

CF Industries Holdings, Inc.
Form 10-Q
August 03, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number: **001-32597**

CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

60015
(Zip Code)

(847) 405-2400

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(Do not check if a
smaller reporting
company)

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

48,456,310 shares of the registrant's common stock, \$0.01 par value per share, were outstanding at June 30, 2009.

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CF INDUSTRIES HOLDINGS, INC.

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CF INDUSTRIES HOLDINGS, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions, except per share amounts)			
Net sales	\$991.0	\$1,161.0	\$1,671.6	\$1,828.3
Cost of sales	564.0	691.1	1,082.3	1,087.2
Gross margin	427.0	469.9	589.3	741.1
Selling, general and administrative	16.5	18.1	31.9	36.3
Other operating net	15.3	(0.3)	38.5	1.1
Operating earnings	395.2	452.1	518.9	703.7
Interest expense	0.3	0.4	0.7	0.8
Interest income	(0.7)	(6.6)	(2.0)	(15.1)
Other non-operating net	(0.1)	(2.1)	(0.4)	(4.8)
Earnings before income taxes and equity in earnings (loss) of unconsolidated affiliates	395.7	460.4	520.6	722.8
Income tax provision	146.8	159.9	188.0	246.7
Equity in earnings (loss) of unconsolidated affiliates net of taxes	(0.7)	7.2	(1.4)	8.9
Net earnings	248.2	307.7	331.2	485.0
Less: Net earnings attributable to the noncontrolling interest	35.2	19.1	55.5	37.6
Net earnings attributable to common stockholders	\$213.0	\$ 288.6	\$ 275.7	\$ 447.4
Net earnings per share attributable to common stockholders:				
Basic	\$ 4.40	\$ 5.11	\$ 5.69	\$ 7.94
Diluted	\$ 4.33	\$ 5.01	\$ 5.61	\$ 7.78
Weighted average common shares outstanding:				
Basic	48.4	56.4	48.4	56.4
Diluted	49.2	57.6	49.2	57.5
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(in millions)			
Net earnings	\$ 248.2	\$ 307.7	\$ 331.2	\$ 485.0
Other comprehensive income (loss):				
Foreign currency translation adjustment	3.8	0.1	2.3	(1.3)
Defined benefit plans net of taxes	0.3	0.4	0.8	0.8
Unrealized gain (loss) on securities net of taxes	11.8	(1.2)	7.0	(7.2)
	15.9	(0.7)	10.1	(7.7)
Comprehensive income	264.1	307.0	341.3	477.3
Less: Comprehensive income attributable to the noncontrolling interest	36.9	19.2	56.5	37.0
Comprehensive income attributable to common stockholders	\$ 227.2	\$ 287.8	\$ 284.8	\$ 440.3

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	June 30, 2009	December 31, 2008
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 816.1	\$ 625.0
Short-term investments	105.1	
Accounts receivable	137.9	175.1
Inventories net	213.9	588.6
Prepaid income taxes		26.3
Other	11.4	18.2
Total current assets	1,284.4	1,433.2
Property, plant and equipment net	738.5	661.9
Goodwill	0.9	0.9
Asset retirement obligation escrow account	36.5	28.8
Investments in and advances to unconsolidated affiliates	43.4	44.8
Investments in auction rate securities	136.6	177.8
Other assets	39.1	40.2
Total assets	\$ 2,279.4	\$ 2,387.6
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 175.6	\$ 207.9
Income taxes payable	23.1	14.1
Customer advances	70.9	347.8
Notes payable	4.2	4.1
Deferred income taxes	31.4	52.1
Distributions payable to noncontrolling interest		106.0
Other	4.3	86.1
Total current liabilities	309.5	818.1
Deferred income taxes	77.7	6.2
Other noncurrent liabilities	202.5	212.6
Contingencies (Note 19)		
Equity:		
Stockholders' equity:		
Preferred stock \$0.01 par value, 50,000,000 shares authorized		
Common stock \$0.01 par value, 500,000,000 shares authorized, 2009 48,456,310 and 2008 48,391,584 shares issued and outstanding	0.5	0.5
Paid-in capital	714.4	709.4
Retained earnings	969.5	703.4
Accumulated other comprehensive loss	(66.1)	(75.2)
Total stockholders' equity	1,618.3	1,338.1
Noncontrolling interest	71.4	12.6
Total equity	1,689.7	1,350.7

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Total liabilities and equity	\$ 2,279.4	\$ 2,387.6
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See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
	2009	2008
	(in millions)	
Operating Activities:		
Net earnings	\$ 331.2	\$ 485.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	46.3	51.4
Deferred income taxes	45.6	39.7
Stock compensation expense	3.0	4.5
Excess tax benefit from stock-based compensation	(0.9)	(10.2)
Unrealized gain on derivatives	(82.9)	(152.8)
Inventory valuation allowance	(32.0)	
Loss (gain) on disposal of property, plant and equipment	0.8	(1.6)
Equity in losses (earnings) of unconsolidated affiliates net of taxes	1.4	(8.9)
Changes in:		
Accounts receivable	40.4	(28.2)
Margin deposits	11.3	(3.4)
Inventories	407.1	(137.4)
Prepaid product and expenses	(3.6)	(8.1)
Accrued income taxes	36.5	111.3
Accounts payable and accrued expenses	(32.3)	70.5
Product exchanges net	0.1	(4.9)
Customer advances net	(276.9)	107.6
Other net	(7.9)	2.0
Net cash provided by operating activities	487.2	516.5
Investing Activities:		
Additions to property, plant and equipment	(126.9)	(72.8)
Proceeds from the sale of property, plant and equipment	5.3	2.5
Purchases of investment securities	(105.0)	(354.7)
Sales and maturities of investment securities	52.4	378.6
Deposit to asset retirement obligation escrow account	(7.5)	(6.2)
Other net		1.2
Net cash used in investing activities	(181.7)	(51.4)
Financing Activities:		
Dividends paid on common stock	(9.6)	(11.3)
Distributions to noncontrolling interest	(112.3)	(28.4)
Issuances of common stock under employee stock plans	1.1	4.0
Excess tax benefit from stock-based compensation	0.9	10.2
Net cash used in financing activities	(119.9)	(25.5)
Effect of exchange rate changes on cash and cash equivalents	5.5	(0.3)
Increase in cash and cash equivalents	191.1	439.3
Cash and cash equivalents at beginning of period	625.0	366.5

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Cash and cash equivalents at end of period	\$ 816.1	\$ 805.8
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See Accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

All references to "CF Holdings," "the Company," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc. We are one of the largest manufacturers and distributors of nitrogen and phosphate fertilizer products in North America. Our operations are organized into two business segments: the nitrogen segment and the phosphate segment. Our principal products in the nitrogen segment are ammonia, urea and urea ammonium nitrate solution, or UAN. Our principal products in the phosphate segment are diammonium phosphate (DAP) and monoammonium phosphate (MAP). Our core market and distribution facilities are concentrated in the midwestern U.S. grain-producing states. Our principal customers are cooperatives and independent fertilizer distributors. We also export nitrogen and phosphate fertilizer products.

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2008, in accordance with accounting principles generally accepted in the United States for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring adjustments that are necessary for the fair representation of the information for the periods presented. Subsequent events have been evaluated through the date these financial statements were issued and filed with the Securities and Exchange Commission (SEC). The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

These statements should be read in conjunction with our annual consolidated financial statements. Our Annual Report on Form 10-K was filed with the SEC on February 26, 2009. Effective January 1, 2009, we were required to adopt Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" an amendment of ARB No. 51" (SFAS No. 160) and FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP No. EITF 03-6-1). Our consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 from the 2008 Form 10-K, which have been revised to reflect the retrospective application of SFAS No. 160 and FSP No. EITF 03-6-1, were filed in a Form 8-K with the SEC on May 28, 2009.

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

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CF INDUSTRIES HOLDINGS, INC.

2. Summary of Significant Accounting Policies

For a complete discussion of the Company's significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Current Report on Form 8-K, filed with the SEC on May 28, 2009.

3. New Accounting Standards

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

Recently Adopted Pronouncements

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

SFAS No. 141(R) *Business Combinations*. This Statement requires the acquirer in a business combination to recognize the assets acquired, the liabilities assumed, contractual contingencies, and contingent consideration at their fair values as of the acquisition date. Additionally, this Statement requires acquisition costs to be expensed as incurred, restructuring costs to be expensed in the period subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date to impact tax expense. The acquirer in an acquisition implemented in stages is required to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. This Statement was effective for business combinations with an acquisition date after December 31, 2008. Its adoption did not have an impact on our consolidated financial statements.

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

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CF INDUSTRIES HOLDINGS, INC.

contingencies in business combinations with an acquisition date after December 31, 2008. Its adoption did not have an impact on our consolidated financial statements.

SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. This Statement expands the disclosure requirements for derivative instruments and hedging activities and requires further disclosures regarding how derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how the derivative instruments and hedged items affect an entity's financial position, financial performance, and related cash flows. The Statement was effective for the Company beginning January 1, 2009. The adoption of this Statement did not have a material impact on our consolidated financial statements. See Note 16 – Derivative Financial Instruments.

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

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

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

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

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transactions or quoted market prices may be necessary in determining the value of the asset. The FSP is effective for interim and annual periods ending after June 15, 2009, and its adoption did not have a significant impact on our consolidated financial statements.

FSP No. FAS 115-2 and FAS 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP changes the requirements for recognizing other-than-temporary impairments for debt securities, modifies the presentation of other-than-temporary losses in the income statement and expands the disclosure requirements relating to impairments of debt and equity securities. This guidance specifies that if a company does not have the intent or need to sell a debt security prior to recovery the security is not considered other-than-temporarily-impaired unless there is a credit loss. If an impairment to a security is recognized because of a credit loss, a company is required to recognize the credit loss component of the impairment of the debt security in earnings and the remaining portion of the impairment loss in other comprehensive income. The FSP is effective for interim and annual periods ending after June 15, 2009, and its adoption did not have a significant impact on our consolidated financial statements. See Note 10 Cash and Cash Equivalents, Short-Term Investments and Investments in Auction Rate Securities.

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

SFAS No. 165 *Subsequent Events*. This Statement provides guidance on the recognition and disclosure of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The Statement sets forth the period after the balance sheet date during which management should evaluate events or transactions for potential recognition or disclosure, the circumstances under which events or transactions occurring after the balance sheet date should be recognized, and the required disclosures of those events or transactions that occur after the balance sheet date. The statement is effective for interim or annual periods ending after June 15, 2009, and its adoption did not have a significant impact on our consolidated financial statements.

Recently Issued Pronouncements

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

SFAS No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. This Statement amends SFAS No. 140 to remove the concept of a qualifying special-purpose entity and removes the exception from applying FASB Interpretation No. 46(R) to variable interest entities that are qualifying special purpose entities. It also changes the requirements for derecognizing financial assets and requires additional disclosures about a

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CF INDUSTRIES HOLDINGS, INC.

transferor's continuing involvement in financial assets. The statement is effective as of the beginning of an entity's first annual reporting period that begins after November 15, 2009. We have not yet determined the impact of this Statement on our consolidated financial statements.

SFAS No. 167 *Amendments to FASB Interpretation No. 46(R)*. This Statement changes how a reporting entity determines when to consolidate an entity that is insufficiently capitalized or is not controlled through voting (or similar rights). The determination is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The statement also requires a company to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. The statement is effective as of the beginning of an entity's first annual reporting period that begins after November 15, 2009. We have not yet determined the impact of this Statement on our consolidated financial statements.

SFAS No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. This Statement establishes the Codification generally as the sole source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Codification is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The statement is effective for interim and annual periods ending after September 15, 2009. As the Codification is not intended to change or alter existing US GAAP, it is not expected to impact our consolidated financial statements except for changing our accounting standard references.

4. Canadian Fertilizers Limited

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

CFL's sales revenue for the three and six months ended June 30, 2009 was \$151.7 million and \$272.6 million, respectively, and for the three and six months ended June 30, 2008 was \$186.8 million and \$305.4 million, respectively. CFL's assets and liabilities at June 30, 2009 were \$245.5 million and \$202.4 million, respectively, and at December 31, 2008 were \$375.2 million and \$334.1 million, respectively.

