LSB INDUSTRIES INC
Form 10-K
February 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	73-1015226
(State of Incorporation)	(I.R.S. Employer Identification No.)

16 South Pennsylvania Avenue Oklahoma City, Oklahoma	73107
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS

General

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

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

Our Reportable Business Segments

Chemical Business

General

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

Our Chemical Business manufactures products for three principal markets:

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

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

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

	2015	2014	2013
Percentage of net sales of the Chemical Business:			

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

Market Conditions - Chemical Business

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

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

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

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

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

Agricultural Products

Our Chemical Business produces UAN, agricultural grade AN, and ammonia, all of which are nitrogen-based fertilizers. Farmers and ranchers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. Our agricultural markets include a high concentration of pastureland and row crops, which favor our products. We sell these agricultural

products to farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the U.S. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. During the past few years, we have been successful in expanding outside our traditional markets by delivering to distributors on the Tennessee and Ohio rivers by barge, and by delivering to certain Western States by rail.

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

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

Industrial Acids and Other Chemical Products

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

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

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

Mining Products

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

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

	2015	2014	2013

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

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

Dependence on Limited Number of Customers - Chemical Business

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

Raw Materials - Chemical Business

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

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

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

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

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

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

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

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

Strategy - Chemical Business

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

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

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

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

Seasonality - Chemical Business

We believe chemical products sold by our Chemical Business to the agricultural industry are seasonal while sales into the industrial and mining sectors generally are not. The selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, our Chemical Business typically increases its inventory of AN prior to the beginning of each planting season. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Regulatory Matters - Chemical Business

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

Competition - Chemical Business

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

Climate Control Business

General

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

We believe our Climate Control Business has developed leadership positions in certain product categories by offering extensive product lines and customized products focusing on higher efficiency and “green” technologies. We believe

we have developed the most extensive line of water source and geothermal heat pumps and hydronic fan coils in the U.S. and that we are a pioneer in the use of geothermal technology, one of the most energy efficient climate control systems commercially available today. Employing highly flexible production capabilities, we produce both semi-custom and custom design units for new construction as well as the retrofit and replacement markets. This flexibility positions us for growth in commercial/institutional and residential construction markets as those markets continue to recover over the next several years.

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

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

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

Market Conditions - Climate Control Business

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

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

Water Source and Geothermal Heat Pumps

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

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

forecast to show solid opportunity for growth going forward.

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

Hydronic Fan Coils

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

Production and Backlog - Climate Control Business

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

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

Distribution - Climate Control Business

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

Selling Markets - Climate Control Business

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

Raw Materials and Components - Climate Control Business

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

Competition - Climate Control Business

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

Strategy - Climate Control Business

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

drive growth in our Climate Control Business includes:

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

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Additional Segment Information and Foreign and Domestic Operations and Export Sales

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

Employees

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

Environmental, Health and Safety Matters

Our facilities and operations are subject to numerous federal, state and local environmental laws and to other laws regarding health and safety matters (the “Environmental Laws and Health Laws”). In particular, the manufacture, production and distribution of products by our Chemical Business are activities that entail environmental and public health risks and impose obligations under the (Environmental Laws and Health Laws), many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that we will not incur material costs or liabilities in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder have in the past resulted, and could in the future result, in significant compliance expenses, cleanup costs (for our sites or third-party sites where our wastes were disposed of), penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of hazardous or toxic materials at or from our facilities or the use or disposal of certain of its chemical products. Historically, subsidiaries within our Chemical Business have incurred significant expenditures in order to comply with the Environmental Laws and Health Laws and are reasonably expected to do so in the future. We will also be obligated to manage certain discharge water outlets and monitor groundwater contaminants at our Chemical Business facilities should we discontinue the operations of a facility. We do not operate the natural gas wells where we own an interest and compliance with Environmental Laws and Health Laws is controlled by others, with our Chemical Business still being responsible for its proportionate share of the costs involved.

Available Information

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

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

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

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

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

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

The equipment required for the manufacture of our chemical products is specialized, and the time for replacement of such equipment can be lengthy, resulting in extended downtime in the affected unit. Although we use various reliability and inspection programs and maintain a significant inventory of spare equipment, which are intended to

mitigate the extent of production losses, unplanned outages may still occur. As a result, these planned and unplanned downtime events at our chemical facilities have in the past and could in the future adversely affect our operating results, liquidity and financial condition.

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

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

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

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

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

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

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

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

Explosions and/or losses at other chemical facilities that we do not own (such as the explosion in West, Texas) could also result in new or additional legislation or regulatory changes, particularly relating to public health, safety or any of

the products manufactured and/or sold by our Chemical Business or the inability on the part of our Chemical Business' customers to obtain or maintain insurance as to certain products manufactured and/or sold by our Chemical Business, which could have a negative effect on the revenues, cash flow and liquidity of our Chemical Business.

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

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

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

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

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

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

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

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

demand for coal-generated electricity.

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

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

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

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

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

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

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

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

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

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

we are unable to replace a customer with other sales on substantially similar terms.

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

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

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

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

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

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

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

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

Potential increase of imported agricultural products.

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

We may have inadequate insurance.

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

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

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

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

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

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

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

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

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

Loss of key personnel could negatively affect our business.

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

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

Terrorist attacks in the U.S and elsewhere and natural disasters (such as hurricanes or pandemic health crises) have in the past negatively affected, and can in the future negatively affect our operations. We cannot predict further terrorist attacks and natural disasters in the U.S. and elsewhere. These attacks or natural disasters have contributed to economic instability in the U.S. and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, our business, results of operations and financial condition. In addition, terrorist attacks and natural disasters may directly affect our physical facilities,

especially our chemical facilities, or those of our suppliers or customers and could affect our sales, our production capability and our ability to deliver products to our customers. In the past, hurricanes affecting the Gulf Coast of the U.S. have negatively affected our operations and those of our customers. As previously noted, some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects, whether anthropogenic or otherwise, were to occur in areas where we or our clients operate, they could have in adverse effect on our assets and operations. The consequences of any terrorist attacks or hostilities or natural disasters are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

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

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

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

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

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

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

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

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

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

Cyber security risks could adversely affect our business operations.

