

CF Industries Holdings, Inc.  
Form 10-Q  
August 14, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2006**

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: 001-32597

## CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**One Salem Lake Drive  
Long Grove, Illinois**

(Address of principal executive offices)

**(847) 438-9500**

(Registrant's telephone number, including area code)

**20-2697511**

(I.R.S. Employer  
Identification No.)

**60047**

(Zip Code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

55,050,001 shares of the registrant's common stock, \$0.01 par value per share, were outstanding at July 31, 2006.

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TABLE OF CONTENTS

<b><u>PART I.</u></b>	<b><u>Financial Information</u></b>		
	<u>Item 1.</u>	<u>Financial Statements</u>	
		<u>Consolidated Statements of Operations</u>	1
		<u>Consolidated Statements of Comprehensive Income (Loss)</u>	2
		<u>Consolidated Balance Sheets</u>	3
		<u>Consolidated Statements of Cash Flows</u>	4
		<u>Notes to Unaudited Consolidated Financial Statements</u>	5
	<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
	<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
	<u>Item 4.</u>	<u>Controls and Procedures</u>	29
<b><u>PART II.</u></b>	<b><u>Other Information</u></b>		
	<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	30
	<u>Item 5.</u>	<u>Other Information</u>	30
	<u>Item 6.</u>	<u>Exhibits</u>	30

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## CF INDUSTRIES HOLDINGS, INC.

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2006	2005	June 30, 2006	2005
	(in millions, except per share amounts)			
Net sales	\$ 664.8	\$ 626.7	\$ 1,065.3	\$ 1,086.0
Cost of sales	563.6	531.1	986.8	935.1
Gross margin	101.2	95.6	78.5	150.9
Selling, general and administrative	14.3	14.3	27.3	25.3
Other operating net	1.6	1.7	3.1	2.5
Operating earnings	85.3	79.6	48.1	123.1
Interest expense	1.5	5.2	2.0	10.5
Interest income	(2.8 )	(4.2 )	(5.5 )	(7.7 )
Minority interest	16.4	7.5	22.3	12.4
Other non-operating net	(0.1 )	(0.1 )	(0.2 )	(0.1 )
Earnings before income taxes	70.3	71.2	29.5	108.0
Income tax provision	27.7	28.3	11.5	42.8
Net earnings	\$ 42.6	\$ 42.9	\$ 18.0	\$ 65.2
Basic and diluted weighted average common shares outstanding	55.0		55.0	
Basic and diluted net earnings per share	\$ 0.77		\$ 0.33	

See Accompanying Notes to Unaudited Consolidated Financial Statements.

**CF INDUSTRIES HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

	Three months ended		Six months ended	
	June 30, 2006 (in millions)	2005	June 30, 2006	2005
Net earnings	\$ 42.6	\$ 42.9	\$ 18.0	\$ 65.2
Other comprehensive income (loss):				
Foreign currency translation adjustment no tax effect	1.1	(0.4 )	1.0	(0.3 )
Unrealized gain (loss) on hedging derivatives net of taxes	(1.3 )	(2.5 )	(3.4 )	0.9
Unrealized gain (loss) on securities net of taxes	(0.1 )		0.1	
	(0.3 )	(2.9 )	(2.3 )	0.6
Comprehensive income	\$ 42.3	\$ 40.0	\$ 15.7	\$ 65.8

See Accompanying Notes to Unaudited Consolidated Financial Statements.

**CF INDUSTRIES HOLDINGS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	(Unaudited) June 30, 2006 (in millions, except share and per share amounts)	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24.7	\$ 37.4
Short-term investments	203.3	179.3
Accounts receivable	85.0	52.8
Income taxes receivable		1.1
Inventories	202.6	251.1
Other	25.2	54.4
Total current assets	540.8	576.1
Property, plant and equipment net	608.4	630.1
Goodwill	0.9	0.9
Asset retirement obligation escrow account	11.2	
Other assets	20.7	21.0
Total assets	\$ 1,182.0	\$ 1,228.1
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 148.1	\$ 171.6
Income taxes payable	4.2	
Customer advances	70.1	131.6
Deferred income taxes	9.1	5.8
Distributions payable to minority interest	3.9	18.7
Other	18.4	13.4
Total current liabilities	253.8	341.1
Notes payable	4.4	4.2
Deferred income taxes	7.3	8.4
Other noncurrent liabilities	106.1	104.9
Minority interest	37.4	13.6
Stockholders equity:		
Preferred stock \$0.01 par value, 50,000,000 shares authorized		
Common stock \$0.01 par value, 500,000,000 shares authorized, 55,050,001 and 55,027,723 shares outstanding	0.6	0.6
Paid-in capital	746.6	743.0
Retained earnings	35.5	19.7
Accumulated other comprehensive loss	(9.7 )	(7.4 )
Total stockholders equity	773.0	755.9
Total liabilities and stockholders equity	\$ 1,182.0	\$ 1,228.1

See Accompanying Notes to Unaudited Consolidated Financial Statements.

