

CF Industries Holdings, Inc.  
Form 10-Q  
May 04, 2007

**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, 2007**

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)

**4 Parkway North, Suite 400**

**Deerfield, Illinois**

(Address of principal executive offices)

**20-2697511**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

55,379,401 million shares of the registrant's common stock, \$0.01 par value per share, were outstanding at March 31, 2007.

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CF INDUSTRIES HOLDINGS, INC.  
TABLE OF CONTENTS

<b><u>PART I.</u></b>	<b><u>Financial Information</u></b>		
	<u>Item 1.</u>	<u>Financial Statements</u>	
		<u>Consolidated Statements of Operations</u>	1
		<u>Consolidated Statements of Comprehensive Income (Loss)</u>	2
		<u>Consolidated Balance Sheets</u>	3
		<u>Consolidated Statements of Cash Flows</u>	4
		<u>Notes to Unaudited Consolidated Financial Statements</u>	5
	<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
	<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
	<u>Item 4.</u>	<u>Controls and Procedures</u>	27
<b><u>PART II.</u></b>	<b><u>Other Information</u></b>		
	<u>Item 6.</u>	<u>Exhibits</u>	28

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**CF INDUSTRIES HOLDINGS, INC.**  
**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in millions, except</b>	
	<b>per share amounts)</b>	
Net sales	\$ 447.7	\$ 400.5
Cost of sales	342.6	423.2
Gross margin	105.1	(22.7 )
Selling, general and administrative	13.7	13.0
Other operating net	1.3	1.5
Operating earnings (loss)	90.1	(37.2 )
Interest expense	0.5	0.5
Interest income	(3.9 )	(2.7 )
Minority interest	7.0	5.9
Other non-operating net	(0.5 )	(0.1 )
Earnings (loss) before income taxes	87.0	(40.8 )
Income tax provision (benefit)	29.8	(16.2 )
Net earnings (loss)	\$ 57.2	\$ (24.6 )
Basic weighted average common shares outstanding	55.1	55.0
Basic net earnings (loss) per share	\$ 1.04	\$ (0.45 )
Diluted weighted average common shares outstanding	56.2	55.0
Diluted net earnings (loss) per share	\$ 1.02	\$ (0.45 )
Dividends declared per common share	\$ 0.02	\$ 0.02

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

(Unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in millions)</b>	
Net earnings (loss)	\$ 57.2	\$ (24.6 )
Other comprehensive income (loss):		
Foreign currency translation adjustment no tax effect	0.2	(0.1 )
Defined benefit plans net of taxes	0.4	
Unrealized gain (loss) on securities net of taxes	(0.1 )	0.2
Unrealized loss on derivatives net of taxes		(2.1 )
	0.5	(2.0 )
Comprehensive income (loss)	\$ 57.7	\$ (26.6 )

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	(Unaudited) March 31, 2007 (in millions, except share and per share amounts)	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27.8	\$ 25.4
Short-term investments	463.0	300.2
Accounts receivable	118.5	113.9
Inventories	303.7	176.1
Assets held for sale	6.0	
Other	17.7	17.5
Total current assets	936.7	633.1
Property, plant and equipment net	593.9	597.0
Deferred income taxes		1.7
Goodwill	0.9	0.9
Asset retirement obligation escrow account	21.1	11.5
Other assets	45.1	46.2
Total assets	\$ 1,597.7	\$ 1,290.4
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 194.8	\$ 172.3
Income taxes payable	18.7	1.9
Customer advances	325.0	102.7
Deferred income taxes	10.8	9.8
Distributions payable to minority interest	28.1	27.8
Other	3.2	38.9
Total current liabilities	580.6	353.4
Notes payable	4.3	4.2
Deferred income taxes	6.0	
Other noncurrent liabilities	156.0	152.2
Minority interest	21.0	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, 2007 55,379,401 and 2006 55,172,101 shares outstanding	0.6	0.6
Paid-in capital	757.4	751.2
Retained earnings	104.7	48.6
Accumulated other comprehensive loss	(32.9 )	(33.4 )
Total stockholders' equity	829.8	767.0
Total liabilities and stockholders' equity	\$ 1,597.7	\$ 1,290.4

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

(Unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in millions)</b>	
<b>Operating Activities:</b>		
Net earnings (loss)	\$ 57.2	\$ (24.6 )
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Minority interest	7.0	5.9
Depreciation, depletion and amortization	20.1	22.5
Deferred income taxes	8.0	(14.0 )
Stock compensation expense	1.9	1.8
Excess tax benefit from stock-based compensation	(1.0 )	
Unrealized (gain) loss on derivatives	(38.5 )	20.0
Changes in:		
Accounts receivable	(3.4 )	(16.8 )
Margin deposits	2.7	(9.7 )
Inventories	(127.3 )	(79.5 )
Accounts payable, accrued expenses, and income taxes	39.3	(15.7 )
Product exchanges net	(1.6 )	14.6
Customer advances net	222.3	114.3
Other net	4.4	(0.3 )
Net cash provided by operating activities	191.1	18.5
<b>Investing Activities:</b>		
Additions to property, plant and equipment - net	(20.9 )	(11.5 )
Purchases of short-term investments	(276.8 )	(125.0 )
Sales and maturities of short-term investments	113.9	146.7
Deposit to asset retirement obligation escrow account	(9.4 )	(11.1 )
Other net	1.1	
Net cash used in investing activities	(192.1 )	(0.9 )
<b>Financing Activities:</b>		
Dividends paid on common stock	(1.1 )	(1.1 )
Distributions to minority interest		(15.1 )
Issuances of common stock under employee stock plans	3.3	
Excess tax benefit from stock-based compensation	1.0	
Net cash provided by (used in) financing activities	3.2	(16.2 )
Effect of exchange rate changes on cash and cash equivalents	0.2	(0.1 )
Increase in cash and cash equivalents	2.4	1.3
Cash and cash equivalents at beginning of period	25.4	37.4
<b>Cash and cash equivalents at end of period</b>	<b>\$ 27.8</b>	<b>\$ 38.7</b>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

**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 fertilizer business and the phosphate fertilizer business. Our principal products in the nitrogen fertilizer business are ammonia, urea and urea ammonium nitrate solution, or UAN. Our principal products in the phosphate fertilizer business 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.