CF Industries, Inc. operates the Medicine Hat facility pursuant to a management agreement and purchases approximately 66% of the facility's ammonia and urea production pursuant to a product purchase agreement. Both the management agreement and the product purchase agreement can be terminated by either CF Industries, Inc. or CFL upon a twelve-month notice. Viterro has the right, but not the obligation, to purchase the remaining 34% of the facility's ammonia and urea production under a similar product purchase agreement. To the extent that Viterro does not purchase its 34% of the facility's production, CF Industries, Inc. is obligated to purchase any remaining amounts. However, since 1995, Viterro has purchased at least 34% of the facility's production each year.

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

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

	Six months ended	
	June 30,	
	2009	2008
	(in millions)	
Noncontrolling interest		
Beginning balance	\$ 12.6	\$ 17.3
Earnings attributable to noncontrolling interest	55.5	37.6
Declaration of distributions payable		
Effect of exchange rate changes	3.3	(1.1)
Ending balance	\$ 71.4	\$ 53.8
Distributions payable to noncontrolling interest		
Beginning balance	\$ 106.0	\$ 57.6
Declaration of distributions payable		
Distributions to noncontrolling interest	(112.3)	(28.4)
Effect of exchange rate changes	6.3	(1.1)
Ending balance	\$	\$ 28.1

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Balance as of June 30, 2009	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)				
Available-for-sale short-term investments	\$ 105.1	\$ 105.1		\$
Unrealized gains on natural gas derivatives	1.5		1.5	
Asset retirement obligation escrow account	36.5	36.5		
Investments in auction rate securities	136.6			136.6
Nonqualified employee benefit trust	7.7	7.7		
 Total assets at fair value	 \$ 287.4	 \$ 149.3	 \$ 1.5	 \$ 136.6
 Unrealized losses on natural gas derivatives	 \$ 3.2	 \$	 \$ 3.2	 \$
 Total liabilities at fair value	 \$ 3.2	 \$	 \$ 3.2	 \$

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

Short-term Investments As of June 30, 2009, our short-term investments consisted of U.S. Treasury Bills with original maturities between three and nine months. These investments are accounted for as available-for-sale securities. The fair value of our short-term investments is based upon the daily quoted market prices for each of our investments. See Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities for additional information.

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

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

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Value (NAV) of the investments. See Note 14 Asset Retirement Obligations for additional information. The fair value of this account approximates its cost basis.

Investments in Auction Rate Securities Our investments in Auction Rate Securities consist of securities supported by student loans which originated primarily under the Federal Family Education Loan Program (FFELP), and are guaranteed by entities affiliated with governmental entities. Our auction rate securities are accounted for as noncurrent available-for-sale securities. We are unable to use significant observable (Level 1 or Level 2) inputs to value these investments. Therefore, we used a mark-to-model approach that relies on discounted cash flows, market data and inputs derived from similar instruments to arrive at the fair value of these instruments. This model takes into account, among other variables, the base interest rate, credit spreads, downgrade risks and default/recovery risk, the estimated time required to work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. Due to the significant number of unobservable inputs that were used to value our auction rate securities, they are classified as Level 3 for purposes of reporting under SFAS 157. See Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities for additional information.

Nonqualified Employee Benefit Trust We maintain a trust associated with certain deferred compensation related to nonqualified employee benefits. The investments are accounted for as available-for-sale securities. The fair value of the trust is based on daily quoted prices representing the NAV of the investments. The nonqualified employee benefit trust had a cost basis of \$9.7 million at June 30, 2009 and \$10.5 million at December 31, 2008.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

	Investments in auction rate securities (in millions)
Fair value, January 1, 2009	\$ 177.8
Sales and redemptions	(52.4)
Unrealized gains included in other comprehensive income	11.2
Fair value, June 30, 2009	\$ 136.6

6. Net Earnings Per Share

We adopted FSP EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* effective January 1, 2009 with retrospective adjustment to previously reported earning per share (EPS) data for comparative purposes. This FSP applies to the calculation of EPS under SFAS No. 128 *Earnings Per Share* for share based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included

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in the computation of EPS pursuant to the two-class method. The adoption of this FSP did not have a material impact on our consolidated financial statements.

Net earnings per share were computed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions, except per share amounts)			
Net earnings attributable to common stockholders	\$213.0	\$288.6	\$275.7	\$447.4
Basic earnings per common share:				
Weighted average common shares outstanding	48.4	56.4	48.4	56.4
Net earnings attributable to common stockholders	\$ 4.40	\$ 5.11	\$ 5.69	\$ 7.94
Diluted earnings per common share:				
Weighted average common shares outstanding	48.4	56.4	48.4	56.4
Dilutive common shares:				
Stock options	0.8	1.2	0.8	1.1
Diluted weighted average shares outstanding	49.2	57.6	49.2	57.5
Net earnings attributable to common stockholders	\$ 4.33	\$ 5.01	\$ 5.61	\$ 7.78

For the three and six months ended June 30, 2009, the computation of diluted earnings per share excludes approximately 0.1 million and 0.2 million, respectively, potentially dilutive stock options because the effect of their inclusion would be antidilutive in accordance with SFAS No. 128.

7. Pension and Other Postretirement Benefits

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

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Net periodic benefit cost included the following components:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Pension Plans				
Service cost for benefits earned during the period	\$ 1.6	\$ 1.7	\$ 3.1	\$ 3.3
Interest cost on projected benefit obligation	4.0	3.6	8.0	7.2
Expected return on plan assets	(4.2)	(4.1)	(8.0)	(8.1)
Amortization of actuarial loss	0.3	0.2	0.7	0.3
Net periodic benefit cost	\$ 1.7	\$ 1.4	\$ 3.8	\$ 2.7
Retiree Medical				
Service cost for benefits earned during the period	\$ 0.5	\$ 0.4	\$ 0.9	\$ 1.4
Interest cost on projected benefit obligation	0.6	0.5	1.2	1.0
Amortization of transition obligation	0.1	0.1	0.2	0.2
Amortization of actuarial loss	0.1	0.2	0.1	0.2
Net periodic benefit cost	\$ 1.3	\$ 1.2	\$ 2.4	\$ 2.8

Our 2009 consolidated pension funding contributions are estimated to be approximately \$20 million, of which approximately \$16 million was funded in the first six months of 2009.

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. The expense recognized for these plans for the three and six months ended June 30, 2009 and 2008 was insignificant.

8. Other Operating Net

Details of other operating costs are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Bartow costs	\$ 0.9	\$ 1.1	\$ 1.9	\$ 2.3
Fixed asset disposals	(0.9)	(1.7)	0.8	(1.7)
Business combination costs	8.1		24.2	
Peru project development costs	6.3		10.2	
Other	0.9	0.3	1.4	0.5
	\$ 15.3	\$ (0.3)	\$ 38.5	\$ 1.1

For the three and six months ended June 30, 2009, business combination costs are associated with our proposed business combination with Terra Industries Inc. and with evaluating and responding to Agrium Inc.'s proposed acquisition of CF Industries Holdings, Inc.

9. Income Taxes

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The income tax provisions recorded for the six months ended June 30, 2009 and 2008 were determined in accordance with the requirements of APB Opinion No. 28 *Interim Financial Reporting*.

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FIN No. 18 *Accounting for Income Taxes in Interim Periods*, SFAS No. 109 *Accounting for Income Taxes*, and FIN No. 48 *Accounting for Uncertainty in Income Taxes*.

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

In the first quarter of 2009, we took tax return positions utilizing a portion of the NOLs. As the result of these return positions, our unrecognized tax benefits increased from \$74.6 million at December 31, 2008 to \$88.7 million at June 30, 2009.

See Note 12 Income Taxes, to our audited consolidated financial statements included in our Current Report on Form 8-K filed with the SEC on May 28, 2009 for additional information concerning these unrecognized tax benefits.

10. Cash and Cash Equivalents, Short-Term Investments and Investments in Auction Rate Securities

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

	June 30, 2009	December 31, 2008
	(in millions)	
Cash	\$ 33.5	\$ 49.4
Cash equivalents:		
Federal government obligations	776.8	562.6
Other debt securities	5.8	13.0
Total cash and cash equivalents	\$816.1	\$ 625.0
Short-term investments:		
Federal government obligations	\$105.1	\$
Noncurrent investments in auction rate securities:		
Tax-exempt auction rate securities	\$136.6	\$ 177.8

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

Cash and Cash Equivalents

At June 30, 2009 and December 31, 2008, we had cash and cash equivalents of \$816.1 million and \$625.0 million, respectively, consisting primarily of U.S. Treasury Bills and money market mutual funds that invest in U.S. government obligations.

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Short-term Investments

As of June 30, 2009, our short-term investments of \$105.1 million consisted of available-for-sale U.S. Treasury Bills with original maturities between three and nine months. Our short-term investments are recorded at fair value, which approximates our cost basis.

Investments in Auction Rate Securities

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

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

During the first half of 2009, \$52.4 million of our auction rate securities were either redeemed by the issuer or sold at par value. Therefore, as of June 30, 2009, our remaining investments in available-for-sale tax-exempt auction rate securities were reported at a fair value of \$136.6 million after reflecting a \$9.6 million net unrealized holding loss against a cost basis (par value) of \$146.2 million. As of December 31, 2008, our investments in available-for-sale tax exempt auction rate securities were reported at a fair value of \$177.8 after reflecting a \$20.8 million net unrealizable holding loss against a cost basis of \$198.6 million.

On June 30, 2009, we adopted FSP No. FAS 115-2 and FAS 124-2 *Recognition and presentation of Other-Than-Temporary Impairments*, which outlines the requirements for assessing impairments of certain securities. We currently intend to hold our auction rate securities until a market recovery occurs and, based on our current liquidity position, we do not believe it is likely that we will need to sell these securities prior to their recovery in value. Therefore, we expect to recover our current amortized cost basis in the investments. As a result, our unrealized holding loss on these securities is classified as a temporary impairment and is reported in other comprehensive income.

We valued these investments using a mark-to-model approach that relies on discounted cash flows, market data and inputs derived from similar instruments. This model takes into account, among other variables, the base interest rate, credit spreads, downgrade risks and default/recovery risk, the estimated time required to work out the disruption in the traditional auction process and its effect on liquidity, and the effects of insurance and other credit enhancements. In accordance with our policies, we review the underlying securities and assess the creditworthiness of these investments as part of our investment process. In each case, our reviews have continued to find these investments to be investment grade.

As a result of the current market illiquidity and our judgment regarding the period of time that may elapse until the traditional auction process resumes or other effective market trading mechanisms develop, we have classified these investments as noncurrent assets on our consolidated balance sheet.

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The securities underlying our investment in auction rate securities have maturities that range up to 39 years. As of June 30, 2009, the carrying values by range of maturity are as follows:

	(in millions)
Less than 1 year	\$ 5.0
1 year up to 20 years	9.6
20 years up to 30 years	50.4
30 years up to 40 years	71.6
	\$ 136.6

For additional information on our investments in auction rate securities, see Note 5 Fair Value Measurements.

11. Inventories

Inventories consist of the following:

	June 30, 2009	December 31, 2008
	(in millions)	
Fertilizer	\$ 171.1	\$ 526.2
Raw materials, spare parts and supplies	42.8	62.4
	\$ 213.9	\$ 588.6

At June 30, 2009, fertilizer inventories are net of a \$25.0 million valuation allowance, as the carrying cost of our potash inventories exceeded net realizable values. At December 31, 2008, fertilizer inventories were net of a \$57.0 million valuation allowance related to our phosphate and potash inventories.

