

CF Industries Holdings, Inc.
Form 10-Q
April 30, 2009

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**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 March 31, 2009

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)

20-2697511
(I.R.S. Employer
Identification No.)

4 Parkway North, Suite 400
Deerfield, Illinois
(Address of principal executive offices)

60015
(Zip Code)

(847) 405-2400

(Registrant's telephone number, including area 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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

(Do not check if a
smaller reporting
company)

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

48,402,251 shares of the registrant's common stock, \$0.01 par value per share, were outstanding at March 31, 2009.

CF INDUSTRIES HOLDINGS, INC.

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CF INDUSTRIES HOLDINGS, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2009	2008
	(in millions, except per share amounts)	
Net sales	\$ 680.6	\$ 667.3
Cost of sales	518.3	396.1
Gross margin	162.3	271.2
Selling, general and administrative	15.4	18.2
Other operating net	23.2	1.4
Operating earnings	123.7	251.6
Interest expense	0.4	0.4
Interest income	(1.3)	(8.5)
Other non-operating net	(0.3)	(2.7)
Earnings before income taxes and equity in earnings (loss) of unconsolidated affiliates	124.9	262.4
Income tax provision	41.2	86.8
Equity in earnings (loss) of unconsolidated affiliates net of taxes	(0.7)	1.7
Net earnings	83.0	177.3
Less: Net earnings attributable to the noncontrolling interest	20.3	18.5
Net earnings attributable to common stockholders	\$ 62.7	\$ 158.8
Net earnings per share attributable to common stockholders		
Basic	\$ 1.29	\$ 2.82
Diluted	\$ 1.28	\$ 2.76
Weighted average common shares outstanding:		
Basic	48.4	56.3
Diluted	49.1	57.5
Dividends declared per common share	\$ 0.10	\$ 0.10

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended	
	March 31,	
	2009	2008
	(in millions)	
Net earnings	\$ 83.0	\$ 177.3
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1.5)	(1.4)
Defined benefit plans net of taxes	0.5	0.4
Unrealized loss on securities net of taxes	(4.8)	(6.0)
	(5.8)	(7.0)
Comprehensive income	77.2	170.3
Less: Comprehensive income attributable to the noncontrolling interest	19.6	17.8
Comprehensive income attributable to common stockholders	\$ 57.6	\$ 152.5

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	March 31, 2009	December 31, 2008
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 803.8	\$ 625.0
Short-term investments	35.2	
Accounts receivable	185.4	175.1
Inventories net	460.1	588.6
Prepaid income taxes		26.3
Other	10.5	18.2
Total current assets	1,495.0	1,433.2
Property, plant and equipment net	706.4	661.9
Deferred income taxes	18.3	
Goodwill	0.9	0.9
Asset retirement obligation escrow account	36.4	28.8
Investments in and advances to unconsolidated affiliates	44.0	44.8
Investments in auction rate securities	167.6	177.8
Other assets	37.5	40.2
Total assets	\$ 2,506.1	\$ 2,387.6
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 192.0	\$ 207.9
Income taxes payable	16.4	14.1
Customer advances	434.6	347.8
Notes payable	3.9	4.1
Deferred income taxes	79.1	52.1
Distributions payable to noncontrolling interest	102.5	106.0
Other	37.4	86.1
Total current liabilities	865.9	818.1
Deferred income taxes		6.2
Other noncurrent liabilities	215.6	212.6
Contingencies (Note 19)		
Equity:		
Stockholders' equity:		
Preferred stock \$0.01 par value, 50,000,000 shares authorized		
Common stock \$0.01 par value, 500,000,000 shares authorized, 2009 48,402,251 and 2008 48,391,584 shares issued and outstanding	0.5	0.5
Paid-in capital	711.2	709.4
Retained earnings	761.3	703.4
Accumulated other comprehensive loss	(80.3)	(75.2)
Total stockholders' equity	1,392.7	1,338.1
Noncontrolling interest	31.9	12.6

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Total equity	1,424.6	1,350.7
Total liabilities and equity	\$ 2,506.1	\$ 2,387.6

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
	2009	2008
	(in millions)	
Operating Activities:		
Net earnings	\$ 83.0	\$ 177.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	21.9	25.8
Deferred income taxes	5.3	14.4
Stock compensation expense	1.4	2.3
Excess tax benefit from stock-based compensation	(0.1)	(4.7)
Unrealized gain on derivatives	(48.6)	(69.6)
Inventory valuation allowance	(6.0)	
Loss on disposal of property, plant and equipment	1.7	
Equity in losses (earnings) of unconsolidated affiliates net of taxes	0.7	(1.7)
Changes in:		
Accounts receivable	(13.8)	(7.3)
Margin deposits	11.3	(0.9)
Inventories	134.0	(213.3)
Prepaid product and expenses	1.6	19.3
Accrued income taxes	28.8	67.0
Accounts payable and accrued expenses	(15.2)	44.7
Product exchanges net	(5.3)	(4.1)
Customer advances net	86.8	248.0
Other net	4.8	
Net cash provided by operating activities	292.3	297.2
Investing Activities:		
Additions to property, plant and equipment	(71.9)	(34.0)
Proceeds from the sale of property, plant and equipment	2.8	0.1
Purchases of investment securities	(35.2)	(116.0)
Sales and maturities of investment securities	3.2	342.0
Deposit to asset retirement obligation escrow account	(7.5)	(6.2)
Other net		1.2
Net cash provided by (used in) investing activities	(108.6)	187.1
Financing Activities:		
Dividends paid on common stock	(4.8)	(5.6)
Issuances of common stock under employee stock plans	0.2	2.1
Excess tax benefit from stock-based compensation	0.1	4.7
Net cash provided by (used in) financing activities	(4.5)	1.2
Effect of exchange rate changes on cash and cash equivalents	(0.4)	
Increase in cash and cash equivalents	178.8	485.5
Cash and cash equivalents at beginning of period	625.0	366.5

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Cash and cash equivalents at end of period	\$ 803.8	\$ 852.0
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See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

All references to "CF Holdings," "the Company," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc. 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 segment and the phosphate segment. Our principal products in the nitrogen segment are ammonia, urea and urea ammonium nitrate solution, or UAN. Our principal products in the phosphate segment 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. We also export nitrogen and phosphate fertilizer products.

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2008, 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. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These statements should be read in conjunction with our audited consolidated financial statements and related disclosures in our Form 10-K filed with the SEC on February 26, 2009. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

The preparation of the unaudited interim financial statements requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses and certain financial statement disclosures. Actual results could differ from these estimates. Significant estimates in these consolidated financial statements include net realizable value of inventories, the ultimate settlement costs of asset retirement obligations, the cost of sales incentives, useful lives of property and identifiable intangible assets, the evaluation of impairments of property, investments, identifiable intangible assets and goodwill, income tax and valuation reserves, allowances for doubtful accounts receivable, the measurement of the fair values of investments for which markets are not active, assumptions used in the determination of the funded status and annual expense of pension and postretirement employee benefit plans and the volatility and expected lives for stock compensation instruments granted to employees.

2. Summary of Significant Accounting Policies

For a complete discussion of the Company's significant accounting policies, refer to our 2008 Annual Report on Form 10-K as of and for the year ended December 31, 2008, filed with the SEC on February 26, 2009.

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CF INDUSTRIES HOLDINGS, INC.

3. New Accounting Standards

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

Recently Adopted Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51*. This Statement establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. The Statement clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. The Statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We adopted SFAS No. 160 as of January 1, 2009. For additional information, see Note 4 Canadian Fertilizers Limited.

SFAS No. 141(R) *Business Combinations*. This Statement applies to business combinations other than joint ventures, asset acquisitions, businesses under common control and not-for-profit organizations. It requires the acquirer to recognize the assets acquired, the liabilities assumed, contractual contingencies, and contingent consideration at their fair values as of the acquisition date. This Statement also requires acquisition costs to be expensed as incurred, restructuring costs to be expensed in the period subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date to impact tax expense. This Statement also requires the acquirer in an acquisition implemented in stages to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. This Statement was effective for business combinations with an acquisition date after December 31, 2008. Its adoption did not have an impact on our consolidated financial statements.

Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 141(R)-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies*. This FSP amends and clarifies SFAS No. 141(R) to require an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the fair value can be determined during the measurement period. If an acquisition date fair value cannot be determined during the measurement period, it must still be recognized if it is probable the asset existed or a liability had been incurred and it can be reasonably estimated. This FSP also increases the disclosure requirements of the acquirer to include the nature and the financial effects of the contingencies on its financial statements. This FSP was effective for assets or liabilities arising from contingencies in business combinations with an acquisition date after December 31, 2008. Its adoption did not have an impact on our consolidated financial statements.

SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. This Statement expands the disclosure requirements for derivative

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CF INDUSTRIES HOLDINGS, INC.

instruments and hedging activities and requires further disclosures regarding how derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how the derivative instruments and hedged items affect an entity's financial position, financial performance, and related cash flows. The Statement was effective for the Company beginning January 1, 2009. The adoption of this Statement did not have a material impact on our consolidated financial statements. See Note 16 Derivative Financial Instruments.

FSP No. EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP applies to the calculation of earnings per share (EPS) under SFAS No. 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of EPS pursuant to the two-class method. This FSP was effective for the Company beginning January 1, 2009 with retrospective adjustment to previously reported EPS data for comparative purposes. The adoption of this guidance did not have a material impact on our consolidated financial statements. See Note 6 Net Earnings Per Share.

EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. This EITF Issue applies to all investments accounted for under the equity method and clarifies the accounting for the initial measurement, impairment and changes in ownership interests for such investments. EITF 08-6 is effective on a prospective basis for fiscal years beginning on or after December 15, 2008. The adoption of this EITF Issue did not have a significant impact on our consolidated financial statements.

EITF Issue No. 07-1 *Accounting for Collaborative Arrangements*. This EITF Issue defines collaborative arrangements as a contractual arrangement that involves a joint operating activity, and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes income statement presentation and classification requirements for joint operating activities and payments between participants, as well as disclosures related to these arrangements. EITF 07-1 is effective for the Company beginning January 1, 2009, with retrospective application required for all periods presented. The adoption of this EITF Issue did not have a significant impact on our consolidated financial statements.