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, 2006 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 February 28, 2007. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

**2. Summary of Significant Accounting Policies**

For a complete discussion of the Company's significant accounting policies, refer to our 2006 Annual Report on Form 10-K as of and for the year-ended December 31, 2006, filed with the SEC on February 28, 2007.

In the first quarter of 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes*. See Note 7 Income Taxes for our accounting policy for interest and penalties related to unrecognized tax benefits.

**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*. We collect an immaterial amount of such taxes from our customers which we account for on a net basis. The adoption of EITF Issue No. 06-03 in the first quarter of 2007 did not impact our consolidated financial statements or disclosures.



**CF INDUSTRIES HOLDINGS, INC.**

- 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 adoption of FIN No. 48 in the first quarter of 2007 did not have a material impact 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 the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The adoption of this FSP in the first quarter of 2007 did not have a material impact on our consolidated financial statements.
- Statement of Financial Accounting Standards (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. It also clarifies other specific SFAS No. 133 and SFAS No. 140 related issues. This Statement was effective for all financial instruments acquired or issued on or after January 1, 2007. This Statement does not currently impact 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. It also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. This Statement does not currently impact 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. It 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. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to measure eligible financial instruments and certain other items at fair value and record unrealized gains and losses in earnings. It also establishes presentation and disclosure requirements for items reported at fair value in the financial statements. 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.

**CF INDUSTRIES HOLDINGS, INC.****4. Change in Estimate of Useful Lives of Depreciable Assets**

We periodically review the depreciable lives assigned to our production facilities and related assets, as well as estimated production capacities used to develop our units-of-production (UOP) depreciation expense, and we change our estimates to reflect the results of those reviews. In the fourth quarter of 2006 we completed such a review and, as a result, we increased the depreciable lives of certain assets at our nitrogen production facilities from ten years to fifteen years. Separately, we revised the estimates of production capacities for certain UOP assets at our Donaldsonville, Louisiana nitrogen complex and all UOP assets at our Plant City, Florida phosphate complex. The effect of this change in estimate for the three months ended March 31, 2007 was a reduction of depreciation of \$3.0 million, an increase in earnings before income taxes of \$2.0 million, an increase in net earnings of \$1.3 million, and an increase in diluted earnings per share of \$0.02.

**5. Net Earnings (Loss) Per Share**

Net earnings (loss) per share was computed as follows:

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in millions, except per share amounts)</b>	
Net earnings (loss) available to common shareholders	\$ 57.2	\$ (24.6 )
Basic earnings per common share:		
Weighted average common shares outstanding	55.1	55.0
Net earnings (loss)	\$ 1.04	\$ (0.45 )
Diluted earnings per common share:		
Weighted average common shares outstanding	55.1	55.0
Dilutive common shares:		
Stock options	1.0	
Restricted stock	0.1	
Diluted weighted average shares outstanding	56.2	55.0
Net earnings (loss)	\$ 1.02	\$ (0.45 )

For the three months ended March 31, 2006, the computation of diluted earnings per share excludes 50,517 of potentially dilutive stock options because the option exercise prices were greater than the average market price of our common stock during the period and, therefore, the effect would be antidilutive. In addition, the March 31, 2006 diluted net loss per share calculation excludes 18,915 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 net loss per share.

**CF INDUSTRIES HOLDINGS, INC.****6. 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 and other amounts recognized in accumulated other comprehensive loss included the following components:

	<b>Pension Plans</b>		<b>Retiree Medical</b>	
	<b>Three months ended</b>		<b>Three months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(in millions)</b>			
Service cost for benefits earned during the period	\$ 1.7	\$ 1.7	\$ 0.3	\$ 0.3
Interest cost on projected benefit obligation	3.3	3.1	0.5	0.5
Expected return on plan assets	(3.5 )	(3.4 )		
Amortization of transition obligation			0.1	0.1
Amortization of actuarial loss	0.4	0.6		0.1
Net periodic benefit cost	1.9	\$ 2.0	0.9	\$ 1.0
Amortization of actuarial loss	(0.4 )			
Amortization of transition obligation			(0.1 )	
Total recognized in accumulated other comprehensive loss	(0.4 )		(0.1 )	
Total recognized in net periodic benefit cost and accumulated other comprehensive loss	\$ 1.5		\$ 0.8	

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 also maintain a closed plan in which no current employees are eligible to participate. We recognized expense for these plans of \$0.3 million and \$0.2 million for the three months ended March 31, 2007 and 2006, respectively.

**CF INDUSTRIES HOLDINGS, INC.****7. Income Taxes**

The income tax provisions recorded for the three months ended March 31, 2007 and 2006 were determined in accordance with the requirements of SFAS No. 109 *Accounting for Income Taxes*, APB Opinion No. 28 *Interim Financial Reporting* and FASB Interpretation No. 18 *Accounting for Income Taxes in Interim Periods*.

The Company has adopted FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* as of January 1, 2007. The effect of adoption was not material. The Company files federal, provincial, state and local income tax returns in the United States and Canada. In general, the Company's filed tax returns remain subject to examination by United States tax jurisdictions for years 2001 and thereafter and by Canadian tax jurisdictions for years 2002 and thereafter.

The Company's accounting policy is to recognize accrued interest and penalties related to unrecognized tax benefits in interest expense and other non-operating-net, respectively.

**8. Inventories**

Inventories consist of the following:

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	<b>(in millions)</b>	
Fertilizer	\$ 256.8	\$ 135.1
Spare parts, raw materials and supplies	46.9	41.0
	<b>\$ 303.7</b>	<b>\$ 176.1</b>

**9. Assets Held for Sale**

In 2006, the Company committed to a plan to sell its corporate office facility located in Long Grove, Illinois and entered into a long-term lease for a new corporate office facility in Deerfield, Illinois. During the first quarter of 2007, the Company relocated its corporate headquarters to the Deerfield facility. As a result, we have classified our Long Grove facility as an asset held for sale based on the guidance of SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. The amount presented in our consolidated balance sheet as assets held for sale represents the net book value of the building and the related land. These assets are included within our Other segment in Note 15 Segment Disclosures.