12. Property, Plant and Equipment Net

Property, plant and equipment net consist of the following:

	June 30, 2009	December 31, 2008
	(in millions)	
Land	\$ 36.4	\$ 31.8
Mineral properties	193.0	193.0
Manufacturing plants and equipment	2,061.3	1,987.4
Distribution facilities and other	225.0	220.8
Construction in progress	116.2	74.9
	2,631.9	2,507.9
Less: Accumulated depreciation, depletion and amortization	1,893.4	1,846.0
	\$ 738.5	\$ 661.9

Plant turnarounds Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities are referred to as plant turnarounds. We account for plant turnarounds under the deferral method, as opposed to the direct expense or built-in overhaul methods, as outlined in FASB Staff Position No. AUG AIR-1 *Accounting for Planned Major Maintenance*

Activities. Under the deferral method, expenditures related to turnarounds are capitalized

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into property, plant and equipment when incurred and are included in the table above in the line entitled, "Manufacturing plants and equipment." If we had used the direct expense method, turnaround costs would be expensed as incurred. Turnaround costs are classified as investing activities in the consolidated statements of cash flows and reported in the line entitled, "Additions to property, plant and equipment." The following is a summary of plant turnaround activity for the six months ended June 30, 2009 and 2008:

	Six months ended June 30,	
	2009	2008
	(in millions)	
Net capitalized turnaround costs at beginning of the period	\$ 40.6	\$ 47.7
Additions	22.0	12.9
Depreciation	(12.8)	(10.9)
Effect of exchange rate changes	0.4	(0.4)
Net capitalized turnaround costs at end of the period	\$ 50.2	\$ 49.3

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

13. Investments in and Advances to Unconsolidated Affiliates

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

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

	June 30, 2009	December 31, 2008
	(in millions)	
Equity investment in Keytrade	\$ 31.0	\$ 32.4
Advances to Keytrade	12.4	12.4
	\$ 43.4	\$ 44.8

For the three months ended June 30, 2009 and 2008, we recognized in our consolidated statements of operations equity in earnings (loss) of Keytrade of (\$0.7) million and \$7.2 million, respectively, and for the six months ended June 30, 2009 and 2008 of (\$1.4) million and \$8.9 million, respectively. At June 30, 2009, the amount of our consolidated retained earnings that represents our undistributed earnings of Keytrade is \$4.5 million.

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The advances to Keytrade are subordinated notes that mature on September 30, 2017 and bear interest at LIBOR plus 1.00 percent. For the six months ended June 30, 2009 and 2008, we recognized interest income on advances to Keytrade of \$0.2 million and \$0.3 million, respectively. The carrying value of our advances to Keytrade approximates fair value.

14. Asset Retirement Obligations

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

The changes in our AROs from December 31, 2008 to June 30, 2009 are summarized below:

	(in millions)
Obligation at December 31, 2008	\$ 100.7
Accretion expense	3.8
Liabilities incurred	0.8
Expenditures	(3.6)
Changes in estimate	0.1
 Obligation at June 30, 2009	 \$ 101.8

Our phosphate operations in Florida are subject to regulations governing the construction, operation, closure and long-term maintenance of phosphogypsum stack systems and site reclamation for phosphate rock mines. Our liability for phosphogypsum stack costs includes the cost of stack closure at Plant City and the costs of cooling pond closure, post-closure monitoring, and ongoing water treatment at both Bartow and Plant City. The actual amounts to be spent will depend on factors such as the timing of activities, refinements in scope, technological developments, cost inflation and changes in regulations. It is possible that these factors could change at any time and impact the estimates. Additional asset retirement obligations may be incurred in the future upon expansion of the Plant City phosphogypsum stack.

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

	June 30, 2009	December 31, 2008
	(in millions)	
Current portion	\$ 10.6	\$ 11.2
Noncurrent portion	91.2	89.5
	\$ 101.8	\$ 100.7

Florida regulations require phosphate fertilizer companies to demonstrate financial assurance for the closure of phosphogypsum stack systems, for mine reclamation activities, and for wetland and other surface water mitigation measures. In the first quarter of 2009 and 2008, we made annual contributions of \$7.5 million and \$6.2 million, respectively, to an escrow account established for the benefit of the Florida Department of Environmental Protection in order to comply with Florida's regulations governing financial assurance related to the closure and maintenance of phosphogypsum stack systems.

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CF INDUSTRIES HOLDINGS, INC.

Over the next seven years, we expect to contribute between \$3 million and \$7 million annually based upon the required funding formula as defined in the regulations and an assumed rate of return of 2% on invested funds. Our estimate of the amount that will have accumulated in the account by the year 2016, including interest earned on invested funds, is approximately \$77 million. After 2016, contributions to the fund are estimated to average approximately \$5 million annually for the following 17 years. The balance in the account is estimated to reach approximately \$210 million by 2033. The required balance in the account is based on predetermined funding requirements as prescribed by the State of Florida. No expense is recognized upon the funding of the account; therefore, contributions to the account differ from amounts recognized as expense in our financial statements. Ultimately, the cash in the account will be used to fund settlement of the AROs. The balance in the escrow account is reported as an asset at fair value on our consolidated balance sheet.

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

15. Credit Agreement and Notes Payable

Credit Agreement

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

The credit facility is guaranteed by CF Holdings and certain domestic subsidiaries of CF Industries, Inc. (the Loan Parties). The credit facility is secured by substantially all of the personal property and assets, both tangible and intangible, of the Loan Parties, 100% of the equity interests of each Loan Party's direct and indirect domestic subsidiaries other than immaterial subsidiaries, 65% of the equity interests of each Loan Party's first-tier foreign subsidiaries and the real property located in Donaldsonville, Louisiana. For additional information on the credit facility, refer to Note 23 Credit Agreement, to our audited consolidated financial statements included in our Current Report on Form 8-K filed with the SEC on May 28, 2009. As of June 30, 2009, there was \$205.7 million of available credit and no borrowings outstanding under the credit facility.

Notes Payable

From time to time, CFL receives advances from us and from CFL's noncontrolling interest holder to finance major capital expenditures. The advances outstanding are evidenced by unsecured promissory notes due December 31, 2009 and bear interest at market rates. The amount shown as notes payable represents the advances payable to CFL's noncontrolling interest holder. The carrying value of notes payable approximates fair value. These notes are classified in current liabilities on the consolidated balance sheet as of June 30, 2009.

16. Derivative Financial Instruments

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Realized gains (losses)	\$ (36.4)	\$ 53.9	\$ (108.1)	\$ 48.9
Unrealized mark-to-market gains	34.3	83.2	82.9	152.8
Net derivative gains (losses)	\$ (2.1)	\$ 137.1	\$ (25.2)	\$ 201.7

The fair values of derivatives on our consolidated balance sheets are shown below. All amounts arise from natural gas derivatives that are not designated as hedging instruments. For additional information on derivative fair values, see Note 5 Fair Value Measurements.

	June 30, 2009	December 31, 2008
	(in millions)	
Unrealized gains in other current assets	\$ 1.5	\$ 0.7
Unrealized losses in other current liabilities	(3.2)	(85.3)
Net unrealized derivative gains (losses)	\$ (1.7)	\$ (84.6)

As of June 30, 2009 and December 31, 2008, we had open derivative contracts for 10.7 million MMBtus and 16.7 million MMBtus, respectively, of natural gas. For the six months ended June 30, 2009, we used derivatives to cover approximately 38% of our natural gas consumption at Donaldsonville and approximately 46% of our two-thirds share of gas consumption at Medicine Hat.

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

For derivatives that are in net asset positions, we are exposed to credit loss from nonperformance by the counterparties. As of June 30, 2009, our exposure to credit loss from nonperformance by counterparties to derivative instruments totaled \$0.5 million. We control our credit risk through the use

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of multiple counterparties, individual credit limits, monitoring procedures, cash collateral requirements and master netting arrangements.

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

As of June 30, 2009, the aggregate fair value of the derivative instruments with credit risk related contingent features in a net liability position was \$2.2 million. There was no cash collateral on deposit with counterparties for derivative contracts at June 30, 2009. If we had failed to meet all credit risk contingent thresholds as of June 30, 2009, we could have been required to post up to \$2.2 million of collateral with derivative counterparties.

17. Stock-Based Compensation

2009 Equity and Incentive Plan

On April 21, 2009, our shareholders approved the CF Industries Holdings, Inc. 2009 Equity and Incentive Plan (Plan) which replaced the CF Industries Holdings, Inc. 2005 Equity and Incentive Plan (2005 Plan). Under the Plan, we may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards (payable in cash or stock), and other stock-based awards to our officers, employees, consultants and independent contractors (including non-employee directors). The purpose of the Plan is to provide an incentive for our employees, officers, consultants and non-employee directors that is aligned with the interests of our stockholders.

Share Reserve and Individual Award Limits

The maximum number of shares reserved for the grant of awards under the Plan shall be the sum of (i) 3.9 million and (ii) the number of shares subject to outstanding awards under the 2005 Plan to the extent such awards terminate or expire without delivery of shares. For purposes of determining the number of shares of stock available for grant under the Plan, each option or stock appreciation right is counted against the reserve as one share. Each share of stock granted, other than an option or a stock appreciation right, is counted against the reserve as 1.61 shares. If any outstanding award expires for any reason or is settled in cash, any unissued shares subject to the award will again be available for issuance under the Plan. Shares tendered in payment of the exercise price of an option and shares withheld by the Company or otherwise received by the Company to satisfy tax withholding obligations are not available for future grant under the Plan. At June 30, 2009, we had 3.9 million shares available for future awards under the Plan. The Plan provides that no more than 1.0 million underlying shares may be granted to a participant in any one calendar year.

Awards

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

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At June 30, 2009, we had 1.7 million stock options outstanding with an aggregate intrinsic value of \$87.4 million. At December 31, 2008, we had 1.8 million stock options outstanding with an aggregate intrinsic value of \$49.1 million. During the three months ended June 30, 2009, we granted 3,800 stock options and 1,400 shares of restricted stock to employees and 6,776 shares of restricted stock to non-management members of our Board of Directors under the Plan. The weighted-average grant-date fair value per share for stock options and restricted stock awards granted during the three months ended June 30, 2009 was \$49.10 and \$69.35, respectively. There were no stock options or shares of restricted stock granted during the three months ended March 31, 2009.

Compensation cost is recorded primarily in selling, general, and administrative expense. The following table summarizes stock-based compensation costs and related income tax benefits for the three and six months ended June 30, 2009 and 2008.

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Stock-based compensation expense	\$ 1.6	\$ 2.2	\$ 3.0	\$ 4.5
Income tax benefit	(0.6)	(0.8)	(1.1)	(1.7)
Stock-based compensation expense, net of income taxes	\$ 1.0	\$ 1.4	\$ 1.9	\$ 2.8

Pre-tax unrecognized compensation expense for stock options, net of estimated forfeitures, was \$6.2 million as of June 30, 2009, which will be recognized as expense over a weighted-average period of 1.9 years. Pre-tax unrecognized compensation expense for restricted stock awards, net of estimated forfeitures, was \$2.8 million as of June 30, 2009, which will be recognized as expense over a weighted-average period of 1.7 years.

During the three months ended June 30, 2009, less than 0.1 million stock options were exercised with a pre-tax intrinsic value of \$2.8 million. During the six months ended June 30, 2009, 0.1 million stock options were exercised with a pre-tax intrinsic value of \$3.1 million. Cash received from stock option exercises for the three and six months ended June 30, 2009 was \$0.9 million and \$1.1 million, respectively. At June 30, 2009, 1.4 million stock options were exercisable with an aggregate intrinsic value of \$78.7 million. At December 31, 2008, 1.4 million stock options were exercisable with an intrinsic value of \$44.3 million.

An excess tax benefit is generated when the realized tax benefit from the vesting of restricted stock, or a stock option exercise, exceeds the previously recognized deferred tax asset. SFAS No. 123R requires excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid. Excess tax benefits for the three and six months ended June 30, 2009 were \$0.8 million and \$0.9 million, respectively.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****18. Other Comprehensive Income (Loss)**

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

	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
(in millions)				
Balance at December 31, 2008	\$ (4.4)	\$ (14.0)	\$ (56.8)	\$ (75.2)
Unrealized holding gain on securities		11.4		11.4
Reclassification to earnings		(0.2)	1.3	1.1
Deferred taxes and other changes	1.3	(4.3)	(0.4)	(3.4)
Balance at June 30, 2009	\$ (3.1)	\$ (7.1)	\$ (55.9)	\$ (66.1)
Balance at December 31, 2007				
	\$ 1.0	\$ 0.5	\$ (22.7)	\$ (21.2)
Unrealized holding loss on securities		(12.1)		(12.1)
Reclassification to earnings		0.5	1.0	1.5
Deferred taxes and other changes	(0.7)	4.4	(0.2)	3.5
Balance at June 30, 2008	\$ 0.3	\$ (6.7)	\$ (21.9)	\$ (28.3)

The pre-tax unrealized holding gain on securities of \$11.4 million during the six months ended June 30, 2009 and the pre-tax unrealized holding loss on securities of \$12.1 million during the six months ended June 30, 2008 relates primarily to our investments in auction rate securities. For additional information on our investments in auction rate securities, see Note 5 Fair Value Measurements and Note 10 Cash and Cash Equivalents, Short-term Investments and Investments in Auction Rate Securities.