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

of operations, liquidity and financial condition.

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

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

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

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

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

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

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

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

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

In addition, certain failures to make payments on significant contract obligations when due constitute a cross-default of some of our debt instruments, including the note purchase agreement governing our 12% Senior Secured Notes (the "Senior Secured Note Purchase Agreement") and the indenture governing our 7.75% Senior Secured Notes (the "Senior

Secured Notes Indenture”). A breach of any of these covenants or restrictions could result in an event of default under one or more of our debt agreements at different entities within our capital structure, including as a result of cross acceleration or default provisions. Upon the occurrence of an event of default under one of these debt agreements, our lenders or noteholders could elect to declare all amounts outstanding under that debt agreement to be immediately due and payable and/or terminate all commitments to extend further credit. Such actions by those lenders or noteholders could cause cross defaults or accelerations under our other debt. If we were unable to repay those amounts, the lenders or noteholders could proceed against any collateral granted to them to secure such debt. In the case of a default

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

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

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

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

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

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

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

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

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

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- changes in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material changes in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- adverse effect on increases in prices of raw materials;
- changes in federal, state and local laws and regulations, especially environmental regulations or the American Reinvestment and Recovery act, or in interpretation of such,
- releases of pollutants into the environment exceeding our permitted limits,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to secure additional financing for planned capital expenditures or financing obligations due in the near future,
- substantial existing indebtedness;
- material changes in the cost of certain precious metals, ammonia, natural gas, copper, steel and purchased components,
- limitations due to financial covenants;
- changes in competition,
- the loss of any significant customer,
- increase in cost to maintain internal controls over financial reporting;
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- problems with product equipment,
- changes in the production efficiency of our facilities,

- adverse results in our contingencies including pending litigation,
- unplanned downtime at one or more of our chemical facilities;
- changes in production rates at any of our chemical plants;
- inability to obtain necessary raw materials and purchased components,
- material increases is cost of raw materials;
- material changes in our accounting estimates,
- significant problems within our production equipment,
- fire or natural disasters,
- inability to obtain or retain our insurance coverage,
- obtaining necessary permits;
- third-party financing;
- risk associated with drilling natural gas wells;
- risks associated with proxy contests initiated by dissident stockholders;
- changes in fertilizer production;
- reduction in acres planted for crops requiring fertilizer;
- decrease in duties for products we sell resulting in an increase in imported products into the U.S.
- uncertainties in estimating natural gas reserves;
- volatility of natural gas prices;
- weather conditions;
- increase in imported agricultural products;
- other factors described in the MD&A contained in this report, and
- other factors described in "Risk Factors."

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

Defined Terms

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

AHRI - The Air-Conditioning, Heating and Refrigeration Institute.

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

AN - Ammonium nitrate.

ARO - Asset retirement obligation.

Covestro - Formerly Bayer MaterialScience, LLC., the party with whom our subsidiary in Baytown has entered into an agreement for supply of nitric acid through at least June 2021, the Covestro Agreement.

Covestro Agreement - A long-term contract that provides for a pass-through of certain costs, including the ammonia costs, plus a fixed dollar profit.

Baytown Facility - The nitric acid production facility located in Baytown, Texas.

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

Carrier - Carrier Corporation.

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

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

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

CM - Climate Master, Inc.

CMFS - The Dodge Construction Market Forecasting Service.

DEF - Diesel Exhaust Fluid.

DHS - The U.S. Department of Homeland Security.

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

DOC – The U.S. Department of Commerce.

EDC - El Dorado Chemical Company.

EIA – The U.S. Energy Information Administration.

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

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

EPA - The U.S. Environmental Protection Agency.

ERP - Enterprise resource planning.

GHP – Geothermal heat pump.

Golsen Holders - Jack E. Golsen, our Executive Chairman of the Board, members of his immediate family, including Barry H. Golsen, a member of the Board, entities owned by them and trusts for which they possess voting or dispositive power as trustee.

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

Liquidation Preference – The Series E Redeemable Preferred has a liquidation preference per share of $1,000 plus accrued and unpaid dividends plus the participation rights value.

Indenture – The agreement governing the 7.75% Senior Secured Notes.

LSB - LSB Industries, Inc.

MA - A management alignment consisting of a structured process to identify the most critical improvement opportunities within a business, prioritize and staff the improvement activities and to align the entire organization around achieving those improvement objectives over the next twelve months.

MD&A – Management's Discussion and Analysis of Financial Condition and Results of Operations.

MMBtu - Million Metric British thermal units.

OEM - An original equipment manufacturer.

Orica - Orica International Pte Ltd.

PCC - Pryor Chemical Company.

PP&E - Plant, property and equipment.

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

RIE - A rapid improvement event that is generally a week long, concentrated process that involves a cross functional team focused on improving a specific area of the business (or process).

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

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

12% Senior Secured Notes – The $50 million aggregate principal amount of 12% Senior Secured Notes due August 1, 2019.

SG&A - Selling, general and administrative expense.

Turnaround - A planned major maintenance activity.

UAN - Urea ammonium nitrate.

U.S. - United States.

VSA – A value stream analysis that is a structured activity that helps visualize and document an entire business process flow and the interactions between functional departments. By creating a process map of the current state, the future state and identifying improvement opportunities, activity becomes the basis for an improvement plan.

