by Agent with respect to any Lender on a prospective basis to take into account any additional or increased costs to such Lender of maintaining or obtaining any eurodollar deposits or increased costs due to changes in applicable law occurring subsequent to the commencement of the then applicable Interest Period, including changes in tax laws (except changes of general applicability in corporate income tax laws) and changes in the reserve requirements imposed by the Board of Governors of the Federal Reserve System (or any successor), excluding the Reserve Percentage, which additional or increased costs would increase the cost of funding loans bearing interest at the LIBOR Rate. In any such event, the affected Lender shall give Administrative Borrower and Agent notice of such a determination and adjustment and Agent promptly shall transmit the notice to each other Lender and, upon its receipt of the notice from the affected Lender, Administrative Borrower may, by notice to such affected Lender (y) require such Lender to furnish to Administrative Borrower a statement setting forth the basis for adjusting such LIBOR Rate and the method for determining the amount of such adjustment, or (z) repay the LIBOR Rate Loans with respect to which such adjustment is made (together with any amounts due under clause (b)(ii) above).

(ii) In the event that any change in market conditions or any law, regulation, treaty, or directive, or any change therein or in the interpretation of application thereof, shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to fund or maintain LIBOR Advances or to continue such funding or maintaining, or to determine or charge interest rates at the LIBOR Rate, such Lender shall give notice of such changed circumstances to Agent and Administrative Borrower and Agent promptly shall transmit the notice to each other Lender and (y) in the case of any LIBOR Rate Loans of such Lender that are outstanding, the date specified in such Lender's notice shall be deemed to be the last day of the Interest Period of such LIBOR Rate Loans, and interest upon the LIBOR Rate Loans of such Lender thereafter shall accrue interest at the rate then applicable to Base Rate Loans, and (z) Borrowers shall not be entitled to elect the LIBOR Option until such Lender determines that it would no longer be unlawful or impractical to do so.

(e) **No Requirement of Matched Funding**. Anything to the contrary contained herein notwithstanding, neither Agent, nor any Lender, nor any of their Participants, is required actually to acquire eurodollar deposits to fund or otherwise match fund any Obligation as to which interest accrues at the LIBOR Rate. The provisions of this Section shall apply as if each Lender or its Participants had match funded any Obligation as to which interest is accruing at the LIBOR Rate by acquiring eurodollar deposits for each Interest Period in the amount of the LIBOR Rate Loans.

2.14 Capital Requirements. If, after the date hereof, any Lender determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies, or any change in the interpretation or

application thereof by any Governmental Authority charged with the administration thereof, or (ii) compliance by such Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), the effect of reducing the return on such Lender's or such holding company's capital as a consequence of such Lender's Commitments hereunder to a level below that which such Lender or such holding company could have achieved but for such adoption, change, or compliance (taking into consideration such Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Lender to be material in the exercise of its Permitted Discretion, then such Lender may notify Administrative Borrower and Agent thereof. Following receipt of such notice, Borrowers agree to pay such Lender on demand the amount of such reduction of return of capital as and when such reduction is determined, payable within 90 days after presentation by such Lender of a statement in the amount and setting forth in reasonable detail such Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error). In determining such amount, such Lender may use any reasonable averaging and attribution methods.

2.15 Joint and Several Liability of Borrowers.

(a) Each of Borrowers is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Agent and the Lenders under this Agreement, for the mutual benefit, directly and indirectly, of each of Borrowers and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each of Borrowers, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including, without limitation, any Obligations arising under this Section 2.15), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Person composing Borrowers without preferences or distinction among them.

(c) If and to the extent that any of Borrowers shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Persons composing Borrowers will make such payment with respect to, or perform, such Obligation.

(d) The Obligations of each Person composing Borrowers under the provisions of this Section 2.15 constitute the absolute and unconditional, full recourse Obligations of each Person composing Borrowers enforceable against each such Borrower, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Person composing Borrowers hereby waives notice of acceptance of its joint and several liability, notice of any Advances or Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this

Agreement, notice of any action at any time taken or omitted by Agent or Lenders under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Person composing Borrowers hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Agent or Lenders at any time or times in respect of any default by any Person composing Borrowers in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Agent or Lenders in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Person composing Borrowers. Without limiting the generality of the foregoing, each of Borrowers assents to any other action or delay in acting or failure to act on the part of any Agent or Lender with respect to the failure by any Person composing Borrowers to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 2.15 afford grounds for terminating, discharging or relieving any Person composing Borrowers, in whole or in part, from any of its Obligations under this Section 2.15, it being the intention of each Person composing Borrowers that, so long as any of the Obligations hereunder remain unsatisfied, the Obligations of such Person composing Borrowers under this Section 2.15 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Person composing Borrowers under this Section 2.15 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Person composing Borrowers or any Agent or Lender. The joint and several liability of the Persons composing Borrowers hereunder shall continue in full force and effect notwithstanding any absorption, merger, amalgamation or any other change whatsoever in the name, constitution or place of formation of any of the Persons composing Borrowers or any Agent or Lender.

(f) Each Person composing Borrowers represents and warrants to Agent and Lenders that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Person composing Borrowers further represents and warrants to Agent and Lenders that such Borrower has read and understands the terms and conditions of the Loan Documents. Each Person composing Borrowers hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition, the financial condition of other guarantors, if any, and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) The provisions of this Section 2.15 are made for the benefit of the Agent, the Lenders and their respective successors and assigns, and may be enforced by it or them from time to time against any or all of the Persons composing Borrowers as often as occasion therefor may arise and without requirement on the part of any such Agent, Lender, successor or assign first to marshal any of its or their claims or to exercise any of its or their rights against any of the other Persons composing Borrowers or to exhaust any remedies

available to it or them against any of the other Persons composing Borrowers or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.15 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by any Agent or Lender upon the insolvency, bankruptcy or reorganization of any of the Persons composing Borrowers, or otherwise, the provisions of this Section 2.15 will forthwith be reinstated in effect, as though such payment had not been made.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 [intentionally omitted].

3.2 Conditions Precedent to Restatement Effective Date. The effectiveness of this Agreement is subject to the fulfillment, in a manner satisfactory to the Agent, of each of the following conditions precedent (the first date upon which all such conditions shall have been satisfied being herein called the "Restatement Closing Date"):

(a) Representations and Warranties; No Event of Default. The representations and warranties contained in Section 5 herein and in each other Loan Document and certificate or other writing delivered to the Agent or any Lender pursuant hereto on or prior to the Restatement Effective Date shall be correct in all material respects on and as of the Restatement Effective Date as though made on and as of such date, except to the extent that such representations and warranties (or any schedules related thereto) expressly relate solely to an earlier date (in which case such representations and warranties shall be true and correct in all material respects on and as of such date); and no Default or Event of Default shall have occurred and be continuing on the Restatement Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(b) Delivery of Documents. The Agent shall have received the following, each in form and substance satisfactory to the Agent and, unless indicated otherwise, dated as of or effective on the Restatement Closing Date:

(i) counterparts of this Agreement duly executed by the Loan Parties, the Agent and the Lenders and dated as of the Restatement Effective Date;

(ii) Agent shall have received a certificate from the Secretary or Assistant Secretary of each Loan Party attesting to the resolutions of such Loan Party's Board of Directors, Board of Managers or other comparable governing body, as applicable, or committee thereof, authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Loan Party is a party and authorizing specific officers of such Loan Party to execute the same;

(iii) Agent shall have received copies of each Loan Party's Governing Documents, as amended, modified, or supplemented to the Restatement Closing Date, certified by the Secretary or Assistant Secretary of such Loan Party;

(iv) Agent shall have received a certificate of status with respect to each Loan Party, dated within 20 days of the Restatement Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Loan Party, which certificate shall indicate that such Borrower is in good standing in such jurisdiction;

(v) Agent shall have received certificates of status with respect to each Loan Party, each dated within 30 days of the Restatement Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Loan Party) in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Loan Party is in good standing in such jurisdictions;

(vi) Agent shall have received a certificate of insurance, together with the endorsements thereto, as are required by Section 6.8, the form and substance of which shall be satisfactory to Agent;

(vii) Agent shall have received Collateral Access Agreements dated on or before the Restatement Closing Date with respect to the locations set forth on Schedule 3.2 hereto;

(viii) Agent shall have received opinions of the Loan Parties' outside counsel in form and substance satisfactory to Agent;

(ix) Agent shall have received satisfactory evidence (including a certificate of the chief financial officer of Parent) that all tax returns required to be filed by the Loan Parties have been timely filed or filed prior to the expiration of any extension period and all taxes upon the Loan Parties or their properties, assets, income, and franchises (including Real Property taxes and payroll taxes) have been paid prior to delinquency (giving effect to any extensions), except such taxes that are the subject of a Permitted Protest; and

(x) such other agreements, instruments, approvals, opinions and other documents as the Agent may reasonably request from the Borrowers.

(c) Due Diligence. Agent shall have completed its business, legal, and collateral due diligence, including a collateral audit and review of the Loan Parties' books and records and verification of the Loan Parties' representations and warranties to the Lender Group, the results of which shall be satisfactory to Agent.

(d) Financing Statements. One or more UCC-1 financing statements shall have been filed in such office or offices as may be necessary or, in the opinion of the Agent, desirable to perfect the security interests purported to be granted by the Additional Borrowers to the Agent by this Agreement.

(d) Expenses. Borrowers shall have paid all outstanding Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement and the other Loan Documents.

(e) Proceedings. All proceedings in connection with the transactions contemplated by this Agreement, and all documents incidental thereto, shall be satisfactory to the Agent and its special counsel, and the Agent and such special counsel shall have received from the Loan Parties all such information and such counterpart originals or certified copies of documents, and such other agreements, instruments, approvals, opinions and other documents, as the Agent or such special counsel may reasonably request.

3.3 Conditions Precedent to all Extensions of Credit. The obligation of the Lender Group (or any member thereof) to make all Advances (or to extend any other credit hereunder) shall be subject to the following conditions precedent:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any Governmental Authority against any Loan Party, Agent, any Lender, or any of their Affiliates.

3.4 Term. This Agreement shall become effective upon Restatement Effective Date and shall continue in full force and effect for a term ending on April 13, 2018 (the "Maturity Date"). The foregoing notwithstanding, the Lender Group, upon the election of the Required Lenders, shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5 Effect of Termination. On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Loan Parties with respect to any outstanding Letters of Credit and including all Bank Products Obligations) immediately shall become due and payable without notice or demand (including providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations). No termination of this Agreement, however, shall relieve or discharge Loan Parties of their duties, Obligations, or covenants hereunder and the Agent's Liens in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and the Lender Group's obligations to provide additional credit hereunder have been terminated. When this Agreement has been terminated and all of the Obligations have been fully and finally discharged and the Lender Group's obligations to provide additional credit under the Loan Documents have been terminated irrevocably, Agent will, at Loan Parties' sole expense, execute and deliver any UCC termination statements, lien releases, mortgage releases, re-assignments of trademarks, discharges of security interests, and other similar discharge or release documents (and, if applicable, in recordable form) as are reasonably necessary to release, as of record, the Agent's Liens and all notices of security interests and liens previously filed by Agent with respect to the Obligations.

3.6 Early Termination by Borrowers. Borrowers have the option, at any time upon 45 days prior written notice by Administrative Borrower to Agent, to terminate this Agreement by paying to Agent, for the benefit of the Lender Group, in cash, the Obligations (including (a) either (i) providing cash collateral to be held by Agent for the benefit of those Lenders with a Revolver Commitment in an amount equal to 105% of the then extant Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, and (b) providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations), in full, without premium or penalty. If Administrative Borrower has sent a notice of termination pursuant to the provisions of this Section, then the Commitments shall terminate and Loan Parties shall be obligated to repay the Obligations (including (a) either (i) providing cash collateral to be held by Agent for the benefit of those Lenders with a Revolver Commitment in an amount equal to 105% of the then extant Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to the Issuing Lender, and (b) providing cash collateral to be held by Agent for the benefit of Wells Fargo or its Affiliates with respect to the then extant Bank Products Obligations), in full, without premium or penalty, on the date set forth as the date of termination of this Agreement in such notice.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest.

(a) Each Loan Party hereby grants to Agent, for the benefit of the Lender Group, a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by the Loan Parties of each of their covenants and duties under the Loan Documents. The Agent's Liens in and to the Collateral shall attach to all Collateral without further act on the part of Agent or the Loan Parties. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions and as otherwise permitted in Sections 7.3 and 7.4 of this Agreement, the Loan Parties have no authority, express or implied, to dispose of any item or portion of the Collateral.

(b) Each of the applicable Loan Parties hereby confirms, ratifies and reaffirms that the Liens granted to the Agent immediately prior to the Restatement Effective Date pursuant to the Original Loan Agreement or any other Loan Document, in all of its right, title, and interest in all then existing and thereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by the Loan Parties of each of their covenants and duties under the Loan Documents are continuing and are and shall remain unimpaired and continue to constitute fully perfected, first priority Liens in favor of Agent (subject only to (i) Permitted Liens, (ii) Liens on the Notes Priority Collateral securing the LSB Notes and (iii) the filing of financing statements and other recordations with the United States Patent and Trademark Office), for the benefit of the Lender Group, with the same force, effect

and priority (except as stated herein) in effect both immediately prior to and after entering into this Agreement and the other Loan Documents entered into on or as of the Restatement Effective Date. Each of such applicable Loan Parties hereby confirms and agrees that such Liens attach to all currently existing and hereafter acquired or arising Collateral in order to secure the prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents (as defined herein) and in order to secure the prompt performance by the Borrowers and the Guarantors of each of their covenants and duties under the Loan Documents. The Agent's Liens in and to the Collateral have attached and continue to attach to all such Collateral without further act on the part of Agent, the Loan Parties. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions or as otherwise permitted in Sections 7.3 and 7.4 of this Agreement, the Borrowers and the Guarantors have no authority, express or implied, to dispose of any item or portion of the Collateral.

(c) Notwithstanding the Partial Release, each of the applicable Loan Parties hereby confirms, ratifies and affirms that a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral is granted again to the Agent, for the benefit of the Lender Group.

(d) Any grant of security interest in favor of the Agent pursuant to this Section 4.1 is a supplement to, and not a novation of, any existing security interests granted by any Loan Party in favor of the Agent, which remain in full force and effect.

(e) Upon payment in full of all outstanding obligations (including all principal and interest) under the LSB Notes, the Agent hereby agrees to release its security interest in and Liens on the Collateral constituting Notes Priority Collateral and Agent will, at the Borrowers' expense, execute and deliver any lien releases, mortgage releases, UCC termination statements and other similar discharge and release documents deemed necessary by the Borrowers to effect or evidence such release of any such Liens on the Notes Priority Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, and if and to the extent that perfection or priority of Agent's security interest is dependent on or enhanced by possession, the applicable Loan Party, immediately upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral to Agent.

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. At any time after the occurrence and during the continuation of an Event of Default, Agent or Agent's designee may (a) notify Account Debtors of the Loan Parties that the Accounts, chattel paper, or General Intangibles constituting Collateral have been assigned to Agent or that Agent has a security interest therein, or (b) collect the Accounts, chattel paper, or General Intangibles constituting Collateral directly and charge the collection costs and expenses to the Loan Account. Each Loan Parties agrees that it will hold in trust for the Lender Group, as the Lender Group's trustee, any Collections that it receives and immediately will deliver said Collections to Agent or a Cash Management Bank in their original form as received by the applicable Loan Party.

4.4 Filing of Financing Statements; Delivery of Additional Documentation Required.

(a) Each Loan Party authorizes Agent to file any financing statement required hereunder, and any continuation statement or amendment with respect thereto, in any appropriate filing office without the signature of such Loan Party where permitted by applicable law. Each Loan Party hereby ratifies the filing of any financing statement, and any continuation statement or amendment with respect thereto, filed without the signature of such Loan Party prior to the date hereof. Agent shall endeavor to promptly deliver to Administrative Borrower a copy of each such financing statement so filed by Agent.

(b) [intentionally omitted].

(c) At any time upon the request of Agent, the Loan Parties shall execute and deliver to Agent any and all financing statements, original financing statements in lieu of continuation statements, amendments to financing statements, fixture filings, security agreements, pledges, assignments, endorsements of certificates of title, and all other documents (collectively, the "Additional Documents") that Agent may request in its Permitted Discretion, in form and substance satisfactory to Agent, to create and perfect and continue perfected or better perfect the Agent's Liens in the Collateral (whether now owned or hereafter arising or acquired, tangible or intangible, real or personal), and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents. To the maximum extent permitted by applicable law, each Loan Party authorizes Agent to execute any such Additional Documents in the applicable Loan Party's name and authorizes Agent to file such executed Additional Documents in any appropriate filing office. To the maximum extent permitted by applicable law, each Loan Party authorizes the filing of any such Additional Documents without the signature of such Loan Party in any appropriate filing office. In addition, on such periodic basis as Agent shall require, the Loan Parties shall (i) provide Agent with a report of all new patentable, copyrightable, or trademarkable materials acquired or generated by the Loan Parties during the prior period, (ii) cause all patents, copyrights, and trademarks acquired or generated by the Loan Parties that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of such Loan Party's ownership thereof, and (iii) cause to be prepared, executed, and delivered to Agent supplemental schedules to the applicable Loan Documents to identify such patents, copyrights, and trademarks as being subject to the security interests created thereunder.

4.5 Power of Attorney. Each Loan Party hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as such Loan Party's true and lawful attorney, with power to (a) if such Borrower or such Guarantor refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Loan Party on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing, sign such Loan Party's name on any invoice or bill of lading relating to the Collateral, drafts against Account Debtors, or notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Loan Party's name on any Collection item that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all

claims under such Loan Party's policies of property insurance and make all determinations and decisions with respect to such policies of insurance, and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Accounts, chattel paper, or General Intangibles constituting Collateral directly with Account Debtors, for amounts and upon terms that Agent determines to be reasonable, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as each Loan Party's attorney, and each and every one of its rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligations to extend credit hereunder are terminated.

4.6 Right to Inspect. Agent and each Lender (through any of their respective officers, employees, or agents) shall have the right, from time to time hereafter to inspect the Books and to check, test, and appraise the Collateral in order to verify the Loan Parties' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

4.7 Control Agreements. Each Loan Party agrees that it will not transfer any Collateral out of any Securities Accounts or deposit accounts subject to a Cash Management Agreement to another securities intermediary or depository, unless each of the applicable Loan Parties, Agent, and the substitute securities intermediary or depository have entered into a Control Agreement. Upon the occurrence and during the continuance of an Event of Default, Agent may notify any securities intermediary or depository to liquidate the applicable Securities Account or depository account subject to a Cash Management Agreement or any related Investment Property constituting Collateral maintained or held thereby and remit the proceeds thereof to the Agent's Account for application to the Obligations in accordance with the terms of the Loan Documents. Each Loan Party hereby agrees to take any or all action that Agent requests in order for Agent to obtain control in accordance with Sections 9-104, 9-105, 9-106 and 9-107 of the Code with respect to any Collateral constituting Securities Accounts, deposit accounts, electronic chattel paper and Investment Property. No arrangement contemplated hereby or by a Control Agreement in respect of any Collateral constituting Securities Accounts, Investment Property, deposit accounts or electronic paper shall be modified by any Loan Party without the prior written consent of Agent.

4.8 Priority of Liens. Notwithstanding anything to the contrary in any Loan Document, it is understood and agreed that, in accordance with the Intercreditor Agreement, the Agent's Liens granted by the Loan Parties are first priority liens with respect to the ABL Priority Collateral (as defined in the Intercreditor Agreement) and second priority liens with respect to the Notes Priority Collateral, in each case subject to Permitted Liens.

5. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender Group to enter into this Agreement, each Loan Party makes the following representations and warranties to the Lender Group which shall be true, correct, and complete, in all material respects, as of the date hereof, and shall be true, correct, and complete, in all material respects, as of the Restatement Closing Date, and at and as of the date of the making of each Advance (or other extension of credit) made thereafter, as though made on

and as of the date of such Advance (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 No Encumbrances. Each Loan Party has good and indefeasible title to its Collateral free and clear of Liens except for Permitted Liens.

5.2 Eligible Accounts. The Eligible Accounts are bona fide existing payment obligations of Account Debtors created by the sale and delivery of Inventory or the rendition of services to such Account Debtors in the ordinary course of Borrowers' business, owed to Borrowers without defenses, disputes, offsets, counterclaims, or rights of return or cancellation. As to each Eligible Account, such Account is not:

(a) owed by an employee, Affiliate, or agent of a Borrower,

(b) on account of a transaction wherein goods were placed on consignment or were sold pursuant to a guaranteed sale, a sale or return, a sale on approval, a bill and hold, or on any other terms by reason of which the payment by the Account Debtor may be conditional,

(c) payable in a currency other than Dollars,

(d) owed by an Account Debtor that has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to its obligation to pay the Account,

(e) owed by an Account Debtor that is subject to any Insolvency Proceeding or is not Solvent or as to which a Borrower has received notice of an imminent Insolvency Proceeding or a material impairment of the financial condition of such Account Debtor,

(f) on account of a transaction as to which the goods giving rise to such Account have not been shipped and billed to the Account Debtor or the services giving rise to such Account have not been performed and accepted by the Account Debtor,

(g) a right to receive progress payments or other advance billings that are due prior to the completion of performance by the applicable Borrower of the subject contract for goods or services, and

(h) an Account that has not been billed to the customer.