Recently Issued Pronouncements

FSP No. FAS 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157 *Fair Value Measurements* when the volume and level of market activity for an asset or liability have decreased significantly, and includes additional guidance on circumstances that indicate when a transaction or market are not orderly. Factors to consider in determining whether there has been a significant decrease in the volume and level of activity include transaction frequency and volume, substantial variation in market quotations, abnormal risk premiums or bid-ask spreads, and a significant decline in market activity and the availability of market information. If it is determined that there has been a significant decrease in the volume and level of market activity, then further analysis is conducted to determine if an adjustment to the observable transactions or quoted market prices may be necessary in determining the value of the asset. The FSP is effective for interim and annual periods ending after June 15, 2009. We have not yet determined the impact of this FSP on our consolidated financial statements.

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CF INDUSTRIES HOLDINGS, INC.

FSP No. FAS 115-2 and FAS 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP changes the requirements for recognizing other-than-temporary impairments for debt securities, changes the triggering event that is used to assess the collectibility of future cash flows when assessing for impairment, modifies the presentation of other-than-temporary losses in the income statement and expands the disclosure requirements relating to impairments of debt and equity securities. This guidance specifies that if a company does not have the intent or need to sell a debt security prior to recovery the security is not considered other-than-temporarily-impaired unless there is a credit loss. If an impairment to a security is recognized because of a credit loss, a company is required to recognize the credit loss component of the impairment of the debt security in earnings and the remaining portion of the impairment loss in other comprehensive income. The FSP is effective for interim and annual periods ending after June 15, 2009. We have not yet determined the impact of this FSP on our consolidated financial statements.

FSP No. 107-1 and APB 28-1 *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires disclosures about fair value of financial instruments, whether recognized or not recognized, in interim financial statements as well as in annual financial statements. The fair value information is to be presented together with the related carrying amount in a form that makes it clear whether the financial instruments are assets or liabilities. The company also must disclose the methods and significant assumptions used to estimate the fair value of financial instruments. This FSP is effective for interim and annual periods ending after June 15, 2009. We have not yet determined the impact of this FSP on our consolidated financial statements.

FSP No. FAS 132(R)-1 *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. It requires additional disclosures related to investment allocations and strategies, the fair value of each major category of plan assets, inputs and valuation techniques used to develop the fair value of the plan assets and any significant concentrations of risk in plan assets. This FSP is effective for the Company for the fiscal year ending December 31, 2009.

4. Canadian Fertilizers Limited

Canadian Fertilizers Limited (CFL) owns a nitrogen fertilizer complex in Medicine Hat, Alberta, Canada and supplies fertilizer products to CF Industries, Inc. and Viterra, Inc. (Viterra). CF Industries, Inc. owns 49% of CFL's voting common shares and 66% of CFL's nonvoting preferred shares. Viterra owns 34% of the voting common stock and non-voting preferred stock of CFL. The remaining 17% of the voting common stock is owned by GROWMARK, Inc. and La Coop fédérée. CFL is a variable interest entity which we consolidate in accordance with FIN 46(R) *Consolidation of Variable Interest Entities*.

CFL's sales revenue for the three months ended March 31, 2009 and 2008 was \$120.9 million and \$118.6 million, respectively. CFL's assets and liabilities at March 31, 2009 were \$423.2 million and \$383.4 million, respectively, and at December 31, 2008 were \$375.2 million and \$334.1 million, respectively.

CF Industries, Inc. operates the Medicine Hat facility pursuant to a management agreement and purchases approximately 66% of the facility's ammonia and urea production pursuant to a product purchase agreement. Both the management agreement and the product purchase agreement can be terminated by either CF Industries, Inc. or CFL upon a twelve-month notice. Viterra has the right, but not the obligation, to purchase the remaining 34% of the facility's ammonia and urea production under a similar product purchase agreement. To the extent that Viterra does not purchase its 34% of the

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facility's production, CF Industries, Inc. is obligated to purchase any remaining amounts. However, since 1995, Viterra has purchased at least 34% of the facility's production each year.

Under the product purchase agreements, both CF Industries, Inc. and Viterra pay the greater of operating cost or market price for purchases. The product purchase agreements also provide that CFL will distribute its net earnings to CF Industries, Inc. and Viterra annually based on their respective quantities of product purchased from CFL. The distributions to Viterra are reported as financing activities in the consolidated statements of cash flows, as we consider these payments to be similar to dividends. While general creditors of CFL do not have direct recourse to the general credit of CF Industries, Inc., the product purchase agreement does require CF Industries, Inc. to advance funds to CFL in the event that CFL is unable to meet its debts as they become due. The amount of each advance would be at least 66% of the deficiency and would be more in any year in which CF Industries, Inc. purchased more than 66% of Medicine Hat's production. A similar obligation also exists for Viterra's 34% share. CF Industries, Inc. and Viterra currently manage CFL such that each party is responsible for its share of CFL's fixed costs and that CFL's production volume is managed to meet the parties' combined requirements. Based on the contractual arrangements, CF Industries, Inc. is the primary beneficiary of CFL as CF Industries, Inc. receives at least 66% of the economic risks and rewards of CFL.

In accordance with CFL's governing agreements, CFL's earnings are available for distribution to its members based on approval by CFL's shareholders. Amounts reported as noncontrolling interest in the consolidated statement of operations represent Viterra's 34% interest in the distributed and undistributed earnings of CFL. Amounts reported as noncontrolling interest on our consolidated balance sheet represent the interests of Viterra and the holders of 17% of CFL's common shares. A reconciliation of the beginning and ending balances of noncontrolling interest and distributions payable to noncontrolling interest on our consolidated balance sheet is as follows:

	Three months ended	
	March 31,	
	2009	2008
	(in millions)	
Noncontrolling interest		
Beginning balance	\$ 12.6	\$ 17.3
Earnings attributable to noncontrolling interest	20.3	18.5
Effect of exchange rate changes	(1.0)	(1.1)
Ending balance	\$ 31.9	\$ 34.7
Distributions payable to noncontrolling interest		
Beginning balance	\$ 106.0	\$ 57.6
Effect of exchange rate changes	(3.5)	(1.5)
Ending balance	\$ 102.5	\$ 56.1

Because the Canadian dollar is CFL's functional currency, consolidation of CFL results in a cumulative foreign currency translation adjustment, which is reported in other comprehensive income (loss).

5. Fair Value Measurements

Effective January 1, 2009, we adopted the portions of SFAS No. 157 *Fair Value Measurements* (SFAS 157), which were deferred under FSP No. FAS 157-2, for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. The adoption of this FSP did not have a significant impact on our financial position or results of operations.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following table presents assets and liabilities included in our consolidated balance sheet that are recognized at fair value on a recurring basis, and indicates the fair value hierarchy utilized to determine such fair value.

	Balance as of March 31, 2009	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Available-for-sale short-term investments	\$ 35.2	\$ 35.2	\$	\$
Unrealized gains on natural gas derivatives	1.0		1.0	
Asset retirement obligation escrow account	36.4	36.4		
Investments in auction rate securities	167.6			167.6
Nonqualified employee benefit trust	6.9	6.9		
 Total assets at fair value	 \$ 247.1	 \$ 78.5	 \$ 1.0	 \$ 167.6
 Unrealized losses on natural gas derivatives	 \$ 37.0	 \$	 \$ 37.0	 \$
 Total liabilities at fair value	 \$ 37.0	 \$	 \$ 37.0	 \$

Following is a summary of the valuation techniques for assets and liabilities recorded in our consolidated balance sheet at their fair value on a recurring basis:

Short-term Investments As of March 31, 2009, our short-term investments consisted of U.S. Treasury Bills with original maturities between three and nine months. These investments are accounted for as available-for-sale securities. The fair value of our short-term investments is based upon the daily quoted market prices for each of our investments. See Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities for additional information.

Natural Gas Derivatives The derivative instruments that we currently use are natural gas swap contracts. These contracts settle using NYMEX futures (for Donaldsonville) or AECO (for Medicine Hat) price indexes, which represent fair value at any given time. The contracts are traded in months forward and settlements are scheduled to coincide with anticipated gas purchases during those future periods. Quoted market prices from NYMEX and AECO are used to determine the fair value of these instruments. See Note 16 Derivative Financial Instruments for additional information.

Asset Retirement Obligation Escrow Account We utilize an escrow account to meet our financial assurance requirements associated with certain asset retirement obligations in Florida. The investments in this escrow account are accounted for as available-for-sale securities. The fair value of the escrow account is based upon daily quoted prices representing the Net Asset Value (NAV) of the investments. See Note 14 Asset Retirement Obligations for additional information.

Investments in Auction Rate Securities Our investments in Auction Rate Securities consist of securities supported by student loans which originated primarily under the Federal Family Education Loan Program (FFELP), and are guaranteed by entities affiliated with governmental entities. Our auction rate securities are accounted for as noncurrent available-for-sale securities. We are unable to use significant observable (Level 1 or Level 2) inputs to value these investments. Therefore, we used a mark-to-model approach that relies on discounted cash flows,

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market data and inputs derived from similar instruments to arrive at the fair value of these instruments. This model takes into account, among other variables, the base interest rate, credit spreads, downgrade risks and default/recovery risk, the estimated time required to work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. Due to the significant number of unobservable inputs that were used to value our auction rate securities, they are classified as Level 3 for purposes of reporting under SFAS 157. See Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities for additional information.

Nonqualified Employee Benefit Trust We maintain a trust associated with certain deferred compensation related to nonqualified employee benefits. The investments are accounted for as available-for-sale securities. The fair value of the trust is based on daily quoted prices representing the NAV of the investments.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table provides a reconciliation of changes in our consolidated balance sheet for our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). These assets currently consist of our investments in auction rate securities. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. It is reasonably possible that a change in the estimated fair value for instruments measured using Level 3 inputs could occur in the future.

	Investments in auction rate securities (in millions)
Fair value, January 1, 2009	\$ 177.8
Sales and redemptions	(3.2)
Unrealized losses included in other comprehensive income	(7.0)
Fair value, March 31, 2009	\$ 167.6

6. Net Earnings Per Share

We adopted FSP EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* effective January 1, 2009 with retrospective adjustment to previously reported earning per share (EPS) data for comparative purposes. This FSP applies to the calculation of EPS under SFAS No. 128 for share based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of EPS pursuant to the two-class method. The adoption of this FSP did not have a material impact on our consolidated financial statements.