WASDE - World Agricultural Supply and Demand Estimates Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The following table presents our significant properties for 2015:

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

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

Market Information

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

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

Stockholders

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

Dividends

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

Equity Compensation Plans

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

Sale of Unregistered Securities

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

Preferred Share Rights Plan

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

ITEM 6. SELECTED FINANCIAL DATA (1)

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

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

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

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2015 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

General

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

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

Key Expectations for 2016

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

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

Key Capital Expenditure, Financing and Other Developments – 2015

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

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

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

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

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

12% Senior Secured Notes

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

Securities Purchase Agreement

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

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

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

Registration Right Agreements

In connection with the 12% Senior Secured Notes, LSB entered into a registration rights agreement (the “Registration Rights Agreement-Notes”). Pursuant to the Registration Rights Agreement-Notes, we have agreed to use our reasonable best efforts to file with the SEC a registration statement on an appropriate form with respect to a registered offer to exchange the 12% Senior Secured Notes for new notes with terms substantially identical in all material

respects to the 12% Senior Secured Notes, cause the registration statement to be declared effective under the Securities Act, and complete the exchange within 180 days after the effective date of such registration statement. We are also obligated to update the registration statement by filing a post-effective amendment.

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

Board Representation and Standstill Agreement

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

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

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

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

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

resigned or been removed from the Board, and LSB Funding has permanently waived and renounced its Board designation rights under the Board Representation and Standstill Agreement.

Ammonia Purchase and Sale Agreement

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

Significant Financial Developments – 2015

Our financial developments during 2015 included the following items:

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

Key Industry Factors

Chemical Business

Supply and Demand

Agricultural

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

Corn prices affect the number of acres of corn planted in a given year, and the number of acres planted will drive nitrogen fertilizer consumption, likely driving ammonia, UAN and urea prices. Weather also will have an impact on fertilizer consumption. Although the latest World Agricultural Supply and Demand Estimates Report, report dated January 12, 2016 estimates record world corn ending stocks for 2015/2016 at 208.9 million tons, more than half of these tons are estimated to be held in China. Despite the record ending stocks, the USDA is estimating the U.S. growers will plant 90.5 million acres of corn in 2016 compared to 88.0 million in 2015. At present, the overall fertilizer market continues to be under pressure as inventories of fertilizer products at distributors and producers remain high due to the contracted fall application season and farmers and dealers delaying purchases as they believe fertilizer pricing will continue to drop. However, spring nitrogen movement is expected to be stronger in 2016 compared to 2015 given the increase in estimated planted acres in 2016 and that the 2015 fall nitrogen fertilizer application was disappointing due to poor weather conditions. Along with farmer and dealers delaying purchases, the

strong U.S. dollar makes the U.S. an attractive market for importers to bring in product at lower prices, which is putting further pressure on the market. With the spring application season rapidly approaching, we believe that nitrogen fertilizer prices will recover as more fertilizer will need to be applied to maintain the yield achieved over the past two seasons given the truncated fall application season and imports continuing to run below the levels set last year.

Industrial

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

Mining

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

Farmer Economics

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

Natural Gas Prices

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

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

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

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

natural gas usage at each facility for 2016.

Ammonia Prices

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

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

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

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

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

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

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

Transportation Costs

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

Climate Control Business

Construction Markets

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

single-family residential construction is expected to grow 20% during 2016 to 805,000 units but still remains well below the 1.5 million unit pre-recession levels.

Based on the above forecasted growth in the vertical markets we serve as well as the introduction of new products specifically targeted at the hospitality, education and healthcare vertical markets, we expect the commercial/institutional portion of the Climate Control Business to experience sales growth in the medium and long-term. We believe that our residential products, which are all geothermal heat pumps ("GHP"), will experience limited sales growth, if any, due to the higher relative total system purchase cost of our higher efficiency GHP product offerings as compared to traditional HVAC systems. The higher initial purchase cost creates a longer payback period in most regions due to current low energy costs. We continue to concentrate our product development and sales and marketing efforts on increasing our share of the existing market for our products, as well as expanding the markets for and application of our products, with a focus on utilizing high efficiency/"green" technology.

Key Operational Factors

Chemical Business

Facility Reliability

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

Prepay Contracts

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

Climate Control Business

Product Orders, Sales and Ending Backlog

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

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

	New Orders (1)		Net Sales		Ending Backlog (1)	
	2015	2014	2015	2014	2015	2104
	(In Millions)					
First Quarter	$66.5	$63.2	$65.2	$60.3	$68.6	$44.7
Second Quarter	$70.2	$83.1	$66.8	$62.8	$75.1	$68.1
Third Quarter	$65.1	$74.1	$75.1	$73.5	$71.2	$73.5
Fourth Quarter	$58.7	$58.0	$67.0	$68.8	$67.1	$64.9
Fiscal Year	$260.5	$278.4	$274.1	$265.4		

(1) Our product new order level consists of confirmed purchase orders from customers that have been accepted and received credit approval and our backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we typically expect to ship substantially all of these orders within the next twelve months. At December 31, 2015 backlog includes two orders totaling approximately $1.5 million expected to ship from twelve to fifteen months. It is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms. Product orders and backlog, as reported, generally do not include amounts relating to shipping and handling charges, service orders or service contract orders. In addition, product orders

and backlog, as reported, exclude contracts related to our construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.
For January 2016, our new orders received were approximately $18.8 million and our backlog was approximately $65.6 million at January 31, 2016.

Operational Excellence Activities

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

Certain Heat Pump Contracts

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

Consolidated Results for 2015

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

Items Affecting Comparability of Results

Property and Business Interruption Insurance Claims and Recoveries

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

Impairment of Natural Gas Properties and Long Lived Assets

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

Pryor Downtime

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

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

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

Orica Agreement

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

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

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

Cherokee Turnaround Expense

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

Interest Expense, net

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

Certain Unallocated Corporate Expenses

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

Results of Operations

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

We present the following information about our results of operations for our two core business segments: the Chemical Business and the Climate Control Business. The business operation classified as “Other” primarily sells industrial machinery and related components to machine tool dealers and end users. Net sales by business segment include net sales to unaffiliated customers as reported in the consolidated financial statements. Intersegment net sales are not significant. Gross profit by business segment

represents net sales less cost of sales. Operating income (loss) by business segment represents gross profit by business segment less SG&A incurred by each business segment plus other income and other expense earned/incurred by each business segment before general corporate expenses. General corporate expenses consist of SG&A, other income and other expense that are not allocated to one of our business segments.