5.3 Eligible Inventory and Eligible Raw Inventory. All Eligible Inventory is of good and merchantable quality, free from defects. As to each item of Eligible Inventory and Eligible Raw Inventory, such Inventory is

(a) owned by a Borrower free and clear of all Liens other than Liens in favor of Agent,

(b) either located at one of the locations set forth on Schedule E-1 or in transit from one such location to another such location,

(c) not located on real property leased by a Borrower or in a contract warehouse, in each case, unless subject to a Collateral Access Agreement executed by the lessor, the warehouseman, or other third party, as the case may be, and unless segregated or otherwise separately identifiable from goods of others, if any, stored on the premises,

(d) not goods that have been returned or rejected by Borrowers' customers, and

(e) not goods that are obsolete or slow moving, restrictive or custom items, work-in-process, or that constitute spare parts, packaging and shipping materials, supplies used or consumed in Borrowers' business, bill and hold goods, defective goods, "seconds," or Inventory acquired on consignment, except for Eligible Raw Inventory.

5.4 Equipment. All of the material Equipment is used or held for use in Loan Parties' business or is useful in Loan Parties' business.

5.5 Location of Inventory. The Inventory is not stored with a bailee, warehouseman, or similar party and is located only at the locations identified on Schedule 5.5.

5.6 Inventory Records. Each Loan Party keeps correct and accurate records itemizing and describing the type, quality, and quantity of its Inventory and the book value thereof.

5.7 Location of Chief Executive Office; FEIN. The chief executive office of each Loan Party is located at the address indicated in Schedule 5.7 and each Borrower's FEIN is identified in Schedule 5.7.

5.8 Due Organization and Qualification; Subsidiaries.

(a) Each Loan Party is duly organized and existing and in good standing under the laws of the jurisdiction of its organization and qualified to do business in any state where the failure to be so qualified reasonably could be expected to have a Material Adverse Change.

(b) Set forth on Schedule 5.8(b), is a complete and accurate description of the authorized capital Stock of each Loan Party, by class, and, as of the Restatement Effective Date, a description of the number of shares of each such class that are issued and outstanding (except with respect to the Parent). Other than as described on Schedule 5.8(b), there are no subscriptions, options, warrants, or calls relating to any shares of each Loan Party's (other than the Parent's) capital Stock, including any right of conversion or exchange under any outstanding security or other instrument. Except with respect to the Parent and as otherwise described on Schedule 5.8(b), no Loan Party is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital Stock or any security convertible into or exchangeable for any of its capital Stock.

(c) Set forth on Schedule 5.8(c), is a complete and accurate list of each Loan Party's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their organization; (ii) the number of shares of each class of common and preferred Stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by the applicable Loan Party. All of the outstanding capital Stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(d) Except as set forth on Schedule 5.8(c), (i) there are no subscriptions, options, warrants, or calls relating to any shares of any Loan Party's Subsidiaries' capital Stock, including any right of conversion or exchange under any outstanding security or other instrument, and (ii) no Loan Party nor any of its respective Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of any Loan Party's Subsidiaries' capital Stock or any security convertible into or exchangeable for any such capital Stock.

5.9 Due Authorization; No Conflict.

(a) As to each Loan Party, the execution, delivery, and performance by such Loan Party of this Agreement and the Loan Documents to which it is a party have been duly authorized by all necessary action on the part of such Loan Party.

(b) As to each Loan Party, the execution, delivery, and performance by such Loan Party of this Agreement and the Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation applicable to any Loan Party, the Governing Documents of any Loan Party, or any order, judgment, or decree of any court or other Governmental Authority binding on any Loan Party, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of any Loan Party, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of any Loan Party, other than Permitted Liens, or (iv) require any approval of any Loan Party's interestholders or any approval or consent of any Person under any material contractual obligation of any Loan Party.

(c) Other than the filing of financing statements, the recording of mortgages, the execution, delivery, and performance by each Loan Party of this Agreement and the Loan Documents to which such Loan Party is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority or other Person.

(d) As to each Loan Party, this Agreement and the other Loan Documents to which such Loan Party is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Loan Party will be the legally valid and binding obligations of such Loan Party, enforceable against such Loan Party in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Agent's Liens granted by the Loan Parties are validly created, perfected, and first priority Liens (subject only to (i) Permitted Liens, (ii) Liens on the Notes Priority Collateral securing the LSB Notes, (iii) the filing of financing statements and other recordations with the United States Patent and Trademark Office and (iv) the recording of mortgages).

5.10 Litigation. Other than those matters disclosed on Schedule 5.10, there are no actions, suits, or proceedings pending or, to the best knowledge of the Loan Parties, threatened against the Loan Parties or any of their Subsidiaries, as applicable, except for (a) matters that are fully covered by insurance (subject to customary deductibles), and (b) matters arising after the Original Closing Date that, if decided adversely to the Loan Parties or any of their Subsidiaries, as applicable, reasonably could not be expected to result in a Material Adverse Change.

5.11 No Material Adverse Change. All financial statements relating to the Loan Parties that have been delivered by the Loan Parties to the Lender Group have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and present fairly in all material respects, the Loan Parties' financial condition as of the date thereof and results of operations for the period then ended.

5.12 Fraudulent Transfer.

(a) Each Loan Party is Solvent.

(b) No transfer of property is being made by any Loan Party and no obligation is being incurred by any Loan Party in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of the Loan Parties.

5.13 Employee Benefits. None of the Loan Parties, any of their Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan.

5.14 Environmental Condition. Except as set forth on Schedule 5.14, (a) to the Loan Parties' knowledge, none of the Loan Parties' properties or assets has ever been used by the Loan Parties or by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such production, storage, handling, treatment, release or transport was in violation, in any material respect, of applicable Environmental Law, (b) to the Loan Parties' knowledge, none of the Loan Parties' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) none of the Loan Parties have received notice that a Lien arising under any Environmental Law has attached to any revenues or to any Real Property owned or operated by the Loan Parties, and (d) none of the Loan Parties have received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by any Loan Party resulting in the releasing or disposing of Hazardous Materials into the environment.

5.15 [intentionally omitted].

5.16 Intellectual Property. Each Loan Party owns, or holds licenses in, all trademarks, trade names, copyrights, patents, patent rights, and licenses that are necessary to the conduct of its business as currently conducted. Attached hereto as Schedule 5.16 is a true, correct, and complete listing of all material patents, patent applications, trademarks, trademark applications, copyrights, and copyright registrations as to which each Loan Party is the owner or is an exclusive licensee.

5.17 Leases. The Loan Parties enjoy peaceful and undisturbed possession under all leases material to the business of the Loan Parties and to which the Loan Parties are a party or under which the Loan Parties are operating. All of such leases are valid and subsisting and no material default by the Loan Parties exists under any of them.

5.18 DDAs. Set forth on Schedule 5.18 are all of the DDAs of each Loan Party, including, with respect to each depository (i) the name and address of that depository, and (ii) the account numbers of the accounts maintained with such depository.

5.19 Complete Disclosure. All factual information (taken as a whole) furnished by or on behalf of the Loan Parties in writing to Agent or any Lender (including all information contained in the Schedules hereto or in the other Loan Documents) for purposes of or in connection with this Agreement, the other Loan Documents or any transaction contemplated herein or therein is, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of the Loan Parties in writing to the Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which such information was provided.

5.20 Indebtedness. Set forth on Schedule 5.20 is a true and complete list of all Indebtedness of each Loan Party outstanding immediately prior to the Restatement Effective Date that is to remain outstanding after the Restatement Effective Date, other than Indebtedness owing by a Loan Party to another Loan Party, and such Schedule accurately reflects the aggregate principal amount of such Indebtedness, the amortization schedule (if any) in respect of such Indebtedness and the maturity date of such Indebtedness.

5.21 Patriot Act. To the extent applicable, each Loan Party is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "Patriot Act"). No part of the proceeds of the loans made hereunder will be used by any Loan Party or any of their Affiliates, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

5.22 Hedge Agreements. On each date that any Hedge Agreement is executed by any Bank Product Provider, each Borrower and each other Loan Party satisfies all eligibility, suitability and other requirements under the Commodity Exchange Act (7 U.S.C. § 1, et seq., as in effect from time to time) and the Commodity Futures Trading Commission regulations.

6. AFFIRMATIVE COVENANTS.

Each Loan Party covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Loan Parties shall and shall cause each of their respective Subsidiaries to do all of the following:

6.1 Accounting System. Maintain a system of accounting that enables Loan Parties to produce financial statements in accordance with GAAP and maintain records pertaining to the Collateral that contain information as from time to time reasonably may be requested by Agent. The Loan Parties also shall keep an inventory reporting system that shows all additions, sales, claims, returns, and allowances with respect to the Inventory.

6.2 Collateral Reporting. Provide Agent (and if so requested by a Lender, with copies for such Lender) with the following documents at the following times in form satisfactory to Agent:

"If Excess Availability falls below $30,000,000, Daily; otherwise such documents are not required	(a) a sales journal, collection journal, and credit register since the last such schedule and a calculation of the Borrowing Base of Borrowers on an individual and a combined basis, and (b) notice of all returns, disputes, or claims.
Monthly, provided, that, if Excess Availability falls below $30,000,000, Weekly	(c) Inventory reports specifying each Borrower's cost and the wholesale market value of its Inventory, with additional detail showing additions to and deletions from the Inventory.
Monthly (not later than the 15th day of each month)	(d) a detailed calculation of the Borrowing Base of Borrowers, on an individual and a combined basis, (including, in each case, detail regarding those Accounts that are not Eligible Accounts), (e) a detailed aging, by total, of the Accounts, together with a reconciliation to the detailed calculation of the Borrowing Base previously provided to Agent, (f) a summary aging, by vendor, of Borrowers' accounts payable and any book overdraft, and (g) a calculation of Dilution for the prior month.
Quarterly	(h) a detailed list of each Borrower's customers with outstanding account balances, and (i) a report regarding each Loan Parties' accrued, but unpaid, ad valorem taxes,
Upon request by Agent	(j) copies of invoices in connection with the Accounts, credit memos, remittance advices, deposit slips, shipping and delivery documents in connection with the Accounts and, for Inventory and Equipment acquired by the Loan Parties, purchase orders and invoices, and (k) such other reports as to the Collateral, or the financial condition of Loan Parties as Agent may request."

In addition, each Borrower agrees to cooperate fully with Agent to facilitate and implement a system of electronic collateral reporting in order to provide electronic reporting of each of the items set forth above.

6.3 Financial Statements, Reports, Certificates. Deliver to Agent, with copies to each Lender:

(a) as soon as available, but in any event within 30 days (45 days (or, if such Person has filed a filing extension with the SEC, 50 days) in the case of a month that is the end of one of the first 3 fiscal quarters in a fiscal year) after the end of each month during each of Parent's fiscal years,

(i) a company prepared consolidated and consolidating balance sheet, income statement, and statement of cash flow covering Parent's and its Subsidiaries' operations during such period,

(ii) a certificate signed by the chief financial officer or vice president/treasurer of Parent to the effect that:

A. the financial statements delivered hereunder have been prepared in accordance with GAAP (except for the lack of footnotes and being subject to year-end audit adjustments) and fairly present in all material respects the financial condition of Parent and its Subsidiaries,

B. the representations and warranties of the Loan Parties contained in this Agreement and the other Loan Documents are true and

correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date), and

C. there does not exist any condition or event that constitutes a Default or Event of Default (or, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Loan Parties have taken, are taking, or propose to take with respect thereto), and

(iii) for each month that is the date on which a financial covenant in Section 7.20 is to be tested, a Compliance Certificate demonstrating, in reasonable detail, compliance at the end of such period with the applicable financial covenants contained in Section 7.20, and

(b) as soon as available, but in any event within 90 days (or, if such Person has filed a filing extension with the SEC, 105 days) after the end of each of Parent's fiscal years,

(i) financial statements of Parent and its Subsidiaries for each such fiscal year, prepared on a consolidated and consolidating basis, audited (in the case of the consolidated financial statements) by independent certified public accountants reasonably acceptable to Agent and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP (such audited financial statements to include a balance sheet, income statement, and statement of cash flow and, if prepared, such accountants' letter to management),

(ii) a certificate of such accountants addressed to Agent and the Lenders stating that such accountants do not have knowledge of the existence of any continuing Default or Event of Default under Section 7.20,

(c) as soon as available, but in any event at least 1 day prior to the start of each of Parent's fiscal years,

(i) copies of the Loan Parties' Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to Agent, in its sole discretion, for the forthcoming year, month by month, certified by the chief financial officer or vice president/treasurer of Parent as being such officer's good faith best estimate of the financial performance of Parent and its Subsidiaries during the period covered thereby,

(d) if and when filed by any Loan Party,

(i) 10-Q quarterly reports, Form 10-K annual reports, and Form 8-K current reports,

(ii) any other filings made by any Loan Party with the SEC,

(iii) copies of the Loan Parties' federal income tax returns (if requested by Agent), and any amendments thereto, filed with the Internal Revenue Service, and

(iv) any other information that is provided by Parent to its shareholders generally,

(e) if and when filed by any Loan Party and as requested by Agent, satisfactory evidence of payment of applicable excise taxes in each jurisdictions in which (i) any Loan Party conducts business or is required to pay any such excise tax, (ii) where any Loan Party's failure to pay any such applicable excise tax would result in a Lien on the properties or assets of any Loan Party, or (iii) where any Loan Party's failure to pay any such applicable excise tax reasonably could be expected to result in a Material Adverse Change,

(f) as soon as a Loan Party has knowledge of any event or condition that constitutes a Default or an Event of Default, notice thereof and a statement of the curative action that Loan Parties propose to take with respect thereto, and

(g) upon the request of Agent, any other report reasonably requested relating to the financial condition of the Loan Parties.

In addition to the financial statements referred to above, Loan Parties agree to deliver financial statements prepared on both a consolidated and consolidating basis and that no Loan Party, or any Subsidiary of a Loan Party, will have a fiscal year different from that of Parent. Parent and the other Loan Parties agree that their independent certified public accountants are authorized to communicate with Agent and to release to Agent whatever financial information concerning Parent or the other Loan Parties that Agent reasonably may request. Parent and each other Loan Party waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Agent pursuant to or in accordance with this Agreement, and agree that Agent may contact directly any such accounting firm or service bureau in order to obtain such information. Notwithstanding the foregoing, the Agent will use reasonable good faith efforts to permit a representative of the Loan Parties to be present or participate in any communication with such accountants.

6.4 [intentionally omitted].

6.5 Return. Cause returns and allowances as between Loan Parties and their Account Debtors, to be on the same basis and in accordance with the usual customary practices of the applicable Loan Party, as they exist at the time of the execution and delivery of this Agreement. If, at a time when no Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to any Loan Party, the applicable Loan Party promptly shall determine the reason for such return and, if the applicable Loan Party accepts such return, issue a credit memorandum (with a copy to be sent to Agent) in the appropriate amount to such Account Debtor. If, at a time when an Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to any Loan Party, the applicable Loan Party promptly shall determine the reason for such return and, if Agent consents (which consent shall not be unreasonably withheld), issue a credit memorandum (with a copy to be sent to Agent) in the appropriate amount to such Account Debtor.

6.6 Maintenance of Properties. Maintain and preserve all of its properties which are necessary or useful in the proper conduct to its business in good working order and condition, ordinary wear and tear excepted, and comply at all times with the provisions of all leases to which it is a party as lessee, so as to prevent any loss or forfeiture thereof or thereunder.

6.7 Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against the Loan Parties or any of their assets to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. The Loan Parties will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Agent with proof satisfactory to Agent indicating that the applicable Loan Party has made such payments or deposits. The Loan Parties shall deliver satisfactory evidence of payment of applicable excise taxes in each jurisdictions in which any Loan Party is required to pay any such excise tax.

6.8 Insurance.

(a) At the Loan Parties' expense, maintain insurance respecting its property and assets wherever located, covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. The Loan Parties also shall maintain business interruption, public liability, and product liability insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation. All such policies of insurance shall be in such amounts and with such insurance companies as are reasonably satisfactory to Agent. The Loan Parties shall deliver copies of all such policies to Agent with a satisfactory lender's loss payable endorsement naming Agent as sole loss payee (with respect to the policies covering any Collateral) or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to Agent in the event of cancellation of the policy for any reason whatsoever.

(b) Administrative Borrower shall give Agent prompt notice of any loss covered by such insurance with an estimated value in excess of $1,000,000. If an Event of Default has occurred and is continuing, Agent may elect to adjust, in its sole discretion, any losses payable under any such insurance policies covering any ABL Priority Collateral, without any liability to the Loan Parties whatsoever in respect of such adjustments. Except as provided in the immediately succeeding sentence, any monies received in respect of ABL Priority Collateral as payment for any loss under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall, unless otherwise required under the Intercreditor Agreement, be paid over to Agent to be applied at the option of the Required Lenders either to the prepayment of the Obligations in accordance with Section 2.4(b) or, so long as no Event of Default shall have

occurred and be continuing, at the election of the Administrative Borrower, shall be disbursed to Administrative Borrower for application to the cost of repairs, replacements, or restorations; provided, that any such proceeds not used or committed to be used for such repairs, replacements or restorations within 180 days of the receipt of such proceeds shall be applied to the Obligations in accordance with Section 2.4(b).

(c) The Loan Parties shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.8, unless Agent is included thereon as named insured with the loss payable to Agent under a lender's loss payable endorsement or its equivalent. Administrative Borrower immediately shall notify Agent whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and copies of such policies promptly shall be provided to Agent.

6.9 Location of Inventory. Keep the Inventory only at the locations identified on Schedule 5.5; provided, however, that Administrative Borrower may amend Schedule 5.5 so long as such amendment occurs by written notice to Agent not less than 10 Business Days prior to the date on which the Inventory is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, the applicable Loan Party provides any financing statements necessary to perfect and continue perfected the Agent's Liens on such assets and also provides to Agent a Collateral Access Agreement, if applicable.

6.10 Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not result in and reasonably could not be expected to result in a Material Adverse Change.

6.11 Leases. Pay when due all rents and other amounts payable under any leases to which any Loan Party is a party or by which any Loan Party's properties and assets are bound, unless such payments are the subject of a Permitted Protest.

6.12 Brokerage Commissions. Pay any and all brokerage commission or finder's fees incurred in connection with or as a result of the Loan Parties' obtaining financing from the Lender Group under this Agreement. The Loan Parties agree and acknowledge that payment of all such brokerage commissions or finder's fees shall be the sole responsibility of the Loan Parties, and each Loan Party agrees to indemnify, defend, and hold Agent and the Lender Group harmless from and against any claim of any broker or finder arising out of the Loan Parties' obtaining financing from the Lender Group under this Agreement.

6.13 Existence. At all times preserve and keep in full force and effect each Loan Party's valid existence and good standing and any rights and franchises material to the Loan Parties' businesses.

6.14 Environmental.

(a) Keep any property either owned or operated by any Loan Party free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens, (b) comply, in all material respects, with Environmental Laws and provide to Agent documentation of such compliance which Agent reasonably requests, (c) promptly notify Agent of any release of a Hazardous Material of any reportable quantity from or onto property owned or operated by any Loan Party and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, and (d) promptly provide Agent with written notice within 10 days of the receipt of any of the following: (i) notice that an Environmental Lien has been filed against any of the real or personal property of any Loan Party, (ii) commencement of any Environmental Action or notice that an Environmental Action will be filed against any Loan Party, and (iii) notice of a violation, citation, or other administrative order which reasonably could be expected to result in a Material Adverse Change.

6.15 Disclosure Updates. Promptly and in no event later than 5 Business Days after obtaining knowledge thereof, (a) notify Agent if any written information, exhibit, or report furnished to the Lender Group contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and (b) correct any defect or error that may be discovered therein or in any Loan Document or in the execution, acknowledgement, filing, or recordation thereof.

6.16 Post-Closing Covenant. Within 30 days after the Restatement Closing Date, Agent shall have received mortgages, in form and substance satisfactory to Agent, duly executed by the applicable Loan Parties, with respect to any real property owned by a Loan Party that is the subject of a mortgage in favor of the trustee under the Indenture as of the Restatement Closing Date.

