CF Industries Holdings, Inc.
Form 10-Q
November 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ______ to ______

Commission File Number: 001-32597

CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2697511**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Salem Lake Drive	
Long Grove, Illinois	**60047**
(Address of principal executive offices)	(Zip Code)

(847) 438-9500

(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 x No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

55,162,101 shares of the registrant s common stock, $0.01 par value per share, were outstanding at September 30, 2006.

TABLE OF CONTENTS

CF INDUSTRIES HOLDINGS, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
	(in millions, except per share amounts)			
Net sales	$ 378.0	$ 359.4	$ 1,443.3	$ 1,445.4
Cost of sales	352.2	303.4	1,339.0	1,238.5
Gross margin	25.8	56.0	104.3	206.9
Selling, general and administrative	13.2	17.7	40.5	43.0
Other operating net	0.3	1.3	3.4	3.8
Operating earnings	12.3	37.0	60.4	160.1
Interest expense	0.5	3.0	2.5	13.5
Interest income	(3.8)	(3.9)	(9.3)	(11.6)
Loss on extinguishment of debt		28.3		28.3
Minority interest	4.8	6.3	27.1	18.7
Other non-operating net	(0.2)	0.1	(0.4)	
Earnings before income taxes	11.0	3.2	40.5	111.2
Income tax provision	3.7	94.6	15.2	137.4
Net earnings (loss)	$ 7.3	$ (91.4)	$ 25.3	$ (26.2)
Basic and diluted weighted average common shares outstanding	55.0		55.0	
Basic and diluted net earnings per share	$ 0.13		$ 0.46	
Post Initial Public Offering (IPO)* net loss, weighted average common shares outstanding, and net loss per share:				
(in millions, except per share amounts)				
Post-IPO net loss		$ (99.5)		$ (99.5)
Basic and diluted weighted average common shares outstanding		55.0		55.0
Basic and diluted net loss per common share		$ (1.81)		$ (1.81)

* Covers the period from August 17, 2005 through September 30, 2005

See Accompanying Notes to Unaudited Consolidated Financial Statements.

1

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
	(in millions)			
Net earnings (loss)	$ 7.3	$ (91.4)	$ 25.3	$ (26.2)
Other comprehensive income (loss):				
Foreign currency translation adjustment no tax effect	(0.2)	1.1	0.8	0.8
Unrealized gain (loss) on derivatives net of taxes	(0.8)	43.8	(4.2)	44.7
Unrealized gain on securities net of taxes	0.1		0.2	
	(0.9)	44.9	(3.2)	45.5
Comprehensive income (loss)	$ 6.4	$ (46.5)	$ 22.1	$ 19.3

See Accompanying Notes to Unaudited Consolidated Financial Statements.

2

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2006	December 31, 2005
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 21.4	$ 37.4
Short-term investments	284.0	179.3
Accounts receivable	86.5	52.8
Income taxes receivable		1.1
Inventories	241.4	251.1
Other	22.0	54.4
Total current assets	655.3	576.1
Property, plant and equipment net	603.2	630.1
Goodwill	0.9	0.9
Asset retirement obligation escrow account	11.4	
Other assets	21.0	21.0
Total assets	$ 1,291.8	$ 1,228.1
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 145.9	$ 171.6
Income taxes payable	1.3	
Customer advances	148.8	131.6
Deferred income taxes	9.0	5.8
Distributions payable to minority interest		18.7
Other	37.1	13.4
Total current liabilities	342.1	341.1
Notes payable	4.4	4.2
Deferred income taxes	7.7	8.4
Other noncurrent liabilities	115.0	104.9
Minority interest	41.8	13.6
Stockholders equity:		
Preferred stock $0.01 par value, 50,000,000 shares authorized		
Common stock $0.01 par value, 500,000,000 shares authorized, 55,162,101 and 55,027,723 shares outstanding	0.6	0.6
Paid-in capital	749.1	743.0
Retained earnings	41.7	19.7
Accumulated other comprehensive loss	(10.6)	(7.4)
Total stockholders equity	780.8	755.9
Total liabilities and stockholders equity	$ 1,291.8	$ 1,228.1