The following table contains certain information about our continuing operations in different business segments for each of the three years ended December 31:

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

Other	36	34	49
Corporate	387	320	57
	$40,496	$35,664	$28,310

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

Chemical Business

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

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

(1) As a percentage of net sales

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

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

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

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

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

Net Sales – Chemical

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

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

- Agricultural products comprised approximately 49% and 48% of the Chemical Business net sales for 2015 and 2014, respectively. The sales decline of 8.8% over 2014 sales was driven by a slight overall decline in sales volumes with lower HDAN, ammonia and other agricultural products sales volumes partially offset by higher UAN sales volumes. The higher UAN sales volumes were primarily due to higher production at our Cherokee and Pryor Facilities in 2015 compared to 2014 when we performed a bi-annual turnaround at the Cherokee Facility. Compounding the slight decline in sales volumes was a decrease in our average product selling prices per ton in 2015 with UAN down 9% and HDAN down 1%. These lower selling prices were attributable to lower natural gas and other commodity prices coupled with lower urea selling prices caused by the large amount of imports, placing downward pressure on selling prices. Ammonia prices were essentially unchanged for 2015 compared to 2014.
- Industrial acids and other chemical products sales increased as a result of increased volumes at the Baytown Facility (which performed a Turnaround in 2014, but not in 2015) and at our Cherokee Facility, partially offset by lower prices from the pass-through of decreased ammonia costs to contractual customers and lower volumes from the El Dorado Facility due to lower customer demand.
- Mining products sales decreased primarily due to lower sales of LDAN resulting from the expiration of the take-or-pay Orica Agreement in April 2015 compared to the contract being in place for the full year in 2014 and lower sales volumes for the balance of 2015 due to being a high cost producer and not competitive in the marketplace. Additionally, lower sales volumes of AN solution at our Cherokee Facility are the result from a continued decline of demand for mining products in the Appalachian region combined with lower selling prices contributed to lower mining sales.
- Other products relates to natural gas sales from our working interests in certain natural gas properties. The decrease in natural gas sales is due to lower realized sales prices out of the Marcellus Shale region combined with lower production volumes in 2015 compared to 2014 as the operator of these properties has slowed development due to the decline in natural gas sales prices.

Gross Profit - Chemical

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

Operating Income (Loss) - Chemical

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

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Climate Control Business

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

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

(1) As a percentage of net sales

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

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

Net Sales – Climate Control

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

- Net sales of our other HVAC products increased primarily due to increased sales of our large custom air handlers related to a higher beginning backlog entering 2015. Our backlog continues to grow.

Gross Profit - Climate Control

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

Operating Income - Climate Control

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

General Corporate Expenses

General corporate expenses consist of SG&A, other income and other expense that are not allocated to one of our business segments. General corporate expenses were $29.9 million in 2015 compared to $21.4 million in 2014. The increase of approximately $8.5 million primarily relates to an increase of $6.4 million for personnel related expenses including; one-time severance payments of approximately $2.0 million for certain senior executives, additional compensation expense of approximately $1.0 million, discontinuance of the allocation of certain senior management costs to the Chemical and Climate Control Businesses of approximately $1.2 million and compensation related to restricted stock awards of approximately $0.4. The remaining increase of approximately $2.1 million relates primarily to an increase in professional fees for legal and investment banking services related to various financing activities, an increase in auditing and other accounting services and other consulting services. Additionally, in both 2014 and 2015 we incurred $4.8 million and $4.6 million respectively for fees and expenses related to analyzing proposals received from certain activist shareholders and in dealing, negotiating and settling with those shareholders in order to avoid a proxy fight.

Interest Expense, net

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

Provision (benefit) for Income Taxes

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

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

Chemical Business

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

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

(1) As a percentage of net sales

Net Sales – Chemical

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

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

Gross Profit - Chemical

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

Operating Income - Chemical

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

Climate Control Business

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

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

(1) As a percentage of net sales

Net Sales – Climate Control

- Net sales of our water source and geothermal heat pump products decreased in 2014 primarily as a result of the loss of the Carrier heat pump contracts, which generated sales in 2014 that were $17 million lower than 2013. Excluding Carrier heat pump sales, commercial/institutional product sales were flat with 2013 while residential product sales were up nearly 6.5%. Overall, the number of units sold declined; and the unit average unit selling price increased due to lower Carrier sales. From a commercial/institutional market perspective, gains were seen in the retail and multi-family sectors with a slight decline in the education sector. In addition, 2014 had an extremely slow start due to low beginning backlog and weather related delays. Incoming orders, excluding Carrier, for commercial/institutional products and residential products increased 11% and 15%, respectively. During 2014, we continued to maintain a market share leadership position based on market data supplied by AHRI.
- Net sales of our hydronic fan coils declined in 2014 primarily due to lower than expected product orders partially offset by an increase in selling prices of approximately 8% over 2013 primarily due to product and feature mix. We experienced only minor fluctuations in the vertical markets served. During 2014, we continued to maintain a market share leadership position based on market data supplied by AHRI.
- Net sales of our other HVAC products decreased primarily due to a lower beginning backlog entering 2014, customer scheduled delivery dates shifting out for our large custom air handlers and modular chillers, partially offset by increased activity on contracts for our engineering and construction services.

Gross Profit - Climate Control

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

Operating Income - Climate Control

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

expense in 2014 declined slightly from 2013 but represented a greater percentage of net sales due to lower sales in 2014.