**10. 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 FASB Interpretation (FIN) No. 47 *Accounting for Conditional Asset Retirement Obligations* (conditional AROs).

In the first quarters of 2007 and 2006, we made our annual contributions of \$9.4 million and \$11.1 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 nine years, we expect to contribute between \$4 million and \$7 million annually based upon the required funding formula as defined in the regulations and

## CF INDUSTRIES HOLDINGS, INC.

an assumed rate of return of 4% on invested funds. The amount of funds that will have accumulated in the account by the year 2016, including interest earned on invested funds, is currently estimated to be approximately \$85 million. After 2016, contributions to the fund are estimated to average less than \$1 million annually for the following 17 years. The balance in the account is estimated to be approximately \$170 million by 2033. The required balance in the account is based on predetermined funding requirements as prescribed by the state of Florida; therefore, contributions to the account will differ from amounts recognized as expense in our financial statements. Ultimately, the cash in the account will be used to complete settlement of the AROs. The balance in this account is reported as an asset at fair value on our consolidated balance sheet.

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

### 11. Credit Agreement

Our senior secured revolving credit facility (the credit facility) with JPMorgan Chase provides 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. As of March 31, 2007 there was \$250 million of available credit, based on the borrowing base, and there were no loans or letters of credit outstanding under the credit facility.

The credit facility is guaranteed by CF Holdings and certain of the 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 Donaldsonville, Louisiana.

### 12. Derivative Financial Instruments

We use natural gas in the manufacture of nitrogen fertilizer products. Because natural gas prices are volatile, our Natural Gas Acquisition Policy includes the objective of providing protection against significant adverse natural gas price movements. 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. The derivative instruments that we currently use are swaps. These contracts reference primarily NYMEX futures contract prices, 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. We use derivative instruments primarily to lock in a substantial portion of our margin on sales under the forward pricing program. We also establish natural gas derivative positions that are associated with anticipated natural gas requirements unrelated to our forward pricing program.

We use natural gas derivatives, primarily as an economic hedge of gas price risk, but without the application of hedge accounting for financial reporting purposes. 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.

For the three months ended March 31, 2007, we recorded directly to cost of sales net derivative gains of \$22.6 million, consisting of \$15.9 million in realized losses and \$38.5 million of unrealized mark-to-

**CF INDUSTRIES HOLDINGS, INC.**

market gains. For the three months ended March 31, 2006, we recorded directly to cost of sales derivative losses of \$41.3 million, consisting of \$21.3 million in realized losses and \$20.0 million of unrealized mark-to-market losses.

On the consolidated balance sheet at March 31, 2007, we had net unrealized gains of \$0.7 million on 18.0 million MMBtus of gas swap contracts. At December 31, 2006, we had net unrealized losses of \$37.8 million on 30.6 million MMBtus of gas swap contracts.

**13. Other Comprehensive Income (Loss)**

*Stockholders equity includes accumulated other comprehensive loss, which consists of the following components:*

	<b>Foreign Currency Translation Adjustment (in millions)</b>	<b>Unrealized Gain (Loss) on Securities</b>	<b>Defined Benefit Plans</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2006	\$ (2.9 )	\$ 0.4	\$ (30.9 )	\$ (33.4 )
Net change	0.2	(0.1 )	0.4	0.5
Balance at March 31, 2007	\$ (2.7 )	\$ 0.3	\$ (30.5 )	\$ (32.9 )

The unrealized loss on securities in our nonqualified employee benefit plan trust of \$0.1 million is net of deferred taxes of \$0.1 million. The \$0.4 million adjustment to our defined benefit plans is net of deferred taxes of \$0.3 million and consists of amortization of actuarial losses, prior service costs and transition obligations.

**14. 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. 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*

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

**CF INDUSTRIES HOLDINGS, INC.**

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 NOVs 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. If the EPA's position is eventually upheld, the Company could incur material expenditures in order to modify its practices, or it may be required to comply with regulations applicable to hazardous waste treatment, storage or disposal facilities. If the Company is required to comply with such obligations, it could incur material capital and operating expenditures or may be required to cease operation of the water recirculating system if it is determined that it does not meet RCRA standards. This would cause a significant disruption of the operations of the Plant City facility.

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 impacting the site. The EPA's sampling results appear to be consistent with the Company's 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. Although the Company believes that it has evaluated and is remediating the impacts resulting from its historic activities, the DOJ and the EPA have indicated that they will be seeking additional environmental investigation at the facilities subject to the enforcement initiative, including Plant City. In addition, we understand that the EPA may decide to inspect our Bartow, Florida property, where we formerly manufactured phosphoric acid. The EPA has requested and the Company has provided copies of existing monitoring data for this facility. Depending on the conclusions that the EPA reaches after reviewing this data, the EPA may require that an investigation of environmental conditions be undertaken at the Bartow facility.

We are subject to a variety of environmental laws and regulations in all jurisdictions in which we operate. When it is probable that environmental liabilities exist and when reasonable estimates of such liabilities can be made, we have established associated reserves. These estimated liabilities are subject to change as additional information becomes available regarding the magnitude and timing of possible cleanup costs, the relative expense and effectiveness of alternative clean-up methods, and other possible liabilities associated with such situations. However, based on the information available as of the date of this filing, we believe that any additional costs that may be incurred as more information becomes available will

**CF INDUSTRIES HOLDINGS, INC.**

not have a material adverse effect on the Company's financial position, although such costs could have a material effect on the Company's results of operations or cash flows in a particular period.

**15. Segment Disclosures**

We are organized and managed based 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 and phosphate fertilizer businesses.

Segment data for sales, cost of sales and gross margin for the three months ended March 31, 2007 and 2006, and assets at March 31, 2007 and December 31, 2006 are as follows. Other assets include amounts attributable to the corporate headquarters and unallocated corporate assets.