19. Contingencies*Litigation*

From time to time, we are subject to ordinary, routine legal proceedings related to the usual conduct of our business, including proceedings regarding public utility and transportation rates, environmental matters, taxes and permits relating to the operations of our various plants and facilities. Based on the information available as of the date of this filing, we believe that the ultimate outcome of these matters will not have a material adverse effect on our consolidated financial position or results of operations.

*Environmental**Plant City Environmental Matters*

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

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

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

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

In connection with the RCRA enforcement initiative, the EPA collected samples of soil, groundwater and various waste streams at the Plant City facility. The analysis of the split samples collected by the Company during the EPA's inspection did not identify hazardous waste disposal issues impacting the site. The EPA's sampling results appear to be consistent with the Company's own sampling results. Pursuant to a 1992 consent order with the State of Florida, the Company captures and reuses groundwater that has been impacted as a result of the former operation of an unlined gypsum stack at the site. The Company has conducted an additional limited amount of sampling at the Plant City facility, pursuant to a work plan agreed to with the EPA, and a report of the results was submitted to the agency on March 30, 2009. Subject to the EPA's review of these results, the Company does not believe that further investigation will be required.

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

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CF INDUSTRIES HOLDINGS, INC.

proceedings have been resolved through settlements. It is not known at this time whether the EPA will initiate enforcement with respect to the Plant City facility.

Pursuant to a letter from the DOJ dated July 28, 2008 that was sent to representatives of the major U.S. phosphoric acid manufacturers, including CF Industries, Inc., the DOJ stated that it and the EPA believe that apparent violations of Section 313 of the Emergency Planning and Community Right-to-Know Act (EPCRA), which requires annual reports to be submitted with respect to the use of certain toxic chemicals, have occurred at all of the phosphoric acid facilities operated by these manufacturers. The letter also states that the DOJ and the EPA believe that most of these facilities have violated Section 304 of EPCRA and Section 103 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) by failing to provide required notifications relating to the release of hydrogen fluoride from these facilities. The letter did not specifically identify alleged violations at our Plant City, Florida complex or assert a claim for a specific amount of penalties. The EPA submitted an information request to the Company on February 11, 2009, as a follow-up to the July 2008 letter. The Company provided initial informational responses to the agency's inquiry on May 14 and May 29, 2009. The EPA has not yet responded to the Company's submittals.

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

Louisiana Environmental Matters

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

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

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

The EPA has not yet proposed new regulations to address the Section 185 fee issue and there remains uncertainty as to the implementation of this provision, including the timing of any assessments; whether the EPA will authorize states to adopt plans to implement Section 185 by means other than the assessment of a fee; and whether major sources located in areas that would have achieved compliance with the 8-hour ozone standard, but continued to be in non-compliance with the 1-hour

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ozone standard, will continue to be subject to the Section 185 fee. Regardless of the approach adopted by the EPA, we expect that it is likely to be challenged by the environmental community, the states, and/or affected industries. Therefore, the costs associated with compliance with the Act cannot be determined at this time, and we cannot reasonably estimate the impact on the Company's financial position, results of operations or cash flows.

On February 26, 2009, the Company received a letter from the EPA under Section 114 of the Federal Clean Air Act requesting information and copies of records relating to compliance with New Source Review and New Source Performance Standards at the Donaldsonville facility. The Company has completed the submittal of all requested information. It is not known at this time whether the EPA will initiate enforcement with respect to the Donaldsonville facility.

Other

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

Other Matters

In March 2009, purported shareholders of the Company filed in the Delaware Court of Chancery a consolidated putative class action complaint, captioned *In re CF Industries Shareholder Litigation*, against the Company and the members of its Board of Directors alleging, among other things, that the members of the Company's Board of Directors breached their fiduciary duties by their actions in connection with the proposed acquisition by Agrium Inc. of CF Holdings. Among other things, this suit seeks to enjoin the Company's proposed business combination with Terra Industries Inc. unless and until the Company considers other strategic alternatives to maximize the Company's value. The action remains pending, and the parties presently are engaged in the discovery process. The Company and the Board of Directors believe that this suit is without merit, and intend to vigorously defend their positions in this matter. Currently we cannot determine if the ultimate outcome of these lawsuits will have a material impact on the Company's financial position, results of operations or cash flows. A similar action captioned *Gallagher v. CF Industries Holdings, Inc.* was filed in the Circuit Court of Lake County, Illinois on February 27, 2009. Pursuant to a motion to dismiss filed by CF in light of the nearly identical litigation pending in Delaware, the court on May 19, 2009, entered an order dismissing the *Gallagher* case with prejudice. The plaintiff filed a notice of his plan to appeal the court's decision, but subsequently moved to dismiss the appeal, which the court granted.

Table of Contents**CF INDUSTRIES HOLDINGS, INC.****20. Segment Disclosures**

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

Segment data for sales, cost of sales and gross margin for the three and six months ended June 30, 2009 and 2008 follows.

	Nitrogen	Phosphate	Consolidated
	(in millions)		
Three months ended June 30, 2009			
Net sales			
Ammonia	\$335.0	\$	\$ 335.0
Urea	211.0		211.0
UAN	205.5		205.5
DAP		142.7	142.7
MAP		34.3	34.3
Potash		59.0	59.0
Other	3.5		3.5
	755.0	236.0	991.0
Cost of sales	351.8	212.2	564.0
Gross margin	\$403.2	\$ 23.8	\$ 427.0
Three months ended June 30, 2008			
Net sales			
Ammonia	\$272.3	\$	\$ 272.3
Urea	335.2		335.2
UAN	237.2		237.2
DAP		263.9	263.9
MAP		48.5	48.5
Other	3.9		3.9
	848.6	312.4	1,161.0
Cost of sales	486.6	204.5	691.1
Gross margin	\$362.0	\$ 107.9	\$ 469.9

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	Nitrogen	Phosphate	Consolidated
	(in millions)		
Six months ended June 30, 2009			
Net sales			
Ammonia	\$ 405.3	\$	\$ 405.3
Urea	478.5		478.5
UAN	323.7		323.7
DAP		328.4	328.4
MAP		72.5	72.5
Potash		59.5	59.5
Other	3.7		3.7
	1,211.2	460.4	1,671.6
Cost of sales	638.6	443.7	1,082.3
Gross margin	\$ 572.6	\$ 16.7	\$ 589.3
Six months ended June 30, 2008			
Net sales			
Ammonia	\$ 304.4	\$	\$ 304.4
Urea	586.8		586.8
UAN	391.0		391.0
DAP		453.2	453.2
MAP		88.7	88.7
Other	4.2		4.2
	1,286.4	541.9	1,828.3
Cost of sales	726.9	360.3	1,087.2
Gross margin	\$ 559.5	\$ 181.6	\$ 741.1

Assets at June 30, 2009 and December 31, 2008, are presented below.

	Nitrogen	Phosphate	Other	Consolidated
	(in millions)			
Assets				
June 30, 2009	\$ 604.6	\$ 587.2	\$ 1,087.6	\$ 2,279.4
December 31, 2008	\$ 758.2	\$ 764.1	\$ 865.3	\$ 2,387.6

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

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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 our annual consolidated financial statements and related notes. Our Annual Report on Form 10-K was filed with the SEC on February 26, 2009. Effective January 1, 2009, we were required to adopt Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" (SFAS No. 160) and FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP No. EITF 03-6-1). Our consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 from the 2008 Form 10-K, which have been revised to reflect the retrospective application of SFAS No. 160 and FSP No. EITF 03-6-1, were filed in a Form 8-K with the SEC on May 28, 2009. All references to "CF Holdings," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiaries, including CF Industries, Inc., except where the context makes clear that the reference is only to CF Holdings itself and not its subsidiaries. The following is an outline of the discussion and analysis included herein:

Overview of CF Industries Holdings, Inc.

Our Company

Financial Executive Summary

Results of Consolidated Operations

Second Quarter of 2009 Compared to the Second Quarter of 2008

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Operating Results by Business Segment

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

Critical Accounting Policies and Estimates

Recent Accounting Pronouncements

Forward Looking Statements

Overview of CF Industries Holdings, Inc.

Our Company

We are one of the largest manufacturers and distributors of nitrogen and phosphate fertilizer products in North America. Our operations are organized into two business segments: the nitrogen segment and the phosphate segment. Our principal products in the nitrogen segment are ammonia, urea and urea ammonium nitrate solution, or UAN. Our principal products in the phosphate segment are diammonium phosphate, or

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DAP, and monoammonium phosphate, or MAP. Our core market and distribution facilities are concentrated in the Midwestern U.S. grain-producing states. Our principal customers are cooperatives and independent fertilizer distributors. We also export nitrogen and phosphate fertilizer products.

Our principal assets include:

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);

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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);

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

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

Financial Executive Summary

We reported net earnings attributable to common stockholders of \$213.0 million in the second quarter of 2009 compared to \$288.6 million in the same quarter of 2008. Our results for the second quarter of 2009 included:

a net \$34.3 million pre-tax unrealized mark-to-market gain (\$20.3 million after tax) on natural gas derivatives,

\$14.4 million (\$8.5 million after tax) of merger and acquisition related expenses and development costs of our proposed nitrogen complex in Peru. The merger and acquisition related expenses are associated with CF Holdings' proposed business combination with Terra Industries Inc. and costs associated with evaluating and responding to Agrium Inc.'s proposed acquisition of CF Holdings, and

a \$5.0 million non-cash inventory valuation charge (\$3.0 million after tax) associated with our potash inventory. Net earnings attributable to common stockholders of \$288.6 million for the second quarter of 2008 included a net \$83.2 million pre-tax unrealized mark-to-market gain (\$53.1 million after tax) on natural gas derivatives. There were no inventory valuation adjustments, business combination expenses or Peru project development costs in the second quarter of 2008.

Our gross margin decreased \$42.9 million, or 9%, to \$427.0 million in the second quarter of 2009 from \$469.9 million in the same quarter of 2008. The lower gross margin resulted from lower average phosphate fertilizer selling prices and lower unrealized gains from mark-to-market adjustments on natural gas derivatives, partially offset by lower fertilizer raw material costs and lower purchased product costs.

Our net sales decreased \$170.0 million, or 15%, to \$991.0 million in the second quarter of 2009 from \$1.2 billion in the second quarter of 2008. The decrease reflected lower average phosphate fertilizer selling prices and lower nitrogen fertilizer sales volumes partially offset by higher phosphate and potash sales volume. Total sales volume of 2.55 million tons approximated the level sold in the comparable quarter of 2008 as increased phosphate and potash sales volume offset the lower level of nitrogen sales volume. There were no potash sales in the second quarter of the prior year.

Cash flow from operations decreased \$29.3 million to \$487.2 million during the first six months of 2009 compared to the same period of 2008, as lower operating results were partially offset by lower levels of working capital, particularly lower inventory levels at the end of the second quarter of 2009.

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We paid cash dividends of \$4.8 million in the second quarter of 2009, a decrease of \$0.9 million from the second quarter of 2008 due to fewer common shares outstanding as a result of our fourth quarter 2008 share repurchase program.

Net earnings attributable to common stockholders of \$275.7 million for the six months ended June 30, 2009 were \$171.7 million less than net earnings attributable to common stockholders of the comparable period of 2008. The decrease was due primarily to lower average phosphate selling prices, lower unrealized gains from mark-to-market adjustments on natural gas derivatives, merger and acquisition related expenses, and development costs of our proposed nitrogen complex in Peru, partially offset by lower fertilizer raw material costs and lower purchased product costs.