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30, 2006 (in millions)	2005
Operating Activities:		
Net earnings (loss)	$ 25.3	$ (26.2)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Loss on extinguishment of debt		28.3
Minority interest	27.1	18.7
Depreciation, depletion and amortization	70.3	76.4
Deferred income taxes	5.3	133.2
Stock compensation expense	6.1	1.9
Unrealized loss on derivatives	21.3	
Changes in:		
Accounts receivable	(30.8)	(14.2)
Margin deposits	16.8	18.6
Inventories	10.5	25.8
Accounts payable and accrued expenses	(21.5)	(2.7)
Product exchanges net	13.7	(7.7)
Customer advances net	17.2	(28.2)
Other net	2.0	(1.5)
Net cash provided by operating activities	163.3	222.4
Investing Activities:		
Additions to property, plant and equipment net	(41.1)	(53.8)
Purchases of short-term investments	(629.5)	(606.7)
Sales and maturities of short-term investments	524.8	698.9
Deposit to asset retirement obligation escrow account	(11.1)	
Proceeds from sale of unconsolidated subsidiary		18.6
Net cash provided by (used in) investing activities	(156.9)	57.0
Financing Activities:		
Payments of long-term debt		(254.8)
Debt prepayment penalty		(26.4)
Distributions to minority interest	(19.0)	(5.7)
Dividends paid on common stock	(3.3)	
Exchange of stock		(715.4)
Proceeds from issuance of common stock		715.4
Other net		(2.6)
Net cash used in financing activities	(22.3)	(289.5)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	0.5
Decrease in cash and cash equivalents	(16.0)	(9.6)
Cash and cash equivalents at beginning of period	37.4	50.0
Cash and cash equivalents at end of period	$ 21.4	$ 40.4

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CF INDUSTRIES HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

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

Our principal assets include:

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

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

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

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2005 and in accordance with accounting principles generally accepted in the United States for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring adjustments that are necessary for the fair representation of the information for the periods presented. These statements should be read in conjunction with our audited consolidated financial statements and related disclosures in our Form 10-K filed with the United States Securities and Exchange

Commission (SEC) on March 20, 2006. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

Certain prior period amounts have been reclassified to conform to the current period presentation.

In the unaudited consolidated statements of operations for the three and nine months ended September 30, 2005, net gains on disposals of long-lived assets were reclassified from other non-operating-net to other operating-net. These reclassifications had no impact on previously reported net earnings (loss).

In the consolidated balance sheets as of December 31, 2005 and for subsequent periods, we have reported amounts owed to and due from product exchange counterparties in current assets and current liabilities on a gross basis rather than net in inventory. On the unaudited consolidated statement of cash flows for the nine months ended September 30, 2005, corresponding adjustments have been made to inventory and product exchanges-net. These reclassifications had no impact on previously reported cash flow from operations.

2. Summary of Significant Accounting Policies

For a discussion of the Company s significant accounting policies, refer to our 2005 Annual Report on Form 10-K as of and for the year-ended December 31, 2005, filed with the SEC on March 20, 2006.

3. New Accounting Standards

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

- Emerging Issues Task Force (EITF) Issue No. 06-03 *How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*. This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22 *Disclosure of Accounting Policies*. The EITF Issue is effective for the Company beginning January 1, 2007. We have not yet determined the impact of this EITF Issue on our consolidated financial statements.

- Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes.* This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards (SFAS or Statement) No. 109 *Accounting for Income Taxes*. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for the Company beginning January 1, 2007. We have not yet determined the impact of this Interpretation on our consolidated financial statements.