General Corporate Expenses

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

Interest Expense, net

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

Loss on Extinguishment of Debt

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

Provision for Income Taxes

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow from Continuing Operating Activities

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

Cash Flow from Continuing Investing Activities

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

Cash Flow from Continuing Financing Activities

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

Liquidity Needs for 2016

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

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

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

Capitalization

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

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

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

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

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

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

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

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

Capital Additions

Capital Additions - 2015

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

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

Planned Capital Additions

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

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

Included in planned capital expenditures is capitalized interest of approximately $12 million for 2016. The planned capital expenditures for Corporate and Other are primarily for the replacement of our ERP, financial and operations management system. The new ERP system replaces our legacy systems, which are out-of-date and largely unsupported, and will improve our access to operational and financial information utilized to manage the business and improve our security and regulatory compliance capability. This project began in 2013 and is expected to be fully implemented in 2017 at a total cost of $26 million to $28 million.

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

The El Dorado Expansion

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

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

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

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

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

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

Expenses Associated with Environmental Regulatory Compliance

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of $5.5 million in 2015 in connection with environmental projects. For 2016, we expect to incur expenses ranging from $4.5 million to $5.5 million in connection with additional environmental projects. However, it is possible that the actual costs could be significantly different than our estimates.

Dividends

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

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

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

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

Dividends on the Series E Redeemable Preferred are cumulative and payable semi-annually, commencing May 1, 2016, in arrears at the annual rate of 14% of the liquidation value of $1,000 per share. Each share of Series E Redeemable Preferred is entitled to receive a semi-annual dividend, only when declared by our Board, of $70.00 per

share for the aggregate semi-annual dividend of $14.7 million. In addition, dividends in arrears at the dividend date, until paid, shall compound additional dividends at the annual rate of 14%. We also must declare a dividend on the Series E Redeemable Preferred on a pro rata basis with our common stock. As long as the Purchaser holds at least 10% of the Series E Redeemable Preferred, we may not declare dividends on our common stock and other preferred stocks unless and until dividends have been declared and paid on the Series E Redeemable Preferred for the then current dividend period in cash. As of December 31, 2015, the amount of accumulated dividends on the Series E Redeemable Preferred was approximately $2.3 million.

Compliance with Long - Term Debt Covenants

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

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

Loan Agreements and Redeemable Preferred Stock

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

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

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

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

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

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

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

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

February 1, 2016 to April 1, 2016.

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

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

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

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

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

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

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

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

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

Seasonality

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

Off-Balance Sheet Arrangements

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

Performance and Payment Bonds

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

Aggregate Contractual Obligations

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

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

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

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

Critical Accounting Policies and Estimates

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

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

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

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

Accrued Warranty Costs – Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, which extends over several years. As such, we provide warranties after equipment shipment/start up covering defects in materials and workmanship.

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

Generally for commercial/institutional products, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start-up, whichever is shorter, and to ninety days for spare parts. For residential products, the base warranty

coverage for manufactured equipment in the Climate Control Business is limited to ten years from the date of shipment for material and to five years from the date of shipment for labor associated with the repair. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase or a specific product may be sold with an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

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

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

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

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

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

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

The Series E and Series F Redeemable Preferred and Warrants were recorded at fair value upon issuance, net of issuance costs or discounts. The valuations are classified as Level 3. The Warrants were valued based on a Black-Scholes-Merton option pricing model and a Finnerty model to determine the estimated discount for lack of marketability resulting in an estimated fair value of $22.3 million. The Series E Redeemable Preferred was valued at

an estimated fair value of $187.7 million (before issuance costs), with discounted cash flow models that calculates the present value of future cash flows using possible redemption scenarios and using published market yields for publicly traded unsecured fixed income securities with a similar credit ratings. No valuation input adjustments were considered necessary relating to the nonperformance risk for the Warrants or Series E Redeemable Preferred. Based on the terms of the Series F Redeemable Preferred, we determined that this share had minimal economic value.

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Our results of operations and operating cash flows are impacted by changes in market prices of ammonia, natural gas, copper, and steel, changes in market interest rates and changes in market currency exchange rates.

Forward Sales Commitments Risk

Periodically, our Chemical and Climate Control Businesses enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At December 31, 2015, we had no embedded losses associated with sales commitments with firm sales prices in our Chemical Business.

Commodity Price Risk

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

Interest Rate Risk

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

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

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

(1) The variable and fixed interest rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2015.

(2) The estimated future cash flows and related weighted-average receive rate are based on the estimated fair value of these contracts as of December 31, 2015.

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

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

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

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that

evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Management's Report on Internal Control over Financial Reporting

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

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

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

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

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

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma

February 29, 2016

ITEM 9B. OTHER INFORMATION

None.