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Net earnings per share were computed as follows:

	Three months ended March 31,	
	2009	2008
	(in millions, except per share amounts)	
Net earnings attributable to common stockholders	\$ 62.7	\$ 158.8
Basic earnings per common share:		
Weighted average common shares outstanding	48.4	56.3
Net earnings attributable to common stockholders	\$ 1.29	\$ 2.82
Diluted earnings per common share:		
Weighted average common shares outstanding	48.4	56.3
Dilutive common shares:		
Stock options	0.7	1.2
Diluted weighted average shares outstanding	49.1	57.5
Net earnings attributable to common stockholders	\$ 1.28	\$ 2.76

For the three months ended March 31, 2009, the computation of diluted earnings per share excludes approximately 0.3 million potentially dilutive stock options because the effect of their inclusion would be antidilutive in accordance with SFAS No. 128 *Earnings Per Share*.

7. Pension and Other Postretirement Benefits

CF Industries, Inc. 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.

Net periodic benefit cost included the following components:

	Three months ended March 31,	
	2009	2008
	(in millions)	
Pension Plans		
Service cost for benefits earned during the period	\$ 1.5	\$ 1.6
Interest cost on projected benefit obligation	4.0	3.6
Expected return on plan assets	(3.8)	(4.0)
Amortization of actuarial loss	0.4	0.1
Net periodic benefit cost	\$ 2.1	\$ 1.3
Retiree Medical		
Service cost for benefits earned during the period	\$ 0.4	\$ 1.0
Interest cost on projected benefit obligation	0.6	0.5
Amortization of transition obligation	0.1	0.1
Net periodic benefit cost	\$ 1.1	\$ 1.6

Table of Contents**CF INDUSTRIES HOLDINGS, INC.**

Our consolidated pension funding contributions in 2009 are estimated to total \$16.3 million and are expected to be made primarily in the second quarter.

In addition to our qualified defined benefit pension plans, we also maintain nonqualified supplemental pension plans for highly compensated employees as defined under federal law. We recognized expense for these plans of \$0.4 million and \$0.3 million for the three months ended March 31, 2009 and 2008, respectively. Included in the amounts recognized as expense for the three months ended March 31, 2009 and 2008 was \$0.2 million and \$0.1 million, respectively, of amortization for amounts included in our accumulated other comprehensive loss.

8. Other Operating Net

Details of other operating costs are as follows:

	Three months ended March 31,	
	2009	2008
	(in millions)	
Bartow costs	\$ 1.0	\$ 1.2
Fixed asset disposals	1.7	
Business combination costs	16.1	
Peru project development costs	3.9	
Other	0.5	0.2
	\$ 23.2	\$ 1.4

For the three months ended March 31, 2009, business combination costs are associated with our proposed business combination with Terra Industries Inc. and with evaluating and responding to Agrium Inc.'s proposed acquisition of CF Industries Holdings, Inc.

9. Income Taxes

The income tax provisions recorded for the three months ended March 31, 2009 and 2008 were determined in accordance with the requirements of APB Opinion No. 28 *Interim Financial Reporting*, FIN No. 18 *Accounting for Income Taxes in Interim Periods*, SFAS No. 109 *Accounting for Income Taxes*, and FIN No. 48 *Accounting for Uncertainty in Income Taxes*.

In connection with our initial public offering (IPO) in August 2005, CF Industries, Inc. (CFI) ceased to be a non-exempt cooperative for income tax purposes, and we entered into a net operating loss agreement (NOL Agreement) with CFI's pre-IPO owners relating to the future utilization of the pre-IPO net operating loss carryforwards (NOLs). Under the NOL Agreement, if it is finally determined that the NOLs can be utilized to offset applicable post-IPO taxable income, we will pay the pre-IPO owners amounts equal to the resulting federal and state income taxes actually saved.

In the first quarter of 2009, we took tax return positions utilizing a portion of the NOLs. As the result of these return positions, our unrecognized tax benefits increased from \$74.6 million at December 31, 2008 to \$88.7 million at March 31, 2009.

See Note 12 to our audited consolidated financial statements included in our 2008 Annual Report on Form 10-K for additional information concerning these unrecognized tax benefits.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****10. Cash and Cash Equivalents, Short-Term Investments and Investments in Auction Rate Securities**

Our cash and cash equivalents, short-term investments and investments in auction rate securities consist of the following:

	March 31, 2009	December 31, 2008
	(in millions)	
Cash	\$ 48.7	\$ 49.4
Cash equivalents:		
Federal government obligations	738.5	562.6
Other debt securities	16.6	13.0
Total cash and cash equivalents	\$ 803.8	\$ 625.0
Short-term investments:		
Federal government obligations	\$ 35.2	\$
Noncurrent investments in auction rate securities:		
Tax-exempt auction rate securities	\$ 167.6	\$ 177.8

Under our short-term investment policy, we can invest our cash balances in several types of securities, including notes and bonds issued by governmental entities or corporations, and money market funds. Securities issued by governmental entities include those issued directly by the Federal government; those issued by state, local or other governmental entities; and those guaranteed by entities affiliated with governmental entities.

Cash and Cash Equivalents

At March 31, 2009 and December 31, 2008, we had cash and cash equivalents of \$803.8 million and \$625.0 million, respectively, consisting primarily of U.S. Treasury Bills and money market mutual funds that invest in U.S. government obligations.

Short-term Investments

As of March 31, 2009, our short-term investments of \$35.2 million consisted of U.S. Treasury Bills with original maturities between three and nine months.

Investments in Auction Rate Securities

Auction rate securities are primarily debt instruments with long-term maturities for which interest rates are expected to be reset periodically through an auction process, which typically occurs every 7 to 35 days. The auction process results in the interest rate being reset on the underlying securities until the next reset or auction date. A failed auction occurs when there are insufficient bids for the number of instruments being offered. Upon a failed auction, the then present holders of the instruments continue to hold them and each instrument carries an interest rate based upon certain predefined formulas.

In the first quarter of 2008, the market for these securities began to show signs of illiquidity as auctions for several securities failed on their scheduled auction dates. Shortly thereafter, liquidity left the market, causing the traditional auction process to fail. As a result, it was determined that these investments were no longer liquid and we would not be able to access these funds until such time as an auction of these investments is successful, a buyer is found outside of the auction process, and/or the securities are redeemed by the issuer.

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During the first quarter of 2009, \$3.2 million of our auction rate securities were either redeemed by the issuer or sold at par value. Therefore, as of March 31, 2009, our remaining investments in available-for-sale tax-exempt auction rate securities were reported at a fair value of \$167.6 million after reflecting a \$27.8 million net unrealized holding loss, of which \$7.0 million was recorded during the first quarter of 2009, against a par value of \$195.4 million. The unrealized holding loss is reported in other comprehensive income. We valued these investments using a mark-to-model approach that relies on discounted cash flows, market data and inputs derived from similar instruments. This model takes into account, among other variables, the base interest rate, credit spreads, downgrade risks and default/recovery risk, the estimated time required to work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. In accordance with our policies, we review the underlying securities and assess the creditworthiness of these investments as part of our investment process. In each case, our reviews have continued to find these investments to be investment grade.

As a result of the current market illiquidity and our judgment regarding the period of time that may elapse until the traditional auction process resumes or other effective market trading mechanisms develop, we have classified these investments as noncurrent assets on our consolidated balance sheet. The securities underlying our investment in auction rate securities have maturities that range up to 39 years. As of March 31, 2009, the carrying values by range of maturity are as follows:

	(in millions)
Less than 1 year	\$ 5.0
1 year up to 20 years	9.2
20 years up to 30 years	78.4
30 years up to 40 years	75.0
	\$ 167.6

We believe we have the ability to hold these securities until market liquidity returns, and we presently intend to hold the securities until such time. For additional information on our investments in auction rate securities, see Note 5 Fair Value Measurements.

11. Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
	(in millions)	
Fertilizer	\$ 408.7	\$ 526.2
Raw materials, spare parts and supplies	51.4	62.4
	\$ 460.1	\$ 588.6

At March 31, 2009, fertilizer inventories are net of a \$51.0 million valuation allowance, as the carrying cost of our potash inventories exceeded net realizable values. At December 31, 2008, fertilizer inventories were net of a \$57.0 million valuation allowance related to our phosphate and potash inventories.

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12. Property, Plant and Equipment Net

Property, plant and equipment net consists of the following:

	March 31, 2009	December 31, 2008
	(in millions)	
Land	\$ 36.3	\$ 31.8
Mineral properties	193.0	193.0
Manufacturing plants and equipment	1,995.0	1,987.4
Distribution facilities and other	223.6	220.8
Construction in progress	109.9	74.9
	2,557.8	2,507.9
Less: Accumulated depreciation, depletion and amortization	1,851.4	1,846.0
	\$ 706.4	\$ 661.9

Plant turnarounds Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities are referred to as plant turnarounds. We account for plant turnarounds under the deferral method, as opposed to the direct expense or built-in overhaul methods, as outlined in FASB Staff Position No. AUG AIR-1 *Accounting for Planned Major Maintenance Activities*. Under the deferral method, expenditures related to turnarounds are capitalized into property, plant and equipment when incurred and are included in the table above in the line titled, "Manufacturing plants and equipment." If we had used the direct expense method, turnaround costs would be expensed as incurred. Turnaround costs are classified as investing activities in the consolidated statements of cash flows and reported in the line entitled "Additions to property, plant and equipment." The following is a summary of plant turnaround activity for the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	2008
	(in millions)	
Net capitalized turnaround costs at beginning of the period	\$ 40.6	\$ 47.7
Additions	11.8	5.7
Depreciation	(6.2)	(5.2)
Effect of exchange rate changes	(0.2)	(0.4)
Net capitalized turnaround costs at end of the period	\$ 46.0	\$ 47.8

Scheduled replacements and overhauls of plant machinery and equipment include the dismantling, repair or replacement and installation of various components including piping, valves, motors, turbines, pumps, compressors, heat exchangers and the replacement of catalyst when a full plant shutdown occurs. Scheduled inspections, which are also conducted during full plant shutdowns, include required safety inspections that entail the disassembly of various components such as steam boilers, pressure vessels and other equipment requiring safety certifications. Capitalized turnaround costs have been applied consistently in the periods presented. Internal employee costs and overhead are not considered turnaround costs and are not capitalized.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****13. Investments in and Advances to Unconsolidated Affiliates**

We own 50% of the common shares of KEYTRADE AG (Keytrade), a global fertilizer trading company headquartered near Zurich, Switzerland. We also own certain non-voting preferred shares of Keytrade and have provided additional subordinated financing. Keytrade is a reseller of fertilizer products that it purchases from various manufacturers around the world and resells in approximately 50 countries through a network of seven offices. Keytrade is our exclusive exporter of phosphate fertilizer products from North America and our exclusive importer of UAN products into North America. We account for our investment in Keytrade under the equity method.