7. NEGATIVE COVENANTS. Each Loan Party covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, the Loan Parties will not and will not permit any of their respective Subsidiaries to do any of the following:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement and the other Loan Documents, together with Indebtedness owed to Underlying Issuers with respect to Underlying Letters of Credit;

(b) Indebtedness set forth on Schedule 5.20;

(c) Permitted Purchase Money Indebtedness;

(d) refinancings, renewals, replacements or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) [intentionally omitted], (ii) such refinancings, renewals, or extensions do not result in an increase in the principal amount of, or interest rate with respect to, the Indebtedness so refinanced, renewed, or extended, except for increases in the principal amount of such Indebtedness not exceeding the principal amount of such Indebtedness outstanding on the Restatement Effective Date, (iii) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, nor are they on terms or conditions, that, taken as a whole, are materially more burdensome or restrictive to the applicable Loan Party, and (iv) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Obligations, then the terms and conditions of the refinancing, renewal, or extension Indebtedness must be include subordination terms and conditions that are at least as favorable to the Lender Group as those that were applicable to the refinanced, renewed, or extended Indebtedness;

(e) [intentionally omitted];

(f) Indebtedness owing by any Loan Party to any other Loan Party;

(g) subordinated Indebtedness the terms and conditions of which, including provisions subordinating such Indebtedness to the Obligations, are satisfactory to the Lenders;

(h) [intentionally omitted];

(i) other Indebtedness in an aggregate principal amount not to exceed $50,000,000 outstanding at any time;

(j) Indebtedness composing Permitted Investments;

(k) [intentionally omitted];

(l) [intentionally omitted];

(m) Indebtedness of the Loan Parties and their Subsidiaries under the LSB Notes and guarantees thereof;

(n) Indebtedness in respect of Third Party Hedge Obligations, so long as both immediately before and after giving effect to the incurrence of any such Indebtedness, the Covenant Condition is satisfied; provided, however, that the foregoing Covenant Condition shall not apply to the Hedge Obligations entered into with a Bank Product Provider; and

(o) Indebtedness of the Parent in respect of a guaranty under the Zena Credit Documents in an aggregate principal amount not to exceed $35,000,000 at any one time outstanding.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced, renewed, replaced or extended under Section 7.1(d) and so long as the replacement Liens only encumber those assets that secured the refinanced, renewed, or extended Indebtedness).

7.3 Restrictions on Fundamental Changes.

(a) Enter into any merger, consolidation, or reorganization, or, except for the Parent, reclassify its Stock.

(b) Liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution).

(c) Convey, sell, lease, license, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its assets.

Clauses (a), (b) and (c) of this Section 7.3 shall not apply to (i) the merger or consolidation of a Loan Party or a Subsidiary of a Loan Party with and into another Loan Party (in each such case, so long as a Borrower (to the extent a Borrower is part of such transaction) is the surviving entity of any such merger), or (ii) the sale, transfer, lease or other disposal of any assets of any Loan Party or any of its Subsidiaries to any other Loan Party.

7.4 Disposal of Assets. Other than Permitted Dispositions and as provided in Section 7.3, convey, sell, lease, license, assign, transfer, or otherwise dispose of any of the assets of any Loan Party, except that, so long as no Default or Event of Default has occurred and is continuing or would result therefrom:

(a) a Loan Party and any Subsidiary of a Loan Party may sell or otherwise dispose of any of its other assets, provided that (i) to the extent such disposition involves ABL Priority Collateral, the proceeds from such sale or disposition in respect of such ABL Priority Collateral are applied to prepay the Obligations in accordance with Section 2.4(b), (iii) such assets are sold for Fair Market Value and (iii) the aggregate Fair Market Value of all such assets sold during each fiscal year pursuant to this Section 7.4(a) shall not exceed $10,000,000;

(b) notwithstanding anything to the contrary contained herein, any Loan Party and any of its respective Subsidiaries may sell, transfer or otherwise dispose of any Notes Priority Collateral owned by such Person so long as such disposition is permitted under the Notes Documents or the Indenture (as such terms are defined in the Intercreditor Agreement) or if the requisite holders of the LSB Notes otherwise consents to such sale or disposition, it being understood that upon such sale, Agent's security interest in such assets shall be automatically released, and it being further understood that proceeds from the sale or disposition of Notes Priority Collateral shall be applied, first, by the Loan Parties in accordance with the terms of the Notes Documents and the Indenture (as such terms are defined in the Intercreditor Agreement), second, upon the payment in full of the LSB Notes, to the Obligations in accordance with Section 2.4(b)(i), subject to the terms of the Intercreditor Agreement;

(c) a Loan Party may sell Specified Orica Accounts to the Orica Account Purchaser, so long as the following terms and conditions are satisfied as determined by Agent: (A) any sale or transfer of Specified Orica Accounts shall be without any recourse, offset or claim of any kind or nature to or against any Loan Party, Agent or any Lender; (B) Agent shall have received, in form and substance satisfactory to Agent, true, correct and complete copies of the applicable Orica Sale Documents, duly authorized, executed and delivered by the parties thereto; (C) further sales of the Specified Orica Accounts pursuant to the applicable Orica Sale Documents will cease upon a written notice by Agent to Administrative Borrower of a Default or Event of Default; (D) no Loan Party shall, directly or indirectly, amend, modify, alter or change any of the terms of the Orica Sale Documents in any manner that is adverse to the interests of Loan Parties, Agent or Lenders in any material respect without the prior written consent of Agent; and (E) Loan Parties shall furnish to Agent all notices or demands (if any) outside of the ordinary course in connection with the arrangements made by the Loan Parties pursuant to the applicable Orica Sale Documents either received by any Loan Party or on its behalf, promptly after receipt thereof, or sent by any Loan Party or on its behalf, concurrently with the sending thereof, as the case may be; and

(d) notwithstanding anything to the contrary in any Loan Document, the Parent may at any time issue or sell equity (stock or other equity securities) interests of the Parent.

7.5 Change Name. Change any Loan Party's name, FEIN, corporate structure or identity, or add any new fictitious name; provided, however, that a Loan Party may change its name or add any new fictitious name upon at least 30 days prior written notice by Administrative Borrower to Agent of such change and so long as, at the time of such written notification, such Loan Party provides any financing statements or fixture filings necessary to perfect and continue perfected Agent's Liens.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except (i) by endorsement of instruments or items of payment for deposit to the account of the Loan Parties or which are transmitted or turned over to Agent, (ii) for guarantees of the LSB Notes, (iii) for guarantees of Indebtedness permitted under Sections 7.1(a) through (n) and guarantees set forth on Schedule 5.20, (iv) for the guaranty by the Parent of the Indebtedness under the Zena Credit Documents to the extent permitted under Section 7.1(o), and (v) for guarantees of performance, surety or appeal bonds of any Loan Party (other than the Parent).

7.7 Nature of Business. Make any change in the principal nature of the Loan Parties' business.

7.8 Prepayments and Amendments.

(a) Except in connection with (i) the Obligations in accordance with this Agreement, (ii) the LSB Notes (which may be prepaid, redeemed or repurchased by any Loan Party without restriction) and (iii) a refinancing permitted by Section 7.1(d), prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of any Loan Party;

(b) [intentionally omitted], and

(c) Except in connection with a refinancing permitted by Section 7.1(d), amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b), (c) or (g) if such amendment, modification or change would shorten the final maturity or average life to maturity of, or require any payment to be made earlier than the date originally scheduled on, such Indebtedness, would increase the principal amount of or the interest rate applicable to such Indebtedness, would change the lien subordination provisions of such Indebtedness, or would otherwise be materially adverse to any Loan Party, the Agent or the Lenders in any respect.

7.9 Change of Control. Cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Consignments. Consign any Inventory or sell any Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

7.11 Distributions. Other than (i) distributions or the declaration and payment of dividends by a Loan Party to another Loan Party and (ii) transactions permitted under Section 7.3, make any distribution or declare or pay any dividends (in cash or other property, other than common Stock) on, or purchase, acquire, redeem, or retire any of any Loan Party's Stock, of any class, whether now or hereafter outstanding; provided, that Parent may make other distributions and pay dividends to its equityholders and purchase, acquire, redeem, or retire its Stock, so long as, with respect to any such amounts in excess of $500,000 during any fiscal year, both immediately before and after giving effect to any such excess payments, the Covenant Condition has been satisfied.

7.12 Accounting Methods. Modify or change its method of accounting (other than as may be required to conform to GAAP) or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of the Loan Parties' accounting records without said accounting firm or service bureau agreeing to provide Agent information regarding the Collateral or the Loan Parties' financial condition.

7.13 Investments. Except for Permitted Investments, directly or indirectly, make or acquire any Investment, or incur any liabilities (including contingent obligations) for or in connection with any Investment; provided, however, that the Loan Parties are also permitted to make or acquire other Investments (other than in the Cash Management Accounts) not exceeding $5,000,000 in the aggregate outstanding at any one time.

7.14 Transactions with Affiliates. Except for agreements set forth on Schedule 7.14, transactions among the Loan Parties or transactions that are otherwise expressly permitted under this Agreement, directly or indirectly enter into or permit to exist any transaction with any Affiliate of any Loan Party except for transactions that are in the ordinary course of the Loan Parties' business, upon fair and reasonable terms and that are no less favorable to Loan Parties than would be obtained in an arm's length transaction with a non-Affiliate.

7.15 Suspension. Suspend or go out of a substantial portion of its business.

7.16 Compensation. Pay or accrue total cash compensation, during any year, to its officers and senior management employees in an aggregate amount in excess of the amount established by the compensation committee of Parent.

7.17 Use of Proceeds. Use the proceeds of the Advances for any purpose other than (a) on the Restatement Effective Date, to pay transactional fees, costs, and expenses incurred in connection with this Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, and (b) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted purposes.

7.18 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without Administrative Borrower providing 30 days prior written notification thereof to Agent and so long as, at the time of such written notification, the applicable Loan Party provides any financing statements or fixture filings necessary to perfect and continue perfected the Agent's Liens and also provides to Agent a Collateral Access Agreement, if applicable, with respect to such new location. The Inventory shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Agent's prior written consent.

7.19 [intentionally omitted].

7.20 Financial Covenants.

(a) **Fixed Charge Coverage Ratio**. At any time Excess Availability is less than or equal to 12.5% of the Total Commitment (the "FCCR Trigger Date"), fail to maintain a Fixed Charge Coverage Ratio of not less than 1.10:1.00, measured monthly commencing on the FCCR Trigger Date with the most recently ended month, on a trailing twelve month basis.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If any Loan Party fails to pay when due and payable or when declared due and payable, all or any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due the Lender Group, reimbursement of Lender Group Expenses, or other amounts constituting Obligations);

8.2 If any Loan Party fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in Sections 6.1, 6.2 (but only up to three

times during any 12-month period, and only in relation to Defaults caused by the failure of third Persons to provide required information or reporting, and not in relation to Defaults caused by a Borrower), 6.3, 6.6, 6.9, 6.10, 6.11 and 6.15 of this Agreement, or comparable provisions of the other Loan Documents, within 10 days of the date when required (or within 5 days of the date when required in the case of Section 6.2 or Section 6.3), or if a Loan Party otherwise fails to perform, keep, or observe any other term, provision, condition, covenant, or agreement contained in this Agreement or in any of the other Loan Documents;

8.3 If any material portion of any Loan Party's or any of its Subsidiaries' assets is attached, seized, subjected to a writ or distress warrant, levied upon, or comes into the possession of any third Person;

8.4 If an Insolvency Proceeding is commenced by any Loan Party or any of its Subsidiaries;

8.5 If an Insolvency Proceeding is commenced against any Loan Party or any of its Subsidiaries, and any of the following events occur: (a) the applicable Loan Party or the Subsidiary consents to the institution of the Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted, (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Agent (including any successor agent) and each other member of the Lender Group shall be relieved of their obligation to extend credit hereunder, (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, any Loan Party or any of its Subsidiaries, or (e) an order for relief shall have been entered therein;

8.6 If any Loan Party or any of its Subsidiaries is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.7 If a notice of Lien (other than a Permitted Lien), levy or assessment securing or otherwise with respect to Indebtedness or an obligation for the payment of money in an aggregate amount in excess of $1,000,000 is filed of record with respect to any Loan Party's or any of its Subsidiaries' assets by the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien (other than a Permitted Lien), whether choate or otherwise, upon any Loan Party's or any of its Subsidiaries' assets and the same is not paid on the payment date thereof;

8.8 If a judgment or other claim for an amount in excess of $1,000,000 becomes a Lien or encumbrance upon any material portion of any Loan Party's or any of its Subsidiaries' properties or assets;

8.9 If there is a default in any material agreement (including, without limitation, the LSB Notes and the Zena Credit Documents) to which any Loan Party or any of its Subsidiaries is a party (whether as a direct obligor or a guarantor thereof) and such default (a)(i)

occurs at the final maturity of the obligations thereunder after giving effect to any applicable grace period and any extensions thereof, or (ii) results in a right by the other party thereto after giving effect to any applicable grace periods and any extensions thereof, irrespective of whether exercised, to accelerate the maturity of the applicable Loan Party's or its Subsidiaries' obligations thereunder, to terminate such agreement, or to refuse to renew such agreement pursuant to an automatic renewal right therein, and (b) involves Indebtedness or an obligation for the payment of money in an aggregate amount in excess of $2,500,000;

8.10 If any Loan Party or any of its Subsidiaries makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

8.11 If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or Record made to the Lender Group by any Loan Party, its Subsidiaries, or any officer, employee, agent, or director of any Loan Party or any of its Subsidiaries;

8.12 If the obligation of any Guarantor under its Guaranty is limited or terminated by operation of law or by such Guarantor thereunder;

8.13 If this Agreement or any other Loan Document that purports to create a Lien, shall, for any reason not as a result of any act or omission of the Agent, fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, first priority Lien on or security interest in the Collateral covered hereby or thereby; or

8.14 Any provision of any Loan Document shall at any time for any reason be declared to be null and void, or the validity or enforceability thereof shall be contested by any Loan Party, or a proceeding shall be commenced by any Loan Party, or by any Governmental Authority having jurisdiction over any Loan Party, seeking to establish the invalidity or unenforceability thereof, or any Loan Party shall deny that any Loan Party has any liability or obligation purported to be created under any Loan Document.

9. THE LENDER GROUP'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence, and during the continuation, of an Event of Default, the Required Lenders (at their election but without notice of their election and without demand) may authorize and instruct Agent to do any one or more of the following on behalf of the Lender Group (and Agent, acting upon the instructions of the Required Lenders, shall do the same on behalf of the Lender Group), all of which are authorized by the Loan Parties:

(a) Declare all Obligations (other than the Bank Product Obligations), whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between the Loan Parties and the Lender Group;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of the Lender Group, but without affecting any of the Agent's Liens in the Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Agent considers advisable, and in such cases, Agent will credit the Loan Account with only the net amounts received by Agent in payment of such disputed Accounts after deducting all Lender Group Expenses incurred or expended in connection therewith;

(e) Cause the Loan Parties to hold all returned Inventory in trust for the Lender Group, segregate all returned Inventory from all other assets of the Loan Parties or in the Loan Parties' possession and conspicuously label said returned Inventory as the property of the Lender Group;

(f) Without notice to or demand upon any Loan Party, make such payments and do such acts as Agent considers necessary or reasonable to protect its security interests in the Collateral. Each Loan Party agrees to assemble the Collateral if Agent so requires, and to make the Collateral available to Agent at a place that Agent may designate which is reasonably convenient to both parties. Each Loan Party authorizes Agent to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any Lien that in Agent's determination appears to conflict with the Agent's Liens and to pay all expenses incurred in connection therewith and to charge Borrowers' Loan Account therefor. With respect to any of the Loan Parties' owned or leased premises, each Loan Party hereby grants Agent a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of the Lender Group's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to any Loan Party (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of the Code), set off and apply to the Obligations any and all (i) balances and deposits of any Borrower held by the Lender Group (including any amounts received in the Cash Management Accounts), or (ii) Indebtedness at any time owing to or for the credit or the account of any Loan Party held by the Lender Group;

(h) Hold, as cash collateral, any and all balances and deposits of any Loan Party held by the Lender Group, and any amounts received in the Cash Management Accounts, to secure the full and final repayment of all of the Obligations and as Bank Product Collateralization;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Agent is hereby granted a license or other right to use, without charge, for the benefit of the Lender

Group, such Loan Party's labels, patents, copyrights, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and such Loan Party's rights under all licenses and all franchise agreements shall inure to the Lender Group's benefit;

(j) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Loan Parties' premises) as Agent determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(k) Agent shall give notice of the disposition of the Collateral as follows:

(i) Agent shall give Administrative Borrower (for the benefit of the applicable Loan Party) a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Collateral, the time on or after which the private sale or other disposition is to be made; and

(ii) The notice shall be personally delivered or mailed, postage prepaid, to Administrative Borrower as provided in Section 12, at least 10 days before the earliest time of disposition set forth in the notice; no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market;

(l) Agent, on behalf of the Lender Group may credit bid and purchase at any public sale;

(m) Agent may seek the appointment of a receiver or keeper to take possession of all or any portion of the Collateral or to operate same and, to the maximum extent permitted by law, may seek the appointment of such a receiver without the requirement of prior notice or a hearing;

(n) The Lender Group shall have all other rights and remedies available to it at law or in equity pursuant to any other Loan Documents; and

(o) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by the Loan Parties. Any excess (after setting aside amounts required to be held as described in clause (h) above) will be returned, without interest and subject to the rights of third Persons, by Agent to Administrative Borrower (for the benefit of the applicable Loan Party).

9.2 Remedies Cumulative. The rights and remedies of the Lender Group under this Agreement, the other Loan Documents, and all other agreements shall be cumulative. The Lender Group shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by the Lender Group of one right

or remedy shall be deemed an election, and no waiver by the Lender Group of any Event of Default shall be deemed a continuing waiver. No delay by the Lender Group shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES.

If any Loan Party fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, Agent, in its sole discretion and without prior notice to any Loan Party, may do any or all of the following: (a) make payment of the same or any part thereof, (b) set up such reserves in Borrowers' Loan Account as Agent deems necessary to protect the Lender Group from the exposure created by such failure, or (c) in the case of the failure to comply with Section 6.8 hereof, obtain and maintain insurance policies of the type described in Section 6.8 and take any action consistent with the terms of this Agreement. Any such amounts paid by Agent shall constitute Lender Group Expenses and any such payments shall not constitute an agreement by the Lender Group to make similar payments in the future or a waiver by the Lender Group of any Event of Default under this Agreement. Agent need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Each Loan Party waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of documents, instruments, chattel paper, and guarantees at any time held by the Lender Group on which each such Loan Party may in any way be liable.

11.2 The Lender Group's Liability for Collateral. Each Loan Party hereby agrees that: (a) so long as the Lender Group complies with its obligations, if any, under the Code, Agent shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person, and (b) all risk of loss, damage, or destruction of the Collateral shall be borne by the Loan Parties.

11.3 Indemnification. Each Loan Party shall pay, indemnify, defend, and hold the Agent-Related Persons, the Lender-Related Persons with respect to each Lender, each Participant, and each of their respective officers, directors, employees, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys' fees and disbursements and other out-of-pocket costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them (a) in connection with or as a result of or related to the execution, delivery,

enforcement, performance, or administration of this Agreement, any of the other Loan Documents, or the transactions contemplated hereby or thereby, and (b) with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event, or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). The foregoing to the contrary notwithstanding, the Loan Parties shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations. If any Indemnified Person makes any payment to any other Indemnified Person with respect to an Indemnified Liability as to which the Loan Parties were required to indemnify the Indemnified Person receiving such payment, the Indemnified Person making such payment is entitled to be indemnified and reimbursed by the Loan Parties with respect thereto. **WITHOUT LIMITATION, THE FOREGOING INDEMNITY SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO INDEMNIFIED LIABILITIES WHICH IN WHOLE OR IN PART CAUSED BY OR ARISE OUT OF ANY NEGLIGENT ACT OR OMISSION OF SUCH INDEMNIFIED PERSON OR OF ANY OTHER PERSON.**

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by the Loan Parties or Agent to the other relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, electronic mail (at such email addresses as the Administrative Borrower or Agent, as applicable, may designate to each other in accordance herewith), or telefacsimile to Loan Parties in care of Administrative Borrower or to Agent, as the case may be, at its address set forth below:

If to Administrative Borrower:
LSB INDUSTRIES, INC.
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: Tony M. Shelby
Fax No. (405) 236-1209

with copies to:
LSB INDUSTRIES, INC.
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: David M. Shear, Esq.
Fax No. (405) 236-1209

If to Agent: **WELLS FARGO CAPITAL FINANCE, INC.**
2450 Colorado Avenue
Suite 3000 West
Santa Monica, California 90404
Attn: Business Finance Division Manager
Fax No. (310) 478-9788

with copies to: **SCHULTE ROTH & ZABEL LLP**
919 Third Avenue
New York, New York 10022
Attn: Eliot L. Relles, Esq.
Fax No. (212) 593-5955

Agent and the Loan Parties may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other party. All notices or demands sent in accordance with this Section 12, other than notices by Agent in connection with enforcement rights against the Collateral under the provisions of the Code, shall be deemed received on the earlier of the date of actual receipt or 3 Business Days after the deposit thereof in the mail. Each Loan Party acknowledges and agrees that notices sent by the Lender Group in connection with the exercise of enforcement rights against Collateral under the provisions of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or any other method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

(a) THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT IN RESPECT OF SUCH OTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(b) THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE AGENT ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE LOAN PARTIES AND THE LENDER GROUP WAIVE, TO THE EXTENT PERMITTED UNDER

APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13(b).