PART III

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

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

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

(a) (2) Financial Statement Schedule

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts F-60

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

(a)(3) Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
3(i).1	Restated Certificate of Incorporation, as amended, which the Company hereby incorporates by reference from.	Exhibit 3(i).1 to the Company's Form 10-K filed on February 28, 2013
3(ii).1	Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010, January 17, 2014, February 4, 2014 and August 21, 2014	Exhibit 3(ii).1 to the Company's Form 8-K filed August 27, 2014
3(ii).2	Fifth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of April 26, 2015	Exhibit 3(ii) to the Company's Form 8-K filed April 30, 2015
3(ii).3	Sixth Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 2, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 8, 2015
3(ii).4	Seventh Amendment to the Amended and Restated Bylaws of LSB Industries, Inc., dated as of December 22, 2015	Exhibit 3(ii) to the Company's Form 8-K filed December 29, 2015
4.1	Specimen Certificate for the Company's Series B Preferred Stock	Exhibit 4.27 to the Company's Registration Statement on Form S-3 No. 33-9848
4.2	Specimen Certificate for the Company's Series D 6% Cumulative, Convertible Class C Preferred Stock	Exhibit 4.3 to the Company's Form 10-K filed March 3, 2011
4.3	Specimen Certificate for the Company's Common Stock	Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed November 16, 2012
4.4	Certificate of Designations of Series E Cumulative Redeemable Class C Preferred Stock of LSB Industries, dated as of December 4, 2015	Exhibit 4.1 to the Company's Form 8-K filed December 8, 2015
4.5	Certificate of Designations of Series F Cumulative Redeemable Class C Preferred Stock of LSB Industries, dated as of December 4, 2015	Exhibit 4.2 to the Company's Form 8-K filed December 8, 2015
4.6	Renewed Rights Agreement, dated as of December 2, 2008, between the Company and UMB Bank, n.a.	Exhibit 4.1 to the Company's Form 8-K filed December 5, 2008
4.7	First Amendment to Renewed Rights Agreement, dated December 3, 2008, between LSB Industries, Inc. and UMB Bank, n.a.	Exhibit 4.3 to the Company's Form 8-K filed December 5, 2008

4.8	Amendment to Renewed Rights Agreement, by and between LSB Industries, Inc. and UMB Bank, n.a., dated as of December 4, 2015	Exhibit 4.3 to the Company’s Form 8-K filed December 8, 2015
4.9	Indenture, dated August 7, 2013, among LSB Industries, Inc., the subsidiary guarantors named therein, UMB Bank, n.a., as trustee	Exhibit 4.1 to the Company’s Form 8-K filed August 14, 2013
4.10	Intercreditor Agreement by and among Wells Fargo Capital Finance, Inc., as agent and UMB Bank, n.a., as collateral agent, and acknowledged and agreed to by LSB Industries, Inc. and the other grantors named therein	Exhibit 99.1 to the Company’s Form 8-K filed August 14, 2013
10.1*	Form of Death Benefit Plan Agreement	Exhibit 10.2 to the Company’s Form 10-K filed March 31, 2006
10.2*	LSB Industries, Inc. 1998 Stock Option and Incentive Plan	Exhibit 10.44 to the Company's Form 10-K filed April 15, 1999

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.3*	LSB Industries, Inc. Outside Directors Stock Purchase Plan	Exhibit 99.2 to the Company's Form 8-K filed October 23, 2014
10.4*	Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and Dan Ellis	Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed September 10, 2007
10.5*	Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and John Bailey	Exhibit 99.2 to the Company's Registration Statement on Form S-8 filed September 10, 2007
10.6*	LSB Industries, Inc. 2008 Incentive Stock Plan, effective June 5, 2008, as amended by the First Amendment, effective June 5, 2014	Exhibit 99.3 to the Company's Form 8-K filed June 11, 2014
10.7*	Form of Restricted Stock Agreement of LSB Industries, Inc.	Exhibit 10.3 to the Company's Form 8-K filed January 8, 2016
10.8(a)*	Form of Incentive Stock Option Agreement for 2008 Plan	
10.9*	Employment Agreement, dated April 27, 2015, by and among the Company and Barry H. Golsen	Exhibit 99.3 to the Company's Form 8-K filed April 30, 2015
10.10*	Severance and Release Agreement, dated September 1, 2015, by and between the Company and Barry H. Golsen	Exhibit 10.1 to the Company's Form 8-K filed September 4, 2015
10.11*	Amendment to Severance Agreement, dated December 17, 2008, between Barry H. Golsen and the Company. Each Amendment to Severance Agreement with Jack E. Golsen, Tony M. Shelby, David R. Goss and David M. Shear is substantially the same as this exhibit and will be provided to the Commission upon request.	Exhibit 99.2 to the Company's Form 8-K filed December 23, 2008
10.12*	Employment Agreement and Amendment to Severance Agreement dated January 12, 1989, between the Company and Jack E. Golsen, dated March 21, 1996, (with Severance Agreement dated January 17, 1989 attached) as amended by the First	Exhibit 10.9 to the Company's Form 10-K filed March 2, 2015

	Amendment to Employment Agreement, dated April 29, 2003, as amended by the Second Amendment to Employment Agreement, dated May 12, 2005, as amended by the Third Amendment to Employment and Severance Agreement, dated December 17, 2008, as amended by the Fourth Amendment to Employment Agreement, dated January 1, 2015	
10.13*	2015 Amendment to Severance Agreement, dated April 27, 2015, by and among the Company and Jack E. Golsen	Exhibit 99.7 to the Company's Form 8-K filed April 30, 2015
10.14*	Offer Letter, dated February 5, 2014, and Non-Qualified Stock Option Agreement, by and among the Company to Mark T. Behrman	Exhibit 99.5 to the Company's Form 8-K filed April 30, 2015
10.15*	Employment Agreement, dated April 27, 2015, by and among the Company and Mark T. Behrman	Exhibit 99.4 to the Company's Form 8-K filed April 30, 2015
10.16*	Employment Agreement by and between LSB Industries, Inc. and Mark Behrman, dated January 14, 2016	Exhibit 10.1 to the Company's Form 8-K filed January 21, 2016
10.17(a)*	Restricted Stock Agreement by and between LSB Industries, Inc. and Mark Behrman, dated as of December 31, 2015	