Our investment in and advances to Keytrade consist of the following:

	March 31, 2009	December 31, 2008
	(in millions)	
Equity investment in Keytrade	\$ 31.6	\$ 32.4
Advances to Keytrade	12.4	12.4
	\$ 44.0	\$ 44.8

For the three months ended March 31, 2009 and 2008, we recognized in our consolidated statements of operations equity in earnings (loss) of Keytrade of \$(0.7) million and \$1.7 million, respectively. At March 31, 2009, the amount of our consolidated retained earnings that represents our undistributed earnings of Keytrade is \$5.2 million.

The advances to Keytrade are subordinated notes that mature on September 30, 2017 and bear interest at LIBOR plus 1.00 percent. For the three months ended March 31, 2009 and 2008, we recognized interest income on advances to Keytrade of \$0.1 million and \$0.1 million, respectively. The carrying value of our advances to Keytrade approximates fair value.

14. Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operation of such assets. We account for AROs in accordance with SFAS No. 143 *Accounting for Asset Retirement Obligations*, and FIN No. 47 *Accounting for Conditional Asset Retirement Obligations* (conditional AROs). Our AROs are primarily associated with phosphogypsum stack systems and mine reclamation in Florida.

The changes in our ARO obligations from December 31, 2008 to March 31, 2009 are summarized below:

	(in millions)
Obligation at December 31, 2008	\$ 100.7
Accretion expense	1.9
Liabilities incurred	0.4
Expenditures	(1.8)
Obligation at March 31, 2009	\$ 101.2

Our phosphate operations in Florida are subject to regulations governing the construction, operation, closure and long-term maintenance of phosphogypsum stack systems and site reclamation for phosphate rock mines. Our liability for phosphogypsum stack costs includes the cost of stack closure at

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Plant City and the costs of cooling pond closure, post-closure monitoring, and ongoing water treatment at both Bartow and Plant City. The actual amounts to be spent will depend on factors such as the timing of activities, refinements in scope, technological developments, cost inflation and changes in regulations. It is possible that these factors could change at any time and impact the estimates. Additional asset retirement obligations may be incurred in the future upon expansion of the Plant City phosphogypsum stack.

AROs are reported in accrued expenses and other noncurrent liabilities on our consolidated balance sheet, as follows:

	March 31, 2009	December 31, 2008
	(in millions)	
Current portion	\$ 11.0	\$ 11.2
Noncurrent portion	90.2	89.5
	\$ 101.2	\$ 100.7

Florida regulations require phosphate fertilizer companies to demonstrate financial assurance for the closure of phosphogypsum stack systems, for mine reclamation activities, and for wetland and other surface water mitigation measures. In the first quarter of 2009 and 2008, we made annual contributions of \$7.5 million and \$6.2 million, respectively, to an escrow account established for the benefit of the Florida Department of Environmental Protection in order to comply with Florida's regulations governing financial assurance related to the closure of phosphogypsum stacks. Over the next seven years, we expect to contribute between \$3 million and \$7 million annually based upon the required funding formula as defined in the regulations and an assumed rate of return of 2% on invested funds. Our estimate of the amount of funds that will have accumulated in the account by the year 2016, including interest earned on invested funds, is approximately \$77 million. After 2016, contributions to the fund are estimated to average approximately \$5 million annually for the following 17 years. The balance in the account is estimated to reach approximately \$210 million by 2033. The required balance in the account is based on predetermined funding requirements as prescribed by the State of Florida. No expense is recognized upon the funding of the account; therefore, contributions to the account differ from amounts recognized as expense in our financial statements. Ultimately, the cash in the account will be used to fund settlement of the AROs. The balance in the escrow account is reported as an asset at fair value on our consolidated balance sheet.

We will also be required to demonstrate financial assurance for reclamation, and for wetland and other surface water mitigation measures in advance of any additional mining activities if and when we are able to expand our Hardee mining activities into areas not currently permitted.

15. Credit Agreement

Our senior secured revolving credit facility (the credit facility) with a bank syndicate led by JPMorgan Chase provides CF Industries, Inc. (the Borrower) with up to \$250 million, subject to a borrowing base, for working capital and general corporate purposes, including up to \$50 million for the issuance of letters of credit.

The credit facility is guaranteed by CF Holdings and certain domestic subsidiaries of CF Industries, Inc. (the Loan Parties). The credit facility is secured by substantially all of the personal property and assets, both tangible and intangible, of the Loan Parties, 100% of the equity interests of each Loan Party's direct and indirect domestic subsidiaries other than immaterial subsidiaries, 65% of the equity interests of each Loan Party's first-tier foreign subsidiaries and the real property located in

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Donaldsonville, Louisiana. For additional information on the credit facility, refer to Note 23 Credit Agreement, in our 2008 Annual Report on Form 10-K filed with the SEC on February 26, 2009. As of March 31, 2009, there was \$228.8 million of available credit and no borrowings outstanding under the credit facility.

16. Derivative Financial Instruments

We use natural gas in the manufacture of nitrogen fertilizer products. We manage the risk of changes in gas prices through the use of physical gas supply contracts and derivative financial instruments covering periods not exceeding three years. We use natural gas derivative instruments primarily to lock in a substantial portion of our margin on sales under the Forward Pricing Program. Our natural gas acquisition policy also allows us to establish derivative positions that are associated with anticipated natural gas requirements, unrelated to our Forward Pricing Program.

The derivative instruments that we currently use are natural gas swap contracts. These contracts settle using NYMEX futures (for Donaldsonville) or AECO (for Medicine Hat) price indexes, which represent fair value at any given time. The contracts are entered into with respect to gas to be consumed in the future and settlements are scheduled to coincide with anticipated gas purchases used to manufacture nitrogen products during those future periods.

We account for derivatives under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended by subsequent standards. Under these standards, derivatives are recognized in the consolidated balance sheet at fair value and changes in their fair value are recognized immediately in earnings, unless the normal purchase and sale exemption applies. We use natural gas derivatives primarily as an economic hedge of gas price risk, but without the application of hedge accounting under SFAS No. 133. Accordingly, changes in the fair value of the derivatives are recorded in cost of sales as the changes occur. Cash flows related to natural gas derivatives are reported as operating activities.

The effect of derivatives in our consolidated statements of operations is shown below. All amounts arise from natural gas derivatives that are not designated as hedging instruments and are recorded in cost of sales.

	Three months ended March 31,	
	2009	2008
	(in millions)	
Realized losses	\$ (71.7)	\$ (5.0)
Unrealized mark-to-market gains	48.6	69.6
Net derivative gains (losses)	\$ (23.1)	\$ 64.6

The fair values of derivatives on our consolidated balance sheets are shown below. All amounts arise from natural gas derivatives that are not designated as hedging instruments.

	March 31, 2009	December 31, 2008
	(in millions)	
Unrealized gains in other current assets	\$ 1.0	\$ 0.7
Unrealized losses in other current liabilities	(36.8)	(85.3)
Unrealized losses in noncurrent liabilities	(0.2)	
Net unrealized derivative gains (losses)	\$ (36.0)	\$ (84.6)

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As of March 31, 2009 and December 31, 2008, we had open derivative contracts for 8.6 million MMBtus and 16.7 million MMBtus, respectively, of natural gas. For the quarter ended March 31, 2009, we used derivatives to cover approximately 44% of our natural gas consumption at Donaldsonville and approximately 51% of our two-thirds share of gas consumption at Medicine Hat.

Natural gas derivatives involve the risk of dealing with counterparties and their ability to meet the terms of the contracts. The counterparties to our natural gas derivatives are either large oil and gas companies or large financial institutions. Cash collateral is deposited with or received from counterparties when predetermined unrealized gain or loss thresholds are exceeded.

For derivatives that are in net asset positions, we are exposed to credit loss from nonperformance by the counterparties. We control our credit risk through the use of multiple counterparties, individual credit limits, monitoring procedures, cash collateral requirements and master netting arrangements.

The master netting arrangements with respect to our derivative instruments also contain credit risk related contingent features that require us to maintain a minimum net worth level and certain financial ratios. If we fail to meet these minimum requirements, the counterparties to derivative instruments that are in net liability positions could require daily cash settlement of unrealized losses or some other form of credit support.

As of March 31, 2009, the aggregate fair value of the derivative instruments with credit risk related contingent features in a net liability position was \$36.0 million. There was no cash collateral on deposit with counterparties for derivative contracts at March 31, 2009. If we had failed to meet all credit risk contingent thresholds as of March 31, 2009, we could have been required to post up to \$36.0 million of collateral with derivative counterparties.

17. Stock-Based Compensation

We grant stock-based compensation awards under the CF Industries Holdings, Inc. 2005 Equity and Incentive Plan (Plan). These awards, which are nonqualified stock options and restricted stock, are accounted for in accordance with SFAS No. 123R *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all share-based payment awards based on grant date fair values. We estimate the fair value of each stock option award using the Black-Scholes option valuation model. The fair value of the restricted stock is equal to the closing market price of our common stock on the date of grant.

At March 31, 2009, we had 1.8 million stock options outstanding with an aggregate intrinsic value of \$84.9 million. At December 31, 2008, we had 1.8 million stock options outstanding with an aggregate intrinsic value of \$49.1 million. During the three months ended March 31, 2009, no stock options or shares of restricted stock were granted.

Compensation cost is recorded primarily in selling, general and administrative expense. The following table summarizes stock-based compensation costs and related income tax benefits for the three months ended March 31, 2009 and 2008.

	Three months ended March 31,	
	2009	2008
	(in millions)	
Stock-based compensation expense	\$ 1.4	\$ 2.3
Income tax benefit	(0.5)	(0.9)
Stock-based compensation expense, net of income taxes	\$ 0.9	\$ 1.4

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Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was \$7.0 million as of March 31, 2009, which will be recognized as expense over a weighted-average period of 2.1 years. Pre-tax unrecognized compensation expense for restricted stock awards, net of estimated forfeitures, was \$2.9 million as of March 31, 2009, which will be recognized as expense over a weighted-average period of 2.0 years.