	Nitrogen (in millions)	Phosphate	Consolidated	
<b>Three months ended March 31, 2007</b>				
Net sales				
Ammonia	\$ 35.9	\$	\$ 35.9	
Urea	190.1		190.1	
UAN	110.0		110.0	
DAP		93.8	93.8	
MAP		17.6	17.6	
Other	0.3		0.3	
	336.3	111.4	447.7	
Cost of sales	245.6	97.0	342.6	
Gross margin	\$ 90.7	\$ 14.4	\$ 105.1	
<b>Three months ended March 31, 2006</b>				
Net sales				
Ammonia	\$ 47.0	\$	\$ 47.0	
Urea	158.4		158.4	
UAN	80.1		80.1	
DAP		95.8	95.8	
MAP		18.9	18.9	
Other	0.3		0.3	
	285.8	114.7	400.5	
Cost of sales	318.7	104.5	423.2	
Gross margin	\$ (32.9 )	\$ 10.2	\$ (22.7 )	
<b>Assets</b>				
March 31, 2007	\$ 626.7	\$ 439.9	\$ 531.1	\$ 1,597.7
December 31, 2006	\$ 493.9	\$ 426.9	\$ 369.6	\$ 1,290.4



**CF INDUSTRIES HOLDINGS, INC.**

**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 2006 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.*

**Overview**

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, or UAN. Our principal products in the phosphate fertilizer business 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.

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.

**Executive Summary**

We reported net earnings of \$57.2 million in the first quarter of 2007 compared to a net loss of \$24.6 million in the first quarter of 2006. Our results for the first quarter of 2007 included a net \$38.5 million pre-tax mark-to-market gain (\$25.0 million after tax) on natural gas derivatives. The net loss of \$24.6 million for the first quarter of 2006 included a net \$20.0 million pre-tax mark-to-market loss (\$12.0 million after tax) on natural gas derivatives.

Our gross margin increased \$127.8 million to \$105.1 million in the first quarter of 2007 compared to a \$22.7 million loss in the first quarter of 2006. The increase in gross margin resulted mainly from favorable variances related to mark-to-market adjustments on natural gas derivatives, decreases in raw material costs (primarily natural gas) and lower purchased product costs.

Our net sales increased 12% to \$447.7 million in the first quarter of 2007 compared to \$400.5 million in the first quarter of 2006. The increase primarily reflected higher nitrogen fertilizer sales volume. A

**CF INDUSTRIES HOLDINGS, INC.**

244,000 ton increase in fertilizer sold during the first quarter of 2007 resulted in total sales volume of 1.89 million tons in the first quarter of 2007 compared to 1.65 million tons in the first quarter of 2006.

We paid cash dividends of \$1.1 million in the first quarter of 2007.

The following significant item affected the comparability of our reported results for the three months ended March 31, 2007 and 2006:

Hurricane activity in the Gulf of Mexico region during the latter portion of 2005 significantly affected the domestic fertilizer industry. These hurricanes caused substantial damage to the natural gas production and distribution facilities in the region, affecting the supply and price of natural gas, the primary raw material used to produce nitrogen fertilizers. By the end of the first quarter of 2006, natural gas prices had moderated, returning to approximately pre-hurricane levels. These storms also affected the availability of barges used to transport urea and DAP/MAP on the Mississippi River and adversely affected the supply of sulfur, a raw material used in the production of phosphate fertilizers, by causing refinery closures and transportation disruptions.

**Results of Operations**

The following table presents our consolidated results of operations:

	<b>Three months ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007 v. 2006</b>
	<b>(in millions, except per share amounts)</b>		
Net sales	\$ 447.7	\$ 400.5	\$ 47.2
Cost of sales	342.6	423.2	(80.6 )
Gross margin	105.1	(22.7 )	127.8
Selling, general and administrative	13.7	13.0	0.7
Other operating net	1.3	1.5	(0.2 )
Operating earnings (loss)	90.1	(37.2 )	127.3
Interest expense	0.5	0.5	
Interest income	(3.9 )	(2.7 )	(1.2 )
Minority interest	7.0	5.9	1.1
Other non-operating net	(0.5 )	(0.1 )	(0.4 )
Earnings (loss) before income taxes	87.0	(40.8 )	127.8
Income tax provision (benefit)	29.8	(16.2 )	46.0
Net earnings (loss)	\$ 57.2	\$ (24.6 )	\$ 81.8
Net Earnings (Loss) Per Share			
Basic weighted average common shares outstanding	55.1	55.0	0.1
Basic net earnings (loss) per share	\$ 1.04	\$ (0.45 )	\$ 1.49
Diluted weighted average common shares outstanding	56.2	55.0	1.2
Diluted net earnings (loss) per share	\$ 1.02	\$ (0.45 )	\$ 1.47

**CF INDUSTRIES HOLDINGS, INC.**

*First Quarter of 2007 Compared to the First Quarter of 2006*

*Consolidated Operating Results*

During the first quarter of 2007, the domestic nitrogen fertilizer industry continued to strengthen due to increased demand related to anticipated increases in corn acreage planted, as well as lower natural gas prices and a tight international fertilizer market. Tight worldwide industry supply/demand conditions and increased domestic demand led to improved operating results in our phosphate fertilizer business during the first quarter of 2007. Our total gross margin increased by \$127.8 million to \$105.1 million for the first quarter of 2007 compared to a \$22.7 million loss for the same period in 2006, due largely to favorable variances on mark-to-market adjustments on natural gas derivatives, lower natural gas costs and lower purchased product costs. Net earnings of \$57.2 million for the first quarter of 2007 included a net pre-tax mark-to-market gain of \$38.5 million (\$25.0 million after tax) on natural gas derivatives. The net loss of \$24.6 million for the first quarter of 2006 included a net pre-tax mark-to-market loss of \$20.0 million (\$12.0 million after tax) on natural gas derivatives.

*Net Sales*

Our net sales increased 12% to \$447.7 million in the first quarter of 2007 compared to \$400.5 million in the first quarter of 2006, due primarily to an increase in nitrogen fertilizer sales volume. Our total sales volume increased 15% to 1.89 million tons in the first quarter of 2007 versus 1.65 million tons in the first quarter of the prior year. Nitrogen fertilizer sales volume increased 272,000 tons, or 24%, to 1.429 million tons in the first quarter of 2007 compared to 1.157 million tons in the comparable period of 2006, due primarily to higher urea and UAN sales. Average nitrogen fertilizer prices in the first quarter of 2007 decreased by 5% compared to average prices in the first quarter of 2006. Our total level of phosphate fertilizer sales of 461,000 tons in the first quarter of 2007 was 28,000 tons, or 6%, lower compared to the 489,000 tons sold during the same period in 2006. Average phosphate fertilizer prices in the first quarter of 2007 increased by 3% compared to average prices in the first quarter of the prior year.