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.18*	Amendment and Restated Severance Agreement, dated April 27, 2015, by and among the Company and Tony M. Shelby. Substantially similar Amended and Restated Severance Agreements, each dated April 27, 2015, between the Company and each of David R. Goss, Phil Gough, Greg Withrow, James Murray, III, Michael Tepper, Paul Rydlund, Steven Golsen, Heidi Brown, and David Shear are not attached hereto, but will be provided to the Securities and Exchange Commission upon request.	Exhibit 99.6 to the Company's Form 8-K filed April 30, 2015
10.19*	Severance and Release Agreement, dated November 3, 2015, by and between the Company and David R. Goss	Exhibit 10.2 to the Company's Form 10-Q filed November 9, 2015
10.20*	Independent Contractor Agreement, dated September 30, 2015, by and among the Company and Circle S. Consulting LLC, (executed by Richard S. Sanders on behalf of Circle S. Consulting LLC as President & Individually).	Exhibit 10.3 to the Company's Form 10-Q filed November 9, 2015
10.21*	Severance and Release Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 31, 2015	Exhibit 10.1 to the Company's Form 8-K filed January 8, 2016
10.22*	Consulting Agreement by and between LSB Industries, Inc. and David M. Shear, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K filed January 8, 2016
10.23*	Employment Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.1 to the Company's Form 8-K/A filed January 8, 2016
10.24*	Restricted Stock Agreement by and between LSB Industries, Inc. and Daniel D. Greenwell, dated as of December 31, 2015	Exhibit 10.2 to the Company's Form 8-K/A filed January 8, 2016
10.25(a)*	Employment Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	
10.26(a)*	Restricted Stock Agreement by and between LSB Industries, Inc. and Michael Foster, dated as of January 5, 2016	
10.27*	Separation and Release Agreement by and between LSB Industries, Inc. and Tony M. Shelby, dated as of February 22, 2016	Exhibit 10.1 to the Company's Form 8-K

		filed February 25, 2016
10.28(a)*	Form of Retention Bonus Agreement	
10.29	Indemnification Agreement, dated October 14, 2015, between the Company and Jack E. Golsen, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule	Exhibit 10.1 to the Company's Form 8-K filed October 19, 2015
10.30	Indemnification Agreement, dated October 14, 2015, between the Company and David M. Shear, together with a schedule identifying other substantially identical agreements between the Company and each of its executive officers identified on the schedule	Exhibit 10.2 to the Company's Form 8-K filed October 19, 2015
10.31	Indemnification Agreement, dated as of December 7, 2015, by and between LSB Industries, Inc. and Jonathan S. Bobb, together with a schedule identifying other substantially identical agreements between the Company and each of the other directors identified on the schedule	Exhibit 10.5 to the Company's Form 8-K filed December 8, 2015

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

		THE FREEDOM OF INFORMATION ACT.
10.36	First Amendment to AN Supply Agreement, dated effective March 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd.	Exhibit 10.28 to the Company's Form 10-K filed March 8, 2010

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.37	Third Amendment to AN Supply Agreement, dated effective April 9, 2013, between El Dorado Chemical Company and Orica International Pte Ltd.	Exhibit 99.1 to the Company's Form 8-K, filed May 1, 2013
10.38	Agreement, dated effective August 1, 2013, between United Steel Workers of America International Union on behalf of LOCAL 13-434 and El Dorado Chemical Company	Exhibit 99.1 to the Company's Form 8-K filed October 11, 2013
10.39	Agreement, dated effective October 17, 2013, between International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224 and El Dorado Chemical Company	Exhibit 99.2 to the Company's Form 8-K filed October 11, 2013
10.40	Agreement, dated November 12, 2013, between United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local No. 00417 and Cherokee Nitrogen Company	Exhibit 99.1 to the Company's Form 8-K filed February 13, 2014
10.41	Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 2.1 to the Company's Form 8-K dated December 27, 2002
10.42	Exhibits and Disclosure Letters to the Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC	Exhibit 10.1b to the Company's Form 10-Q filed August 6, 2010
10.43	Anhydrous Ammonia Sales Agreement, dated effective January 1, 2009 between Koch Nitrogen International Sàrl and El Dorado Chemical Company	Exhibit 10.49 to the Company's Form 10-K filed March 13, 2009

CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #28828, DATED SEPTEMBER 14, 2012, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

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

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

	LLC and Prime Financial, L.L.C., dated February 7, 2012	
10.55	Purchase and Sale Agreement, dated October 31, 2012, between Clearwater Enterprises, L.L.C. and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K filed November 2, 2012. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided supplementally to the Securities and Exchange Commission upon request.

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Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.56	Purchase and Sale Agreement, dated August 28, 2013, between Hat Creek Energy LLC, Citrus Energy Appalachia, LLC, Troy Energy Investments, LLC, and Zena Energy, L.L.C.	Exhibit 99.1 to the Company's Form 8-K, filed August 30, 2013. Exhibits to the Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided supplementally to the Securities and Exchange Commission upon request.
10.57	Contract, between Weatherly Inc. and El Dorado Chemical Company, dated November 30, 2012	Exhibit 99.2 to the Company's Form 8-K filed December 6, 2012
10.58	Engineering, Procurement and Construction Agreement, dated August 12, 2013, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC	Exhibit 10.1 to the Company's Form 8-K filed August 15, 2013
10.59	Construction Agreement-DMW2, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.1 to the Company's Form 8-K filed November 12, 2013
10.60	Construction Agreement-NACSAC, dated November 6, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.2 to the Company's Form 8-K filed November 12, 2013
10.61	Engineering, Procurement and Construction Agreement, dated December 31, 2013, between El Dorado Chemical Company and SAIC Constructors, LLC	Exhibit 99.1 to the Company's Form 8-K filed January 7, 2014
10.62	Engineering Procurement and Construction Contract, Amendment No.1 dated October 20, 2015, between El Dorado Ammonia L.L.C. and SAIC Constructors, LLC	Exhibit 10.1 to the Company's Form 8-K filed October 26, 2015
10.63	Promissory Note, dated February 1, 2013, in the original principal amount of $35 million, issued by Zena Energy L.L.C. in favor of International Bank of Commerce	Exhibit 99.1 to the Company's Form 8-K filed February 7, 2013
10.64	Leasehold Mortgage, Security Agreement, Assignment and Fixture Filing, dated February 1, 2013, from Zena Energy L.L.C. to International Bank of Commerce	Exhibit 99.2 to the Company's Form 8-K filed February 7, 2013
10.65	Guaranty, dated February 1, 2013, issued by LSB Industries, Inc. in favor of International Bank of Commerce	Exhibit 99.3 to the Company's Form 8-K filed February 7, 2013
10.66	Settlement Agreement, dated April 26, 2015, by and among the Company and Starboard Value LP	Exhibit 99.1 to the Company's Form 8-K filed April 30, 2015

