

LSB INDUSTRIES INC  
Form 10-K  
February 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

or

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

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

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

3503 NW 63<sup>rd</sup> Street, Suite 500,

Oklahoma City, Oklahoma 73116

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(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:

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports submit such files).    Yes    No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

|                         |                                 |
|-------------------------|---------------------------------|
| Large accelerated filer | Accelerated<br>filer            |
| Non-accelerated filer   | Smaller<br>reporting<br>company |
|                         | Emerging<br>growth<br>company   |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2018, was approximately \$111 million. As a result, the Registrant is an accelerated filer as of December 31, 2018. For purposes of this computation, shares of the Registrant's common stock beneficially owned by each executive officer and director of the Registrant and LSB Funding LLC were deemed to be owned by affiliates of the Registrant as of June 30, 2018. Such determination should not be deemed an admission that such executive officers, directors or entity 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 22, 2019, the Registrant had 28,809,079 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its annual meeting of stockholders will be filed with the Securities and Exchange Commission within 120 days after the end of its 2018 fiscal year, are incorporated by reference in Part III.

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PART III

(Items 10, 11, 12, 13, and 14)

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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 2018 fiscal year covered by this report.

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PART I

ITEM 1. BUSINESS

Overview

All references to "LSB Industries," "LSB," "the Company," "we," "us," and "our" refer to LSB Industries, Inc. and its subsidiaries, except where the context makes clear that the reference is only to LSB Industries, Inc. itself and not its subsidiaries. Notes referenced throughout this document refer to consolidated financial statement footnote disclosures that are found in Item 8.

The Company was formed in 1968 as an Oklahoma corporation and became a Delaware corporation in 1977. We manufacture and market chemical products for the agricultural, industrial and mining markets. We own and operate facilities in El Dorado, Arkansas (the "El Dorado Facility"), Cherokee, Alabama (the "Cherokee Facility"), and Pryor, Oklahoma (the "Pryor Facility"), and we operate a facility for Covestro AG ("Covestro") in Baytown, Texas (the "Baytown Facility"). Our products are sold through distributors and directly to end customers throughout the United States.

Our Business

Our business manufactures products for three principal markets:

- ammonia, fertilizer grade ammonium nitrate ("AN" and "HDAN") and urea ammonia nitrate ("UAN") 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 ("DEF") for industrial applications; and
- industrial grade AN ("LDAN") and AN solutions for mining applications.

The products we manufacture at our facilities are primarily derived from natural gas (a raw material feedstock). Our facilities and production processes have been designed to produce products that are marketable at nearly each stage of production. This design has allowed us to develop and deploy a business model optimizing the mix of products to capture the value opportunities in the end markets we serve with a focus on balancing our production.

The chart below highlights representative products and applications in each of our end markets.

| End Market   | Products  | Applications  |
|--------------|---|---|
| Agricultural | UAN, HDAN, ammonia  | Fertilizer and fertilizer blends for corn and other crops; NPK fertilizer blends  |
| Industrial   | Nitric acid, metallurgical and commercial grade ammonia, sulfuric acid, diesel exhaust fluid and other urea processing solutions, Specialty E-2 ammonium nitrate, CO2 | Semi-conductor and polyurethane intermediates, ordnance; Pulp and paper, alum, water treatment, metals and vanadium processing; Power plant emissions abatement, water treatment, refrigerants, metals processing; Exhaust stream additive, horticulture / greenhouse applications; refrigeration |
| Mining       | LDAN, AN solution, and HDAN   | Specialty emulsions for mining applications, surface mining, quarries, and construction   |



The following table summarizes net sales information relating to our products:

|  | 2018  | 2017  | 2016  |
|--|-------|-------|-------|
| Percentage of consolidated net sales:        |       |       |       |
| Agricultural products                        | 50 %  | 43 %  | 44 %  |
| Industrial acids and other chemical products | 39 %  | 46 %  | 42 %  |
| Mining products                              | 11 %  | 9 %   | 12 %  |
| Other products                               | 0 %   | 2 %   | 2 %   |
|  | 100 % | 100 % | 100 % |

Prior to July 1, 2016, we manufactured and sold a range of heating, ventilation and air conditioning products and related services (the “Climate Control Business”). These products were primarily used in commercial, institutional and residential new building construction and renovations. On July 1, 2016, we sold the Climate Control Business.

For information regarding our net sales, operating results and total assets for the past three fiscal years, see the Consolidated Financial Statements included in this report.

#### Our Strategy

We pursue a strategy of balancing the sale of product as fertilizer into the agriculture markets at spot prices or short duration pre-sales 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 some raw material and other manufacturing costs. We believe this product and market diversification strategy allows us to have more consistent levels of production compared to some of our competitors and helps reduce the volatility risk inherent in the prices of our raw material feedstock and/or the changes in demand for our products.

The strategy of developing industrial and mining customers helps to moderate the risk inherent in the agricultural markets where spot sales prices of our agricultural products may not have a correlation to the natural gas feedstock costs but rather reflect market conditions for like and competing nitrogen sources. This volatility of sales pricing in our agricultural products may, from time to time, compromise our ability to recover our full cost to produce the product. Additionally, the lack of sufficient non-seasonal agricultural sales volume to operate our manufacturing facilities at optimum levels can preclude us from balancing production and storage capabilities. Looking forward, we continually pursue profitable growth and margin enhancement. 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 acquisitions of strategic assets or companies, mergers with other companies and investment in additional production capacity where we believe those acquisitions, mergers or expansion of production capacity will enhance the value of the Company and provide appropriate returns.

#### Key Operating Initiatives for 2019