During the three months ended March 31, 2009, less than 0.1 million stock options were exercised with a pre-tax intrinsic value of \$0.4 million. Cash received from stock option exercises for the three months ended March 31, 2009 was \$0.2 million. At March 31, 2009, 1.4 million stock options were exercisable with an aggregate intrinsic value of \$76.6 million. At December 31, 2008, 1.4 million stock options were exercisable with an intrinsic value of \$44.3 million.

An excess tax benefit is generated when the realized tax benefit from the vesting of restricted stock, or a stock option exercise, exceeds the previously recognized deferred tax asset. SFAS No. 123R requires excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid. Excess tax benefits for the three months ended March 31, 2009 and 2008 were \$0.1 million and \$4.7 million, respectively.

18. Other Comprehensive Income (Loss)

Changes to accumulated other comprehensive loss and the impact on other comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at December 31, 2008	\$ (4.4)	\$ (14.0)	\$ (56.8)	\$ (75.2)
Unrealized holding loss on securities		(7.6)		(7.6)
Reclassification to earnings		(0.2)	0.6	0.4
Deferred taxes and other changes	(0.8)	3.0	(0.1)	2.1
Balance at March 31, 2009	\$ (5.2)	\$ (18.8)	\$ (56.3)	\$ (80.3)
Balance at December 31, 2007				
	\$ 1.0	\$ 0.5	\$ (22.7)	\$ (21.2)
Unrealized holding loss on securities		(10.2)		(10.2)
Reclassification to earnings		0.5	0.3	0.8
Deferred taxes and other changes	(0.8)	3.7	0.1	3.0
Balance at March 31, 2008	\$ 0.2	\$ (5.5)	\$ (22.3)	\$ (27.6)

The pre-tax unrealized holding loss on securities of \$7.6 million in 2009 and \$10.2 million in 2008 relates primarily to our investments in auction rate securities. For additional information on our investments in auction rate securities, see Note 5 Fair Value Measurements and Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities.

19. Contingencies*Litigation*

From time to time, we are subject to ordinary, routine legal proceedings related to the usual conduct of our business, including proceedings regarding public utility and transportation rates, environmental matters, taxes and permits relating to the operations of our various plants and facilities.

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Based on the information available as of the date of this filing, we believe that the ultimate outcome of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

Environmental

Plant City Environmental Matters

In December 2004 and January 2005, the United States Environmental Protection Agency (EPA) inspected our Plant City, Florida phosphate fertilizer complex to evaluate the facility's compliance with the Resource Conservation and Recovery Act (RCRA), the federal statute that governs the generation, transportation, treatment, storage and disposal of hazardous wastes. This inspection was undertaken as a part of a broad enforcement initiative commenced by the EPA to evaluate whether mineral processing and mining facilities, including, in particular, all wet process phosphoric acid production facilities, are in compliance with RCRA, and the extent to which such facilities' waste management practices have impacted the environment.

By letter dated September 27, 2005, EPA Region 4 issued to the Company a Notice of Violation (NOV) and Compliance Evaluation Inspection Report. The NOV and Compliance Evaluation Inspection Report alleged a number of violations of RCRA, including violations relating to recordkeeping, the failure to properly make hazardous waste determinations as required by RCRA, and alleged treatment of sulfuric acid waste without a permit. The most significant allegation in the NOV is that the Plant City facility's reuse of phosphoric acid process water (which is otherwise exempt from regulation as a hazardous waste) in the production of ammoniated phosphate fertilizer, and the return of this process water to the facility's process water recirculating system, have resulted in the disposal of hazardous waste into the system without a permit. The Compliance Evaluation Inspection Report indicates that, as a result, the entire process water system, including all pipes, ditches, cooling ponds and gypsum stacks, could be regulated as hazardous waste management units under RCRA.

Several of our competitors have received NOV's making this same allegation. This particular recycling of process water is common in the industry and, the Company believes, was authorized by the EPA in 1990. The Company also believes that this allegation is inconsistent with recent case law governing the scope of the EPA's regulatory authority under RCRA. Nonetheless, the Company has conducted a successful pilot test to replace process water as a scrubbing medium at the ammonium phosphate fertilizer plants and maintain compliance with Plant City's air permit. The Company has received a permit from the Florida Department of Environmental Protection that authorizes the Company to make this change for the three ammonium phosphate plants that utilize process water. Although this does not fully resolve the NOV or address all of the issues identified by the EPA and Department of Justice, this does address a significant issue identified in the NOV.

The NOV indicated that the Company is liable for penalties up to the statutory maximum (for example, the statutory maximum per day of noncompliance for each violation that occurred after March 15, 2004 is \$32,500 per day). Although penalties of this magnitude are rarely, if ever, imposed, the Company is at risk of incurring substantial civil penalties with respect to these allegations. The EPA has referred this matter to the United States Department of Justice (DOJ) for enforcement. The Company has entered into discussions with the DOJ that have included not only the issues identified in the NOV but other operational practices of the Company and its competitors. The Company does not know if this matter will be resolved prior to the commencement of litigation by the United States.

In connection with the RCRA enforcement initiative, the EPA collected samples of soil, groundwater and various waste streams at the Plant City facility. The analysis of the split samples collected by the Company during the EPA's inspection did not identify hazardous waste disposal issues

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CF INDUSTRIES HOLDINGS, INC.

impacting the site. The EPA's sampling results appear to be consistent with the Company's own sampling results. Pursuant to a 1992 consent order with the State of Florida, the Company captures and reuses groundwater that has been impacted as a result of the former operation of an unlined gypsum stack at the site. The Company has conducted an additional limited amount of sampling at the Plant City facility, pursuant to a work plan agreed to with the EPA, and a report of the results was submitted to the agency on March 30, 2009. Subject to the EPA's review of these results, the Company does not believe that further investigation will be required.

On March 19, 2007, the Company received a letter from the EPA under Section 114 of the Federal Clean Air Act requesting information and copies of records relating to compliance with New Source Review, New Source Performance Standards, and National Emission Standards for Hazardous Air Pollutants at the Plant City facility. The Company responded to this letter with the information requested, completing the document production process in late 2007. The EPA initiated this same process in relation to numerous other sulfuric acid plants and phosphoric acid plants throughout the nation, including other facilities in Florida. In some cases, the EPA filed enforcement proceedings asserting that the facilities had not complied with the Clean Air Act. To date, these enforcement proceedings have been resolved through settlements. It is not known at this time whether the EPA will initiate enforcement with respect to the Plant City facility.

Pursuant to a letter from the DOJ dated July 28, 2008 that was sent to representatives of the major U.S. phosphoric acid manufacturers, including CF Industries, Inc., the DOJ stated that it and the EPA believe that apparent violations of Section 313 of the Emergency Planning and Community Right-to-Know Act (EPCRA), which requires annual reports to be submitted with respect to the use of certain toxic chemicals, have occurred at all of the phosphoric acid facilities operated by these manufacturers. The letter also states that the DOJ and the EPA believe that most of these facilities have violated Section 304 of EPCRA and Section 103 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) by failing to provide required notifications relating to the release of hydrogen fluoride from these facilities. The letter did not specifically identify alleged violations at our Plant City, Florida complex or assert a claim for a specific amount of penalties. The EPA submitted an information request to the Company on February 11, 2009, as a follow-up to the July 2008 letter. The Company is in the process of gathering the requested information and preparing responses to the agency's inquiry.

As a result of the factors discussed above, we cannot estimate the potential penalties, fines or other expenditures, if any, that may result from the Plant City environmental matters, and therefore, we cannot determine if the ultimate outcome of these matters will have a material impact on the Company's financial position, results of operations or cash flows.

Louisiana Environmental Matters

Our Donaldsonville Nitrogen Complex is located in a five-parish region near Baton Rouge, Louisiana that, as of 2005, was designated as being in "severe" nonattainment with respect to the national ambient air quality standard (NAAQS) for ozone (the "1-hour ozone standard") pursuant to the Federal Clean Air Act (the Act). Section 185 of the Act requires states, in their state implementation plans, to levy a fee (Section 185 fee) on major stationary sources (such as the Donaldsonville facility) located in a severe nonattainment area that did not meet the 1-hour ozone standard by November 30, 2005. The fee was to be assessed for each calendar year (beginning in 2006) until the area achieved compliance with the ozone NAAQS.

Prior to the imposition of Section 185 fees, the EPA adopted a new ozone standard (the "8-hour ozone standard") and rescinded the 1-hour ozone standard. The Baton Rouge area was designated as a

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CF INDUSTRIES HOLDINGS, INC.

"moderate" nonattainment area with respect to the 8-hour ozone standard. However, because Section 185 fees had never been assessed prior to the rescission of the 1-hour ozone standard (rescinded prior to the November 30, 2005 ozone attainment deadline), the EPA concluded in a 2004 rulemaking implementing the 8-hour ozone standard that the Act did not require states to assess Section 185 fees. As a result, Section 185 fees were not assessed against CF Industries, Inc. and other companies located in the Baton Rouge area.

In 2006, the D.C. Circuit Court of Appeals rejected the EPA's position and held that Section 185 fees were controls that must be maintained and fees should have been assessed under the Act. In January 2008, the U.S. Supreme Court declined to accept the case for review, making the appellate court's decision final.

The EPA has not yet proposed new regulations to address the Section 185 fee issue and there remains uncertainty as to the implementation of this provision, including the timing of any assessments; whether the EPA will authorize states to adopt plans to implement Section 185 by means other than the assessment of a fee; and whether major sources located in areas that would have achieved compliance with the 8-hour ozone standard, but continued to be in non-compliance with the 1-hour ozone standard, will continue to be subject to the Section 185 fee. Regardless of the approach adopted by the EPA, we expect that it is likely to be challenged by the environmental community, the states, and/or affected industries. Therefore, the costs associated with compliance with the Act cannot be determined at this time, and we cannot reasonably estimate the impact on the Company's financial position, results of operations or cash flows.