10.67	Agreement by and among the Company and Engine Capital, L.P., Red Alder, LLC, and certain of their respective affiliates, dated April 3, 2014	Exhibit 99.2 to the Company's Form 8-K filed April 4, 2014
10.68	Consent Decree, dated May 28, 2014, by and among, LSB Industries, Inc., El Dorado Chemical Co., Cherokee Nitrogen Co., Pryor Chemical Co., El Dorado Nitrogen, L.P., the U.S. Department of Justice, the U.S. Environmental Protection Agency, the Alabama Department of Environmental Management, and the Oklahoma Department of Environment Quality	Exhibit 99.1 to the Company's Form 8-K filed June 3, 2014
10.69	Second Amended and Restated Loan and Security Agreement, dated effective December 31, 2013, by and among LSB Industries, Inc., each of its subsidiaries that are signatories thereto, the lenders signatories thereto, and Wells Fargo Capital Finance, LLC	Exhibit 4.9 to the Company's Form 10-K filed February 27, 2014

Exhibit Number	Exhibit Title	Incorporated by Reference to the Following
10.70	Amendment No. 1 to the Second Amended and Restated Loan and Security Agreement, dated effective as of June 11, 2015, by and among LSB Industries, Inc. its subsidiaries identified on the signature pages thereof, the lenders identified on the signature pages thereof and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders	Exhibit 99.1 to the Company's Form 8-K filed June 17, 2015
10.71	Amendment No. 2 to the Second Amended and Restated Loan and Security Agreement, dated as of November 9, 2015, by and among LSB Industries, Inc., its subsidiaries identified on the signature pages thereof, the lenders identified on the signature pages thereof, and Wells Fargo Capital Finance, LLC, as the arranger and administrative agent for the Lenders	Exhibit 10.3 to the Company's Form 8-K filed November 16, 2015
10.72(a)	Security Agreement dated as of August 7, 2013 among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A. as Collateral Agent	
10.73(a)	Supplement No. 1 to Security Agreement February 12, 2014 among LSB Industries, Inc. and the other grantors identified therein in favor of UMB Bank, N.A., as Collateral Agent	
10.74	Note Purchase Agreement, dated November 9, 2015, by and among LSB Industries, Inc., the guarantors party thereto and LSB Funding LLC	Exhibit 10.1 to the Company's Form 8-K filed November 16, 2015
10.75	Promissory Note, dated November 9, 2015, by LSB Industries, Inc.	Exhibit 10.2 to the Company's Form 8-K filed November 16, 2015
10.76	Joinder to Intercreditor Agreement, dated November 9, 2015, by and among LSB Funding LLC, Wells Fargo Capital Finance, Inc., as ABL Agent, UMB Bank, N.A., as Notes Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.4 to the Company's Form 8-K filed November 16, 2015
10.77	Joinder to Security Agreement, dated November 9, 2015, by and among LSB Funding LLC, UMB Bank, N.A., as Collateral Agent, LSB Industries, Inc. and the guarantors party thereto	Exhibit 10.5 to the Company's Form 8-K filed November 16, 2015
10.78	Securities Purchase Agreement by and among LSB Industries, Inc., LSB Funding LLC, and Security Benefit Corporation, dated as of December 4, 2015	Exhibit 10.1 to the Company's Form 8-K filed December 8, 2015

10.79	Warrant to Purchase Common Stock issued by LSB Industries to LSB Funding LLC, dated as of December 4, 2015	Exhibit 10.2 to the Company's Form 8-K filed December 8, 2015
10.80	Board Representation and Standstill Agreement by and between LSB Industries, Inc., LSB Funding LLC, Security Benefit Corporation, Todd Boehly and the Golsen Holders (as defined therein), dated as of December 4, 2015	Exhibit 10.3 to the Company's Form 8-K filed December 8, 2015
10.81	Registration Rights Agreement by and between LSB Industries, Inc. and the Purchaser Named on Schedule A thereto, dated as of December 4, 2015	Exhibit 10.4 to the Company's Form 8-K filed December 8, 2015
12.1(a)	Calculation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	
21.1(a)	Subsidiaries of the Company	
23.1(a)	Consent of Independent Registered Public Accounting Firm	
23.2(a)	Consent of Pinnacle Energy Services, L.L.C.	

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

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

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

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

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

February 29, 2016

Dated: February 29, 2016	By:	/s/ Louis S. Massimo Louis S. Massimo, Director
Dated: February 29, 2016	By:	/s/ Andrew K. Mittag Andrew K. Mittag, Director
Dated: February 29, 2016	By:	/s/ William F. Murdy William F. Murdy, Director
Dated: February 29, 2016	By:	/s/ Marran H. Ogilvie Marran H. Ogilvie, Director
Dated: February 29, 2016	By:	/s/ Joseph E. Reece Joseph E. Reece, Director

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

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LSB Industries, Inc.

Consolidated Financial Statements

And Schedule for Inclusion in Form 10-K

For the Fiscal Year ended December 31, 2015

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Report of Independent Registered Public Accounting Firm

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

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

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

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

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

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma

February 29, 2016

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31,	
	2015	2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$127,314	$186,811
Restricted cash and cash equivalents	—	365
Short-term investments	—	14,500
Accounts receivable, net	92,602	88,074
Inventories	53,237	56,586
Supplies, prepaid items and other:		
Prepaid insurance	10,563	13,752