Results of Consolidated Operations

The following table presents our consolidated results of operations:

	Three months ended June 30,			Six months ended June 30,		
	2009	2008	2009 v. 2008	2009	2008	2009 v. 2008
	(in millions, except per share amounts)					
Net sales	\$ 991.0	\$ 1,161.0	\$ (170.0)	\$ 1,671.6	\$ 1,828.3	\$ (156.7)
Cost of sales	564.0	691.1	(127.1)	1,082.3	1,087.2	(4.9)
Gross margin	427.0	469.9	(42.9)	589.3	741.1	(151.8)
Selling, general and administrative	16.5	18.1	(1.6)	31.9	36.3	(4.4)
Other operating net	15.3	(0.3)	15.6	38.5	1.1	37.4
Operating earnings	395.2	452.1	(56.9)	518.9	703.7	(184.8)
Interest expense	0.3	0.4	(0.1)	0.7	0.8	(0.1)
Interest income	(0.7)	(6.6)	5.9	(2.0)	(15.1)	13.1
Other non-operating net	(0.1)	(2.1)	2.0	(0.4)	(4.8)	4.4
Earnings before income taxes and equity in earnings (loss) of unconsolidated affiliates	395.7	460.4	(64.7)	520.6	722.8	(202.2)
Income tax provision	146.8	159.9	(13.1)	188.0	246.7	(58.7)
Equity in earnings (loss) of unconsolidated affiliates net of taxes	(0.7)	7.2	(7.9)	(1.4)	8.9	(10.3)
Net earnings	248.2	307.7	(59.5)	331.2	485.0	(153.8)
Operating income	52,016	2,566		13,109		
Foreign currency transaction (gain)/loss	(9,873)	1,350		5,620		
Gain/loss on derivative instruments	(719)	2,701		140		
Interest expense, net	54,275	33,861		19,705		
Other (income)		(129)				
Income/(loss) before income taxes and minority interest	8,333	(35,217)		(12,356)		
Income tax provision/(benefit)	7,360	(352)		1,433		
Minority interest	218	44				
Net income/(loss)	\$ 755	\$ (34,909)		\$ (13,789)		
Net income/(loss) per share						
basic	\$ 0.02	N/A		N/A		
diluted	\$ 0.02	N/A		N/A		

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A reconciliation of the aggregate period results shown above to the consolidated statements of operations prepared in accordance with U.S. GAAP has been included in the table below:

	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005	Year ended September 30, 2005 (aggregated) (unaudited)	February 17, 2004 to September 30, 2004	October 1, 2003 to February 16, 2004	Year ended September 30, 2004 (aggregated) (unaudited)
	\$ 000s					
Revenue	\$ 105,071	\$ 358,285	\$ 463,356	\$ 229,216	\$ 158,601	\$ 387,817
Cost of sales	71,614	199,463	271,077	152,938	76,947	229,885
Gross profit	33,457	158,822	192,279	76,278	81,654	157,932
Operating expenses/(income):						
Selling, general and administrative expense	34,544	93,236	127,780	65,424	33,454	98,878
Research and development	7,863	21,700	29,563	16,594	8,575	25,169
Provision for doubtful accounts and notes receivable	(192)	(127)	(319)	(846)	368	(478)
Write off in-process research and development	33,796		33,796	20,217		20,217
Net other operating (income)/expenses	(723)	(384)	(1,107)	955	82	1,037
Operating (loss)/income	(41,831)	44,397	2,566	(26,066)	39,175	13,109
Foreign currency transaction loss/(gain)	601	749	1,350	4,129	1,491	5,620
Loss/(gain) on derivative instruments	(1,682)	4,383	2,701	1,498	(1,358)	140
Interest expense, net	11,087	22,774	33,861	14,413	5,292	19,705
Other (income)		(129)	(129)			
(Loss)/income before income taxes and minority interest	(51,837)	16,620	(35,217)	(46,106)	33,750	(12,356)
Income tax (benefit)/provision	(5,796)	5,444	(352)	(11,748)	13,181	1,433
Minority interest	(6)	50	44			
Net (loss)/income	\$ (46,035)	\$ 11,126	\$ (34,909)	\$ (34,358)	\$ 20,569	\$ (13,789)

The aggregation of the results of operations data for fiscal 2005 and fiscal 2004 is not in accordance with U.S. GAAP, and the periods presented are not comparable due to the change in basis of assets that resulted from the application of the purchase method of accounting in connection with the MDP Transaction and the EQT Transaction. Because Predecessor 1, Predecessor 2 and Successor are different reporting entities for accounting purposes, the aggregated information should be considered as supplemental information only.

Fiscal Year Ended September 30, 2006 compared to Aggregated Fiscal Year Ended September 30, 2005

Revenue for the year ended September 30, 2006 was \$520.6 million, an increase of \$57.3 million, or 12.4%, as compared with the year ended September 30, 2005. On a constant currency basis, adjusting for the fluctuations in the U. S.\$/Euro rate, total revenue increased by 15%, which included growth rates for the Imaging Systems segments of 36%, the Instruments segments of 17%, the Dental CAD/CAM Systems of 11%, and the Treatment Center segment of 4%. The Imaging Systems segment was driven by the trend

towards increasing digitalization of dental practices, the success of the new panoramic product line ORTHOPHOS XG and the inclusion beginning June 20, 2006 of the Schick operations. The Instrument segment revenue increase was driven by new products, such as the Sirolaser and SIROpure instruments. The Dental CAD/CAM systems revenue benefited from the key trends in the dental industry, such as increased emphasis on efficiency and productivity, and patients growing emphasis on aesthetics.

Revenue in the United States for the year ended September 30, 2006 increased by 26% from the prior period. All segments contributed to this development. Of the year-over-year growth in the United States 59% was attributable to the Imaging Systems segment, 21% to the Dental CAD/CAM Systems segment, 11% to the Instruments segment and 9% to the Treatment Center segment. Revenue growth in the rest of the world was 7%. On a constant currency basis, revenue in the rest of the world increased by 11%. The revenue growth in the rest of the world was primarily due to Sirona's expanded presence in Spain, Australia, China and Canada. Sirona launched new sales and service operations in Australia in May 2005 and in China in July 2006.

Cost of Sales

Cost of sales for the year ended September 30, 2006 was \$278.7 million, an increase of \$7.6 million, or 2.8%, as compared with the year ended September 30, 2005. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of inventories and tangible and intangible assets, which were \$53.1 million for the year ended September 30, 2006, compared with \$52.3 million for the year ended September 30, 2005. Excluding these amounts, costs of sales as a percentage of revenue decreased to 43.3% for the year ended September 30, 2006 compared with 47.2% for the year ended September 30, 2005, and gross profit as a percentage of revenue increased by 3.9% from 52.8% to 56.7%. This increase in gross profit was primarily due to a period-over-period increase in gross-profit margins in all of the segments. The improvement was attributable to economies of scale resulting from volume increases, which have in turn led to fixed cost leverage. In addition, the improved cost position of the new panoramic product line over the predecessor product and the Schick product lines, were the main drivers of the improved gross profit margin in the Imaging Systems segment.

Selling, General and Administrative

For the year ended September 30, 2006, SG&A expense was \$148.7 million, an increase of \$20.9 million, or 16.4%, as compared with the year ended September 30, 2005. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets as well as non-cash option expense in the amount of \$5.5 million for the year ended September 30, 2006, compared with \$1.7 million for the year ended September 30, 2005. The year-over-year increase in amortization and depreciation expense resulted from the step-up to fair values of Sirona's net assets and liabilities related to the Exchange. Excluding these amounts, as a percentage of revenue SG&A expense increased to 27.5% for the year ended September 30, 2006, as compared with 27.2% for the year ended September 30, 2005. The increase was primarily due to increased costs associated with the growth in revenue and with costs associated with Sirona's expanded presence in various markets, including the United States, Japan, Australia and China. Cost for the initial Sarbanes Oxley implementation in the amount of \$2.8 million have been included in other operating expenses.

Research and Development

R&D expense for the year ended September 30, 2006 was \$33.1 million, an increase of \$3.5 million, or 11.8%, as compared with the year ended September 30, 2005. As a percentage of revenue, R&D remained relatively constant at 6.4% for the years ended September 30, 2006 and September 30, 2005, respectively. The increase in R&D reflects new product developments or product enhancements in all segments, with particular focus on Galileos, a 3D panoramic imaging unit, which will be launched in fiscal year 2007.

Write-off of In-process Research and Development

Write-off of IPR&D for the year ended September 30, 2006 was \$6.0 million, compared to \$33.8 million for the year ended September 30, 2005. The capitalization and immediate write-off were recorded as a result of the allocation of the acquisition purchase price in connection with the Exchange and the MDP Transaction. These charges will not have a continued impact on Sirona's future operating results.

Gain and Loss on Foreign Currency Transactions

Gain on foreign currency transactions for the year ended September 30, 2006 amounted to \$9.9 million compared to a loss of \$1.3 million for the year ended September 30, 2005. These gains and losses included an unrealized foreign currency gain and (loss) on U.S. dollar denominated bank debt of \$6.0 million and (\$2.9) million for the years ended September 30, 2006 and 2005, respectively. An unrealized foreign currency gain of \$5.0 million on the U.S. dollar denominated deferred income, resulting from the exclusivity payment, is also included in the year ended September 30, 2006. This foreign currency gain or loss resulted from translation adjustments to the carrying value of Tranche A of Sirona's U.S. dollar denominated bank debt and deferred income due to currency fluctuations which did not affect cash flow.

Interest Expense

Net interest expense for the year ended September 30, 2006 was \$54.3 million, compared to \$ 33.9 million for the year ended September 30, 2005. This increase was primarily due to higher average debt balances following the MDP Transaction and includes \$6.2 and \$2.7 million of amortization of capitalized financing fees for the year ended September 30, 2006 and 2005, respectively.

Provision/(Benefit) for Income Taxes

For the year ended September 30, 2006 and 2005, Sirona realized a profit and (loss) before income taxes and minority interest of \$8.3 million and (\$35.2) million, respectively. The average actual tax rate for these years was 35% and 36.9%, which would result in a provision and a (benefit) of \$2.9 million and (\$13.0) million, respectively. The tax provision for income taxes for the year ended September 30, 2006 was \$7.4 million and the tax benefit for the year ended September 30, 2005 was \$0.4 million. The tax provision for the year ended September 30, 2006 was adversely impacted by foreign income for which no foreign tax credit was available and the non-tax deductible charge related to the write off of IPR&D related to the Exchange. The tax benefit for the year ended September 30, 2005 was primarily impacted by non-tax deductible expense related to the write off of IPR&D related to the MDP Transaction.

Net Income / (Loss)

Sirona's net income for the year ended September 30, 2006 was \$0.8 million, an increase of \$35.7 million, as compared with the year ended September 30, 2005. As described above, Sirona's net income was significantly impacted by the MDP Transaction, the related financing and the Exchange. For the year ended September 30, 2006, amortization and depreciation expense resulting from the step-up of fair values of intangible and tangible assets related to the Exchange and the MDP Transaction was \$35.3 million (net of a tax impact of \$ 19.0 million). Write-off of IPR&D was \$6.0 million (with no tax impact). In addition, the unrealized gains on the Tranche A U.S. dollar denominated bank debt as well as the deferred income from the exclusivity payment was \$7.1 million (net of a tax impact of \$3.9 million) and option expenses were \$2.3 million (net of a tax impact of \$1.2 million). Excluding these items in both periods, net income increased due to higher revenue and improved gross margins, partially offset by higher SG&A, R&D and interest expense.

Aggregated Fiscal Year Ended September 30, 2005 Compared to Aggregated Fiscal Year Ended September 30, 2004

Revenue

Revenue for the year ended September 30, 2005 was \$463.4 million, an increase of \$75.5 million, or 19.5%, as compared with the year ended September 30, 2004. On a constant currency basis, adjusting for the fluctuations in the U.S.\$/Euro rate, total revenue increased 16%, which included growth rates for the Dental CAD/CAM Systems and the Imaging Systems segments of 36% and 22%, respectively; whereas revenue for the Treatment Centers and the Instruments segments remained essentially unchanged. The Dental CAD/CAM Systems segment continued to experience strong demand for its product line. The increase in Imaging Systems segment revenue was led by the strong demand for the new panoramic imaging line, ORTHOPHOS XG. All revenue increases were volume driven, while prices remained stable.