THE LOAN PARTIES AND THE LENDER GROUP HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. THE LOAN PARTIES AND THE LENDER GROUP REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.

14.1 Assignments and Participations.

(a) Any Lender may, with the written consent of Agent (provided that no written consent of Agent shall be required in connection with any assignment and delegation by a Lender to an Eligible Transferee and no notice to Agent shall be required in connection with any assignment and delegation by a Lender to an Affiliate of a Lender or a fund or account managed by a Lender), assign and delegate to one or more assignees (each an "Assignee") all, or any ratable part of all, of the Obligations, the Commitments and the other rights and obligations of such Lender hereunder and under the other Loan Documents, in a minimum amount of $5,000,000 (except such minimum amount shall not apply to any Affiliate of a Lender or to a fund or account managed by a Lender); provided, however, that the Loan Parties and Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, have been given to Administrative Borrower and Agent by such Lender and the Assignee, (ii) such Lender and its Assignee have delivered to Administrative Borrower and Agent an Assignment and Acceptance substantially in the form of Exhibit A-1, and (iii) the assignor Lender or Assignee has paid to Agent for Agent's separate account a processing fee in the amount of $5,000. Anything contained herein to the contrary notwithstanding, the consent of Agent shall not be required (and payment of any fees shall not be required) if such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of such Lender or the assignee is an Affiliate (other than individuals) of, or a fund, money market account, investment account or other account managed by a Lender or an Affiliate of a Lender.

(b) From and after the date that Agent notifies the assignor Lender (with a copy to Administrative Borrower, if applicable) that it has received an executed Assignment and Acceptance and payment (if applicable) of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations

hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except with respect to Section 11.3 hereof) and be released from its obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, such Lender shall cease to be a party hereto and thereto), and such assignment shall affect a novation between Borrowers and the Assignee.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (1) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto, (2) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Loan Parties or the performance or observance by the Loan Parties of any of their obligations under this Agreement or any other Loan Document furnished pursuant hereto, (3) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (4) such Assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, (5) such Assignee appoints and authorizes Agent to take such actions and to exercise such powers under this Agreement as are delegated to Agent, by the terms hereof, together with such powers as are reasonably incidental thereto, and (6) such Assignee agrees that it will perform all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon each Assignee's making its processing fee payment (if applicable) under the Assignment and Acceptance and receipt and acknowledgment by Agent of such fully executed Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender pro tanto.

(e) Any Lender may at any time sell to one or more commercial banks, financial institutions, or other Persons not Affiliates of such Lender (a "Participant") participating interests in its Obligations, the Commitment, and the other rights and interests of that Lender (the "Originating Lender") hereunder and under the other Loan Documents; provided, however, that (i) the Originating Lender shall remain a "Lender" for all purposes of this Agreement and the other Loan Documents and the Participant receiving the participating interest in the Obligations, the Commitments, and the other rights and interests of the Originating Lender hereunder shall not constitute a "Lender" hereunder or under the other Loan Documents

and the Originating Lender's obligations under this Agreement shall remain unchanged, (ii) the Originating Lender shall remain solely responsible for the performance of such obligations, (iii) Loan Parties, Agent, and the Lenders shall continue to deal solely and directly with the Originating Lender in connection with the Originating Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) no Lender shall transfer or grant any participating interest under which the Participant has the right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating, (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating, (C) release all or a material portion of the Collateral or guaranties (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating, (D) postpone the payment of, or reduce the amount of, the interest or fees payable to such Participant through such Lender, or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums; and (v) all amounts payable by the Loan Parties hereunder shall be determined as if such Lender had not sold such participation; except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement. The rights of any Participant only shall be derivative through the Originating Lender with whom such Participant participates and no Participant shall have any rights under this Agreement or the other Loan Documents or any direct rights as to the other Lenders, Agent, Loan Parties, the Collections, the Collateral, or otherwise in respect of the Obligations. No Participant shall have the right to participate directly in the making of decisions by the Lenders among themselves.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may disclose all documents and information which it now or hereafter may have relating to Loan Parties or Loan Parties' business.

(g) Any other provision in this Agreement notwithstanding, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Bank or U.S. Treasury Regulation 31 CFR §203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

14.2 Successors. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Loan Parties may not assign this Agreement or any rights or duties hereunder without the Lenders' prior written consent and any prohibited assignment shall be absolutely void ab initio. No consent to assignment by the Lenders shall release any Loan Party from its Obligations. A Lender may assign this Agreement and the other Loan Documents and its rights and duties hereunder and thereunder pursuant to Section 14.1 hereof and, except as expressly required pursuant to Section 14.1 hereof, no consent or approval by any Loan Parties is required in connection with any such assignment.

15. AMENDMENTS; WAIVERS.

15.1 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Loan Parties therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by Agent at the written request of the Required Lenders) and Administrative Borrower (on behalf of all Loan Parties) and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all of the Lenders affected thereby and Administrative Borrower (on behalf of all Borrowers) and acknowledged by Agent, do any of the following:

(a) increase or extend any Commitment of any Lender,

(b) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees, or other amounts due hereunder or under any other Loan Document,

(c) reduce the principal of, or the rate of interest on, any loan or other extension of credit hereunder, or reduce any fees or other amounts payable hereunder or under any other Loan Document,

(d) change the percentage of the Commitments that is required to take any action hereunder,

(e) amend this Section or any provision of the Agreement providing for consent or other action by all Lenders,

(f) release Collateral other than as permitted by Section 16.12,

(g) change the definition of "Required Lenders",

(h) contractually subordinate any of the Agent's Liens,

(i) release any Loan Party from any obligation for the payment of money, or

(j) change the definition of Borrowing Base or the definitions of Eligible Accounts, Eligible Inventory, Eligible Raw Inventory, Eligible Inventory, Maximum Revolver Amount, or change Section 2.1(b); or

(k) amend any of the provisions of Section 16.

and, provided further, however, that no amendment, waiver or consent shall, unless in writing and signed by Agent, Issuing Lender, or Swing Lender, affect the rights or duties of Agent,

Issuing Lender, or Swing Lender, as applicable, under this Agreement or any other Loan Document. The foregoing notwithstanding, any amendment, modification, waiver, consent, termination, or release of, or with respect to, any provision of this Agreement or any other Loan Document that relates only to the relationship of the Lender Group among themselves, and that does not affect the rights or obligations of Loan Parties, shall not require consent by or the agreement of Loan Parties.

15.2 Replacement of Holdout Lender. If any action to be taken by the Lender Group or Agent hereunder requires the unanimous consent, authorization, or agreement of all Lenders, and a Lender ("Holdout Lender") fails to give its consent, authorization, or agreement, then Agent, upon at least 5 Business Days prior irrevocable notice to the Holdout Lender, may permanently replace the Holdout Lender with one or more substitute Lenders (each, a "Replacement Lender"), and the Holdout Lender shall have not right to refuse to be replaced hereunder. Such notice to replace the Holdout Lender shall specify an effective date for such replacement, which date shall not be later than 15 Business Days after the date such notice is given.

Prior to the effective date of such replacement, the Holdout Lender and each Replacement Lender shall execute and deliver an Assignment and Acceptance Agreement, subject only to the Holdout Lender being repaid its share of the outstanding Obligations (including an assumption of its Pro Rata Share of the Risk Participation Liability) without any premium or penalty of any kind whatsoever. If the Holdout Lender shall refuse or fail to execute and deliver any such Assignment and Acceptance Agreement prior to the effective date of such replacement, the Holdout Lender shall be deemed to have executed and delivered such Assignment and Acceptance Agreement. The replacement of any Holdout Lender shall be made in accordance with the terms of Section 14.1. Until such time as the Replacement Lenders shall have acquired all of the Obligations, the Commitments, and the other rights and obligations of the Holdout Lender hereunder and under the other Loan Documents, the Holdout Lender shall remain obligated to make the Holdout Lender's Pro Rata Share of Advances and to purchase a participation in each Letter of Credit, in an amount equal to its Pro Rata Share of the Risk Participation Liability of such Letter of Credit.

15.3 No Waivers; Cumulative Remedies. No failure by Agent or any Lender to exercise any right, remedy, or option under this Agreement or, any other Loan Document, or delay by Agent or any Lender in exercising the same, will operate as a waiver thereof. No waiver by Agent or any Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Agent or any Lender on any occasion shall affect or diminish Agent's and each Lender's rights thereafter to require strict performance by Borrowers of any provision of this Agreement. Agent's and each Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy that Agent or any Lender may have.

16. AGENT; THE LENDER GROUP.

16.1 Appointment and Authorization of Agent. Each Lender hereby designates and appoints WFCF as its representative under this Agreement and the other Loan Documents and each Lender hereby irrevocably authorizes Agent to take such action on its

behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Agent agrees to act as such on the express conditions contained in this Section 16. The provisions of this Section 16 are solely for the benefit of Agent, and the Lenders, and Loan Parties shall have no rights as a third party beneficiary of any of the provisions contained herein. Any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document notwithstanding, Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent; it being expressly understood and agreed that the use of the word "Agent" is for convenience only, that WFCF is merely the representative of the Lenders, and only has the contractual duties set forth herein. Except as expressly otherwise provided in this Agreement, Agent shall have and may use its sole discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions that Agent expressly is entitled to take or assert under or pursuant to this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, or of any other provision of the Loan Documents that provides rights or powers to Agent, Lenders agree that Agent shall have the right to exercise the following powers as long as this Agreement remains in effect: (a) maintain, in accordance with its customary business practices, ledgers and records reflecting the status of the Obligations, the Collateral, the Collections, and related matters, (b) execute or file any and all financing or similar statements or notices, amendments, renewals, supplements, documents, instruments, proofs of claim, notices and other written agreements with respect to the Loan Documents, (c) make Advances, for itself or on behalf of Lenders as provided in the Loan Documents, (d) exclusively receive, apply, and distribute the Collections as provided in the Loan Documents, (e) open and maintain such bank accounts and cash management accounts as Agent deems necessary and appropriate in accordance with the Loan Documents for the foregoing purposes with respect to the Collateral and the Collections, (f) perform, exercise, and enforce any and all other rights and remedies of the Lender Group with respect to Loan Parties, the Obligations, the Collateral, the Collections, or otherwise related to any of same as provided in the Loan Documents, and (g) incur and pay such Lender Group Expenses as Agent may deem necessary or appropriate for the performance and fulfillment of its functions and powers pursuant to the Loan Documents.

16.2 Delegation of Duties. Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects as long as such selection was made without gross negligence or willful misconduct.

16.3 Liability of Agent. None of the Agent-Related Persons shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by any Loan Party or any Subsidiary or Affiliate of any Loan Party, or any officer or director thereof, contained in this

Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Loan Party or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the Books or properties of Loan Parties or the books or records or properties of any of Loan Parties' Subsidiaries or Affiliates.

16.4 Reliance by Agent. Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent, or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to Loan Parties or counsel to any Lender), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless Agent shall first receive such advice or concurrence of the Lenders as it deems appropriate and until such instructions are received, Agent shall act, or refrain from acting, as it deems advisable. If Agent so requests, it shall first be indemnified to its reasonable satisfaction by Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

16.5 Notice of Default or Event of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest, fees, and expenses required to be paid to Agent for the account of the Lenders, except with respect to Events of Default of which Agent has actual knowledge, unless Agent shall have received written notice from a Lender or Administrative Borrower referring to this Agreement, describing such Default or Event of Default, and stating that such notice is a "notice of default." Agent promptly will notify the Lenders of its receipt of any such notice or of any Event of Default of which Agent has actual knowledge. If any Lender obtains actual knowledge of any Event of Default, such Lender promptly shall notify the other Lenders and Agent of such Event of Default. Each Lender shall be solely responsible for giving any notices to its Participants, if any. Subject to Section 16.4, Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Section 9; provided, however, that unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable.

16.6 Credit Decision. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by Agent hereinafter taken, including any review of the affairs of Loan Parties and their Subsidiaries or

Affiliates, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Loan Parties and any other Person (other than the Lender Group) party to a Loan Document, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Loan Parties. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrowers and any other Person (other than the Lender Group) party to a Loan Document. Except for notices, reports, and other documents expressly herein required to be furnished to the Lenders by Agent, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Loan Parties and any other Person party to a Loan Document that may come into the possession of any of the Agent-Related Persons.

16.7 Costs and Expenses; Indemnification. Agent may incur and pay Lender Group Expenses to the extent Agent reasonably deems necessary or appropriate for the performance and fulfillment of its functions, powers, and obligations pursuant to the Loan Documents, including court costs, reasonable attorneys' fees and expenses, costs of collection by outside collection agencies and auctioneer fees and costs of security guards or insurance premiums paid to maintain the Collateral, whether or not Loan Parties are obligated to reimburse Agent or Lenders for such expenses pursuant to the Loan Agreement or otherwise. Agent is authorized and directed to deduct and retain sufficient amounts from Collections received by Agent to reimburse Agent for such out-of-pocket costs and expenses prior to the distribution of any amounts to Lenders. In the event Agent is not reimbursed for such costs and expenses from Collections received by Agent, each Lender hereby agrees that it is and shall be obligated to pay to or reimburse Agent for the amount of such Lender's Pro Rata Share thereof. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of Loan Parties and without limiting the obligation of Loan Parties to do so), according to their Pro Rata Shares, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct nor shall any Lender be liable for the obligations of any Defaulting Lender in failing to make an Advance or other extension of credit hereunder. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for such Lender's ratable share of any costs or out-of-pocket expenses (including attorneys' fees and expenses) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment, or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Loan Parties. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of Agent.

16.8 Agent in Individual Capacity. Agent and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in, and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Loan Parties and their Subsidiaries and Affiliates and any other Person (other than the Lender Group) party to any Loan Documents as though Agent were not Agent hereunder, and, in each case, without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge that, pursuant to such activities, Agent or its Affiliates may receive information regarding Loan Parties or their Affiliates and any other Person (other than the Lender Group) party to any Loan Documents that is subject to confidentiality obligations in favor of Loan Parties or such other Person and that prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver Agent will use its reasonable best efforts to obtain), Agent shall not be under any obligation to provide such information to them. The terms "Lender" and "Lenders" include Agent in its individual capacity.

16.9 Successor Agent. Agent may resign as Agent upon 45 days' notice to the Lenders. If Agent resigns under this Agreement, the Required Lenders shall appoint a successor Agent for the Lenders. If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with the Lenders, a successor Agent. If Agent has materially breached or failed to perform any material provision of this Agreement or of applicable law, the Required Lenders may agree in writing to remove and replace Agent with a successor Agent from among the Lenders. In any such event, upon the acceptance of its appointment as successor Agent hereunder, such successor Agent shall succeed to all the rights, powers, and duties of the retiring Agent and the term "Agent" shall mean such successor Agent and the retiring Agent's appointment, powers, and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 16 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is 45 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Lenders appoint a successor Agent as provided for above.

16.10 Lender in Individual Capacity. Any Lender and its respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with Loan Parties and their Subsidiaries and Affiliates and any other Person (other than the Lender Group) party to any Loan Documents as though such Lender were not a Lender hereunder without notice to or consent of the other members of the Lender Group. The other members of the Lender Group acknowledge that, pursuant to such activities, such Lender and its respective Affiliates may receive information regarding Loan Parties or their Affiliates and any other Person (other than the Lender Group) party to any Loan Documents that is subject to confidentiality obligations in favor of Loan Parties or such other Person and that

prohibit the disclosure of such information to the Lenders, and the Lenders acknowledge that, in such circumstances (and in the absence of a waiver of such confidentiality obligations, which waiver such Lender will use its reasonable best efforts to obtain), such Lender not shall be under any obligation to provide such information to them. With respect to the Swing Loans and Agent Advances, Swing Lender shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the sub-agent of the Agent.

16.11 Withholding Taxes.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the IRC and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the IRC, such Lender agrees with and in favor of Agent and Loan Parties, to deliver to Agent and Administrative Borrower:

(i) if such Lender claims an exemption from withholding tax pursuant to its portfolio interest exception, (a) a statement of the Lender, signed under penalty of perjury, that it is not a (I) a "bank" as described in Section 881(c)(3)(A) of the IRC, (II) a 10% shareholder (within the meaning of Section 881(c)(3)(B) of the IRC), or (III) a controlled foreign corporation described in Section 881(c)(3)(C) of the IRC, and (B) a properly completed IRS Form W-8BEN, before the first payment of any interest under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(ii) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Form W-8BEN before the first payment of any interest under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(iii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form W-8ECI before the first payment of any interest is due under this Agreement and at any other time reasonably requested by Agent or Administrative Borrower;

(iv) such other form or forms as may be required under the IRC or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees promptly to notify Agent and Administrative Borrower of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form W-8BEN and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of Loan Parties to such Lender, such Lender agrees to notify Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of Loan Parties to such Lender. To the extent of such percentage amount, Agent will treat such Lender's IRS Form W-8BEN as no longer valid.

(c) If any Lender is entitled to a reduction in the applicable withholding tax, Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to Agent, then Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(d) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify and hold Agent harmless for all amounts paid, directly or indirectly, by Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to Agent under this Section, together with all costs and expenses (including attorneys' fees and expenses). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of Agent.

(e) All payments made by the Loan Parties hereunder or under any note or other Loan Document will be made without setoff, counterclaim, or other defense, except as required by applicable law other than for Taxes (as defined below). All such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction (other than the United States) or by any political subdivision or taxing authority thereof or therein (other than of the United States) with respect to such payments (but excluding, any tax imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein (i) measured by or based on the net income or net profits of a Lender, or (ii) to the extent that such tax results from a change in the circumstances of the Lender, including a change in the residence, place of organization, or principal place of business of the Lender, or a change in the branch or lending office of the Lender participating in the transactions set forth herein) and all interest, penalties or similar liabilities with respect thereto (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, each Loan Parties agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any note, including any amount paid pursuant to this Section 16.11(e) after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein; provided, however, that Loan Parties shall not be required to increase any

such amounts payable to Agent or any Lender (i) that is not organized under the laws of the United States, if such Person fails to comply with the other requirements of this Section 16.11, or (ii) if the increase in such amount payable results from Agent's or such Lender's own willful misconduct or gross negligence. Loan Parties will furnish to Agent as promptly as possible after the date the payment of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by the Loan Parties.

16.12 Collateral Matters.

(a) The Lenders hereby irrevocably authorize Agent, at its option and in its sole discretion, to release any Lien on any Collateral (i) upon the termination of the Commitments and payment and satisfaction in full by the Loan Parties of all Obligations, (ii) constituting property being sold or disposed of if a release is required or desirable in connection therewith and if Administrative Borrower certifies to Agent that the sale or disposition is permitted under Section 7.4 of this Agreement or the other Loan Documents (and Agent may rely conclusively on any such certificate, without further inquiry), (iii) constituting property in which no Loan Party owned any interest at the time the security interest was granted or at any time thereafter, or (iv) constituting property leased to a Loan Party under a lease that has expired or is terminated in a transaction permitted under this Agreement. Except as provided above, Agent will not execute and deliver a release of any Lien on any Collateral without the prior written authorization of (y) if the release is of all or any substantial portion of the Collateral, all of the Lenders, or (z) otherwise, the Required Lenders. Upon request by Agent or Administrative Borrower at any time, the Lenders will confirm in writing Agent's authority to release any such Liens on particular types or items of Collateral pursuant to this Section 16.12; provided, however, that (1) Agent shall not be required to execute any document necessary to evidence such release on terms that, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Lien without recourse, representation, or warranty, and (2) such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of Loan Parties in respect of) all interests retained by the Loan Parties, including, the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(b) Agent shall have no obligation whatsoever to any of the Lenders to assure that the Collateral exists or is owned by the Loan Parties or is cared for, protected, or insured or has been encumbered, or that the Agent's Liens have been properly or sufficiently or lawfully created, perfected, protected, or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent pursuant to any of the Loan Documents, it being understood and agreed that in respect of the Collateral, or any act, omission, or event related thereto, subject to the terms and conditions contained herein, Agent may act in any manner it may deem appropriate, in its sole discretion given Agent's own interest in the Collateral in its capacity as one of the Lenders and that Agent shall have no other duty or liability whatsoever to any Lender as to any of the foregoing, except as otherwise provided herein.

16.13 Restrictions on Actions by Lenders; Sharing of Payments.

(a) Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to Loan Parties or any deposit accounts of Loan Parties now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take or cause to be taken any action, including, the commencement of any legal or equitable proceedings, to foreclose any Lien on, or otherwise enforce any security interest in, any of the Collateral the purpose of which is, or could be, to give such Lender any preference or priority against the other Lenders with respect to the Collateral.