- FASB Staff Position (FSP) No. AUG AIR-1 *Accounting for Planned Major Maintenance Activities.* This FSP prohibits the use of accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. This FSP is effective for the Company beginning January 1, 2007 and must be applied retrospectively for all financial statements presented. We have not yet determined the impact of this FSP on our consolidated financial statements.

- SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments.* This standard amends the guidance in SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. This Statement also clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. This Statement will be effective for the Company in accounting for all financial instruments acquired or issued on or after January 1, 2007. We have not yet determined the impact of this Statement on our consolidated financial statements.

- SFAS No. 156 *Accounting for Servicing of Financial Assets An Amendment of FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. This Statement is effective for the Company beginning January 1, 2007. We have not yet determined the impact of this Statement on our consolidated financial statements.

- SFAS No. 157 *Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements; however, for some entities, the application of this statement may change current practice. This Statement is effective for the Company beginning January 1, 2008. We have not yet determined the impact of this Statement on our consolidated financial statements.

- SFAS No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This Statement requires an entity to recognize the funded status of benefit plans as assets and / or liabilities on the balance sheet, recognize gains and losses, prior service costs or credits, and transition assets or obligations in other comprehensive income, measure the defined benefit plan assets and obligations as of the date of the employer s fiscal year-end balance sheet and provide disclosure in the notes of the effects of the amortization of amounts included in other comprehensive income on the next fiscal year s periodic benefit cost. The recognition provisions of this Statement are effective for our December 31, 2006 fiscal year-end. The measurement provisions of the Statement will have no impact on our consolidated financial statements, as our plan assets and benefit obligations are currently measured as of year-end. This Statement will have no impact on our Consolidated Statements of Operations, but could have a material impact on our December 31, 2006 Consolidated Balance Sheet.

- SEC Staff Accounting Bulletin (SAB) 108, Section N to Topic 1 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. This SAB requires the evaluation of prior year misstatements using both the balance sheet approach and the income statement approach. In the year of initial adoption, should either approach result in quantifying an error that is material in light of quantitative and qualitative factors, SAB 108 guidance allows for a one-time cumulative-effect adjustment to beginning retained earnings. In years subsequent to adoption, previously undetected misstatements deemed material shall result in the restatement of previously issued financial statements in accordance with SFAS No. 154 *Accounting Changes and Error Corrections.* The guidance in this SAB is effective for the Company s December 31, 2006 fiscal year-end. We have not yet determined the impact of this SAB on our consolidated financial statements.

4. Net Earnings (Loss) Per Share

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

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

	Three months ended September 30, Actual 2006	Pro forma 2005	Post-IPO 2005*	Nine months ended September 30, Actual 2006	Pro forma 2005
	(in millions, except per share amounts)				
Net earnings (loss) available to to common shareholders	$ 7.3	$ (91.4)	$ (99.5)	$ 25.3	$ (26.2)
Basic and diluted weighted average common shares outstanding	55.0	55.0	55.0	55.0	55.0
Basic and diluted net earnings (loss) per common share	$ 0.13	$ (1.66)	$ (1.81)	$ 0.46	$ (0.48)

* Covers the period beginning August 17, 2005 and ending September 30, 2005.

The 2005 post-IPO diluted loss per share calculation excludes 1,223 shares of restricted stock because the effect of their inclusion would be antidilutive. The antidilution occurs because the application of dilutive potential common shares to a net loss results in a smaller loss per share.

5. Pension and Other Postretirement Benefits

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

Net pension/retiree medical expense included the following components:

	Pension Plans Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005	Retiree Medical Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
	(in millions)							
Service cost for benefits earned during the period	$ 1.8	$ 1.6	$ 5.3	$ 4.9	$ 0.4	$ 0.3	$ 1.0	$ 0.9
Interest cost on projected benefit obligation	3.1	2.9	9.4	8.9	0.4	0.3	1.2	1.2
Expected return on plan assets	(3.5)	(3.5)	(10.4)	(10.4)				