Revenue in the United States for the year ended September 30, 2005 increased by 41% from the prior period, due to strong demand for products in the Dental CAD/CAM Systems segment and the introduction of the new panoramic imaging line. Seventy-three percent of the year-over-year growth in the United States was attributable to the Dental CAD/CAM Systems segment and 25% was driven by the new panoramic product line, ORTHOPHOS XG. The addition of Henry Schein as a distributor for Imaging Systems, Treatment Centers and Instruments in the United States in January 2005 also contributed to this growth. Revenue growth in the rest of the world was 13%. On a constant currency basis, revenue in the rest of the world increased by 9%. The revenue growth in the rest of the world was particularly due to Sirona's expanded presence in Germany, the United Kingdom, Japan and South Korea. Sirona launched new sales and service operations in Japan in October 2004 and in Australia in May 2005.

Cost of Sales

Cost of sales for the year ended September 30, 2005 was \$271.1 million, an increase of \$41.2 million, or 17.9%, as compared with the year ended September 30, 2004. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of inventories and tangible and intangible assets, which were \$52.3 million for the year ended September 30, 2005, compared with \$33.4 million for the year ended September 30, 2004. The year-over-year increase in amortization and depreciation expense resulted from the fair value adjustments related to the MDP Transaction. Excluding these amounts, costs of sales as a percentage of revenue decreased to 47.2% for the year ended December 31, 2005 compared with 50.7% for the year ended September 30, 2004, and gross profit as a percentage of revenue increased by 3.5% from 49.3% to 52.8%. This increase in gross profit was primarily due to a change in regional and product mix. As a percentage of total sales, sales of products in the Dental CAD/CAM Systems and the Imaging Systems segments increased by approximately 6%. These higher margin sales in the Dental CAD/CAM Systems and the Imaging Segments contributed approximately 70% and 18%, respectively, to the increase in gross profit.

Selling, General and Administrative

For the year ended September 30, 2005, SG&A expense was \$127.8 million, an increase of \$28.9 million, or 29.2%, as compared with the year ended September 30, 2004. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets in the amount of \$1.7 million for the year ended September 30, 2005, compared with \$1.2 million for the year ended September 30, 2004. The year-over-year increase in amortization and depreciation expense resulted from the step-up to fair values of Sirona's net assets and liabilities related to the MDP Transaction. Excluding these amounts, SG&A expense increased for the year ended September 30, 2005 by \$28.4 million, or 29.0%, as compared with the year ended September 30, 2004. As a percentage of

revenue, SG&A expense increased to 27.2% for the year ended September 30, 2005 as compared with 25.2% for the year ended September 30, 2004.

The increase was primarily due to increased costs associated with the growth in revenue and with costs associated with Sirona's expanded presence in various markets in 2005, including the United States, Japan and Australia, which accounted for approximately 70% of the increase in SG&A expense.

Research and Development

R&D expense for the year ended September 30, 2005 was \$29.6 million, an increase of \$4.4 million, or 17.5%, as compared with the year ended September 30, 2004. As a percentage of revenue, R&D remained relatively constant at 6.4% and 6.5% for the year ended September 30, 2005 and the year ended September 30, 2004, respectively. The increase in R&D reflected the large number of new products launched in the year ended September 30, 2005.

Write-off of In-process Research and Development

Write-off of IPR&D for the year ended September 30, 2005 was \$33.8 million, compared to \$20.2 million for the year ended September 30, 2004. The capitalization and related write-off were recorded as a result of the allocation of the acquisition purchase price of the EQT and the MDP Transactions. This was a one-time charge that will not have a continued impact on Sirona's future results.

Loss on Foreign Currency Transactions

The loss on foreign currency transactions for the year ended September 30, 2005 amounted to \$1.3 million compared to a loss of \$5.6 million for the year ended September 30, 2004. These losses included an unrealized foreign currency loss on U.S. dollar denominated bank debt of \$2.9 million and \$5.9 million for the years ended September 30, 2005 and 2004, respectively. This foreign currency unrealized loss resulted from translation adjustments to the carrying value of Sirona's Tranche A U.S. dollar denominated bank debt due to currency fluctuations. This unrealized loss did not affect Sirona's cash flow.

Interest Expense

Net interest expense for the year ended September 30, 2005 was \$33.9 million, compared to \$19.7 million for the year ended September 30, 2004. This increase was primarily due to higher average debt balances following the MDP Transaction.

Benefit (Provision) for Income Taxes

For the year ended September 30, 2005 and 2004, Sirona realized a loss before income taxes and minority interest of \$35.2 million and \$12.4 million, respectively. The German tax rate for these years was 36.9%, which would result in a benefit of \$13.0 million and \$4.6 million, respectively. The tax benefit for income taxes for the year ended September 30, 2005 was \$0.4 million and the tax provision for the year ended September 30, 2004 was \$1.4 million. The tax benefit for the year ended September 30, 2005 was primarily impacted by non-tax deductible expense related to the write off of IPR&D. The tax provision for the year ended September 30, 2004 was primarily impacted by non-tax deductible expense related to the write off of IPR&D and a portion of the interest expense for purposes of the local trade tax.

Net Income (Loss)

Sirona's net loss for the year ended September 30, 2005 was \$34.9 million, an increase of \$21.1 million, as compared with the year ended September 30, 2004. As described above, the MDP Transaction and the EQT Transaction and the related financings had a significant impact on Sirona's net income. For the year ended September 30, 2005, amortization and depreciation expense resulting from the step-up of fair values of intangible and tangible assets related to the MDP Transaction and the EQT Transaction was \$34.1 million (net of a tax impact of \$ 19.9 million). Write-off of IPR&D was \$33.7 million (with no tax impact) and the unrealized loss on the Tranche A U.S. dollar denominated bank debt was \$1.8 million (net of a tax impact of \$1.1 million). Excluding these items in both periods, net income increased due to higher revenue and improved gross margins, partially offset by higher SG&A, R&D and interest expense.

Liquidity and Capital Resources

Historically, Sirona's principal uses of cash, apart from operating requirements, including research and development expenses, have been for interest payments, debt repayment and acquisitions. Operating capital expenditures are approximately equal to operating depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Schick's assets and liabilities required under purchase accounting). Sirona's management believes that Sirona's working capital is sufficient for its present requirements.

\$ 000s	Successor		Predecessor 2		Predecessor 1		Year ended September 30, 2004 (aggregated) (unaudited)
	Year ended September 30, 2006	July 1, 2005 to September 30, 2005	October 1, 2004 to June 30, 2005	Year ended September 30, 2005 (aggregated) (unaudited)	February 17, 2004 to September 30, 2004	October 1, 2003 to February 16, 2004	
Net cash provided by operating activities	\$ 96,714	\$ 137,403	\$ 54,806	\$ 192,209	\$ 37,456	\$ 28,258	\$ 65,714
Net cash used in investing activities	(6,317)	(559,998)	(37,408)	(597,406)	(374,425)	(4,598)	(379,023)
Net cash / provided by (used in) financing activities	(78,493)	448,847	(14,624)	434,223	310,633	(11,588)	299,045
Increase / (decrease) in cash during the period	\$ 11,904	\$ 26,252	\$ 2,774	\$ 29,026	\$ (26,336)	\$ 12,072	\$ (14,264)

Net Cash Provided by Operating Activities

Net cash provided by operating activities represents net cash from operations, returns on investments, interest and taxation.

Net cash provided by operating activities was \$96.7 million for the year ended September 30, 2006 compared to \$192.2 million for the fiscal year ended September 30, 2005. In 2005 Sirona received a one-time payment of \$100 million for an exclusivity agreement for Dental CAD/CAM systems with Sirona's distribution partner, Patterson Dental Inc., for sales in the United States and Canada. Excluding this amount the cash provided by operating activities in fiscal years 2006 and 2005 remained nearly unchanged. Compared to the year ended September 30, 2004 cash provided by operating activities increased by \$26.5 million, or 40%, in the year ended September 30, 2005.

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures, financial investments, acquisitions and disposals.

Net cash used in investing activities was \$6.3 million for the year ended September 30, 2006, compared to \$597.4 million for the year ended September 30, 2005 and \$379.0 million for the year ended September 30, 2004. The primary contributors to the investing cash outflow in fiscal 2006 were (1) capital expenditures of \$22.5 million and (2) a cash inflow from the Exchange of \$14.6 million. The primary contributors to the investing cash outflow in fiscal 2005 were (1) the MDP Transaction of \$556.3 million, (2) the deferred purchase price payment in December 2004 of \$25.7 million related to the EQT Transaction, and (3) capital expenditures of \$15.7 million. The primary contributors to the investing cash outflow in Fiscal 2004 were (1) the EQT Transaction of \$359.5 million, (2) \$5.8 million for the acquisition of businesses and (3) \$13.8 million for capital expenditures.

Net Cash Provided by (Used In) Financing Activities

Net cash used in financing activities was \$78.5 million for the year ended September 30, 2006 compared to net cash provided by financing activities of \$434.2 million for the year ended September 30, 2005 and net cash provided by financing activities of \$299.0 million for the year ended September 20, 2004. The cash used in financing activities in fiscal 2006 comprised unscheduled prepayments of the Mezzanine loan (15.0 million or \$17.4) as well as Tranche C (15.0 million or \$17.4) and unscheduled and scheduled prepayments of Tranche A (\$43.9 million) of the Senior Facility Loan. The cash provided by financing activities in fiscal 2005 reflected the refinancing of Sirona s debt to effect the MDP Transaction. This refinancing resulted in full repayment of Sirona s existing bank debt and shareholder loans and proceeds generated from new debt. As a result of the MDP Transaction, Sirona s debt substantially increased. The cash provided by financing activities in fiscal 2004 reflected the refinancing of Sirona s debt to effect the EQT Transaction. This refinancing resulted in full repayment of Sirona s existing bank debt and shareholder loans and proceeds generated from new debt. As a result of the EQT Transaction, Sirona s debt substantially increased. See below for a discussion of long-term debt for further details.

Sirona believes that its operating cash flows and available cash (including restricted cash), together with its long-term debt borrowings, will be sufficient to fund its working capital needs, research and development expenses (including but not limited to the acquired in-process research and development) anticipated capital expenditure and debt service requirements.

Other Financial Data [unaudited]:

	Successor Year ended September 30, 2006 \$ 000s	July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Net income / (loss)	\$ 755	\$ (46,035)	\$ 11,126	\$ (34,358)	\$ 20,569
Net interest expense	54,275	11,087	22,774	14,413	5,292
Provision / (benefit) for income taxes	7,360	(5,796)	5,444	(11,748)	13,181
Depreciation	12,543	3,454	12,738	9,393	4,501
Amortization	54,311	11,938	31,417	23,310	2,029
EBITDA	\$ 129,244	\$ (25,352)	\$ 83,499	\$ 1,010	\$ 45,572

EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization. Sirona believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to evaluate companies in its industry. EBITDA is not a recognized term under U.S. GAAP, should not be viewed in isolation and does not purport to be an alternative to net income (loss) as an indicator of operating performance or an alternative to cash flows from operating activities as a

measure of liquidity. There are material limitations associated with making the adjustments to Sirona's earnings to calculate EBITDA and using this non-U.S. GAAP financial measure as compared to the most directly comparable U.S. GAAP financial measure. For instance, EBITDA does not include:

- interest expense, and because Sirona has borrowed money in order to finance its operations, interest expense is a necessary element of its costs and ability to generate revenue;
- depreciation and amortization expense, and because Sirona uses capital assets, depreciation and amortization expense is a necessary element of its costs and ability to generate revenue; and
- tax expense, and because the payment of taxes is part of Sirona's operations, tax expense is a necessary element of costs and impacts Sirona's ability to operate.

Additionally, EBITDA is not intended to be a measure of cash flow for Sirona's discretionary use, as it does not consider certain cash requirements, such as capital expenditures, contractual commitments, interest payments, tax payments and debt service requirements. Sirona compensates for these limitations by relying primarily on its GAAP results and using EBITDA only supplementally. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly titled measures for other companies.