*Cost of Sales*

Total cost of sales of our nitrogen fertilizers averaged approximately \$172 per ton in the first quarter of 2007 compared to \$275 per ton in the first quarter of 2006, primarily due to favorable variances related to mark-to-market adjustments on natural gas derivatives and lower natural gas prices in the first quarter of 2007. Phosphate fertilizer cost of sales averaged \$210 per ton in the first quarter of 2007 compared to \$214 per ton in the first quarter of the prior year, a decrease of 2% due mainly to lower sulfur and ammonia costs.

During the first quarter of 2007, we sold approximately 934,000 tons of fertilizer under our forward pricing program, representing approximately 49% of our total fertilizer sales volume for the quarter. In the comparable period of 2006, we sold approximately 700,000 tons of fertilizer under this program, representing approximately 43% of our total volume.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 5% to \$13.7 million for the first quarter of 2007 compared to \$13.0 million in the corresponding quarter of the prior year. The increase in the first quarter of 2007 was largely due to increased expenses related to performance-based management incentive compensation, expenses related to the relocation of our corporate headquarters to Deerfield, Illinois, and dues for membership in a fertilizer industry group.

**CF INDUSTRIES HOLDINGS, INC.**

*Other Operating Net*

Other operating net decreased to \$1.3 million in the first quarter of 2007 from \$1.5 million in the same period of 2006. The decrease was due primarily to a \$0.3 million upward adjustment in the first quarter of 2007 to the asset retirement obligations (AROs) at our closed Bartow, Florida, facility as compared to a \$0.7 million upward adjustment in the same period of 2006. For a detailed explanation of the accounting for AROs at Bartow, please refer to Note 9 to our audited consolidated financial statements included in our 2006 Annual Report on Form 10-K.

*Interest Net*

Net interest income increased \$1.2 million to \$3.4 million in the first quarter of 2007 from \$2.2 million in the first quarter of 2006. Interest expense was \$0.5 million for the first quarter of both 2007 and 2006. Interest income increased to \$3.9 million in the first quarter of 2007 as compared to \$2.7 million in the comparable period of the prior year due to higher average balances of invested cash partially offset by lower average rates of return. The decrease in the average rates of return is due to the majority of the interest income earned on our short-term investments for the first quarter of 2007 being exempt from federal taxation.

*Minority Interest*

Amounts reported as minority interest represent the interest of the 34% minority holder of CFL's common and preferred shares. The increase in the first quarter of 2007 was due to improved CFL operating results. The improvement in CFL operating results reflects stronger market conditions for nitrogen fertilizers produced in Canada.

*Income Taxes*

The income tax provisions recorded for the three months ended March 31, 2007 and 2006 were based upon our estimated annual effective tax rate, which includes applicable federal, foreign and state income taxes.

Our income tax provision for the first quarter of 2007 was \$29.8 million, or an effective tax rate of 34.3%. This compared with a tax benefit of \$16.2 million on a pre-tax loss for the first quarter of 2006, or an effective rate of 39.7%. The 2007 decrease in the effective rate results principally from the impact of an increase in the US domestic production activities deduction and non-taxable interest income earned on short-term investments.

**CF INDUSTRIES HOLDINGS, INC.****Segment Review**

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

*Nitrogen Fertilizer Business*

The following table presents summary operating data for our nitrogen fertilizer business:

	<b>Three months ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007 v. 2006</b>
	<b>(in millions, except as noted)</b>		
Net sales	\$ 336.3	\$ 285.8	\$ 50.5
Cost of sales	245.6	318.7	(73.1 )
Gross margin	\$ 90.7	\$ (32.9 )	\$ 123.6
Gross margin percentage	27.0	% (11.5 )%	
Tons of product sold (000s)	1,429	1,157	272
Sales volume by product (000s)			
Ammonia	121	130	(9 )
Urea	666	582	84
UAN	639	442	197
Other nitrogen products	3	3	
Average selling price per ton by product			
Ammonia	\$ 297	\$ 361	\$ (64 )
Urea	285	272	13
UAN	172	181	(9 )
Cost of natural gas (per MMBtu) (1)			
Donaldsonville	\$ 7.57	\$ 8.92	\$ (1.35 )
Medicine Hat	6.35	7.46	(1.11 )
Average daily market price of natural gas (per MMBtu)			
Henry Hub (Louisiana)	\$ 7.13	\$ 7.76	\$ (0.63 )
AECO (Alberta)	6.27	6.58	(0.31 )
Depreciation and amortization	\$ 12.4	\$ 12.9	\$ (0.5 )
Capital expenditures	\$ 5.8	\$ 4.3	\$ 1.5
Production volume by product (000s)			
Ammonia (2) (3)	873	651	222
Granular urea (2)	626	464	162
UAN (28%)	673	407	266

(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 Westco, our joint venture partner in CFL.

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

**CF INDUSTRIES HOLDINGS, INC.**

*First Quarter of 2007 Compared to the First Quarter of 2006*

*Net Sales.* Nitrogen fertilizer net sales increased \$50.5 million to \$336.3 million in the first quarter of 2007 compared to \$285.8 million in the first quarter of 2006, as higher sales volume was partially offset by lower average selling prices. Nitrogen fertilizer sales volume increased 24% to 1.429 million tons in the first quarter of 2007 compared to 1.157 million tons in the comparable period of 2006, due principally to the impacts on demand of expected increases in corn acres planted and fertilizer application rates. The anticipated increased corn acreage is being driven by greater demand for ethanol, low domestic corn inventories and continued strong demand for feed. Sales volumes for all nitrogen fertilizer products in the first quarter of 2006 were affected by the impact of the two hurricanes in 2005. Ammonia and UAN sales prices decreased by 18% and 5%, respectively, in the first quarter of 2007 compared to prices in the same period of the prior year resulting primarily from the influence of lower North American natural gas prices. The 5% increase in average urea sales prices was due to increased demand in domestic and international markets.