(b) If, at any time or times any Lender shall receive (i) by payment, foreclosure, setoff, or otherwise, any proceeds of Collateral or any payments with respect to the Obligations arising under, or relating to, this Agreement or the other Loan Documents, except for any such proceeds or payments received by such Lender from Agent pursuant to the terms of this Agreement, or (ii) payments from Agent in excess of such Lender's ratable portion of all such distributions by Agent, such Lender promptly shall (1) turn the same over to Agent, in kind, and with such endorsements as may be required to negotiate the same to Agent, or in immediately available funds, as applicable, for the account of all of the Lenders and for application to the Obligations in accordance with the applicable provisions of this Agreement, or (2) purchase, without recourse or warranty, an undivided interest and participation in the Obligations owed to the other Lenders so that such excess payment received shall be applied ratably as among the Lenders in accordance with their Pro Rata Shares; provided, however, that if all or part of such excess payment received by the purchasing party is thereafter recovered from it, those purchases of participations shall be rescinded in whole or in part, as applicable, and the applicable portion of the purchase price paid therefor shall be returned to such purchasing party, but without interest except to the extent that such purchasing party is required to pay interest in connection with the recovery of the excess payment.

16.14 Agency for Perfection. Agent hereby appoints each other Lender as its agent (and each Lender hereby accepts such appointment) for the purpose of perfecting the Agent's Liens in assets which, in accordance with Article 9 of the UCC can be perfected only by possession. Should any Lender obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor shall deliver such Collateral to Agent or in accordance with Agent's instructions.

16.15 Payments by Agent to the Lenders. All payments to be made by Agent to the Lenders shall be made by bank wire transfer or internal transfer of immediately available funds pursuant to such wire transfer instructions as each party may designate for itself by written notice to Agent. Concurrently with each such payment, Agent shall identify whether such payment (or any portion thereof) represents principal, premium, or interest of the Obligations.

16.16 Concerning the Collateral and Related Loan Documents. Each member of the Lender Group authorizes and directs Agent to enter into this Agreement and the other Loan Documents relating to the Collateral, for the benefit of the Lender Group. Each

member of the Lender Group agrees that any action taken by Agent in accordance with the terms of this Agreement or the other Loan Documents relating to the Collateral and the exercise by Agent of its powers set forth therein or herein, together with such other powers that are reasonably incidental thereto, shall be binding upon all of the Lenders.

16.17 Field Audits and Examination Reports; Confidentiality; Disclaimers by Lenders; Other Reports and Information. By becoming a party to this Agreement, each Lender:

(a) is deemed to have requested that Agent furnish such Lender, promptly after it becomes available, a copy of each field audit or examination report (each a "Report" and collectively, "Reports") prepared by Agent, and Agent shall so furnish each Lender with such Reports,

(b) expressly agrees and acknowledges that Agent does not (i) make any representation or warranty as to the accuracy of any Report, and (ii) shall not be liable for any information contained in any Report,

(c) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that Agent or other party performing any audit or examination will inspect only specific information regarding Loan Parties and will rely significantly upon the Books, as well as on representations of Loan Parties' personnel,

(d) agrees to keep all Reports and other material, non-public information regarding Loan Parties and their Subsidiaries and their operations, assets, and existing and contemplated business plans in a confidential manner; it being understood and agreed by the Loan Parties that in any event such Lender may make disclosures (a) to counsel for and other advisors, accountants, and auditors to such Lender, (b) reasonably required by any bona fide potential or actual Assignee or Participant in connection with any contemplated or actual assignment or transfer by such Lender of an interest herein or any participation interest in such Lender's rights hereunder, (c) of information that has become public by disclosures made by Persons other than such Lender, its Affiliates, assignees, transferees, or Participants, or (d) as required or requested by any court, governmental or administrative agency, pursuant to any subpoena or other legal process, or by any law, statute, regulation, or court order; provided, however, that, unless prohibited by applicable law, statute, regulation, or court order, such Lender shall notify Administrative Borrower of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process for disclosure of any such non-public material information concurrent with, or where practicable, prior to the disclosure thereof, and

(e) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any loans or other credit accommodations that the indemnifying Lender has made or may make to Loan Parties, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a loan or loans of Loan Parties; and (ii) to pay and protect, and indemnify, defend and hold

Agent, and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including, attorneys' fees and costs) incurred by Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

In addition to the foregoing: (x) any Lender may from time to time request of Agent in writing that Agent provide to such Lender a copy of any report or document provided by the Loan Parties to Agent that has not been contemporaneously provided by the Loan Parties to such Lender, and, upon receipt of such request, Agent shall provide a copy of same to such Lender, (y) to the extent that Agent is entitled, under any provision of the Loan Documents, to request additional reports or information from the Loan Parties, any Lender may, from time to time, reasonably request Agent to exercise such right as specified in such Lender's notice to Agent, whereupon Agent promptly shall request of Administrative Borrower the additional reports or information reasonably specified by such Lender, and, upon receipt thereof from Administrative Borrower, Agent promptly shall provide a copy of same to such Lender, and (z) any time that Agent renders to Administrative Borrower a statement regarding the Loan Account, Agent shall send a copy of such statement to each Lender.

16.18 Several Obligations; No Liability. Notwithstanding that certain of the Loan Documents now or hereafter may have been or will be executed only by or in favor of Agent in its capacity as such, and not by or in favor of the Lenders, any and all obligations on the part of Agent (if any) to make any credit available hereunder shall constitute the several (and not joint) obligations of the respective Lenders on a ratable basis, according to their respective Commitments, to make an amount of such credit not to exceed, in principal amount, at any one time outstanding, the amount of their respective Commitments. Nothing contained herein shall confer upon any Lender any interest in, or subject any Lender to any liability for, or in respect of, the business, assets, profits, losses, or liabilities of any other Lender. Each Lender shall be solely responsible for notifying its Participants of any matters relating to the Loan Documents to the extent any such notice may be required, and no Lender shall have any obligation, duty, or liability to any Participant of any other Lender. Except as provided in Section 16.7, no member of the Lender Group shall have any liability for the acts or any other member of the Lender Group. No Lender shall be responsible to any Loan Party or any other Person for any failure by any other Lender to fulfill its obligations to make credit available hereunder, nor to advance for it or on its behalf in connection with its Commitment, nor to take any other action on its behalf hereunder or in connection with the financing contemplated herein.

17. GENERAL PROVISIONS.

17.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by the Loan Parties, Agent, and each Lender whose signature is provided for on the signature pages hereof.

17.2 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

17.3 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against the Lender Group or Loan Parties, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

17.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

17.5 Amendments in Writing. This Agreement only can be amended by a writing in accordance with Section 15.1.

17.6 Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document mutatis mutandis.

17.7 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by any Loan Parties or the transfer to the Lender Group of any property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if the Lender Group is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that the Lender Group is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys' fees of the Lender Group related thereto, the liability of Loan Parties automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

17.8 Integration. This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

17.9 Parent as Agent for Loan Parties. Each Loan Party hereby irrevocably appoints the Parent as the borrowing agent and attorney-in-fact for all Loan Parties (the "Administrative Borrower"), which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Loan Party that such appointment has been revoked and that another Borrower has been appointed Administrative

Borrower. Each Loan Party hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Agent with all notices with respect to Advances and Letters of Credit obtained for the benefit of any Loan Party and all other notices and instructions under this Agreement and (ii) except as provided in the clause (i) above, to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Advances and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral of Loan Parties in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Loan Parties in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender Group shall not incur liability to any Loan Party as a result hereof. Each Loan Party expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Loan Party is dependent on the continued successful performance of the integrated group. To induce the Lender Group to do so, and in consideration thereof, each Loan Party hereby jointly and severally agrees to indemnify each member of the Lender Group and hold each member of the Lender Group harmless against any and all liability, expense, loss or claim of damage or injury, made against the Lender Group by any Loan Parties or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loan Account and Collateral of Loan Parties as herein provided, (b) the Lender Group's relying on any instructions of the Administrative Borrower, or (c) any other action taken by the Lender Group hereunder or under the other Loan Documents, except that Loan Parties will have no liability to the relevant Agent-Related Person or Lender-Related Person under this Section 17.9 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Agent-Related Person or Lender-Related Person, as the case may be.

17.10 No Novation. This Agreement constitutes an amendment and restatement of and supersedes the Amended and Restated Loan Agreement and does not extinguish the obligations for the payment of money outstanding under the Amended and Restated Loan Agreement or discharge or release the Obligations (including the Obligations of any predecessor corporations) under, and as defined in, the Amended and Restated Loan Agreement except as provided herein or the Lien or priority of any mortgage, pledge, security agreement or any other security therefor except as provided herein. Nothing herein contained shall be construed as a substitution or novation of the Obligations outstanding under, and as defined in, the Amended and Restated Loan Agreement or instruments securing the same, which shall remain in full force and effect, except as modified hereby or by instruments or documents executed concurrently herewith. Nothing expressed or implied in this Agreement shall be construed as a release or other discharge of any Loan Party under the Amended and Restated Loan Agreement from any of its obligations and liabilities as a "Borrower" or "Guarantor" thereunder except as provided herein. Each Loan Party hereby (i) confirms and agrees that each Loan Document to which it is a party is, and shall continue to be, in full force and effect, as modified by this Agreement and instruments or documents executed concurrently herewith, and is hereby ratified and confirmed in all respects except that on and after the Restatement Effective Date all references in any such Loan Document to "the Loan Agreement," "thereto," "thereof," "thereunder" or words of like import referring to the Original Loan Agreement or the Amended and Restated Loan Agreement shall mean the Original Loan Agreement or the Amended and Restated Loan Agreement, as applicable, as amended and restated and superseded by this

Agreement and (ii) confirms and agrees that to the extent that any such Loan Document purports to assign or pledge to the Agent a security interest in or Lien on, any collateral as security for the obligations of the Loan Parties from time to time existing in respect of the Original Loan Agreement, the Amended and Restated Loan Agreement and the Loan Documents, such pledge, assignment and/or grant of the security interest or lien is hereby ratified and confirmed in all respects, as amended hereby or thereby.

17.11 Patriot Act. Each Lender that is subject to the requirements of the Patriot Act hereby notifies the Loan Parties that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender to identify each Loan Party in accordance with the Patriot Act. In addition, if Agent is required by law or regulation or internal policies to do so, it shall have the right to periodically conduct (a) Patriot Act searches, OFAC/PEP searches, and customary individual background checks for the Loan Parties and (b) OFAC/PEP searches and customary individual background checks for the Loan Parties' senior management and key principals, and each Loan Party agrees to cooperate in respect of the conduct of such searches and further agrees that the reasonable costs and charges for such searches shall constitute Lender Group Expenses hereunder and be for the account of Borrowers.

17.12 Joinder of Additional Loan Parties. By its execution of this Agreement, each Additional Borrower hereby (i) grants to the Agent, as of the Restatement Effective Date, for the benefit of the Lender Group, a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of this Agreement and the other Loan Documents and in order to secure prompt performance by such Additional Borrower of its covenants and duties under this Agreement and the other Loan Documents, which Lien in and to the Collateral shall attach to all Collateral without further action on the part of the Agent or the Additional Borrower, (ii) agrees that from and after the Restatement Effective Date it shall be a Borrower under the Loan Agreement, the Contribution Agreement and the Fee Letter, in each case as if it were a signatory thereto and shall be bound by all of the provisions thereof, and (iii) agrees that it shall comply with and be subject to all the terms, conditions, covenants, agreements and obligations set forth herein and in the Contribution Agreement, the Fee Letter and the other Loan Documents. Each Additional Borrower hereby agrees that each reference to a "Borrower" or the "Borrowers" in the Loan Agreement and the other Loan Documents shall include such Additional Borrower. Each Additional Borrower acknowledges that it has received a copy of the other Loan Documents and that it has read and understands the terms thereof.

18. GUARANTY

18.1 Guaranty; Limitation of Liability. Each of the Guarantors hereby, unconditionally and irrevocably, guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of the Borrowers now or hereafter existing under any Loan Document, whether for principal, interest (including, without limitation, all interest that accrues after the commencement of any case, proceeding or other action relating to bankruptcy, insolvency or reorganization of any Borrower), fees, expenses or

otherwise (such obligations, to the extent not paid by the Borrowers, being the "Guaranteed Obligations"), and agrees to pay any and all expenses (including reasonable counsel fees and expenses) incurred by the Agent and the Lenders in enforcing any rights under the guaranty set forth in this Section 18. Without limiting the generality of the foregoing, the Guarantors' liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by the Borrowers to the Agent and the Lenders under any Loan Document but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving any Borrower.

18.2 Guaranty Absolute. Each of the Guarantors guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Loan Documents, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Lenders with respect thereto. The obligations of the Guarantors under this Section 18 are independent of the Guaranteed Obligations, and a separate action or actions may be brought and prosecuted against any Guarantor to enforce such obligations, irrespective of whether any action is brought against the Borrowers or whether the Borrowers are joined in any such action or actions. The liability of the Guarantors under this Section 18 shall be irrevocable, absolute and unconditional irrespective of, and each Guarantor hereby irrevocably waives any defenses it may now or hereafter have in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of any Loan Document or any agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Loan Document, including, without limitation, any increase in the Guaranteed Obligations resulting from the extension of additional credit to the Borrowers or otherwise;

(c) any taking, exchange, release or non-perfection of any Collateral, or any taking, release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(d) any change, restructuring or termination of the corporate, limited liability company or partnership structure or existence of any Borrower; or

(e) any other circumstance (including, without limitation, any statute of limitations) or any existence of or reliance on any representation by the Agent or the Lenders that might otherwise constitute a defense available to, or a discharge of, any Guarantor, any Borrower or any other guarantor or surety.

This Section 18 shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by a Lender or any other Person upon the insolvency, bankruptcy or reorganization of any Borrower or otherwise, all as though such payment had not been made.

18.3. Waiver. Each Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Section 18 and any requirement that the Agent or the Lenders exhaust any right or take any action against the Borrowers or any other Person or any collateral. Each Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated herein and that the waiver set forth in this Section 18.3 is knowingly made in contemplation of such benefits. Each Guarantor hereby waives any right to revoke this Section 18, and acknowledges that this Section 18 is continuing in nature and applies to all Guaranteed Obligations, whether existing now or in the future.

18.4. Continuing Guaranty; Assignments. This Section 18 is a continuing guaranty and shall (a) remain in full force and effect until the later of (i) the cash payment in full of the Guaranteed Obligations (other than indemnification obligations as to which no claim has been made) and all other amounts payable under this Section 18 and (ii) the Maturity Date, (b) be binding upon the Guarantors, and their successors and assigns and (c) inure to the benefit of and be enforceable by the Agent and the Lenders and their successors, pledgees, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Lender may pledge, assign or otherwise transfer all or any portion of its rights and obligations under this Agreement (including, without limitation, all or any portion of its Commitments and the Advances owing to it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted such Lender herein or otherwise, in each case as provided in Section 14.1.

18.5. Subrogation. None of the Guarantors will exercise any rights that they may now or hereafter acquire against any Borrower or any other insider guarantor that arise from the existence, payment, performance or enforcement of the Guarantors' obligations under this Section 18, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent and the Lenders against any Loan Party or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from any Loan Party, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security solely on account of such claim, remedy or right, unless and until all of the Guaranteed Obligations and all other amounts payable under this Section 18 shall have been paid in full in cash and the Maturity Date shall have occurred. If any amount shall be paid to any Guarantor in violation of the immediately preceding sentence at any time prior to the later of the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Section 18 and the Maturity Date, such amount shall be held in trust for the benefit of the Agent and the Lenders and shall forthwith be paid to the Agent and the Lenders to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Section 18, whether matured or unmatured, in accordance with the terms of this Agreement, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Section 18 thereafter arising. If (i) any Guarantor shall make payment to the Agent and the Lenders of all or any part of the Guaranteed Obligations, (ii) all of the Guaranteed Obligations and all other amounts payable under this Section 18 shall be paid in full in cash and (iii) the Maturity Date shall have occurred, the Agent and the Lenders will, at the Guarantors' request and expense, execute and deliver to the Guarantors appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to any Guarantor of an interest in the Guaranteed Obligations resulting from such payment by such Guarantor.

[Signature page to follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

Borrowers:

LSB INDUSTRIES, INC.,
an Delaware corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CONSOLIDATED INDUSTRIES L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CHEROKEE NITROGEN L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CLIMATE MASTER, INC.,
a Delaware corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CLIMATECRAFT, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CLIMACOOL, CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

INTERNATIONAL ENVIRONMENTAL CORPORATION,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

THERMACLIME TECHNOLOGIES, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

KOAX CORP., an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

LSB CHEMICAL L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO CHEMICAL COMPANY,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CHEMEX I CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

TRISON CONSTRUCTION, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CLIMATECRAFT TECHNOLOGIES, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

SUMMIT MACHINE TOOL MANUFACTURING L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

LSB-EUROPA LIMITED,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CHEROKEE NITROGEN HOLDINGS, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

PRYOR CHEMICAL COMPANY,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CHEMICAL PROPERTIES L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CHEMICAL TRANSPORT L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

THE CLIMATE CONTROL GROUP, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

CEPOLK HOLDINGS INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO NITRIC L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

LSB CAPITAL L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO AMMONIA L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EDC AG PRODUCTS COMPANY L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO ACID II, L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO ACID, L.L.C.,
an Oklahoma limited liability company

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

EL DORADO NITROGEN, L.P.
a Texas limited partnership

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

XPEDIAIR, INC.
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Executive Vice President

Agent and Lenders:

WELLS FARGO CAPITAL FINANCE, LLC,
as Agent

By: /s/ Matt Mouledous
Name: Matt Mouledous
Title: VP

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Matt Mouledous
Name: Matt Mouledous
Title: VP

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Commitments

Lender	Revolver Commitment	Total Commitment
Wells Fargo Bank, National Association	$ 100,000,000	$ 100,000,000
All Lenders	$ 100,000,000	$ 100,000,000

EXHIBIT A-1

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

This **ASSIGNMENT AND ACCEPTANCE AGREEMENT** ("Assignment Agreement") is entered into as of between ("Assignor") and ("Assignee"). Reference is made to the Agreement described in Item 2 of Annex I annexed hereto (the "Loan Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

In accordance with the terms and conditions of Section 14 of the Loan Agreement, the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, that interest in and to the Assignor's rights and obligations under the Loan Documents as of the date hereof with respect to the Obligations owing to the Assignor, and Assignor's portion of the Total Commitments and the Revolver Commitments, all as specified in Item 4.b and Item 4.c of Annex I. After giving effect to such sale and assignments, the Assignee's portion of the Total Commitments and Revolver Commitments will be as set forth in Item 4.b of Annex I. After giving effect to such sale and assignment the Assignor's amount and portion of the Total Commitments and Revolver Commitments will be as set forth in Item 4.d and Item 4.e of Annex I.

The Assignor (a) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; and (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or any of its Subsidiaries or the performance or observance by any Borrower or any of its Subsidiaries of any of their respective obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

The Assignee (a) confirms that it has received copies of the Loan Agreement and the other Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement; (b) agrees that it will, independently and without reliance, as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (c) confirms that it is eligible as an assignee under the terms of the Loan Agreement; (d) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (e) agrees that it will perform in accordance with their terms all of

the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender [and (f) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Loan Agreement or such other documents as are necessary to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty.]

Following the execution of this Assignment Agreement by the Assignor and Assignee, it will be delivered by the Assignor to the Agent for recording by the Agent. The effective date of this Assignment (the "Settlement Date") shall be the later of (a) the date of the execution hereof by the Assignor and the Assignee, the payment by Assignor or Assignee to Agent for Agent's sole and separate account a processing fee in the amount of $5,000, and the receipt of any required consent of the Agent, and (b) the date specified in item 5 of Annex I.

Upon recording by the Agent, as of the Settlement Date (a) the Assignee shall be a party to the Loan Agreement and, to the extent of the interest assigned pursuant to this Assignment Agreement, have the rights and obligations of a Lender thereunder and under the other Loan Documents, and (b) the Assignor shall, to the extent of the interest assigned pursuant to this Assignment Agreement, relinquish its rights and be released from its obligations under the Loan Agreement and the other Loan Documents.

Upon recording by the Agent, from and after the Settlement Date, the Agent shall make all payments under the Loan Agreement and the other Loan Documents in respect of the interest assigned hereby (including, without limitation, all payments or principal, interest and commitment fees (if applicable) with respect thereto) to the Assignee. Upon the Settlement Date, the Assignee shall pay to the Assignor the Assigned Share (as set forth in Item 4.b of Annex I) of the principal amount of any outstanding loans under the Loan Agreement and the other Loan Documents. The Assignor and Assignee shall make all appropriate adjustments in payments under the Loan Agreement and the other Loan Documents for periods prior to the Settlement Date directly between themselves on the Settlement Date.

THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[Remainder of page left intentionally blank.]

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

[NAME OF ASSIGNOR]
as Assignor

By _____
Title: _____

[NAME OF ASSIGNEE]
as Assignee

By: _____
Title: _____

ACCEPTED THIS _____ DAY OF _____

WELLS FARGO CAPITAL FINANCE, LLC,
AS AGENT

By: _____
Title: _____

ANNEX FOR ASSIGNMENT AND ACCEPTANCE

ANNEX I

1. Borrowers: LSB Industries, Inc., a Delaware corporation (the "Parent"), and each Subsidiary of the Parent party thereto as a borrower to the below referenced Loan Agreement.

2. Name and Date of Loan Agreement: Second Amended and Restated Loan and Security Agreement, dated as of December 31, 2013, among the Parent and certain subsidiaries of the Parent party thereto as Borrowers, the lenders signatory thereto as the Lenders, and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders.