On February 26, 2009, the Company received a letter from the EPA under Section 114 of the Federal Clean Air Act requesting information and copies of records relating to compliance with New Source Review and New Source Performance Standards at the Donaldsonville facility. The Company is in the process of gathering the requested information and preparing responses to the agency's inquiry. It is not known at this time whether the EPA will initiate enforcement with respect to the Donaldsonville facility.

Other

From time to time, we receive notices from governmental agencies or third parties alleging that we are a potentially responsible party at certain sites under CERCLA or other environmental cleanup laws. In April 2002, we were asked by the current owner of a former phosphate mine and processing facility that we operated in the late 1950s and early 1960s located in Georgetown Canyon, Idaho, to contribute to a remediation of this property. We declined to participate in the cleanup. In January 2009, we were again asked to participate in the remediation of the property. It is our understanding that the current owner signed a Consent Judgment with the Idaho Department of Environmental Quality (IDEQ) for cleanup of the processing portion of the site and has submitted a Draft Remedial Action Plan that is under review by the IDEQ and related agencies. We anticipate that the current owner may bring a lawsuit against us seeking contribution for the cleanup costs, although we do not have sufficient information to determine when such a suit may be brought. We are not able to estimate at this time our potential liability, if any, with respect to the remediation of this property. Based on currently available information, we do not expect that any remedial or financial obligations we may be subject to involving this or other sites will have a material adverse effect on our business, financial condition, results of operations or cash flows.

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CF INDUSTRIES HOLDINGS, INC.

Other Matters

In February and March 2009, three purported shareholders of the Company filed putative class action lawsuits against the Company and the members of its Board of Directors alleging, among other things, that the members of the Company's Board of Directors breached their fiduciary duties by their actions in connection with the proposed acquisition by Agrium Inc. of CF Holdings. Two of these actions one captioned *Plumbers & Steamfitters Local 373 Pension Fund v. CF Industries Holdings, Inc.*, which was filed on February 26, 2009, and the other captioned *Operating Engineers Local 825 Pension Fund v. CF Industries Holdings, Inc.*, which was filed on March 12, 2009 were initiated in the Delaware Court of Chancery, and on March 17, 2009, the court consolidated these lawsuits into a single action captioned *In re CF Industries Shareholder Litigation*. The consolidated Delaware action remains pending, and the parties presently are engaged in the discovery process. A third action captioned *Gallagher v. CF Industries Holdings, Inc.* was filed in the Circuit Court of Lake County, Illinois on February 27, 2009. The Company moved to dismiss the Illinois complaint on the basis that the Delaware consolidated action concerns identical issues. This motion to dismiss is pending. Each of the suits seek, among other things, to enjoin the Company's proposed business combination with Terra Industries Inc. unless and until the Company considers other strategic alternatives to maximize the Company's value. The Company and the Board of Directors believe that these suits are without merit and intend to vigorously defend their positions in these matters. Currently we cannot determine if the ultimate outcome of these lawsuits will have a material impact on the Company's financial position, results of operations or cash flows.

20. Segment Disclosures

We are organized and managed based primarily on two segments, which are differentiated primarily by their products, the markets they serve and the regulatory environments in which they operate. The two segments are the nitrogen segment and the phosphate segment. The Company's management uses gross margin to evaluate segment performance and allocate resources. Selling, general and administrative expenses; other operating and non-operating expenses; interest; as well as income tax expense, are managed centrally and are not included in the measurement of segment profitability reviewed by management.

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Segment data for sales, cost of sales and gross margin for the three months ended March 31, 2009 and 2008 follows.

	Nitrogen	Phosphate	Consolidated
	(in millions)		
Three months ended March 31, 2009			
Net sales			
Ammonia	\$ 70.3	\$	\$ 70.3
Urea	267.5		267.5
UAN	118.2		118.2
DAP		185.7	185.7
MAP		38.2	38.2
Potash		0.5	0.5
Other	0.2		0.2
	456.2	224.4	680.6
Cost of sales	286.8	231.5	518.3
Gross margin	\$ 169.4	\$ (7.1)	\$ 162.3
Three months ended March 31, 2008			
Net sales			
Ammonia	\$ 32.1	\$	\$ 32.1
Urea	251.6		251.6
UAN	153.8		153.8
DAP		189.3	189.3
MAP		40.2	40.2
Potash			
Other	0.3		0.3
	437.8	229.5	667.3
Cost of sales	240.3	155.8	396.1
Gross margin	\$ 197.5	\$ 73.7	\$ 271.2

Assets at March 31, 2009 and December 31, 2008, are presented below.

	Nitrogen	Phosphate	Other	Consolidated
	(in millions)			
Assets				
March 31, 2009	\$ 802.7	\$ 651.7	\$ 1,051.7	\$ 2,506.1
December 31, 2008	\$ 758.2	\$ 764.1	\$ 865.3	\$ 2,387.6

The Other category of assets in the table above includes amounts attributable to the corporate headquarters and unallocated corporate assets such as our cash and cash equivalents, short-term investments, and investments in auction rate securities.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data, of our 2008 Annual Report on Form 10-K as well as Item 1, Financial Statements, in this Form 10-Q. All references to "CF Holdings," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc., except where the context makes clear that the reference is only to CF Holdings itself and not its subsidiaries. The following is an outline of the discussion and analysis included herein:

Overview of CF Industries Holdings, Inc.

Our Company

Financial Executive Summary

Results of Consolidated Operations

First Quarter of 2009 Compared to the First Quarter of 2008

Operating Results by Business Segment

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

Critical Accounting Policies and Estimates

Recent Accounting Pronouncements

Forward Looking Statements

Overview of CF Industries Holdings, Inc.

Our Company

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 segment and the phosphate segment. Our principal products in the nitrogen segment are ammonia, urea and urea ammonium nitrate solution, or UAN. Our principal products in the phosphate segment are diammonium phosphate, or DAP and monoammonium phosphate, or 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. We also export nitrogen and phosphate fertilizer products.

Our principal assets include:

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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);

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CF INDUSTRIES HOLDINGS, INC.

an extensive system of terminals, warehouses and associated transportation equipment located primarily in the Midwestern United States; and

a 50% interest in KEYTRADE AG (Keytrade), a global fertilizer trading company headquartered near Zurich, Switzerland, which we account for as an equity method investment.

Financial Executive Summary

We reported net earnings attributable to common stockholders of \$62.7 million in the first quarter of 2009 compared to \$158.8 million in the same quarter of 2008. Our results for the first quarter of 2009 included:

a net \$48.6 million pre-tax unrealized mark-to-market gain (\$29.4 million after tax) on natural gas derivatives,

a \$24.3 million non-cash inventory valuation charge (\$14.7 million after tax) associated with our potash inventory, and

\$20.0 million (\$12.1 million after tax) of expenses related to merger and acquisition related activity and development of our proposed Peru project. The merger and acquisition related costs are associated with CF Holdings' proposed business combination with Terra Industries Inc. and costs associated with evaluating and responding to Agrium Inc.'s proposed acquisition of CF Holdings.

Net earnings attributable to common stockholders of \$158.8 million for the first quarter of 2008 included a net \$69.6 million pre-tax unrealized mark-to-market gain (\$44.8 million after tax) on natural gas derivatives. There were no inventory valuation adjustments in the first quarter of 2008.

Our gross margin decreased \$108.9 million to \$162.3 million in the first quarter of 2009 from \$271.2 million in the same quarter of 2008. The decrease in gross margin resulted mainly from higher fertilizer raw material costs, lower average phosphate selling prices, the non-cash inventory valuation charge associated with our potash inventory and lower unrealized gains from mark-to-market adjustments on natural gas derivatives.

Our net sales increased 2% to \$680.6 million in the first quarter of 2009 compared to \$667.3 million in the first quarter of 2008. The increase reflected higher phosphate sales volume and changes in the product mix in our nitrogen fertilizer sales, partially offset by lower average phosphate selling prices. A 3% increase in the volume of fertilizer sold during the first quarter of 2009 resulted in total sales volume of 1.79 million tons compared to 1.74 million tons sold in the comparable quarter of the prior year.

We paid cash dividends of \$4.8 million in the first quarter of 2009, a decrease of \$0.8 million from the first quarter of 2008 due to fewer common shares outstanding as a result of our fourth quarter 2008 share repurchase program.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****Results of Consolidated Operations**

	Three months ended March 31,		
	2009	2008	2009 v. 2008
	(in millions, except per share amounts)		
Net sales	\$ 680.6	\$ 667.3	\$ 13.3
Cost of sales	518.3	396.1	122.2
Gross margin	162.3	271.2	(108.9)
Selling, general and administrative	15.4	18.2	(2.8)
Other operating net	23.2	1.4	21.8
Operating earnings	123.7	251.6	(127.9)
Interest expense	0.4	0.4	
Interest income	(1.3)	(8.5)	7.2
Other non-operating net	(0.3)	(2.7)	2.4
Earnings before income taxes and equity in earnings (loss) of unconsolidated affiliates	124.9	262.4	(137.5)
Income tax provision	41.2	86.8	(45.6)
Equity in earnings (loss) of unconsolidated affiliates net of taxes	(0.7)	1.7	(2.4)
Net earnings	83.0	177.3	(94.3)
Less: Net earnings attributable to the noncontrolling interest	20.3	18.5	1.8
Net earnings attributable to common stockholders	\$ 62.7	\$ 158.8	\$ (96.1)
Diluted net earnings per share attributable to common stockholders	\$ 1.28	\$ 2.76	\$ (1.48)
Diluted weighted average common shares outstanding	49.1	57.5	(8.4)
Dividends declared per common share	\$ 0.10	\$ 0.10	\$

First Quarter of 2009 Compared to the First Quarter of 2008***Consolidated Operating Results***

Weak demand, high system-wide inventory levels and the typical first quarter uncertainty about the spring season characterized the domestic fertilizer market in the first quarter of 2009. Our total gross margin decreased by \$108.9 million to \$162.3 million for the first quarter of 2009 from \$271.2 million for the same period in 2008, primarily due to higher fertilizer raw material costs, lower average phosphate selling prices, the non-cash inventory valuation charge associated with our potash inventory and lower unrealized gains from mark-to-market adjustments on natural gas derivatives. Net earnings attributable to common stockholders of \$62.7 million for the first quarter of 2009 included a net pre-tax unrealized mark-to-market gain of \$48.6 million (\$29.4 million after tax) on natural gas derivatives, a \$24.3 million non-cash inventory valuation charge (\$14.7 million after tax) associated with our potash inventory and \$20.0 million (\$12.1 million after tax) of merger and acquisition related costs associated with our proposed business combination with Terra Industries Inc. and the cost of evaluating and responding to Agrium Inc.'s proposed acquisition of CF Holdings, as well as Peru project development costs. Net earnings attributable to common stockholders of \$158.8 million for the first quarter of 2008 included a net pre-tax unrealized mark-to-market gain of \$69.6 million (\$44.8 million

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CF INDUSTRIES HOLDINGS, INC.

after tax) on natural gas derivatives. There were no inventory valuation adjustments in the first quarter of 2008.