Transaction related costs and non-cash charges for Sirona are further detailed in the following table:

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Transaction related costs(a)	\$	\$ 1,592	\$ 35	\$ 182	\$ 91
Non-cash charges(b)	(707)	43,605	3,843	37,146	
Total	\$ (707)	\$ 45,197	\$ 3,878	\$ 37,328	\$ 91

(a) Transaction related costs were incurred in connection with the EQT Transaction and the MDP Transaction.

(b) Represents (1) the amounts related to the fair value increases in inventory and in-process research and development resulting from the EQT Transaction, the MDP Transaction and the Exchange, (2) the foreign exchange (gain) loss on bank debt resulting from transaction adjustments to the carrying value of a portion of Sirona's U.S. dollar denominated debt due to currency fluctuations, (3) the foreign exchange (gain) loss resulting from transaction adjustments to the carrying value of the U.S. dollar denominated exclusivity payment due to currency fluctuations and (4) share-based compensation expense under SFAS No. 123R.

Long-term debt

Shareholder loan

Luxco granted Sirona Holding a loan of \$151.0 million in connection with the MDP Transaction. The loan accrues interest at 7.5% per annum. In connection with the Exchange Sirona Dental Systems, Inc. took over the shareholder loan from Luxco. Effective June 20, 2006 (closing of the transaction) the shareholder loan is eliminated on consolidation. The interest is being accumulated until the end of the loan term on June 30, 2015, when the loan and the interest is required to be repaid. From October 1, 2005 through June 20, 2006 interest of \$8.3 million (\$10.1 million) has been accreted.

Bank loans

Bank loans outstanding at September 30, 2006 included senior ranking loans and accreted interest of \$531.5 million, divided into three tranches and a mezzanine loan plus an acquisition facility and an overdraft facility. As discussed below, the company entered into a new Senior Credit Facility on November 22, 2006 and used the proceeds to refinance its outstanding senior bank loans and mezzanine loan.

Tranche A was a U.S. Dollar denominated loan and had an original principal amount of \$162.7 million and was repayable in semi-annual installments through June 30, 2012. As of September 30, 2006 the loan including accrued interest amounted to \$118.0 million as the Company made an unscheduled repayment of \$38.4 million, which reduced the regular repayments pro rata and a scheduled repayment of \$5.5 million. Tranche A had an interest rate of LIBOR plus a margin of 1.5% to 2.25% per annum. Interest was payable on a monthly, quarterly, or semi-annual basis, at the discretion of the Company. Two step up swaps were established for 70% of the interest for the next three years ending March 31, 2007 and September 30, 2008, respectively. The interest rate swaps fix the LIBOR element of interest payable on 70% of the principal amount of the loan for defined twelve month periods over the three years ending March 31, 2007 and September 30, 2008, respectively. The defined interest rates fixed for each twelve month period range from 1.75% to 4.71%. Settlement of the swaps was required on a quarterly basis.

Tranche B was a Euro denominated loan in the principle amount of 125.0 million and was repayable in a single amount of 125.0 million on June 30, 2013. Including accrued interest the loan amounted to 125.0 million plus accrued interest of 0.2 million (\$158.6 million) as of September 30, 2006. Tranche B had an interest rate of EURIBOR plus a margin of 2.25% to 2.75% per annum. Interest was paid on a monthly, quarterly or semi-annual basis at the discretion of the Company. The Company entered into four cap floor collars for 51% of the interest for the next three years. Under the terms of the collars the floor interest rates are 1.595% and 1.85% and the cap interest rates are 5% and 4.10%. Settlement of the contracts was required on a quarterly basis.

Tranche C was a Euro denominated loan and had a principle amount of 125.0 million and was repayable on June 30, 2014. As at September 30, 2006 the loan amounted to 110.0 million plus accreted interest of 0.2 million (\$139.6 million) as the Company made an unscheduled repayment of 15.0 million during the year. Tranche C had an interest rate of EURIBOR plus a margin of 3.25% per annum. Interest was payable on a monthly, quarterly or semi annual basis at the discretion of the Company. The Company entered into two cap/floor collars for 51% of the EURIBOR element of the interest for the next three years. Under the terms of the collars the floor interest rates were 1.595% and 1.85% and the cap interest rates were 5% and 4.10%. Settlement of the contracts was required on a quarterly basis.

At inception, the mezzanine loan had a principal amount of 165.0 million (\$198.8 million), and under the terms of the loan, the full amount was repayable at the end of the loan term, in June 2015. The Company repaid 65.0 million of the mezzanine debt in the quarter ended to September 30, 2005 and 15.0 million in fiscal year 2006. The mezzanine loan had an interest rate of EURIBOR plus a margin of 9.5% per annum. The 9.5% margin was divided into two components: 4.5% per annum was payable on an on-going basis, and the remaining 5% per annum will accrete until the end of the loan term. The remaining loan outstanding as of September 30, 2006 including accreted interest amounts to 91.0 million (\$115.3 million). The Company entered into two cap/floor collars for 51% of the EURIBOR portion of the interest for the next three years. Under the terms of the collars the floor interest rates are 1.68% and 1.85% and the cap interest rates are 5% and 4.02%. Settlement of the contract was required on a quarterly basis.

The mezzanine loan was subordinated to the senior ranking loans, and the shareholder loans were subordinated to both the senior ranking loans and the mezzanine loan.

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The margins of tranches A and B and the acquisition facility were fixed for one year and thereafter will be calculated based on a ratio of net debt to EBITDA for the previous reporting period, all derived from the consolidated financial statements prepared in accordance with German GAAP, starting in fiscal year 2007.

The bank loans were secured by the pledge of the equity interests in certain Sirona subsidiaries. In addition, all receivables, bank accounts, tangible assets, inventories, patents, trademarks and other property rights of Sirona Dental Systems GmbH and Sirona Dental Services GmbH were also pledged as security for the loans.

In addition, as at September 30, 2006 the company had available an overdraft facility of 40.0 million (\$50.7 million) and acquisition facility of 50.0 million (\$63.3 million), neither of which was drawn down as of September 30, 2006.

On November 22, 2006, the Company entered into a new senior credit facility, which includes: (1) a term loan A1 in an aggregate principal amount of \$150.0 million (the tranche A1 term loan) available to our subsidiary, Schick Technologies, Inc., as borrower, (2) a term loan A2 in an aggregate principal amount of 275.0 million (the tranche A2 term loan) available to our subsidiary, Sirona Dental Services GmbH, as borrower, and (3) a \$150.0 million revolving credit facility available to Sirona Dental Systems GmbH, Schick Technologies, Inc. and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, \$, Yen or any other freely available currency agreed to by the facility agent. Each of the facilities has a five-year maturity. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself.

Under the current financial ratios, the facilities bears interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR. A margin ratchet has been agreed, which is subject to a certain ratio with respect to net debt and a defined earnings measure and becomes effective 12 months after the initial drawdown of the facility.

Our new senior credit facility contains restrictive covenants that limit our ability to make loans, make investments, including in joint ventures, incur additional indebtedness, make acquisitions or pay dividends, subject to agreed upon exceptions. The new senior credit agreement also requires us to maintain certain specified financial ratios, including (1) a ratio of consolidated adjusted EBITDA to cash interest costs for the preceding twelve months of no less than 4:00 to 1:00 and (2) a ratio of consolidated total net debt to consolidated adjusted EBITDA for the preceding twelve months for periods ending March 2007 and September 2007 of 4:00: 1:00 and thereafter of 3.50: 1:00. These covenants are measured semi-annually on March 31 and September 30. Sirona's ability to meet those covenants will depend on its results of operations, which may be affected by factors outside of its control. See Item 1A Risk Factors Restrictive covenants and conditions contained in our new senior credit agreement impose significant operating and financial restrictions on our business. If Sirona breaches any of the covenants, Sirona will default under the terms of the loan agreement, and the bank loans can be accelerated and become due on demand.

Contractual Obligations and Commercial Commitments

The following table summarizes contractual obligations and commercial commitments as of September 30, 2006:

	Payments due by period				
	Total \$ '000s	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 533,372	\$ 14,738	\$ 36,796	\$ 43,236	\$ 438,602
Operating lease obligations	39,142	4,669	7,687	5,469	21,317
Pension	19,188	1,023	2,889	3,872	11,404
Purchase commitments	43,820	40,099	3,469	252	
Total	\$ 635,522	\$ 60,529	\$ 50,841	\$ 52,829	\$ 471,323

The amounts disclosed above include interest of \$0.005 million on long-term debt.

Off-Balance Sheet Arrangements

Customers can finance their purchases of Sirona products from their respective dealer through financial institutions. Prior to March 2003, Sirona offered to guarantee up to 10% of the total liability due to the financial institution from the customer in the event the customer defaulted on their payments. However, the contracts negotiated with the dealers, who sold the products to the third-party customers, granted Sirona a right of recourse against the dealer in such event. Sirona ceased issuing these guarantees after March 2003. The arrangements were generally provided for a five-year period and therefore the related guarantees issued by Sirona are expected to expire by 2008.

At September 30, 2006 and 2005, the maximum potential amount of future undiscounted payments that could be required to be made was \$5.8 million and \$5.8 million, respectively. However, these amounts may be recovered from dealers pursuant to the recourse arrangements described above. No related asset or liability has been recorded in Sirona's consolidated financial statements as of September 30, 2006 or 2005.

In July 2005, Sirona entered into a sale and leaseback agreement regarding unused land on the Bensheim site of Sirona in Germany. The land was sold for \$1.1 million to an unrelated property development company, who will construct an office building based on Sirona's specifications on the site. Sirona will lease the building from the property development company through an 18-year lease. Under the terms of the lease, rent is fixed at 1.2 million (\$1.5 million at the /\$ exchange rate of September 30, 2006) per annum until 2013. After 2013, rent is subject to adjustment according to an inflation index. Rental payments will commence once the building is ready for occupancy, which is currently anticipated to be in April 2007. The land remains an asset of Sirona's balance sheet and the building will be accounted for as an operating lease.

Sirona has no other off-balance sheet financing arrangements.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires Sirona to make estimates and assumptions that affect amounts reported in its consolidated financial statements and accompanying notes. These estimates and assumptions are evaluated on an ongoing basis based on historical developments, market conditions, industry trends and other information Sirona believes to be reasonable under the circumstances. There can be no assurance that actual results will conform to Sirona's estimates and assumptions, and that reported results of operations will not be materially adversely affected by the need to make accounting adjustments to reflect changes in its estimates and assumptions from time

to time. The following accounting policies are those that Sirona believes to be the most sensitive to its estimates and assumptions.

Pensions and 401(k) Plan

Sirona has both defined benefit and defined contribution pension plans, as well as an early retirement plan.

Sirona accounts for its defined benefit pension plans using Statement of Financial Accounting Standard No. 87, Employer's Accounting for Pensions (SFAS 87) and the disclosure requirements under Statement of Financial Accounting Standards No. 132, Employer's Disclosure about Pensions and Other Post-Retirement Benefits (Revised SFAS 132), an amendment of FASB Statements No. 87, 88 and 106. Under SFAS 87, pension expense is recognized on an accrual basis over the employee's approximate service periods. SFAS 87 requires the use of an actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specified corridor) that result from changes in assumptions or actual experience differing from that assumed. SFAS 87 also provides for the prospective amortization of costs relating to changes in the benefit plan, as well as the obligation resulting from the transition. In applying purchase accounting, a pension liability was recognized for the projected benefit obligation in excess of plan assets.

The key assumption used in the actuarial calculations for the defined benefit pension plans is the selection of the appropriate discount rate. The discount rate has been selected by reference to market interest rates. The discount rate used reflects the rates available on high quality fixed income investment of appropriate duration at the measurement dates of each year. Fluctuations in market interest rates could impact the amount of pension expense recorded for these plans. The discount rate assumption changed from 4.25% at September 30, 2005 to 4.50% at September 30, 2006 thereby affecting the amount of pension expense recorded during each period.

Plan assets consist of contributions made by Sirona to a pension support fund of an insurance company, the custodian, which in turn invests these contributions. The insurance company guarantees the employees the investments will generate a minimum return of 2.75% to 3.25%. The plan assets are invested in equity securities (34.8%), fixed income securities (52.0%) and other assets (13.2%).

Deferred losses were significant at the end of the Predecessor 2 period at June 30, 2005. However, as part of the fair value adjustments due to purchase accounting for the MDP Transaction, these deferred losses no longer remained at September 30, 2005 and will not impact future periods. There were no significant deferred gains or losses for any other periods.