3. Date of Assignment Agreement: _____

4. Amounts:

   a. Assignor's Total Commitment $ _____

      i. Assignor's Revolver Commitment $_____

   b. Assigned Share of Total Commitment _____%

      i. Assigned Share of Revolver Commitment _____%

   c. Assigned Amount of Total Commitment $_____

      i. Assigned Amount of Revolver Credit Commitment $_____

   d. Resulting Amount of Assignor's Total Commitment after giving effect to the sale and Assignment to Assignee $_____

      i. Resulting Amount of Assignor's Revolver Commitment $ _____

   e. Assignor's Resulting Share of Total Commitment after giving effect to the Assignment to Assignee _____%

      i. Assignor's Resulting Share of Revolving Credit Commitment _____%

5. Settlement Date: _____

6. Notice and Payment Instructions, etc.

Assignee:	Assignor:
By: _____	By: _____
Title: _____	Title: _____

7. Agreed and Accepted:

[ASSIGNOR]	[ASSIGNEE]
By: _____	By: _____
Title: _____	Title: _____

Accepted:
WELLS FARGO CAPITAL FINANCE, LLC, as Agent

By: _____
Title: _____

EXHIBIT C-1
(Form of Compliance Certificate)

[on Borrowers' letterhead]

To: Wells Fargo Capital Finance, LLC, as Agent
under the below-referenced Loan Agreement
2450 Colorado Avenue, Suite 3000 West
Santa Monica, California 90404
Attn: Business Finance Division Manager

Re: Compliance Certificate dated _____

Ladies and Gentlemen:

Reference is made to that certain Second Amended and Restated Loan and Security Agreement, dated as of December 31, 2013 (the "Loan Agreement") among LSB Industries, Inc., a Delaware corporation ("Parent"), certain of Parent's subsidiaries identified on the signature pages thereof as Borrowers (Parent and such subsidiaries are collectively, jointly and severally, the "Borrowers"), the lenders signatory thereto (the "Lenders"), and Wells Fargo Capital Finance, LLC, a California limited liability company, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used in this Compliance Certificate have the meanings set forth in the Loan Agreement unless specifically defined herein.

Pursuant to Section 6.3 of the Loan Agreement, the undersigned officer of the Parent hereby certifies that:

1. The financial information of Parent and its Subsidiaries furnished in Schedule 1 attached hereto, has been prepared in accordance with GAAP (except for year-end adjustments and the lack of footnotes, in the case of financial statements delivered under Section 6.3(a) of the Loan Agreement) and fairly presents the financial condition of Parent and its Subsidiaries.

2. Such officer has reviewed the terms of the Loan Agreement and has made, or caused to be made under his/her supervision, a review in reasonable detail of the transactions and condition of the Loan Parties during the accounting period covered by the financial statements delivered pursuant to Section 6.3 of the Loan Agreement.

3. Such review has not disclosed the existence on and as of the date hereof, and the undersigned does not have knowledge of the existence as of the date hereof, of any event or condition that constitutes a Default or Event of Default, except for such conditions or events listed on Schedule 2 attached hereto, specifying the nature and period of existence thereof and what action Borrowers have taken, are taking, or propose to take with respect thereto.

4. Borrowers are in timely compliance with all representations, warranties, and covenants set forth in the Loan Agreement and the other Loan Documents, except as set

forth on Schedule 2 attached hereto. Without limiting the generality of the foregoing, Loan Parties are in compliance with the covenants contained in Section 7.20 of the Loan Agreement as demonstrated on Schedule 3 hereof.

IN WITNESS WHEREOF, this Compliance Certificate is executed by the undersigned this _____ day of _____, _____.

LSB INDUSTRIES, INC.,
a Delaware corporation,
as Administrative Borrower

By: _____
Name:
Title:

SCHEDULE 3

1. **Fixed Charge Coverage Ratio**. [If Applicable]

(a) The Fixed Charge Coverage Ratio of Parent and its Subsidiaries, for the fiscal year ending _____, is calculated as follows

(i)	EBITDA of Parent and its Subsidiaries for the 12 month period then ended:	$_____
(ii)	Principal Indebtedness of Parent and its Subsidiaries scheduled to be paid or prepaid during such period:	$_____
(iii)	Gross interest expense of Parent and its Subsidiaries for such period:	$_____
(iv)	Interest income of Parent and its Subsidiaries for such period:	$_____
(v)	Non-cash accretion expense of Parent and its Subsidiaries for such period:	$_____
(vi)	Non-cash amortization of debt origination cost of Parent and its Subsidiaries for such period:	$_____
(vii)	Capitalized Lease Obligations of Parent and its Subsidiaries having a scheduled due date during such period:	$_____

Item (i) divided by the sum of
Item (ii) plus Item (vii) plus the result of Item (iii) minus
the sum of Item (iv) plus Item (v) plus Item (vi)
(= Fixed Charge Coverage Ratio) _____: _____

(b) The Fixed Charge Coverage Ratio set forth above **[is/is not]** greater than or equal to the amount set forth in Section 7.20(a) of the Loan Agreement for the corresponding period.

EXHIBIT L-1

FORM OF LIBOR NOTICE

Wells Fargo Capital Finance, LLC, as Agent
under the below referenced Loan Agreement
2450 Colorado Place
Suite 3000 West
Santa Monica, California 90404
Attention: Business Finance Division Manager

Ladies and Gentlemen:

Reference hereby is made to that certain Second Amended and Restated Loan and Security Agreement, dated as of December 31, 2013 (the "Loan Agreement"), among LSB Industries, Inc., a Delaware corporation ("Administrative Borrower" or "Parent"), certain of Parent's subsidiaries identified on the signature pages thereof as Borrowers (such subsidiaries, together with the Administrative Borrower, are collectively, jointly and severally, the "Borrowers"), the lenders signatory thereto (the "Lenders"), and Wells Fargo Capital Finance, LLC, a California limited liability company, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

This LIBOR Notice represents the Borrowers' request to elect the LIBOR Option with respect to outstanding Advances in the amount of $_____ (the "LIBOR Rate Component")[, and is a written confirmation of the telephonic notice of such election given to Agent].

Such LIBOR Rate Component will have an Interest Period of [1, 2, or 3] month(s) commencing on _____.

This LIBOR Notice further confirms the Borrowers' acceptance, for purposes of determining the rate of interest based on the LIBOR Rate under the Loan Agreement, of the LIBOR Rate as determined pursuant to the Loan Agreement.

Administrative Borrower, on behalf of itself and the other Borrowers, represents and warrants that (i) as of the date hereof, each representation or warranty contained in or pursuant to any Loan Document, any agreement, instrument, certificate, document or other writing furnished at any time under or in connection with any Loan Document, and as of the effective date of any advance, continuation or conversion requested above is true and correct in all material respects (except to the extent any representation or warranty expressly related to an earlier date), (ii) each of the covenants and agreements contained in any Loan Document have been performed (to the extent required to be performed on or before the date hereof or each such effective date), and (iii) no Default or Event of Default has occurred and is continuing on the date hereof, nor will any thereof occur after giving effect to the request above.

Dated: _____

LSB INDUSTRIES, INC., a Delaware corporation, as Administrative Borrower

By _____

Name: _____

Title: _____

Acknowledged by:

WELLS FARGO CAPITAL FINANCE, LLC,

as Agent

By: _____

Name: _____

Title: _____

SECOND AMENDED AND RESTATED
SCHEDULE E-1

ELIGIBLE INVENTORY LOCATIONS

Loan Party	Inventory Locations
Cepolk Holdings, Inc.	N/A
Chemex I Corp.	N/A
Chemical Properties L.L.C.	N/A
Chemical Transport L.L.C.	N/A
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	1080 Industrial Drive Cherokee, AL 35616
Cherokee Nitrogen Holdings, Inc.	N/A
ClimaCool Corp.	15 South Virginia Avenue Oklahoma City, OK 73106
Climate Master, Inc.	7300 SW 44th Street Oklahoma City, OK 73179 4000 NW 39th Street Oklahoma City, OK 73112 4700 West Point Boulevard Oklahoma City, OK 73179
ClimateCraft, Inc.	1431 NW 3rd Street Oklahoma City, OK 73107
ClimateCraft Technologies, Inc.	N/A
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)	N/A
EDC Ag Products Company L.L.C.	N/A
El Dorado Acid, L.L.C.	N/A
El Dorado Acid II, L.L.C.	N/A
El Dorado Ammonia L.L.C.	N/A
El Dorado Chemical Company	601 Dyer Street Newbern, TN 38059 15820 FM 128 Cooper, TX 75432 500 East Temple Terrell, TX 75160 6540 Highway 82 East Annona , TX 75550 1102 South Bond Street, Whitewright, TX 75491 100 North Seventh Street Corsicana, TX 75110 900 South Hill Itasca, TX 76055

Loan Party	Inventory Locations
El Dorado Chemical Company	10503 CR 490 Tyler, TX 75706 6232 Hwy 21 West Bryan, TX 75803 204 Fulton Street Pittsburg, TX 75686 300 East O'Neal Street Dublin, TX 76446 3560 FM 753 Athens, TX 75751 US Hwy 79 & Loop 208 Marquez, TX 77865 100 East Tatom Street Trinity, TX 75862 600 East 10th Street Lamar, MO 64759 1801 West Austin Street Giddings, TX 78942 Corner of Lewis & Bridge St. Elkhart, TX 75839 4500 North West Avenue El Dorado, AR 71730
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	N/A
El Dorado Nitrogen, L.P.*	8490 West Bay Road Baytown, Texas 77520
International Environmental Corporation	5000 I-40 West Oklahoma City, OK 73128 4931 SW 7th Street Oklahoma City, OK 73128 4929 SW 7th Street Oklahoma City, OK 73128 4927 SW 7th Street Oklahoma City, OK 73128 4919 SW 7th Street Oklahoma City, OK 73128
Koax Corp.	510 North Indiana Oklahoma City, OK 73106
LSB Capital L.L.C.	N/A
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	N/A
LSB Industries, Inc.	N/A
LSB-Europa Limited	N/A
Pryor Chemical Company	4463 Hunt Street Pryor, OK 74362

Loan Party	Inventory Locations
Summit Machine Tool Manufacturing L.L.C.	518 North Indiana Avenue Oklahoma City, OK 73106 1601 NW 4th Street Oklahoma City, OK 73106
The Climate Control Group, Inc.	N/A
ThermaClime Technologies, Inc.	5000 I-40 West Oklahoma City, OK 73128
Trison Construction, Inc.	N/A
XpediAir, Inc.	N/A

* Collateral Access Agreement not provided.

SECOND AMENDED AND RESTATED
SCHEDULE P-1

PERMITTED LIENS

Loan Party	Description of Secured Indebtedness
Chemical Properties L.L.C.	Secured Party: Cross First Bank Collateral: All of the personal property, equipment or inventory relating to Grantor's 600 ton per day urea plant, wherever located, including, but not specifically limited to, the personal property, equipment or inventory described on Exhibit "A" hereto, whether classified as equipment, inventory, accounts, contract rights, leases or general intangibles including all modifications, additions, replacements or substitutions thereto, together with all accessories, accessions, rebates and attachments, in whole or in part, any related software (embedded or otherwise), all general intangibles, leases, accounts, contract rights, or any other property or rights relating thereto or arising therefrom. The components of such plant are currently in storage at Circle C Corporation in Palestine, Texas and Maxim Crane, Inc. in Houston, Texas, and will be moved to 4500 N West Avenue in El Dorado Arkansas; whether any of the foregoing is owned now or acquired later; all ac cessions, additions, replacements and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and accounts proceeds).

Loan Party	Description of Secured Indebtedness
Climate Master, Inc. ("CLM,") as bailee (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) Chiyoda SP-25ST 3 Axis Tube Bender with RH rotation, including all standard equipment and 5/8", 3/4" and 7/8" OD and mandrels
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Trumpf L3040 Laser Cutting Machine System purchased from Icon Machine Tool, Inc., S/N A0235A0061, and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) Trumpf TruLaser 3530 Laser Cutting Machine, Serial #AX035A0061
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: 1 each five stage Power Spray Stainless Washer (installed) in accordance with quote 3703-0107R3 from Industrial Finishing Systems.

Loan Party	Description of Secured Indebtedness
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: Ingersoll-Rand oil-free Nirvana compressor system consisting of various components; S/N IRN75H-OF.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: Gamma G333PC Wire Processing System per quote 06-0150-2743-0135C; S/N 1-528324-1 and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) Amada Vipros 368 King, Turret Punch Press, S/N 36840024, with New London Slug Conveyor, One (1) Amada LUL510 loading device, S/N 00510090, Amada SR510 .30 unloading device, S/N 2218, Sun Classic Workstation with Line Control Software, S/N FW900085, AP100 Punch Upgrade, AP100 Punch Add. Seat Upgrade, complete with all attachments now or hereafter acquired.
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Amada press brake, model HFB 1003/8, S/N HFB010030 R981151, w/ ISB light curtain
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) Raidzone GangSTOTR Systems RC8-2-R2000 (2x8 disk rack mount systems and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: Nine (9) OptiGun-2AX Automatic Guns, Nine (9) OptiTronicPlus Control Units and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: Six (6) sets of ECI line equipment (Procix) and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) Amada 386 King, Vipros 30 ton CNC Turret Punch, S/N 36820017 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) Amada CNC Blanking Shear, S/N 101000056 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C., as lessor Collateral: One (1) single Tube Cutoff Line (STCOS) and all accessories and attachments thereto (Burr Oak Copper Cut).

Loan Party	Description of Secured Indebtedness
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One 1996 Amada FCXB-III-8025 CNC Press Brake
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: IPCS Equipment and accessories
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Used 1995 FBD-125 Amada Press Brake, S/N 12530058
CLM (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: 88 ton Amada HFB, S/N R091-18; 88 ton Amada HFB, S/N R970432; 138 ton Amada FBD, S/N 12530263
CLM, as lessee (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) Amada Punching Cell; two (2) each EMK3610NT, Turret Punch Press; two (2) each AS651H *US auto storage); two (2) each ASPR300III (LKI Kaldman part remover; punch tooling package; two (2) each transformers; two (2) each guide assemblies; two (2) each scrap conveyors; software package; six (6) each Amada press brakes FBD1253NT; 90 each one touch holders (15 per brake); six (6) each ISB light curtains; bending tooling package; two (2) each DR ABE bend w/ PC promotion w/ NT brake package

Loan Party	Description of Secured Indebtedness
ClimateCraft, Inc. (“CLC”) (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Trumpf NC Punching Machine
CLC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: 1999 Amada HFB1254 Promecam CNC Press Brake w/ Controls
CLC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Two (2) model 625014 Accushears w/ 48” extended travel and CNC front gauging 12’x6’x6’; S/N 5110 and 5111
CLC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Trumpf model TC2020 Punch Machine, S/N A0030A0239 with tooling
CLC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Amada CNC Hydraulic Press Brake model HFB220/440, SN H980519
CLC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7BNCU20, serial #7BNCU20-50716; new Hawker battery, model #18-125F-17, serial #PL112080082; new Hawker charger, model #PH3R-18-1050B, serial #GK45130

Loan Party	Description of Secured Indebtedness
CLC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7FGCU45, serial #70577; Rightline sideshifting fork positioner, model #E15C1168-23, serial #090169; new Rightline 72” forks, model PRE3-2672, no serial #
CLC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7FGCUU55, serial #7FGCU70-70262; new Toyota forklift, model #8FGCU25, serial #24607; new Toyota forklift, model #8FGCU25, serial #24611; new Toyota forklift, model #8FGCU25, serial #24612; new Rightline sideshifting fork positioner, model #E15C1168-23, serial #090168; new Rightline 60” forks, model #PRE4-25660, no serial #

Loan Party	Description of Secured Indebtedness
El Dorado Chemical Company (“EDC”)	Secured Party: Air Liquide Industrial US LP Collateral: Gas generating plant, located at debtor’s El Dorado, AR facility
EDC	Secured Party: Bank of America NA Collateral: Security interest in (1) all present and future accounts receivable and other payment obligations due from Orica International Pte Ltd to Debtor arising out of the provision of goods or services by Secured Party pursuant to an SCF Supplier Receivables Purchase Agreement (as the same may be amended or restated from time to time), including (a) all obligations to pay associated with the provision of such goods or services and (b) the right to receive all taxes, shipping, interest, penalties and other charges attributable to such payment obligations and (2) all proceeds of the foregoing; provided however, in no event shall Secured Party collateral include proceeds arising from the purchase of such accounts receivables by Secured Party.

Loan Party	Description of Secured Indebtedness
El Dorado Nitrogen, L.P. (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New 2013 Toyota 8FDU25, 31877, integral F/P-side shifter, 42” forks, backup alarm, 189-FSV-MAST, 4-way valve -hosing, strobe/flashing lights, solid pneumatic tires, fire extinguisher, pre-cleaner

Loan Party	Description of Secured Indebtedness
International Environmental Corporation (“IEC”) (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Bolina Cut-to-Length; 2 Optiflex 110/08 Pullmax CNC Press Brakes; Trumpf laser cutting machine
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Amada Turret Press Dies & accessories
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Two Trumpf Laser Cutting Machines
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) T-Drill SP-55 tube end spinner, 440V, S/N 97032
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: High Takt assembly line (spur line south bldg)
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Trumpf Laser 3040 Plus, 4000 watt resonator
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Security system
IEC (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) Amada punching cell, model #EMK3610NT, turret punch press, AS651H (US auto storage), ASPR300III (LKI Kaldman part remover & AS), scrap conveyor, Amada software package, transformer & guide assembly package
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7FGU35, serial #7FGKU40-70413
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota order picker, model #7BPUE15, serial #80941
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #CBT4, serial #11325; new Hawker battery, model #24-60F-9, serial #PL101090051; new Hawker charger, model #PH1R-24-550, serial #HA47534
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #8FGCSU20, serial #13992; new Toyota forklift, model #8FGCSU20, serial #13976; new Toyota forklift, model #4FGCSU20, serial #13979; new Toyota forklift, model #8FGU20, serial #8FGU25-18662; new Toyota tugger, model #8TB50, serial #36463; new Hawker battery, model #12-85F-13, serial #PL101090502; new Hawker charger, model #PH1R-12-550, serial #HA47533

Loan Party	Description of Secured Indebtedness
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #8FGCSU20, serial #13981; new Toyota forklift, model #8FGCSU20, serial #13982; new Toyota forklift, model #8FGCSU20, serial #13980; new Rightline sidshifting fork positioner, model #E5E810-16, serial #090175, new Rightline 42” forks, model #PRE2-15442, no serial #; new Rightline sideshifting, model #E5E810-16, serial #090172; new Rightline 42” forks, model #PRE2-15442, no serial #; new Rightline sideshifting fork positioner, model #E5E810-16, serial #090170, new Rightline 42: forks, model #PRE2-15442, no serial #; new Toyota forklift, model #8FGCSU20, serial #13983, new Rightline sideshifting fork positioner, model #E5E810-16, serial #090171
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #8FGCSU20, serial #13986; new Toyota forklift, model #8FGCSU20, serial #13985; new Toyota forklift, model #8FGU25, serial #18658
IEC (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7BNCU20, serial #50849; new Hawker battery, model #18-125F-17, serial #PL11181208; new Hawker charger, model #PH3R-18-1050, serial #GD32513; new Toyota forklift, model #7BNCU20, serial #50850; new Hawker battery, model #18-125F-17, serial #PL103090006; new Hawker charger, model #PH3R-18-1050, serial #GC31092; new Hawker battery, model #12-125F-15, serial #PL109080373; new Ametek charger, model #880M1-12G, serial #109CS71534

Loan Party	Description of Secured Indebtedness
Koax Corp. (“Koax”) (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #8FGU25, serial #18597; new Toyota forklift, model #8FGU25, serial #18616
Koax (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #8FGCSU20, serial #13987
Koax (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota forklift, model #7BNCU20, serial #50848; new Hawker battery, model #18-125F-17, serial #PL101090242; new Hawker charger, model #PH3R-18-1050, serial #HA47512
Koax (operating lease)	Secured Party: Chase Bank Collateral: LSE #1755115, Serial #Z2X0B1DB500126

Loan Party	Description of Secured Indebtedness
LSB Industries, Inc.	Secured Party: Dell Financial Services L.L.C. Collateral: All computer equipment, peripherals, and other equipment (collectively "Equipment") wherever located, financed under and described in the Master Lease Agreement ("MLA") between Lessee and Lessor and all of Lessee's rights, title and interest in and to use any software and services (collectively "Software") financed under and described in the MLA, along with any modifications or supplements to the MLA which are incorporated or evidenced in writing and all substitutions, additions, accessions and replacements to the Equipment or Software now or hereafter installed in, affixed to, or used in conjunction with the Equipment or Software and the proceeds thereof together with all payments, insurance proceeds, credits or refunds obtained by Lessee from a manufacturer, licensor or service provider, or other proceeds and payments due and to become due and arising from or relating to such Equipment, Software or the MLA.