*Cost of Sales.* Total cost of sales of our nitrogen fertilizers averaged approximately \$172 per ton in the first quarter of 2007 compared to \$275 per ton in the first quarter 2006, primarily due to favorable variances related to mark-to-market adjustments on natural gas derivatives, lower natural gas prices in 2007 and lower purchased product costs. The overall weighted average cost of natural gas supplied to our Donaldsonville facility and CFL's Medicine Hat facility, including realized gains and losses on derivatives, decreased by 15% in the first quarter of 2007 versus the cost in the comparable period of 2006. We recognized a net \$38.5 million mark-to-market gain in the first quarter of 2007 compared to a net \$20.0 million mark-to-market loss in the first quarter of 2006. The cost of finished fertilizer products purchased for resale was approximately \$12.3 million lower in the first quarter of 2007 than in the comparable period of the prior year due primarily to a decrease in the amount of sales volume supported by purchased product.

During the first quarter of 2007, we sold approximately 745,000 tons of nitrogen fertilizers under our forward pricing program, representing approximately 52% of our nitrogen fertilizer sales volume for the quarter. In the comparable period of 2006, we sold approximately 574,000 tons of nitrogen fertilizers under this program, representing approximately 50% of our nitrogen volume.

**CF INDUSTRIES HOLDINGS, INC.***Phosphate Fertilizer Business*

The following table presents summary operating data for our phosphate fertilizer business:

	<b>Three months ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2007 v. 2006</b>
<b>(in millions, except as noted)</b>			
Net sales	\$ 111.4	\$ 114.7	\$ (3.3 )
Cost of sales	97.0	104.5	(7.5 )
Gross margin	\$ 14.4	\$ 10.2	\$ 4.2
Gross margin percentage	12.9	% 8.9	%
Tons of product sold (000s)	461	489	(28 )
Sales volume by product (000s)			
DAP	388	410	(22 )
MAP	73	79	(6 )
Domestic vs. export sales of DAP/MAP (000s)			
Domestic	398	376	22
Export	63	113	(50 )
Average selling price per ton by product			
DAP	\$ 242	\$ 234	\$ 8
MAP	241	239	2
Depreciation, depletion and amortization	\$ 7.2	\$ 9.0	\$ (1.8 )
Capital expenditures	\$ 12.7	\$ 7.4	\$ 5.3
Production volume by product (000s)			
Phosphate rock	864	898	(34 )
Sulfuric acid	589	657	(68 )
Phosphoric acid as P <sub>2</sub> O <sub>5</sub> (1)	225	251	(26 )
DAP/MAP	446	503	(57 )

(1) P<sub>2</sub>O<sub>5</sub> is the basic measure of the nutrient content in phosphate fertilizer products.

*First Quarter of 2007 Compared to the First Quarter of 2006*

*Net Sales.* Phosphate fertilizer net sales decreased 3% to \$111.4 million in the first quarter of 2007 compared to \$114.7 million in the first quarter of 2006 due to lower phosphate fertilizer sales volume partially offset by higher average selling prices. Our total level of phosphate fertilizer sales of 461,000 tons in the first quarter of 2007 was 28,000 tons, or 6%, lower than in the comparable period in 2006. Reduced availability of product due to scheduled maintenance at our Plant City, Florida phosphate complex, along with the desire to meet increased domestic demand, led to a 50,000 ton decrease in sales of DAP/MAP to export customers. With worldwide inventories already low, reduced domestic industry production in the first quarter of 2007 helped increase average phosphate fertilizer prices by 3% compared to prices in the first quarter of 2006.

*Cost of Sales.* Phosphate cost of sales averaged \$210 per ton in the first quarter of 2007 compared to \$214 per ton in the first quarter of 2006. The 2% decrease was mainly due to lower sulfur and ammonia costs.

**CF INDUSTRIES HOLDINGS, INC.**

During the first quarter of 2007, we sold approximately 189,000 tons of phosphate fertilizers under our forward pricing program, representing approximately 41% of our phosphate fertilizer sales volume for the quarter. In the comparable period of 2006, we sold approximately 126,000 tons of phosphate fertilizers under this program, representing approximately 26% of our phosphate volume.

**Liquidity and Capital Resources**

Our primary sources of cash are operating cash flow, which includes customer advances, and our senior secured revolving credit facility. 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 seasonality factors inherent in the business.

***Cash Balances***

As of March 31, 2007, we had cash and cash equivalents of \$27.8 million, short-term investments of \$463.0 million and a \$325.0 million current liability attributable to customer advances related to cash deposits received under our forward pricing program. As of December 31, 2006, the comparable amounts were \$25.4 million, \$300.2 million and \$102.7 million, respectively. Short-term investments consist primarily of available-for-sale tax exempt auction rate securities that are reported at fair value. We believe that our cash, cash equivalents and short-term investments, our operating cash flows and liquidity under our senior secured revolving credit facility are adequate to fund our cash requirements for the foreseeable future. As of March 31, 2007 and December 31, 2006, we had \$250.0 million and \$176.4 million available, respectively, under our senior secured revolving credit facility.

***Debt***

Notes payable, representing amounts owed by CFL to its minority interest holder with respect to advances, were \$4.3 million as of March 31, 2007 compared to \$4.2 million as of December 31, 2006. There were no outstanding borrowings or letters of credit under our \$250 million senior secured revolving credit facility as of March 31, 2007 or December 31, 2006.

***Forward Pricing Program (FPP)***

We offer a FPP to our customers under which product may be ordered for future delivery, with a significant portion of the sales proceeds generally being collected in advance of shipment, thereby reducing or eliminating the accounts receivable related to such sales. As of March 31, 2007 and December 31, 2006, we had approximately \$325.0 million and \$102.7 million, respectively, in customer advances on our consolidated balance sheet. As of March 31, 2007 and December 31, 2006, we had approximately 1.8 million tons of product and 1.7 million tons of product, respectively, committed to be sold under the FPP. Most of this product was scheduled to ship within 150 days of March 31, 2007 and December 31, 2006, respectively.