Net Sales

Our net sales increased 2% to \$680.6 million in the first quarter of 2009 from \$667.3 million in the first quarter of 2008 due to higher phosphate sales volume and changes in the product mix in our nitrogen fertilizer sales, partially offset by lower average phosphate selling prices. In the first quarter of 2009, average nitrogen selling prices increased by 4% while average phosphate selling prices decreased by 13% compared to the same quarter of 2008. Our total sales volume increased by 3% in the first quarter of 2009 to 1.79 million tons compared to 1.74 million tons sold in the first quarter of the prior year. Nitrogen sales volume in the first quarter of 2009 approximated the level in the corresponding period of 2008. Our total level of phosphate sales in the first quarter of 2009 increased by 57,000 tons, or 12%, from the level sold during the same period in 2008 due primarily to higher export sales.

Cost of Sales

Both our nitrogen and phosphate plants operated at lower production rates in the first quarter of 2009 than in the comparable prior year period which increased our cost per ton. Total cost of sales in our nitrogen segment averaged approximately \$227 per ton in the first quarter of 2009 compared to \$190 per ton in the same quarter of 2008. This 19% increase was due primarily to higher hedged natural gas costs on product sold from inventory, lower unrealized gains from mark-to-market adjustments on natural gas derivatives and the impact of lower production rates. Phosphate segment cost of sales averaged \$439 per ton in the first quarter of 2009 compared to \$331 per ton in the first quarter of the prior year, an increase of 33%, due mainly to higher raw material costs and the impact of lower production rates. Phosphate segment results for the first quarter of 2009 also included a \$24.3 million non-cash inventory valuation charge associated with potash.

During the first quarter of 2009, we sold approximately 671,000 tons of fertilizer under our Forward Pricing Program (FPP), representing approximately 37% of our total fertilizer sales volume for the quarter. In the comparable period of 2008, we sold approximately 1.3 million tons of fertilizer under this program, representing approximately 73% of our total volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$2.8 million to \$15.4 million in the first quarter of 2009 from \$18.2 million in the first quarter of 2008. The decrease was due primarily to lower performance-based incentive compensation and long-term stock-based compensation expense and lower corporate office expenses.

Other Operating Net

Other operating net increased \$21.8 million to \$23.2 million in the first quarter of 2009 compared to \$1.4 million in the first quarter of 2008. This increase was due primarily to \$16.1 million of costs associated with our proposed business combination with Terra Industries Inc. and the cost of evaluating and responding to Agrium Inc.'s proposed acquisition of CF Holdings, and \$3.9 million of Peru project development costs.

Interest Net

Net interest income decreased to \$0.9 million in the first quarter of 2009 from \$8.1 million in the first quarter of 2008, due primarily to less interest income resulting from lower average interest rates.

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CF INDUSTRIES HOLDINGS, INC.

Income Taxes

The income tax provisions recorded for the three months ended March 31, 2009 and 2008 were based upon our estimated annual effective tax rate, which includes applicable federal, foreign and state income taxes.

Effective with the adoption of Statement of Financial Accounting Standards (SFAS) No. 160 *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin (ARB) No. 51, pre-tax income now includes income attributable to the noncontrolling interest (formerly known as minority interest). In our case, this represents the income of the 34% interest in CFL that we do not own. The effective tax rate for the first quarter of 2009 based on the reported tax provision of \$41.2 million and reported pre-tax income of \$124.9 million is 33.0%. This compares to 33.1% in the prior year comparable period. The effective tax rate for the first quarter of 2009 based on pre-tax income exclusive of the noncontrolling interest is 39.4%. This compares to 35.6% in the prior year quarter. The increase in the effective tax rate based on pre-tax income exclusive of noncontrolling interest is due primarily to the impact of the nondeductible costs associated with our proposed business combination with Terra Industries Inc. and the Peru project development costs. See Note 9 to our unaudited consolidated financial statements included in this Form 10-Q for additional discussion.

Equity in Earnings (Loss) of Unconsolidated Affiliates Net of Taxes

Equity in earnings (loss) of unconsolidated affiliates net of taxes in the first quarter of 2009 and 2008 consists of our share of the operating results of Keytrade.

Net Earnings Attributable to the Noncontrolling Interest

Amounts reported as net earnings attributable to the noncontrolling interest represent the interest of the 34% holder of CFL's common and preferred shares. The increase in the first quarter of 2009 was due to improved CFL operating results.

Diluted Net Earnings Per Share Attributable to Common Stockholders and Weighted Average Diluted Common Shares Outstanding

Diluted net earnings per share attributable to common stockholders decreased to \$1.28 per share in the first quarter of 2009 from \$2.76 per share in the comparable quarter of 2008 due primarily to the decrease in net earnings attributable to common stockholders, partially offset by a decrease in the weighted average number of diluted shares outstanding as a result of the fourth quarter 2008 share repurchase program.

Operating Results by Business Segment

Our business is organized and managed internally based on two segments, the nitrogen segment and the phosphate segment, which are differentiated primarily by their products, the markets they serve and the regulatory environments in which they operate.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.***Nitrogen Segment*

The following table presents summary operating data for our nitrogen segment:

	Three months ended March 31,		
	2009	2008	2009 v. 2008
(in millions, except as noted)			
Net sales	\$ 456.2	\$ 437.8	\$ 18.4
Cost of sales	286.8	240.3	46.5
Gross margin	\$ 169.4	\$ 197.5	\$ (28.1)
Gross margin percentage	37.1%	45.1%	
Tons of product sold (000s)	1,265	1,266	(1)
Sales volume by product (000s)			
Ammonia	133	75	58
Urea	733	650	83
UAN	397	539	(142)
Other nitrogen products	2	2	
Average selling price per ton by product			
Ammonia	\$ 527	\$ 428	\$ 99
Urea	365	387	(22)
UAN	298	285	13
Cost of natural gas (per MMBtu) ⁽¹⁾			
Donaldsonville	\$ 8.09	\$ 8.42	\$ (0.33)
Medicine Hat	5.99	7.68	(1.69)
Average daily market price of natural gas (per MMBtu)			
Henry Hub (Louisiana)	\$ 4.58	\$ 8.58	\$ (4.00)
AECO (Alberta)	4.02	7.84	(3.82)
Depreciation and amortization	\$ 13.0	\$ 14.4	\$ (1.4)
Capital expenditures	\$ 55.7	\$ 11.0	\$ 44.7
Production volume by product (000s)			
Ammonia ⁽²⁾⁽³⁾	677	825	(148)
Granular urea ⁽²⁾	613	602	11
UAN (28%)	485	682	(197)

(1) Includes the cost of natural gas purchases and realized gains and losses on natural gas derivatives.

(2) Total production at Donaldsonville and Medicine Hat, including the 34% interest of Viterra, the noncontrolling interest holder of CFL.

(3) Gross ammonia production, including amounts subsequently upgraded on-site into urea and/or UAN.

First Quarter of 2009 Compared to the First Quarter of 2008

Net Sales. Nitrogen segment net sales increased \$18.4 million, or 4%, to \$456.2 million in the first quarter of 2009 compared to \$437.8 million in the first quarter of 2008 due primarily to higher sales volume of higher priced ammonia and urea, partially offset by lower sales volume of relatively lower

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CF INDUSTRIES HOLDINGS, INC.

priced UAN. Total nitrogen sales volume of 1.27 million tons approximated the level in the corresponding period of 2008. The decline in UAN sales volume was due primarily to customer purchasing delays caused by high downstream inventories. We benefited from higher average prices for ammonia and UAN booked previously under our FPP. A build-up of downstream inventory in the fourth quarter of 2008 and a weaker international market contributed to a 6% decrease in average urea selling prices in the first quarter of 2009 compared to prices in the same period of 2008.

Cost of Sales. Total cost of sales in the nitrogen segment averaged approximately \$227 per ton in the first quarter of 2009 compared to \$190 per ton in the first quarter of 2008. The 19% increase was due primarily to higher hedged natural gas costs on product sold from inventory, lower unrealized gains from mark-to-market adjustments on natural gas derivatives and the impact of lower production rates. The total cost of sales of \$227 per ton includes approximately \$57 per ton for realized losses on natural gas derivatives related to natural gas consumed during the quarter as compared to approximately \$4 per ton in the comparable quarter in 2008. During the first quarter of 2009, the cost of natural gas supplied to our Donaldsonville facility and CFL's Medicine Hat facility decreased versus the cost in the comparable period of 2008. We also recognized a net \$48.6 million unrealized mark-to-market gain in the first quarter of 2009 compared to a net \$69.6 million unrealized mark-to-market gain in the same period of 2008. This lower unrealized mark-to-market gain in the current year's first quarter increased the cost per ton between the periods.

During the first quarter of 2009, we sold approximately 533,000 tons of nitrogen fertilizers under our Forward Pricing Program, representing approximately 42% of our nitrogen sales volume for the quarter. In the comparable period of 2008, we sold approximately 949,000 tons of nitrogen fertilizers under this program, representing approximately 75% of our nitrogen volume.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.***Phosphate Segment*

The following table presents summary operating data for our phosphate segment:

	Three months ended March 31,		
	2009	2008	2009 v. 2008
	(in millions, except as noted)		
Net sales	\$224.4	\$229.5	\$ (5.1)
Cost of sales	231.5	155.8	75.7
Gross margin	\$ (7.1)	\$ 73.7	\$ (80.8)
Gross margin percentage	(3.2)%	32.1%	
Gross margin by product			
DAP/MAP	18.5	73.7	(55.2)
Potash	(25.6)		(25.6)
Gross margin percentage by product			
DAP/MAP	8.3%	32.1%	
Tons of product sold (000s)	527	470	57
Sales volume by product (000s)			
DAP	445	384	61
MAP	82	86	(4)
Domestic vs. export sales of DAP/MAP (000s)			
Domestic	340	389	(49)
Export	187	81	106
Average selling price per ton by product			
DAP	\$ 418	\$ 493	\$ (75)
MAP	466	467	(1)
Depreciation, depletion and amortization	\$ 8.3	\$ 10.5	\$ (2.2)
Capital expenditures	\$ 15.8	\$ 22.3	\$ (6.5)
Production volume by product (000s)			
Phosphate rock	568	906	(338)
Sulfuric acid	489	604	(115)
Phosphoric acid as P ₂ O ₅ ⁽¹⁾	197	243	(46)
DAP/MAP	390	473	(83)

(1) P₂O₅ is the basic measure of the nutrient content in phosphate fertilizer products.