Loan Party	Description of Secured Indebtedness
ThermaClime Technologies, Inc. ("TTI") (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) Continental Equipment 2-stage belt washer, natural gas heated dryer and drain tank
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr oak fin die, S/N FDM-1532-1
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Amada Turret Punch Press Model No. EMK3610NT; scrap conveyor; transformer; guide assembly package
TTI (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: New Toyota Forklift Model #7FBCU20, serial #72485; new Hawker battery, model #018085F25, serial #PL101090135; new Hawker charger, model #PH3R-18-1050, serial #HA47511; new Toyota forklift, model #7FBEU15, serial #20149; new Hawker battery, model #018085F17, serial #PL101090082; new Hawker charger, model #PH3R-18-775, serial #HA47516; new Toyota forklift, model #7FBEU15, serial #20150, new hawker battery, model #018085F17, serial #PL101090883; new Hawker charger, model #PH3R-18-775, serial #HA47517
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak ½ inch Fin Press Model FP2B, serial #48-1913

Loan Party	Description of Secured Indebtedness
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: One (1) vertical Bender Hairpin Bender, VBHB-M8-59 LH, serial #VBHBM98-59LH, coil feed cut-off loader DFCL-M4-517, tooling and accessories
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak Double Vertical Bend Hairpin, serial #M124
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak Fin Press, serial #FPeB-1820
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak Fin Press, serial #FPeB-1603
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak Hairpin Bender, model VBHB-M7-143; FA Tag #Q101
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Auto Brazing System, serial #2566
TTI (operating lease)	Secured Party: Prime Financial L.L.C. Collateral: Burr Oak Double Vertical Bend Hairpin, serial #M123
TTI (operating lease)	Secured Party: Toyota Motor Credit Corporation Collateral: One (1) Toyota Forklift Model #8FGCSU20, serial #13987

SECOND AMENDED AND RESTATED
SCHEDULE 3.2
COLLATERAL ACCESS LOCATIONS

Loan Party	Collateral Access Location	Landlord
Cepolk Holdings, Inc.	None	N/A
Chemex I Corp.	None	N/A
Chemical Properties L.L.C.	None	N/A
Chemical Transport L.L.C.	None	N/A
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	1080 Industrial Drive Cherokee, AL 35616	Cherokee Nitrogen Holdings, Inc.
Cherokee Nitrogen Holdings, Inc.	None	N/A
ClimaCool Corp.	15 South Virginia Avenue Oklahoma City, OK 73106	Consolidated Industries L.L.C.
Climate Master, Inc.	4000 NW 39th Street Oklahoma City, OK 73112	Consolidated Industries L.L.C.
ClimateCraft, Inc.	1431 NW 3rd Oklahoma City, OK 73106	Consolidated Industries L.L.C.
ClimateCraft Technologies, Inc.	None	N/A
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)	None	N/A
EDC Ag Products Company L.L.C.	None	N/A
El Dorado Acid, L.L.C.	None	N/A
El Dorado Acid II, L.L.C.	None	N/A
El Dorado Ammonia L.L.C.	None	N/A
El Dorado Chemical Company	US Hwy 79 & Lop 208 Marquez, TX 77865	Union Pacific Railroad Company
	601 Dyer Street Newbern, TN 38059	EDC Ag Products Company L.L.C.
	15820 FM 128 Cooper, TX 75432	EDC Ag Products Company L.L.C.
	500 East Temple Terrell, TX 75160	EDC Ag Products Company L .L.C.

Loan Party	Collateral Access Location	Landlord
El Dorado Chemical Company	6540 Highway 82 East Annona , TX 75550	EDC Ag Products Company L.L.C.
	1102 South Bond Street, Whitewright, TX 75491	EDC Ag Products Company L.L.C.
	100 North Seventh Street Corsicana, TX 75110	EDC Ag Products Company L.L.C.
	900 South Hill Itasca, TX 76055	EDC Ag Products Company L.L.C.
	10503 CR 490 Tyler, TX 75706	EDC Ag Products Company L.L.C.
	6232 Hwy 21 West Bryan, TX 75803	EDC Ag Products Company L.L.C.
	204 Fulton Street Pittsburg, TX 75686	EDC Ag Products Company L.L.C.
	300 East O’Ne al S treet Dublin, TX 76446	EDC Ag Products Company L.L.C.
	3560 FM 753 Athens, TX 75751	EDC Ag Products Company L.L.C.
	US Hwy 79 & Loop 208 Marquez, TX 77865	EDC Ag Products Company L.L.C.
	100 East Tatom Street Trinity, TX 75862	EDC Ag Products Company L.L.C.
	600 East 10th Street Lamar, MO 64759	EDC Ag Products Company L.L.C.
	1801 West Austin Street Giddings, TX 78942	EDC Ag Products Company L.L.C.
	Corner of Lewis & Bridge St. Elkhart, TX 75839	EDC Ag Products Company L.L.C.
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	None	N/A
El Dorado Nitrogen, L.P.	None	N/A
International Environmental Corporation	4931 SW 7th Street Oklahoma City, OK 73128	Quail Creek Properties LLC

Loan Party	Collateral Access Location	Landlord
International Environmental Corporation	4929 SW 7th Street Oklahoma City, OK 73128	Quail Creek Properties LLC
	4927 SW 7th Street Oklahoma City, OK 73128	Quail Creek Properties LLC
	4919 SW 7th Street Oklahoma City, OK 73128	Quail Creek Properties LLC
Koax Corp.	None	N/A
LSB Capital L.L.C.	None	N/A
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	None	N/A
LSB-Europa Limited	None	N/A
LSB Industries, Inc.	None	N/A
Pryor Chemical Company	None	N/A
Summit Machine Tool Manufacturing L.L.C.	None	N/A
The Climate Control Group, Inc.	None	N/A
ThermaClime Technologies, Inc.	None	N/A
Trison Construction, Inc.	None	N/A
XpediAir, Inc.	None	N/A

SECOND AMENDED AND RESTATED
SCHEDULE 5.5

LOCATIONS OF INVENTORY

Loan Party	Location
Cepolk Holdings, Inc.	Refer to Second Amended and Restated Schedule E-1
Chemex I Corp.	Refer to Second Amended and Restated Schedule E-1
Chemical Properties L.L.C.	Refer to Second Amended and Restated Schedule E-1
Chemical Transport L.L.C.	Refer to Second Amended and Restated Schedule E-1
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	Refer to Second Amended and Restated Schedule E-1
Cherokee Nitrogen Holdings, Inc.	Refer to Second Amended and Restated Schedule E-1
ClimaCool Corp.	Refer to Second Amended and Restated Schedule E-1
Climate Master, Inc.	Refer to Second Amended and Restated Schedule E-1
ClimateCraft, Inc.	Refer to Second Amended and Restated Schedule E-1
ClimateCraft Technologies, Inc.	Refer to Second Amended and Restated Schedule E-1
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)	Refer to Second Amended and Restated Schedule E-1
EDC Ag Products Company L.L.C.	Refer to Second Amended and Restated Schedule E-1
El Dorado Acid, L.L.C.	Refer to Second Amended and Restated Schedule E-1
El Dorado Acid II, L.L.C.	Refer to Second Amended and Restated Schedule E-1
El Dorado Ammonia L.L.C.	Refer to Second Amended and Restated Schedule E-1
El Dorado Chemical Company	Refer to Second Amended and Restated Schedule E-1
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	Refer to Second Amended and Restated Schedule E-1
El Dorado Nitrogen, L.P.	Refer to Second Amended and Restated Schedule E-1

Loan Party	Location
International Environmental Corporation	Refer to Second Amended and Restated Schedule E-1
Koax Corp.	Refer to Second Amended and Restated Schedule E-1
LSB Capital L.L.C.	Refer to Second Amended and Restated Schedule E-1
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	Refer to Second Amended and Restated Schedule E-1
LSB-Europa Limited	Refer to Second Amended and Restated Schedule E-1
LSB Industries, Inc.	Refer to Second Amended and Restated Schedule E-1
Pryor Chemical Company	Refer to Second Amended and Restated Schedule E-1
Summit Machine Tool Manufacturing L.L.C.	Refer to Second Amended and Restated Schedule E-1
The Climate Control Group, Inc.	Refer to Second Amended and Restated Schedule E-1
ThermaClime Technologies, Inc.	Refer to Second Amended and Restated Schedule E-1
Trison Construction, Inc.	Refer to Second Amended and Restated Schedule E-1
XpediAir, Inc.	Refer to Second Amended and Restated Schedule E-1

SECOND AMENDED AND RESTATED
SCHEDULE 5.7

CHIEF EXECUTIVE OFFICE; FEIN

Loan Party	Executive Office	FEIN
Cepolk Holdings, Inc.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1456546
Chemex I Corp.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1330903
Chemical Properties L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	45-3358930
Chemical Transport L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	27-2257465
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	16 South Pennsylvania Avenue Oklahoma City, OK 73107	41-2115998
Cherokee Nitrogen Holdings, Inc.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1597254
ClimaCool Corp.	15 South Virginia Avenue Oklahoma City, OK 73106	73-1409358
Climate Master, Inc.	7300 SW 44th Street Oklahoma City, OK 73179	93-0857025
ClimateCraft, Inc.	518 North Indiana Avenue Oklahoma City, OK 73106	73-1207959
ClimateCraft Technologies, Inc.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1553909
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)	16 South Pennsylvania Avenue Oklahoma City, OK 73107	27-2143118
EDC Ag Products Company L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	27-4642608
El Dorado Acid, L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1614043
El Dorado Acid II, L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1614042
El Dorado Ammonia L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	46-2449585
El Dorado Chemical Company	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1183488
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1189782
El Dorado Nitrogen, L.P.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1614277

Loan Party	Executive Office	FEIN
International Environmental Corporation	5000 I-40 West Oklahoma City, OK 73128	73-0754306
Koax Corp.	510 North Indiana Oklahoma City, OK 73106	73-1284158
LSB Capital L.L.C.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	46-2685309
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1207958
LSB-Europa Limited	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-0978494
LSB Industries, Inc.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1015226
Pryor Chemical Company	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1106665
Summit Machine Tool Manufacturing L.L.C.	518 North Indiana Avenue Oklahoma City, OK 73106	73-0689388
The Climate Control Group, Inc.	7300 SW 44th Street Oklahoma City, OK 73179	73-1415062
ThermaClime Technologies, Inc.	5000 I-40 West Oklahoma City, OK 73128	73-1553910
Trison Construction, Inc.	4000 NW 39th Street Oklahoma City, OK 73112	73-1538285
XpediAir, Inc.	16 South Pennsylvania Avenue Oklahoma City, OK 73107	73-1431586

SECOND AMENDED AND RESTATED
SCHEDULE 5.8(b)

CAPITALIZATION OF LOAN PARTIES

Loan Party	Class	No. of Authorized Shares	No. of Outstanding Shares
Cepolk Holdings, Inc.	Common	50,000, par value $1.00	1,000, par value $1.00
Chemex I Corp.	Common	10,000, par value $1.00	1,000, par value $1.00
Chemical Properties L.L.C.	N/A	N/A	N/A
Chemical Transport L.L.C.	N/A	N/A	N/A
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	N/A	N/A	N/A
Cherokee Nitrogen Holdings, Inc.	Common	500,000, par value $0.10	10,000, par value $0.10
ClimaCool Corp.	Common	50,000, par value $1.00	1,000, par value $1.00
Climate Master, Inc.	Common	1,000, par value $1.00	1,000, par value $1.00
ClimateCraft, Inc.	Common:		
	Class A Voting	900, par value $0.50	900, par value $0.50
	Class B Non-Voting	100, par value $0.50	100, par value $0.50
ClimateCraft Technologies, Inc.[1]	Common:		
	Class A Voting	900, par value $0.50	900, par value $0.50
	Class B Non-Voting	100, par value $0.50	100, par value $0.50
Consolidated Industries L.L.C. (f/k/a/ Consolidated Industries Corp.)	N/A	N/A	N/A
EDC Ag Products Company L.L.C.	N/A	N/A	N/A
El Dorado Acid, L.L.C.	N/A	N/A	N/A
El Dorado Acid II, L.L.C.	N/A	N/A	N/A
El Dorado Ammonia L.L.C.	N/A	N/A	N/A
El Dorado Chemical Company	Common	25,000, par value $1.00	2,000, par value $1.00
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	N/A	N/A	N/A
El Dorado Nitrogen, L.P.	N/A	N/A	N/A
International Environmental Corporation	Common	300, par value $10.00	300, par value $10.00
Koax Corp.	Common	50, par value $10.00	50, par value $10.00
LSB Capital L.L.C.	N/A	N/A	N/A
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	N/A	N/A	N/A
LSB-Europa Limited	Common	50, par value $10.00	50, par value $10.00
LSB Industries, Inc.[2] is a public company with stock traded on the NYSE under the ticker symbol LXU	Common	75,000,000, par value $0.10	
	Preferred	250,000, par value $100	
	Class C Preferred	5,000,000, par value $0	
Pryor Chemical Company	Common	50,000, par value $1.00	500, par value $1.00
Summit Machine Tool Manufacturing L.L.C.	N/A	N/A	N/A
The Climate Control Group, Inc.	Common	100,000, par value $0.10	10,000, par value $0.10
ThermaClime Technologies, Inc.	Common	500,000, par value $0.10	10,000, par value $0.10
Trison Construction, Inc.	Common	500,000, par value $0.10	10,000, par value $0.10
XpediAir, Inc.	Common	500,000, par value $0.10	10,000, par value $0.10

1 LSB Industries, Inc. (“LSB”) and Walter P. Mecozzi (“Mecozzi”), an employee of LSB or subsidiary thereof, are parties to a Stock Option Agreement whereby Mecozzi may purchase up to 10% of the equity ownership of ClimateCraft Technologies, Inc. (ClimateCraft Technologies) by acquiring up to one hundred (100) shares of the Class B Non Voting Common Stock of ClimateCraft Technologies. LSB, Mecozzi and ClimateCraft Technologies are parties to a Shareholders Agreement regarding (among other matters) LSB purchase obligations with respect to the ClimateCraft Technologies shares owned by Mecozzi.

2 Please refer to SEC public filings of LSB Industries, Inc. (“LSB”) for additional information regarding LSB stock, including subscriptions, options, warrants, calls, rights of conversion or exchange with respect to such stock and obligations to repurchase or otherwise acquire or retire any shares of such stock or any security convertible into or exchangeable for any of such stock. LSB has also granted various stock options.

SECOND AMENDED AND RESTATED
SCHEDULE 5.8(c)

CAPITALIZATION OF LOAN PARTIES' SUBSIDIARIES

Loan Party	Jurisdiction	No. of Authorized Shares	No. of Outstanding Shares/Percentage Loan Party Owner
Cepolk Holdings, Inc.	Oklahoma	50,000 common shares	1,000(100%)[4]
Chemex I Corp.	Oklahoma	10,000 common shares	1,000(100%)[6]
Chemical Properties L.L.C.	Oklahoma	N/A	N/A[5]
Chemical Transport L.L.C.	Oklahoma	N/A	N/A[5]
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	Oklahoma	N/A	N/A[5]
Cherokee Nitrogen Holdings, Inc.	Oklahoma	500,000 common shares	10,000(100%)[5]
ClimaCool Corp.	Oklahoma	50,000 common shares	1,000(100%)[4]
Climate Master, Inc.	Delaware	1,000 common shares	1,000(100%)[4]
ClimateCraft, Inc.	Oklahoma	900 Common Class A Voting	900(100%)[4]
		100 Common Class B Non-Voting	100(100%)[4]
ClimateCraft Technologies, Inc.[1]	Oklahoma	900 Common Class A Voting	900(100%)[3]
		100 Common Class B Non-Voting	50(50%)[3]
Consolidated Industries L.L.C. (f/k/a/ Consolidated Industries Corp.)	Oklahoma	N/A	N/A[2]
EDC Ag Products Company L.L.C.	Oklahoma	N/A	N/A[6]
El Dorado Acid, L.L.C.	Oklahoma	N/A	N/A[7]
El Dorado Acid II, L.L.C.	Oklahoma	N/A	N/A[7]
El Dorado Ammonia L.L.C.	Oklahoma	N/A	N/A[6]
El Dorado Chemical Company	Oklahoma	25,000 common shares	2,000(100%)[5]
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	Oklahoma	N/A	N/A[5]
El Dorado Nitrogen, L.P.	Texas	N/A	N/A[8]
International Environmental Corporation	Oklahoma	300 common shares	300(100%)[4]
Koax Corp.	Oklahoma	50 common shares	50(100%)[4]
LSB Capital L.L.C.	Oklahoma	N/A	N/A[5]
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	Oklahoma	N/A	N/A[3]
LSB-Europa Limited	Oklahoma	50 common shares	50(100%)[3]
Pryor Chemical Company	Oklahoma	50,000 common shares	500(100%)[5]
Summit Machine Tool Manufacturing L.L.C	Oklahoma	N/A	N/A[3]
The Climate Control Group, Inc.	Oklahoma	100,000 common shares	10,000(100%)[3]
ThermaClime Technologies, Inc.	Oklahoma	500,000 common shares	10,000(100%)[4]
Trison Construction, Inc.	Oklahoma	500,000 common shares	10,000(100%)[4]
XpediAir, Inc.	Oklahoma	500,000 common shares	10,000(100%)[4]

1 LSB Industries, Inc. ("LSB") and Walter P. Mecozzi ("Mecozzi"), an employee of LSB or subsidiary thereof, are parties to a Stock Option Agreement whereby Mecozzi may purchase up to 10% of the equity ownership of ClimateCraft Technologies, Inc. (ClimateCraft Technologies) by acquiring up to one hundred (100) shares of the Class B Non Voting Common Stock of ClimateCraft Technologies. LSB, Mecozzi and ClimateCraft Technologies are parties to a Shareholders Agreement regarding (among other matters) LSB purchase obligations with respect to the ClimateCraft Technologies shares owned by Mecozzi.

2 LSB Industries, Inc.

3 Consolidated Industries L.L.C.

4 The Climate Control Group, Inc.

5 LSB Chemical L.L.C.

6 El Dorado Chemical Company

7 El Dorado Nitric L.L.C.

8 El Dorado Acid, L.L.C. owns 1%, and El Dorado Acid II, L.L.C. owns 99%.

SECOND AMENDED AND RESTATED
SCHEDULE 5.10

LITIGATION

NONE

SECOND AMENDED AND RESTATED
SCHEDULE 5.14

ENVIRONMENTAL MATTERS

1. Two (2) inactive disposal areas are known to exist at the nitrate plant leased by Cherokee Nitrogen L.L.C. in Cherokee, Alabama. The first involves industrial waste disposed of in an on-site landfill located east of the plant. The landfill has been capped in excess of ten (10) years and is covered with vegetation. The second involves approximately one hundred (100) tons of phosphoric acid tank sludge buried directly east of the plant. Material was generated from an old phosphate plant that is no longer in existence. The material was buried prior to 1986. Any liability associated with these landfills is the responsibility of U.S. Steel, a prior owner of the site.

2. An asbestos, construction debris, and elemental sulfur on-site landfill is located at El Dorado Chemical Company's ammonium nitrate plant located in El Dorado, Arkansas. The landfill was closed in 1995 under a state-approved closure plan.

3. In connection with a national enforcement initiative, the EPA has sent information requests to most, if not all, of the operators of nitric acid plants in the United States, including our El Dorado Facility, our chemical production facility located in Cherokee, Alabama (the "Cherokee Facility") and the Baytown Facility operated by our subsidiary, El Dorado Nitrogen, L.P., under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years. These information requests were to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. If the EPA were successful in establishing that any of our chemical facilities were in violation of the Clean Air Act, the EPA could assess civil penalties of up to $27,500 per day and require the facility to retrofit with the "best available control technology." During the second quarter of 2013, we negotiated an oral global agreement ("Global Agreement") in principle with the EPA/DOJ to settle this matter, although a few issues are still being negotiated. Settlement of this matter is subject to the parties entering into definitive settlement agreements and consent decrees and such being finalized after the notice and comment period. The proposed oral agreement in principle provides, among other things, the following:

    - all of our Chemical Business' nitric acid plants are to achieve certain emission rates within a certain time period for each plant. In order to achieve these emission rates, six of our Chemical Business' eight nitric acid plants will require additional pollution control technology equipment to achieve the emission rates agreed upon. We have already completed necessary modifications at two of our Chemical Business' existing nitric acid plants. The cost of the necessary pollution control equipment is estimated to range from $2.0 million to $3.0 million for each of the remaining six nitric acid plants;

- our Chemical Business will provide a reforestation mitigation project that is unrelated to our emissions or activities and will not be located at one of our plant sites, which we estimate will cost approximately $150,000 and have included this amount in our accrued liabilities for environmental matters discussed above; and
- a civil penalty will be paid by our Chemical Business in the amount of $725,000 (which includes the $100,000 civil penalty to the ODEQ discussed below), which amount is included in our accrued liabilities for environmental matters discussed above.

The Global Agreement has been issued by the EPA/DOJ, signed by the Company's chemical subsidiaries, and sent to the EPA/DOJ for the government's signatures.