**CF INDUSTRIES HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Six months ended</b>	
	<b>June 30,</b>	<b>2005</b>
	<b>2006</b>	
	<b>(in millions)</b>	
<b>Operating Activities:</b>		
Net earnings	\$ 18.0	\$ 65.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Minority interest	22.3	12.4
Depreciation, depletion and amortization	47.4	53.2
Deferred income taxes	4.6	33.5
Stock compensation expense	3.6	
Unrealized loss on derivatives	8.3	
Equity in earnings of unconsolidated subsidiaries		(0.1 )
Changes in:		
Accounts receivable	(28.9 )	(48.8 )
Margin deposits	9.7	21.9
Inventories	49.5	100.8
Accounts payable and accrued expenses	(22.8 )	(16.5 )
Product exchanges net	11.7	(8.9 )
Customer advances net	(61.5 )	(81.5 )
Other net	1.0	1.8
Net cash provided by operating activities	62.9	133.0
<b>Investing Activities:</b>		
Additions to property, plant and equipment net	(23.2 )	(33.2 )
Purchases of short-term investments	(323.9 )	(320.7 )
Sales and maturities of short-term investments	299.9	259.1
Deposit to asset retirement obligation escrow account	(11.1 )	
Net cash used in investing activities	(58.3 )	(94.8 )
<b>Financing Activities:</b>		
Payments of long-term debt		(8.5 )
Distributions to minority interest	(15.1 )	
Dividends paid on common stock	(2.2 )	
Net cash used in financing activities	(17.3 )	(8.5 )
Effect of exchange rate changes on cash and cash equivalents		(0.3 )
Increase (decrease) in cash and cash equivalents	(12.7 )	29.4
Cash and cash equivalents at beginning of period	37.4	50.0
<b>Cash and cash equivalents at end of period</b>	<b>\$ 24.7</b>	<b>\$ 79.4</b>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

**CF INDUSTRIES HOLDINGS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts and disclosures applicable to June 30, 2006 and 2005 are unaudited)**

**1. Background and Basis of Presentation**

We are one of the largest manufacturers and distributors of nitrogen and phosphate fertilizer products in North America. Our operations are organized into two business segments: the nitrogen fertilizer business and the phosphate fertilizer business. Our principal products in the nitrogen fertilizer business are ammonia, urea and urea ammonium nitrate solution (UAN). Our principal products in the phosphate fertilizer business are diammonium phosphate (DAP) and monoammonium phosphate (MAP). Our core market and distribution facilities are concentrated in the midwestern U.S. grain-producing states. Our principal customers are cooperatives and independent fertilizer distributors.

Our principal assets include:

- the largest nitrogen fertilizer complex in North America (Donaldsonville, Louisiana);
- a 66% economic interest in the largest nitrogen fertilizer complex in Canada (which we operate in Medicine Hat, Alberta, through Canadian Fertilizers Limited (CFL), a consolidated variable interest entity);
- one of the largest integrated ammonium phosphate fertilizer complexes in the United States (Plant City, Florida);
- the most-recently constructed phosphate rock mine and associated beneficiation plant in the United States (Hardee County, Florida); and
- an extensive system of terminals, warehouses and associated transportation equipment located primarily in the midwestern United States.

All references to CF Holdings, the Company, we, us and our refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc. after the reorganization transaction described below, except where the context makes clear that the reference is only to CF Holdings itself and not its subsidiaries. All references to CF Industries refer to CF Industries, Inc. and its subsidiaries, except where the context makes clear that the reference is only to CF Industries itself and not its subsidiaries.

CF Holdings was formed in April 2005 to hold the existing business of CF Industries. Prior to August 17, 2005, CF Industries operated as a cooperative and was owned by eight regional agricultural cooperatives. On August 16, 2005, we completed our initial public offering of common stock (IPO). We sold 47,437,500 shares of our common stock in the IPO and received net proceeds, after deducting underwriting discounts and commissions, of approximately \$715.4 million. In connection with the IPO, we consummated a reorganization transaction in which CF Industries ceased to be a cooperative and became our wholly-owned subsidiary. In the reorganization transaction, all of the equity interests in CF Industries were cancelled in exchange for all of the proceeds of the IPO and 7,562,499 shares of our common stock. We did not retain any of the proceeds from the IPO. The reorganization transaction did not result in a new basis of accounting for the Company.