First Quarter of 2009 Compared to the First Quarter of 2008

Net Sales. Phosphate segment net sales decreased 2% to \$224.4 million in the first quarter of 2009 compared to \$229.5 million in the first quarter of 2008 due to lower average selling prices partially offset by higher sales volume. Average phosphate selling prices for the first quarter 2009 decreased 13% reflecting lower realizations due to weaker demand than in the first quarter of 2008. Our total level of phosphate sales of 527,000 tons in the first quarter of 2009 was 12% higher than the comparable period in 2008 due to an increase in export sales, more than offsetting weak domestic sales, caused by the high level of inventories throughout the supply chain.

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CF INDUSTRIES HOLDINGS, INC.

Cost of Sales. Phosphate segment cost of sales averaged \$439 per ton in the first quarter of 2009 compared to \$331 per ton in the same quarter of the prior year. The 33% increase was due mainly to higher sulfur and ammonia costs and the impact of lower production rates on fixed cost absorption. Although sulfur and ammonia prices declined significantly by the end of the fourth quarter 2008, inventory sold during the first quarter of 2009 included inventory produced with ammonia and sulfur purchased during the fourth quarter of 2008 at higher average prices.

In the second half of 2008, we began staging purchased potash fertilizer in our distribution network for expected sales in the spring season of 2009. The potash results are included in the phosphate segment. During the fourth quarter of 2008 and continuing into the first quarter of 2009, phosphate and potash fertilizer selling prices declined resulting from dealers wanting to sell high priced inventory and farmers wanting fertilizer priced closer to current wholesale market prices. We have also experienced a drop in raw material input costs, including a drop in the price of both ammonia and sulfur as compared to earlier in 2008. Ammonia and sulfur are primary raw materials used in the production of phosphate based fertilizers. The decline in raw material prices has a favorable impact on operating margins as inventory production costs and resulting inventory values decline.

At December 31, 2008, we recorded a \$57.0 million non-cash charge to write down our phosphate and potash inventories by \$30.3 million and \$26.7 million, respectively, as the carrying cost of the inventories exceeded the estimated net realizable values. Net realizable values for our phosphate and potash inventories are determined considering the fertilizer pricing environment at the time, as well as our expectations of future price realizations. The inventory that was held at December 31, 2008 included inventory that was produced or purchased earlier when input costs and fertilizer prices were higher. During the first quarter of 2009, we sold through the higher cost phosphate inventory that existed at December 31, 2008 and reassessed the net realizable values of the phosphate inventory that was held at March 31, 2009. Based on this analysis, at March 31, 2009 no inventory reserves were necessary for the phosphate inventories that were held. However, based on an analysis of the expected net realizable values of our potash inventories, we recognized an additional \$24.3 million inventory reserve adjustment in the first quarter of 2009 for this inventory as market prices for potash fell during the quarter. See the "Critical Accounting Policies and Estimates" in our 2008 Annual Report on Form 10-K for additional information on our accounting policies related to inventory valuation.

During the first quarter of 2009, we sold approximately 138,000 tons of phosphate fertilizers under our Forward Pricing Program representing approximately 26% of our phosphate sales volume for the quarter. In the comparable period of 2008, we sold approximately 325,000 tons of phosphate fertilizers under this program representing approximately 69% of our phosphate volume.

Liquidity and Capital Resources

Our primary source of cash is from operations which includes customer advances. Our primary uses of cash are operating costs, working capital needs, capital expenditures and dividends. Our working capital requirements are affected by several factors including demand for our products, selling prices for our products, raw material costs, freight costs and seasonal factors inherent in the business. Under our short-term investment policy, we invest our excess cash balances in several types of securities including notes and bonds issued by governmental entities or corporations, and money market funds. Securities issued by governmental agencies include those issued directly by the U.S. government, those issued by state, local or other governmental entities; and those guaranteed by entities affiliated with governmental entities.

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Cash Balances

As of March 31, 2009, we had cash and cash equivalents of \$803.8 million, short-term investments of \$35.2 million and a \$434.6 million current liability attributable to customer advances related to cash deposits received under our Forward Pricing Program. Short-term investments held at March 31, 2009 consisted of U.S. Treasury Bills with original maturities between three and nine months that are reported at fair value. As of December 31, 2008, we had cash and cash equivalents of \$625.0 million and a \$347.8 million current liability attributable to customer advances.

Investments in Auction Rate Securities

We hold investments in available-for-sale tax-exempt auction rate securities. Auction rate securities are primarily debt instruments with long-term maturities for which interest rates are expected to be reset periodically through an auction process, which typically occurs every 7 to 35 days.

As of March 31, 2009, our investments in auction rate securities were reported at their fair value of \$167.6 million after reflecting a \$27.8 million unrealized holding loss against a par value of \$195.4 million. These securities were all supported by student loans that were originated primarily under the Federal Family Education Loan Program. The underlying securities have stated maturities that range from less than one year to 39 years, with the majority of them being in the 20 to 39 year range and are guaranteed by entities affiliated with government entities. At December 31, 2008, our investments in auction rate securities totaled \$177.8 million, comprised of securities supported by student loans.

In February 2008, the market for auction rate securities began to show signs of illiquidity. Shortly thereafter, liquidity left the market and auctions began to fail. A failed auction occurs when there are insufficient bids for the number of instruments being offered. Upon a failed auction, the then holders of those instruments continue to hold them and each instrument begins to carry an interest rate based upon a certain predefined formula for that particular security. Subsequent to the market slowdown for these securities, \$73.1 million of our auction rate securities had been either redeemed by the issuers or sold at par value, including all of our auction rate securities that were supported by municipal bonds.

Because auctions have continued to fail, we do not consider our auction rate securities to be liquid investments. We are not able to access these funds until such time as auctions for the securities succeed once again, buyers are found outside the auction process, and/or the securities are redeemed by the issuers. In accordance with our policies, we review the underlying securities and assess the creditworthiness of these securities as part of our investment process. In each case, our reviews have continued to find these investments to be investment grade.

Due to the illiquidity in the credit markets and the failed auctions that started in February 2008, market valuations are no longer observable and we have classified these investments as Level 3 securities (those measured using significant unobservable inputs) under the provisions of Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements*. As disclosed in Note 5 to our unaudited consolidated financial statements, SFAS No. 157 requires supplemental disclosures regarding assets that are measured at fair value on a recurring basis. These investments in auction rate securities represent approximately 68% of the group of assets that are measured at fair value on a recurring basis.

We completed a valuation of these investments at March 31, 2009. The valuation of these securities utilizes a mark-to-model approach that relies on discounted cash flows, market data and inputs derived from similar instruments. These models take into account, among other variables, base interest rates, credit spreads, downgrade risks, default/recovery risk, the estimated time required to

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work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. Based on this valuation, we recorded an additional \$7.0 million pre-tax charge for a total unrealized holding loss of \$27.8 million against the historical cost basis of these investments at March 31, 2009. The unrealized holding loss that has been reported in other comprehensive income is included in the net \$167.6 million investment balance in auction rate securities. At March 31, 2009, these investments have been classified as noncurrent on our consolidated balance sheet, based on market conditions and our judgment regarding the period of time that may elapse until the traditional auction process resumes, or other effective market trading mechanisms develop.

The model we used to value our auction rate securities uses discounted cash flow calculations as one of the significant inputs to the ultimate determination of value. The base interest rates assumed for the required rates of return are key components of the calculation of discounted cash flows. If the required rate of return we used in the calculation model was 100 basis points lower, the resulting holding loss would have been approximately \$7.2 million greater. We may need to recognize either additional holding gains or losses in other comprehensive income or holding losses in net earnings should changes occur in either the conditions in the credit markets, the credit worthiness of the issuers, or in the variables considered in our valuation model.

We believe ultimately we will recover the historical cost for these instruments as we presently intend to hold these securities until market liquidity returns either through resumption of the auction process or otherwise. We do not believe the current market liquidity issues regarding these securities present any operating liquidity issues for us. Our cash, cash equivalents, short-term investments, operating cash flow, and credit available under our credit facility are adequate to fund our cash requirements for the foreseeable future.

Debt

Notes payable, representing amounts owed by CFL to its noncontrolling interest holder with respect to advances, were \$3.9 million as of March 31, 2009 compared to \$4.1 million as of December 31, 2008.

There were no outstanding borrowings under our \$250 million credit facility as of March 31, 2009 or December 31, 2008. As of March 31, 2009 and December 31, 2008, we had \$228.8 million and \$220.5 million, respectively, available under our credit facility.

Forward Pricing Program (FPP)

We use our FPP to reduce margin risk created by the volatility of fertilizer prices and natural gas costs. Through the program, we offer our customers the opportunity to purchase product on a forward basis at prices and on delivery dates we propose. As our customers enter into forward nitrogen fertilizer purchase contracts with us, we generally lock in a substantial portion of the margin on these sales mainly by using natural gas derivative instruments and fixed price purchase contracts to hedge against price changes for natural gas that will be purchased in the future. Natural gas is the largest and most volatile component of our manufacturing cost for nitrogen-based fertilizers. As a result of using derivative instruments to hedge against movements of future prices of natural gas, volatility in reported quarterly earnings can result from the unrealized mark-to-market adjustments in the value of the derivatives. Unlike nitrogen fertilizer products sold under the FPP for which we effectively fix the cost of natural gas, we typically are unable to fix the cost of phosphate raw materials, such as sulfur and ammonia, which are among the largest components of our phosphate costs. As a result, we typically are exposed to margin risk on phosphate products sold on a forward basis.