4. One of our subsidiaries, Pryor Chemical Company ("PCC"), within our Chemical Business, has been advised that the Oklahoma Department of Environmental Quality ("ODEQ") is conducting an investigation into whether the chemical production facility located in Pryor, Oklahoma (the "Pryor Facility") was in compliance with certain rules and regulations of the ODEQ and whether PCC's reports of certain air emissions relating primarily to 2011 were intentionally reported incorrectly to the ODEQ. Pursuant to the request of the ODEQ, PCC has submitted information and a report to the ODEQ as to the reports filed by the Pryor Facility relating to the air emissions in question and has and continues to cooperate with the ODEQ in connection with this investigation. However, on February 20, 2013, investigators with the ODEQ obtained documents from the Pryor Facility in connection with this investigation pursuant to a search warrant and interviewed several employees at the facility. As of February 10, 2014, we are not aware of any recommendations made or to be made by the ODEQ with respect to formal legal action to be taken or recommended as a result of this ongoing investigation.

5. By letter dated April 19, 2013 (the "letter"), ODEQ, based on its inspection of our Pryor Facility conducted in December 2012, identified fourteen issues of alleged non-compliance and concern from the evaluation relating to federal and state air quality regulations, some of which were the subject of the ongoing investigation by ODEQ described above. ODEQ requested that PCC submit to ODEQ certain additional records regarding air emissions, calculations demonstrating compliance with certain air emissions, and a compliance plan providing for remedial measures for certain alleged noncompliance matters. ODEQ has advised PCC that compliance with such requests may allow PCC to avoid receipt of a notice of violation. PCC engaged in discussions with ODEQ to resolve all matters identified in the letter. Subsequently, a settlement was reached to resolve the allegations identified in the letter. Three of the violations were already resolved through the global settlement with the EPA/DOJ discussed above, and ODEQ agreed to resolve the remaining eleven violations by PCC paying a civil penalty for $100,000 (which amount is included in the $725,000 civil penalty discussed above) with the settlement being addressed as an addition to the global settlement discussed above. This settlement is unrelated to the pending ODEQ investigation at the Pryor Facility described above, which remains ongoing to our knowledge.

6. In 2002, two subsidiaries within our Chemical Business sold substantially all of their operating assets relating to a Kansas chemical facility ("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 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.

   The successor ("Chevron") of a prior owner of the Hallowell Facility has agreed in writing, on a nonbinding basis and within certain other limitations, to pay and has been paying one-half of the costs of the interim measures relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation. Our subsidiary and Chevron are pursuing with the state of Kansas a course of long-term surface and groundwater monitoring to track the natural decline in contamination. Currently, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing. We have accrued for our allocable portion of costs for the additional testing, monitoring and risk assessments that could be reasonably estimated.

   In addition during 2010, the Kansas Department of Health and Environment ("KDHE") notified our subsidiary and Chevron that the Hallowell Facility has been referred to the KDHE's Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in its evaluation. Currently, it is unknown what damages the KDHE would claim, if any. The ultimate required remediation, if any, is unknown.

   Our allocable portion of the total estimated liability related to the Hallowell Facility has been established in connection with this matter and is included in our accrued liabilities for environmental matters discussed above. The estimated amount is not discounted to its present value.

7. In March 2010 EDC became aware that personnel (who had been terminated due to drug use) disposed of chemicals and debris at the Whitewright, Texas Ag Site without authorization. After learning of this disposal, EDC contracted with an environmental, engineering company for clean up, analysis and disposal. The excavation of the disposal area and subsequent laboratory analysis identified contaminants above the state action levels. EDC installed six monitor wells and performed analysis of the soil and ground water to delineate the extent of the contamination. EDC has notified the state of the contamination.

Initial results of the ground water analysis indicated low levels of most contaminants. However, elevated levels of nitrate have been found and may change the cleanup levels the State may impose to obtain a clean closure of the site. Based on discussions with the State, five (5) additional monitor wells were installed on August 18, 2010, and in January, 2011, four (4) more wells were drilled. It now appears likely that the cost of this project will exceed $200K. Based upon the most recent analysis of the monitor wells, the State agreed that the extent of the contamination has been delineated and no additional monitor wells will be required. A Final Report was submitted to the State on July 8, 2011. On July 14, 2011, the State responded that the nitrate contamination level will require a higher tier of remedy. The higher tier of remedy could involve some type of active remediation and deed restrictions on impacted off-site properties.

The concentrations in the monitor wells continue to fluctuate, so the consultant has recommended limited excavation and treatment of soils in area surrounding monitor wells with the highest concentrations. EDC also approved the limited excavation of contaminated soils with on-site treatment rather than disposal. In a letter dated September 17, 2013, the State agreed to additional monitoring to demonstrate effectiveness of the limited remediation. Monitor wells were sampled November 2013 and are due to be sampled again February 2014.

SECOND AMENDED AND RESTATED
SCHEDULE 5.16

INTELLECTUAL PROPERTY

Patents

Loan Party	Patent Name	Patent Application/ Registration Number	Place of Registration	Issue Date
Cepolk Holdings, Inc.	None			
Chemex I Corp.	None			
Chemical Properties L.L.C.	None			
Chemical Transport L.L.C.	None			
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	None			
Cherokee Nitrogen Holdings, Inc.	None			
ClimaCool Corp.	Modular Chiller Unit w/ Dedicated Cooling and Heating Fluid Circuits and System Comprising a Plurality of Such Units	Serial #13/089,860	United States	Pending
	Modular Chiller Unit w/ Dedicated Cooling and Heating Fluid Circuits and System Comprising a Plurality of Such Units	Application # 13/567,167	United States	Pending
	Modular Chiller Unit w/ Dedicated Cooling and Heating Fluid Circuits and System Comprising a Plurality of Such Units	Serial # 2,737,688	Canada	Pending
	Modular Chiller System Comprising Interconnected Flooded Heat Exchangers	Application #13/960,926	United States	Pending
Climate Master, Inc.	Water-Cooled Air Conditioning System Using Condenser Water Regeneration for Precise Air Reheat in Dehumidifying Mode	Patent #7,913,501	United States	03/29/2011
	Integrated Heat Pump and Water Heating Circuit	Application #13/848,342	United States	Pending
	Integrated Heat Pump and Water Heating Circuit	Application # PCT/US2013/033433	International	Pending
	Pump Control in Parallel Hydraulic System	Application #13/964,270	United States	Pending
ClimateCraft, Inc.	None			
ClimateCraft Technologies, Inc.	Wall Panel Assembly with Airtight Joint	Registration #6,023,899	United States	02/15/2000
	Wall Panel Assembly with Airtight Joint	Registration #215.422	Mexico	07/24/2003
	Wall Panel Assembly with Airtight Joint	Registration #2,287,807	Canada	10/02/2007
	Fan with Variable Motor Speed and Disk Type Unloading Device	Registration #7,963,749	United States	06/21/2011
	Flexible Heat Exchanger	Registration #8,534,346	United States	09/17/2013

Loan Party	Patent Name	Patent Application/ Registration Number	Place of Registration	Issue Date
ClimateCraft Technologies, Inc.	Fan System Comprising Fan Array w/ Surge Control	Serial #12/608,074	United States	Pending
	Plenum Fan	Application No. 13/589,772	United States	Pending
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.	None			
EDC Ag Products Company L.L.C.	None			
El Dorado Acid, L.L.C.	None			
El Dorado Acid II, L.L.C.	None			
El Dorado Ammonia L.L.C.	None			
El Dorado Chemical Company	None			
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	None			
El Dorado Nitrogen, L.P.	None			
International Environmental Corporation	Method and System for Replacing Commercial Fan Coil Units	Application # 61/752,822	United States	Pending
	Conditioned Air Fan Coil Unit	Registration #6,109,044	United States	08/29/2000
Koax Corp.	None			
LSB Capital L.L.C.	None			
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	None			
LSB Industries, Inc.	None			
LSB-Europa Limited	None			
Pryor Chemical Company	None			
Summit Machine Tool Manufacturing L.L.C.	None			
The Climate Control Group, Inc.	None			
ThermaClime Technologies, Inc.	None			
Trison Construction, Inc.	None			
XpediAir, Inc.	None			

Trademarks

Loan Party	Trademark Name	Trademark Application/ Registration Number	Place of Registration	Registration Date
Cepolk Holdings, Inc.	None			
Chemex I Corp.	None			
Chemical Properties L.L.C.	None			
Chemical Transport L.L.C.	None			
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company	None			
Cherokee Nitrogen Holdings, Inc.	None			
ClimaCool Corp.	Ultimate Chiller Solution	Registration #3,652,839	United States	07/07/2009
	ClimaCool	Registration #2,564,496	United States	04/23/2002
	ClimaCool (Stylized)	Registration #3,786,690	United States	05/11/2010
	SHC onDemand	Registration #4,088,723	United States	01/17/2012
Climate Master, Inc.	Climatemaster (and Design)	Registration #2,139,570	United States	02/24/1998
	Climatemaster	Registration #808,500	United States	05/17/1966
	Climatemaster (and Design)	Registration #TMA 471,467	Canada	02/21/1997
	Climatemaster	Registration #409,647	Chile	10/07/1993
	Climatemaster	Registration #84930	Israel	10/08/1999
	Climatemaster	Registration #292/82	Saudi Arabia	08/31/1993
	Climatemaster	Registration #1,514,734	United Kingdom	11/13/1998
	Climatemaster	Registration #280854	Korea	12/06/1993
	Climatemaster	Registration #641,594	Taiwan	04/16/1994
	Climatemaster	Registration #614,556	Taiwan	10/01/1993
	Climatemaster	Registration #516424	Mexico	07/25/1996
	Climatemaster	Registration #25162	Kuwait	10/12/1996
	Climatemaster	Registration #217,629	Czech Republic	04/27/1995
	Climatemaster	Registration #583,151	Benelux	06/22/1995
	Climatemaster	Registration #95575091	France	06/09/1995
	Climatemaster	Registration #147007	Hungary	04/25/1995
	Climatemaster	Registration #172643	Norway	04/21/1995
	Climatemaster	Registration #309,649	Portugal	05/06/1996
	Climatemaster	Registration #182461	The Slovak Republic	05/02/1995
	Climatemaster	Registration #161121	Turkey	05/01/1995
	Climatemaster	Registration #729,783	Italy	08/10/1995
	Climatemaster	Registration #402,883	Europe	11/04/1996
	Climatemaster	Registration #860,657	Australia	11/25/2002
	Climatemaster	Registration #3480166	China	09/28/2004
	Climadry	Registration #3,253,779	United States	06/19/2007
	Roommate	Registration #1,906,435	United States	07/18/1995
	Paradigm	Registration #2,112,244	United States	11/11/1997
	Geodesigner	Registration #2,184,992	United States	08/25/1998
	Earthpure	Registration $2,994,853	United States	09/13/2005

Loan Party	Trademark Name	Trademark Application/ Registration Number	Place of Registration	Registration Date
Climate Master, Inc.	Earthpure	Registration #3,995,127	United States	07/12/2011
	Tranquility	Registration #3,689,080	United States	09/29/2009
	Trilogy	Serial #77802887	United States	Pending
	Q-Mode	Serial #85605516	United States	Pending
	igate	Serial #85628323	United States	Pending
	vflow	Serial #85628330	United States	Pending
	Georanch	Registration #4,359,120	United States	06/25/2013
	Geoday	Registration #4,254,021	Untied States	12/04/2012
	Geoelite	Registration #4,347,970	United States	06/04/2013
ClimateCraft, Inc.	Climatecraft	Registration #2,369,333	United States	07/18/2000
	MatrixMonitor	Registration #4,384,931	United States	08/13/2013
	Flexspeed	Serial #86140956	United States	Pending
	Balancestream	Serial #86140902	United States	Pending
ClimateCraft Technologies, Inc.	None			
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.	None			
EDC Ag Products Company L.L.C.	None			
El Dorado Acid, L.L.C.	None			
El Dorado Acid II, L.L.C.	None			
El Dorado Ammonia L.L.C.	None			
El Dorado Chemical Company	El Dorado (& design)	Registration #1,427,064	United States	02/03/1987
	E-2	Registration #833,891	United States	08/22/1967
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	None			
El Dorado Nitrogen, L.P.	None			
International Environmental Corporation	International Environmental (& IE design)	Registration #1,569,505	United States	12/05/1989
	International Environmental (& IE design)	Registration #439970	Mexico	08/18/1993
	IE (Stylized)	Registration #2,556,892	United States	04/02/2002
	Sureflow	Registration #2,449,571	United States	05/08/2001
	Sureflow (Stylized)	Registration #3,702,715	United States	10/27/2009
	IEC International Environmental (w/ design)	Registration #3,406,243	United States	04/01/2008
	IEC International Environmental (w/ design)	Application #302632185	Hong Kong	Pending
	IEC International Environmental (w/ design)	Application #178056	Saudi Arabia	Pending
	IEC International Environmental (w/ design)	Registration #1369355	Mexico	05/22/2013
	Eco-telligent	Registration #4,198,845	United States	08/28/2012
	XpediAir*	Registration #2,986,893	United States	08/23/2005
	Restoramod	Serial #85780049	United States	Pending
	Sureflex	Serial #85894511	United States	Pending
	Air Coil Technologies	Serial #85774765	United States	Pending

Loan Party	Trademark Name	Trademark Application/ Registration Number	Place of Registration	Registration Date
* Trademark is the subject of a Settlement Agreement with Expedia, Inc. regarding XpediAir, Inc's right to use the name, throughout the world, in connection with the sale and manufacture of HVAC equipment and related goods and services, and to register the name with the USPTO or any foreign patent and trademark office in design form only.				
Koax Corp.	Koax	Registration #1,776,407	United States	06/15/1993
	Koax (and Design)	Registration #1,905,551	United States	07/18/1995
LSB Capital L.L.C.	None			
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.)	None			
LSB Industries, Inc.	Earthpure DEF	Registration #3,829,381	United States	08/03/2010
LSB-Europa Limited	None			
Pryor Chemical Company	None			
Summit Machine Tool Manufacturing L.L.C.	Profitmaster	Registration #2,354,905	United States	06/06/2000
	Summit (and Design)	Registration #204,367	Canada	01/10/1975
	Summit	Registration #203,983	Canada	12/20/1974
	Summit (and Design)	Registration #912,909	United States	06/08/1971
	Summit	Registration #984,439	United States	05/21/1974
	PM (and Design)	Registration #1,163,421	United States	08/04/1981
	Hercules	Registration #990,785	United States	08/13/1974
	Hercules	Registration #990,799	United States	08/13/1974
	Hercules	Registration #977,709	United States	01/29/1974
	Hercules	Registration #2,198,751	United States	10/20/1998
	Hercules Ajax	Registration #2,191,163	United States	09/22/1998
	Morey	Registration #2,139,444	United States	02/24/1998
	Rockland	Registration #1,752,244	United States	02/16/1993
	Lathemania	Registration #2,964,152	United States	06/28/2005
The Climate Control Group, Inc.	None			
ThermaClime Technologies, Inc.	None			
Trison Construction, Inc.	None			
XpediAir, Inc.	None			

Copyrights

Loan Party	Copyright Name
Cepolk Holdings, Inc.	None
Chemex I Corp.	None
Chemical Properties L.L.C.	None
Chemical Transport L.L.C.	None
Cherokee Nitrogen L.L.C. (f/k/a Cherokee Nitrogen Company)	None
Cherokee Nitrogen Holdings, Inc.	None
ClimaCool Corp.	None
Climate Master, Inc.	None
ClimateCraft, Inc.	None
ClimateCraft Technologies, Inc.	None
Consolidated Industries L.L.C. (f/k/a Consolidated Industries Corp.)	None
EDC Ag Products Company L.L.C.	None
El Dorado Acid, L.L.C.	None
El Dorado Acid II, L.L.C.	None
El Dorado Ammonia L.L.C.	None
El Dorado Chemical Company	None
El Dorado Nitric L.L.C. (f/k/a El Dorado Nitric Company)	None
El Dorado Nitrogen, L.P.	None
International Environmental Corporation	None
Koax Corp.	None
LSB Capital L.L.C.	None
LSB Chemical L.L.C. (f/k/a LSB Chemical Corp.	None
LSB Industries, Inc.	None
LSB-Europa Limited	None
Pryor Chemical Company	None
Summit Machine Tool Manufacturing L.L.C.	None
The Climate Control Group, Inc.	None
ThermaClime Technologies, Inc.	None
Trison Construction, Inc.	None
XpediAir, Inc.	None

SECOND AMENDED AND RESTATED
SCHEDULE 5.20

ADDITIONAL PERMITTED INDEBTEDNESS
(as of December 31, 2013)

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
Chemical Properties L.L.C.	CrossFirst Bank (also guaranteed by LSB Industries, Inc.)	$ 4,776,820	$ 52,086	May 15, 2018

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
Climate Master, Inc.	Toyota Motor Credit Corporation	$ 19,454	$ 14,186	February, 2014

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
ClimateCraft, Inc.	Toyota Motor Credit Corporation	$ 4,231	$ 3,685	February, 2014

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
International Environmental Corporation	Toyota Motor Credit Corporation	$ 8,641	$ 7,750	February, 2013

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
Koax Corp.	Toyota Motor Credit Corporation	$ 731	$ 2,068	January, 2014

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
LSB Industries, Inc. (“LSB”)	Oracle Credit Corporation	$ 3,424,280	$ 292,143 (quarterly)	June 29, 2016
LSB	Oracle Credit Corporation	$10,000,000	To Be Determined	To Be Determined
LSB	Dell Financial Services L.L.C.	$ 177,975	$ 5,235	October 10, 2016

Loan Party	Creditor	Amount	Monthly Payment	Maturity Date
ThermaClime Technologies, Inc.	Toyota Motor Credit Corporation	$ 770	$ 1,448	January, 2014

SECOND AMENDED AND RESTATED
SCHEDULE 7.13

OTHER PERMITTED INVESTMENTS

1. Refer to Second Amended and Restated Schedules 5.8(b) and (c) for equity interests.
2. Equity interest in Zena Energy L.L.C. (“Zena”).
3. Refer to Second Amended and Restated Schedule 5.20.
4. Cepolk Holdings, Inc. is the sole limited partner of, and owns a fifty percent (50%) interest in, Cepolk Limited Partnership.
5. Summit Machine Tool Manufacturing L.L.C. owns a 45% of the value of KAC Acquisition Company, an Oklahoma corporation, the value of which is *de minimis*.
6. Capital contribution by LSB Industries, Inc. in Zena in the amount $35 million.

SECOND AMENDED AND RESTATED
SCHEDULE 7.14

AFFILIATE TRANSACTIONS

1. Stock option agreements between LSB Industries, Inc. (“LSB”) and certain directors, officers and employees of LSB or any subsidiary of LSB.

2. Services Agreement between LSB and Zena Energy L.L.C. (“Zena”).

3. Guaranty made by LSB in favor of International Bank of Commerce (“IBC”) in respect of indebtedness of Zena under that certain Promissory Note, dated February 1, 2013 in the principal amount of $35,000,000, executed by Zena in favor IBC, and related loan documents.

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)

	2009	2010	2011	2012	2013
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	$35,877	$48,499	$129,649	$91,699	$ 90,126
Add:					
Fixed charges	8,001	7,254	6,548	4,967	15,068
Share of distributed income of 50% owned affiliate	785	825	1,649	1,782	1,719
Adjusted Earnings	$44,663	$56,578	$137,846	$98,448	$106,913
Fixed charges:					
Interest expense (1)	$ 6,016	$ 5,900	$ 4,733	$ 3,715	$ 13,953
Estimate of interest in rental expense	1,985	1,354	1,815	1,252	1,115
Fixed charges:	$ 8,001	$ 7,254	$ 6,548	$ 4,967	$ 15,068
Preferred stock dividends	519	509	473	472	493
Combined fixed charges and preferred stock dividends	$ 8,520	$ 7,763	$ 7,021	$ 5,439	$ 15,561
Ratio of earnings to fixed charges	5.6	7.8	21.1	19.8	7.1
Ratio of earnings to combined fixed charges and preferred stock dividends	5.2	7.3	19.6	18.1	6.9

(1) 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.

Exhibit 21.1

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
As of December 31, 2013

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. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan,
2. 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,
3. Registration Statement (Form S-8 No. 333-153103) pertaining to the 2008 Incentive Stock Plan,
4. Registration Statement (Form S-3 No. 33-69800) pertaining to the registration of an aggregate of 645,000 shares of common stock issued or issuable under certain warrants and non-qualified stock options, and
5. Registration Statement (Form S-3 No. 333-184995) of LSB Industries, Inc. and in the related Prospectuses for the registration of common stock, preferred stock, debt securities, warrants, units or any combination of the foregoing.

of our reports dated February 26, 2014, 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, 2013.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 26, 2014

Exhibit 31.1

CERTIFICATION

I, Jack E. Golsen, 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 26, 2014

/s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tony M. Shelby, 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 26, 2014

/s/ Tony M. Shelby
Tony M. Shelby
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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Jack E. Golsen, Chairman of the Board 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/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer
(Principal Executive officer)

February 26, 2014

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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

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

February 26, 2014

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.