The accompanying unaudited interim financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2005 and in accordance with accounting principles generally accepted in the United States for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring



adjustments that are necessary for the fair representation of the information for the periods presented. These statements should be read in conjunction with our audited financial statements and related disclosures in our Form 10-K filed with the United States Securities and Exchange Commission (SEC) on March 20, 2006. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

On the consolidated balance sheet as of December 31, 2004, amounts owed to and due from product exchange counterparties were reclassified from a net amount in inventory to current assets and current liabilities. On the unaudited consolidated statement of cash flows for the six months ended June 30, 2005, corresponding adjustments have been made to inventory and product exchanges net. These reclassifications had no impact on previously reported net income (loss) or cash flow from operations.

## 2. Summary of Significant Accounting Policies

For a discussion of the Company's significant accounting policies, refer to our Form 10-K filed with the SEC on March 20, 2006.

## 3. New Accounting Standards

Following are summaries of recently issued accounting pronouncements that are either currently applicable or may become applicable to our consolidated financial statements.

- Emerging Issues Task Force (EITF) Issue No. 04-13 *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. This EITF Issue addresses exchanges of inventory with a counterparty in the same line of business and examines the conditions under which such transactions should be viewed as a single nonmonetary transaction and whether such transactions should be recognized at fair value or recorded amounts. The Issue is effective for new arrangements entered into in reporting periods beginning after March 15, 2006. The adoption of EITF Issue No. 04-13 did not impact our financial statements.
- EITF Issue No. 06-03 *How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*. This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22 *Disclosure of Accounting Policies*. The Issue is effective for reporting periods beginning after December 15, 2006. We have not yet determined the impact of this Issue on our consolidated financial statements.
- Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Taxes*. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. We have not yet determined the impact of this Interpretation on our consolidated financial statements.
- SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments*. This standard amends the guidance in SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments*



*of Liabilities.* This statement allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. This statement also clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. This statement will generally be effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. We have not yet determined the impact of this statement on our consolidated financial statements.

- SFAS No. 156 *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. This statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. We have not yet determined the impact of this statement on our consolidated financial statements.

#### 4. Net Earnings Per Share

Prior to the consummation of our August 2005 IPO, CF Holdings did not have any activities or operations. Therefore, with the exception of stockholders' equity and per share amounts, management believes that the current financial statements of CF Holdings are comparable to the historical financial statements of CF Industries. The weighted average shares outstanding and net earnings per share information is presented on an actual and pro forma basis giving effect to the IPO and related reorganization transaction assuming that they had occurred as of December 31, 2004.

The net earnings per share and pro forma net earnings per share were computed as follows:

	Three months ended June 30,		Six months ended June 30,	
	Actual 2006	Pro forma 2005	Actual 2006	Pro forma 2005
	(in millions, except per share amounts)			
Net earnings available to common shareholders	\$ 42.6	\$ 42.9	\$ 18.0	\$ 65.2
Basic and diluted weighted average common shares outstanding	55.0	55.0	55.0	55.0
Basic and diluted net earnings per common share	\$ 0.77	\$ 0.78	\$ 0.33	\$ 1.18

#### 5. Pension and Other Postretirement Benefits

CF Industries and its Canadian subsidiary both maintain noncontributory, defined-benefit pension plans. The U.S. pension plan is a closed plan. We also provide group insurance to our retirees. Until age 65, retirees are eligible to continue to receive the same Company-subsidized medical coverage provided to active employees. When a retiree reaches age 65, medical coverage ceases.

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Net pension/retiree medical expense included the following components:

	<b>Pension Plans</b>		<b>Six Months Ended</b>		<b>Retiree Medical</b>		<b>Six Months Ended</b>	
	<b>Three Months Ended</b>		<b>June 30,</b>		<b>Three Months Ended</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>							
Service cost for benefits earned during the period	\$ 1.8	\$ 1.9	\$ 3.5	\$ 3.3	\$ 0.3	\$ 0.3	\$ 0.6	\$0.6
Interest cost on projected benefit obligation	3.2	3.1	6.3	6.0	0.3	0.4	0.8	0.9
Expected return on plan assets	(3.5 )	(3.5 )	(6.9 )	(6.9 )				
Amortization of transition obligation					0.1	0.1	0.2	0.2
Amortization of prior service cost	0.1	0.1	0.1	0.1				
Actuarial loss	0.7	0.6	1.3					