While customer advances were a significant source of liquidity in the first three months of both 2007 and 2006, the level of sales under the FPP is affected by many factors, including current market conditions and our customers' perceptions of future market fundamentals. As of March 31, 2006, we had approximately 1.1 million tons of product committed to be sold under this program. The lower level as of March 31, 2006 reflected the hesitancy of our customers to make commitments in the uncertain fertilizer pricing environment prevalent during that reporting period.



**CF INDUSTRIES HOLDINGS, INC.**

The level of our customers' participation in our FPP may vary over time. Should the level of participation decrease, there is a risk of increased volatility in the operating earnings of future periods. If the level of sales under the FPP were to decrease in the future, our cash received from customer advances would likely decrease, and our accounts receivable balances would likely increase. Also, borrowing under our senior secured revolving credit facility could become necessary. Due to the volatility inherent in our business and changing customer expectations, we cannot estimate the amount of future FPP sales activity.

***Financial Assurance Requirements***

In addition to various operational and environmental regulations related to our phosphate fertilizer business, we are also subject to financial assurance requirements. Pursuant to the Florida regulations governing financial assurance related to the closure of phosphogypsum stacks, we utilize an escrow account to meet such future obligations. We made our annual contributions of \$9.4 million and \$11.1 million in March of 2007 and March of 2006, respectively, to this escrow account, which by rule is earmarked to cover the closure, long-term maintenance, and monitoring costs for our phosphogypsum stacks, as well as any costs incurred to manage the water contained in the stack system upon closure.

Additionally, Florida regulations require mining companies to demonstrate financial responsibility for wetland and other surface water mitigation measures in advance of any mining activities. We will be required to demonstrate financial responsibility for wetland and other surface-water-mitigation measures in advance of any mining activities, if and when we are able to expand our Hardee mining activities to areas not currently permitted. The demonstration of financial responsibility by mining companies in Florida may be provided by passing a financial test or by establishing a cash deposit arrangement. Based on these current regulations, we will have the option to demonstrate financial responsibility in Florida utilizing either of these methods.

See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity in our 2006 Annual Report on Form 10-K for additional information on financial assurance requirements.

**CF INDUSTRIES HOLDINGS, INC.**

***Cash Flows***

*Operating Activities*

Net cash generated from operating activities in the first three months of 2007 was \$191.1 million compared to \$18.5 million in the same period in 2006. The \$172.6 million increase in cash provided by operating activities in 2007 was due primarily to a \$124.8 million increase in cash generated by working capital changes. Other major factors affecting operating cash flow during the first three months of 2007 were a \$127.3 million increase in operating earnings, partially offset by the adjustment for the \$58.5 million non-cash effect of the change in unrealized gains and losses on derivatives. The \$124.8 million increase in cash generated by working capital changes is the difference between the \$132.0 million generated in the first quarter of 2007 and the \$7.2 million generated in the same period of 2006. During the first quarter of 2007, customer advances increased by \$222.3 million and accounts payable, accrued expenses, and income taxes increased by \$39.3 million, generating \$261.6 million of cash, which was partially offset by a \$127.3 million increase in inventories. The increase in customer advances was primarily due to changes in the product mix of outstanding orders and a greater percentage of the contract value having been collected by March 31, 2007 in advance of the spring season. Remaining unpaid amounts of customer advances are generally collected by the time the product is shipped. The increase in accounts payable, accrued expenses, and income taxes was primarily due to an increase in income taxes payable, as well as higher amounts owed for purchased product as of March 31, 2007 as compared to December 31, 2006. The increase in inventories reflects the normal seasonal build in advance of spring planting as well as higher per-unit nitrogen fertilizers manufacturing cost.

*Investing Activities*

Net cash used in investing activities was \$192.1 million for the first quarter of 2007 as compared to \$0.9 million in the comparable period of 2006. The \$191.2 million increase in cash used in investing activities was primarily due to net purchases of short-term investments of \$162.9 million during the first three months of 2007 as compared to \$21.7 million of net sales during the three months ended March 31, 2006. The level of short-term investments, currently tax exempt auction rate securities that we liquidate over periods ranging from three to twelve months, is dictated by our current cash position and estimated future liquidity requirements. Additions to property, plant and equipment-net were \$20.9 million for the first quarter of 2007 and \$11.5 million for the same period of the prior year. The increase in additions to property, plant and equipment-net in the first quarter of 2007 was due primarily to a \$5.3 million increase in plant turnaround-related expenditures as compared to the same period in 2006. As previously discussed, we made our annual contributions of \$9.4 million in March of 2007 and \$11.1 million in March of 2006 to our asset retirement obligation escrow account. The balance in this account is reported at fair value on our consolidated balance sheet.

*Financing Activities*

Net cash provided by financing activities was \$3.2 million in the first three months of 2007 as compared to net cash used in financing activities of \$16.2 million for the comparable period of 2006. The \$19.4 million swing in cash provided by financing activities was due primarily to the fact that CFL's 2006 net earnings have yet to be distributed, whereas most of CFL's 2005 net earnings were distributed in the first quarter of 2006. We also received \$3.3 million of proceeds from stock options exercised under the CF Industries Holdings, Inc. 2005 Equity and Incentive Plan during the first quarter of 2007.

**CF INDUSTRIES HOLDINGS, INC.**

***Contractual Obligations***

As of March 31, 2007, the annual amounts of purchase obligations for 2007 are higher by \$89.9 million as compared to the amounts shown in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity in our 2006 Annual Report on Form 10-K. Of the \$89.9 million increase for 2007, approximately \$40.4 million relates to the first three months of the year and approximately \$49.5 million relates to the last nine months of the year. These changes reflect primarily higher per unit prices for commitments to purchase natural gas and ammonia for use in phosphate production and ammonia, urea and UAN purchased for resale in our markets, as well as higher quantities for commitments to purchase sulfur for use in phosphate production. These commitments are based on spot prices as of March 31, 2007 and actual prices may differ.

As of March 31, 2007, the annual amounts of transportation obligations for 2007, 2008 and 2009 are higher by \$15.0 million, \$28.6 million and \$13.5 million, respectively, as compared to the amounts shown in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity in our 2006 Annual Report on Form 10-K. The \$15.0 million increase for 2007 relates to the last nine months of the year. These changes reflect a new requirements-based arrangement to transport finished product that allows for reductions in contract usage should actual transportation needs decrease. These amounts are based on normal transportation needs and contracted prices.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Critical Accounting Policies and Estimates**

We describe our significant accounting policies and estimates in Note 2 to our audited consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data, of our 2006 Annual Report on Form 10-K. We discuss our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2006 Annual Report on Form 10-K.

***Useful Lives of Depreciable Assets***

In the fourth quarter of 2006 we completed a comprehensive review of the depreciable lives of our production facilities and related assets, as well as estimated production capacities used to develop our units-of-production (UOP) depreciation expense. As a result of this review, we increased the depreciable lives of certain assets at our nitrogen production facilities from ten years to fifteen years. Separately, we revised the estimates of production capacities for certain UOP assets at our Donaldsonville, Louisiana nitrogen complex and all UOP assets at our Plant City, Florida phosphate complex. As a result of these changes, we expect that depreciation expense will be reduced by approximately \$11.7 million during 2007.

Of the \$11.7 million anticipated reduction in depreciation expense, approximately \$10.4 million relates to our nitrogen production assets and \$1.3 million relates to our phosphate production assets. Included in the \$10.4 million expected decrease in depreciation for nitrogen assets is approximately \$1.5 million relating to CFL, a joint venture of which we own 66%.

## CF INDUSTRIES HOLDINGS, INC.

The effect of this change in estimate for the three months ended March 31, 2007 was a reduction of depreciation of \$3.0 million, an increase in earnings before income taxes of \$2.0 million, an increase in net earnings of \$1.3 million, and an increase in diluted earnings per share of \$0.02. Of the \$3.0 million reduction in depreciation expense, approximately \$2.7 million related to our nitrogen production assets and \$0.3 million related to our phosphate production assets.

We review the depreciable lives assigned to our production facilities and related assets on a periodic basis, and change our estimates to reflect the results of those reviews.

### Recent Accounting Pronouncements

We adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes* in the first quarter of 2007. 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 adoption of FIN No. 48 did not have a material impact on our consolidated financial statements.

We also adopted FASB Staff Position (FSP) No. AUG AIR-1 *Accounting for Planned Major Maintenance Activities* in the first quarter of 2007. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The adoption of this FSP did not have a material impact on our consolidated financial statements.

### FORWARD LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements that are not statements of historical fact and may involve a number of risks and uncertainties. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to our future prospects, developments and business strategies. We have used the words anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, and similar terms and phrases, including reference to assumptions, to identify forward-looking statements in this Form 10-Q. These forward-looking statements are made based on our expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this report. Additionally, we do not undertake any responsibility to provide updates regarding the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this report.

Important factors that could cause actual results to differ materially from our expectations are disclosed under **Risk Factors** and elsewhere in our 2006 Annual Report on Form 10-K. Such factors include, among others:

- the relatively expensive and volatile cost of North American natural gas;
- the cyclical nature of our business;

**CF INDUSTRIES HOLDINGS, INC.**

- the nature of our products as global commodities;
- intense global competition in the consolidating markets in which we operate;
- conditions in the U.S. agricultural industry;
- our history of losses;
- weather conditions;
- our inability to accurately predict seasonal demand for our products;
- the concentration of our sales with certain large customers;
- the impact of changing market conditions on our forward pricing program;
- the significant risks and hazards against which we may not be fully insured;
- reliance on third party transportation providers;
- unanticipated consequences related to future expansion of our business;
- our inability to expand our business, including the significant resources that could be required;
- potential liabilities and expenditures related to environmental and health and safety laws and regulations;
- our inability to obtain or maintain required permits and governmental approvals;
- acts of terrorism;
- difficulties in securing the raw materials we use;
- changes in global fertilizer supply and demand; and
- loss of key members of management and professional staff.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to the impact of changes in interest rates, foreign currency exchange rates and commodity prices. See Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk in our 2006 Annual Report on Form 10-K for additional information on market risk.

*Interest Rate Fluctuations*

As of March 31, 2007, we had notes payable of approximately \$4 million that had a floating interest rate. A 100 basis point change in interest rates on our notes payable would result in a \$40,000 change in pretax income on an annual basis. The senior secured revolving credit facility bears a current market rate for interest such that we are subject to interest rate risk on borrowings under this facility. As of March 31, 2007, there were no loans outstanding under this credit facility.

*Commodity Prices*

We manage the risk of changes in natural gas prices through the use of physical gas supply contracts and derivative financial instruments covering periods not exceeding three years. Derivatives are carried at

26

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**CF INDUSTRIES HOLDINGS, INC.**

their fair value on the balance sheet and changes in their fair value are recognized in operations as they occur. As of March 31, 2007, 18.0 million MMBtus of natural gas were hedged, most of which related to sales contracted to be sold through our forward pricing program. Most of the 30.6 million MMBtus of natural gas hedged as of December 31, 2006, also related to sales contracted to be sold through our forward pricing program.

**ITEM 4. CONTROLS AND PROCEDURES.**

*(a) Disclosure Controls and Procedures.* The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*(b) Internal Control Over Financial Reporting.* There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**CF INDUSTRIES HOLDINGS, INC.**

**PART II OTHER INFORMATION**

**ITEM 6. EXHIBITS.**

A list of exhibits filed with this report on Form 10-Q (or incorporated by reference to exhibits previously filed or furnished) is provided in the Exhibit Index on page 30 of this report.

28

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**CF INDUSTRIES HOLDINGS, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 4, 2007	CF Industries Holdings, Inc. By:	/s/ STEPHEN R. WILSON Stephen R. Wilson <i>President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)</i>
Date: May 4, 2007	By:	/s/ ANTHONY J. NOCCHIERO Anthony J. Nocchiero <i>Senior Vice President and Chief Financial Officer (Principal Financial Officer)</i>

**CF INDUSTRIES HOLDINGS, INC.**  
**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1	CF Industries Holdings, Inc., 2005 Equity and Incentive Plan, Annual Incentive Program
10.2	Form of Annual Incentive Program Award Agreement
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

30

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