Contributions made to the defined contribution pension plans and the 401(k) savings plan for U.S. employees are accrued based on the contributions required by the plan.

Sirona also has an early retirement plan, Altersteilzeit (ATZ) which allows certain German employees who have been accepted into the plan to retire at 60 rather than at the legal retirement age of 65. Eligible employees are those who have attained the age of 55 or who will attain the age of 55 by calendar year 2009 and have been accepted to participate in the ATZ plan. The ATZ plan can cover a period between the ages of 58 to 63 of the participating employees and is split into an active service period, where the employees work full time for Sirona, and an inactive service period, where the employees do not work for the Company. During the active service period, the employees receive 50% of their salary and the remaining 50% of their salary, plus a bonus payment equal to 35% of their salary is paid during the inactive service period. Sirona recognizes the salary component of the ATZ plan over the period from the beginning of the ATZ period to the end of the active service period. Sirona recognizes the bonus component over the period from the point at which the employee signs the ATZ contract until the end of the active service period.

Income taxes

Sirona recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Sirona regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance, as necessary, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. If Sirona is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, it could be required to increase its valuation allowance against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on operating results. As of September 30, 2006, Sirona had recorded valuation allowances against its deferred tax assets in the amount of \$3,208. Further information on income taxes is provided in Note 13 to the consolidated financial statements appearing elsewhere in this report.

Impairment of Long-Lived and Finite-Lived Assets

Sirona assesses all its long lived assets for impairment whenever events or circumstances indicate their carrying value may not be recoverable. Sirona's management assesses whether there has been an impairment by comparing anticipated undiscounted future cash flows from operating activities with the carrying value of the asset. The factors considered by Sirona's management in this assessment include operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. If an impairment is deemed to exist, management records an impairment charge equal to the excess of the carrying value over the fair value of the impaired assets. This could result in a material charge to earnings.

Impairment of Indefinite-Lived Assets

Sirona tests goodwill for impairment on an annual basis by comparing the fair value of its reporting units to their carrying values. Key assumptions in determining fair value are the assessment of future cash flows and the appropriate discount rate. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors. If the carrying amount of a reporting unit exceeds its fair value, goodwill impairment loss is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value requires a fair value exercise similar to a business combination where the individual assets and liabilities are valued at fair value with the difference between the fair value of the reporting unit being the implied fair value of goodwill.

Sirona evaluates trademarks, which are considered indefinite-lived intangible assets, for impairment at least annually or whenever events or circumstances indicate their carrying value might be impaired. In performing this assessment, Sirona's management considers operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. The carrying value of trademarks is considered impaired when their carrying value exceeds their fair market value. In such an event, an impairment loss is recognized equal to the amount of that excess. Key assumptions in determining fair value include using the projected cash flows discounted at a rate commensurate with the risk involved.

Purchase Accounting

Sirona has recorded a change in basis of the assets and liabilities acquired in the Exchange, the MDP Transaction and EQT Transaction. These transactions required the assets and liabilities to be recorded either at partial fair value or fair value as described in Notes 4 and 5 to Sirona's consolidated financial statements contained elsewhere in this document. In determining the fair value of assets and liabilities, Sirona is required to make certain key assumptions that could materially impact the value of the assets or liabilities recorded.

In valuing the intangible assets, the key assumptions include the valuation method selected, the cash flow projections, the risk based discount rate, the replacement costs and/or the applicable royalty rates. Sirona used its historical experience, budgets and similar assumptions used in the medical devices industry in formulating these assumptions.

In valuing property, plant and equipment, the fair values were derived from posted values for comparable assets and replacement values.

Fair value of liabilities was determined to be equivalent to the predecessors' carrying value or acquired company's fair value except for pension obligations, which were valued at the project benefit obligation measured in accordance with Statement of Financial Accounting Standard No. 87, Employer's Accounting for Pensions.

Recent Accounting Pronouncements Not Yet Adopted

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections (a replacement of APB Opinion No. 20 and FASB Statement No. 3). SFAS 154 requires that changes in accounting principles be given retrospective application to prior periods' financial statements. Previously most changes in accounting principle were recognized by including in net income of the period of the change the cumulative effect of the change. SFAS 154 is effective for fiscal years beginning after December 15, 2005. The Company is still determining the effect SFAS 154 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. Among other requirements, SFAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is still determining the effect SFAS 157 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In September 2006, the FASB issued 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). SFAS 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for the Company for the fiscal year ending on September 30, 2007. The Company already measures plan assets and benefit obligations as of

the date of fiscal year-end. The Company is still determining the effect FAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* which is an interpretation of FASB Statement 109, *Accounting for Income Taxes*. FIN 48 requires management to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the more-likely than not recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. FIN 48 is effective for the Company's fiscal year ending September 30, 2008. The Company is still determining the effect FIN 48 will have on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for fiscal years ending after November 15, 2006. The Company is still determining the effect SAB 108 will have on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Sirona's primary market risk exposure is interest rate risk associated with short and long-term bank loans bearing variable interest rates. To manage this interest rate risk exposure, Sirona enters into interest rate swap and collar agreements. Sirona is also exposed to foreign currency risk, which can adversely affect our sales and operating profits. To manage this risk, Sirona enters into forward exchange contracts.

The following discussion should be read in conjunction with Notes 2 and 15 to Sirona's audited consolidated financial appearing elsewhere in this Report, which provide further information on Sirona's derivative instruments.

Interest Rate Sensitivity

To reduce the exposure associated with Sirona's variable rate debt, Sirona has entered into interest rate swap and collar agreements that limit the variable rate for portions of the bank loans. See Management's Discussion and Analysis of Financial Conditions and Results of Operations Long-Term debt for further details.

As of September 30, 2006, the interest rate swaps and collars had notional amounts of \$337.4 million and a fair value of \$1.8 million. The variable benchmark interest rates associated with these instruments ranged from 1.595% to 5%. A hypothetical, instantaneous increase of one percentage point in the interest rates applicable to the variable interest rate debt would have increased the interest expense for the year ended September 30, 2006 by approximately \$4.5 million.

Exchange Rate Sensitivity

The Euro is the functional currency for the majority of Sirona's subsidiaries, including its German operations, which are the primary sales and manufacturing operations of Sirona. Sales from other Sirona operations are denominated in various foreign currencies. Sales in Euro, U.S. dollar and other currencies represented 57%, 35% and 8%, respectively, of total sales for fiscal 2006. In order to hedge portions of the transactional exposure to fluctuations in exchange rates between the U.S. dollar and the Euro, based on forecasted and firmly committed cash flows, Sirona enters into forward foreign currency (different from functional currency) contracts. These forward foreign currency contracts are intended to protect Sirona

against the short-term effects of changes in the exchange rates. Sirona does not apply hedge accounting to these forward foreign currency contracts.

The table below provides information as of September 30, 2006, about receivables and derivative financial instruments by functional currency and presents such information in U.S. dollars, which is Sirona's reporting currency. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates. The estimated fair value of receivables is considered to approximate their carrying value because receivables have a short maturity. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

As of September 30, 2006	Expected Maturity Date					Beyond 2011	Total	Fair Value
	2007	2008	2009	2010	2011			
	\$ 000s							
<i>Receivables:</i>								
U.S. Dollar	\$ 25,864	\$					\$ 25,864	\$ 25,864
Japanese Yen	2,876						2,876	2,876
Australian Dollar	2,552						2,552	2,552
Danish Krone	1,024						1,024	1,024
Chinese Yuan Renminbi	408	31					439	439
UK Sterling	455						455	455
Swiss Francs	154						154	154
	\$ 33,333	\$ 31					\$ 33,364	\$ 33,364
<i>Forward Exchange Contracts:</i>								
U.S. dollar notional amount	\$ 26,150							\$ (107)
Average contract exchange rate	\$ 1.277							

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included as a separate section of this Annual Report on Form 10-K, beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of September 30, 2006. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2006, the Company's disclosure controls and procedures are effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2006. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on our assessment, management believes that, as of September 30, 2006, our internal control over financial reporting is effective based on those criteria.

The independent registered public accounting firm which audited the Company's financial statements included in this Form 10-K has issued an attestation report on management's assessment of the Company's internal control over financial reporting. Please see attestation report on page F-5.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated herein by reference the information appearing under the caption Election of Directors in the proxy statement of our 2007 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2007.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated herein by reference the information appearing under the caption Executive Compensation in the proxy statement of our 2007 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

There is hereby incorporated herein by reference the information appearing under the caption Security Ownership of Certain Beneficial Owners and Management in the proxy statement of our 2007 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2007.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated herein by reference the information appearing under the caption Certain Relationships and Related Transactions in the proxy statement of our 2007 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

There is hereby incorporated herein by reference the information appearing under the caption Ratification of the Selection of Independent Accountants Auditor's Fees in the proxy statement of our 2007 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission on or before January 28, 2007.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements, See Index to Financial Statements on Page F-1

(b) The following Exhibits are included in this report:

Exhibit No.	Item Title
2.1	Exchange Agreement, by and among Sirona Holdings Luxco S.C.A, Blitz 05-118 GmbH and Schick Technologies, Inc., dated September 25, 2005 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on September 26, 2005)
2.2	Amendment No. 1 to Exchange Agreement, dated May 11, 2006 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 16, 2006)
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, File No. 333-33731, filed on June 30, 1997)
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to Form 8-K filed on June 20, 2006)
3.3	Bylaws of the Company effective as of November 1, 2005 (incorporated by reference to Exhibit 3.2 to Form 8-K, filed on March 8, 2006)
4.1	Form of Common Stock certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 333-33731, filed on June 30, 1997)
10.1	1996 Employee Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K, filed on July 13, 2001)
10.2	Amendment to 1996 Employee Stock Option Plan (incorporated by reference to the Company's definitive proxy statement on Schedule 14A, filed on May 16, 2006)
10.3	1997 Stock Option Plan for Non-Employee Directors, as amended (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K, filed on June 18, 2003)
10.4	Distributorship Agreement, dated April 6, 2000, by and between Schick Technologies, Inc. and Patterson Dental Company (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K, filed on June 29, 2000)**
10.5	Amendment No. 1 to Distributorship Agreement, dated July 1, 2005 by and between Schick Technologies, Inc. and Patterson Dental Company (incorporated by reference to Exhibit 10.1 to Form 10-Q/A, filed on March 24, 2006)**
10.6	Consulting and Non-Competition Agreement between Schick Technologies, Inc. and David B. Schick, dated May 7, 2004 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K, filed on June 25, 2004)
10.7	Transaction Services Agreement by and between Blitz F04-506 GmbH, Sirona Dental Services GmbH & Co KG, Sirona Dental Systems GmbH, MDP IV Offshore GP, LP and Harry M. Jansen Kraemer, Jr., dated July 6, 2005.*
10.8	Registration Agreement between the Company and Luxco, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.9	Employment Agreement between the Company and Jeffrey T. Slovin, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
10.10	Employment Agreement between the Company and Michael Stone, dated as of June 20, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)

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- 10.11 Transition and Severance Agreement between the Company and Zvi Raskin, dated as of June 14, 2006 (incorporated by reference to Form 8-K filed on June 20, 2006)
- 10.12 Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Jost Fischer, dated as of January 25, 2002 (incorporated by reference to Exhibit 10.5 to Form 10-Q, filed on August 9, 2006)
- 10.13 Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Simone Blank, dated as of June 27, 2001 (incorporated by reference to Exhibit 10.6 to Form 10-Q, filed on August 9, 2006)
- 10.14 Employment Agreement between Sirona Beteiligungs- und Verwaltungsgesellschaft mbH (represented by its shareholder Sirona Dental Systems SARL) and Theo Haar, dated as of June 27, 2001 (incorporated by reference to Exhibit 10.7 to Form 10-Q, filed on August 9, 2006)
- 10.15 Consolidated and Restated Amendment to Distributorship Agreement between Sirona Dental Systems GmbH and Patterson Companies, Inc. (incorporated by reference to Exhibit 10.8 to Form 10-Q, filed on August 9, 2006)**
- 10.16 Senior Facilities Agreement among Sirona Dental Systems, Inc., Schick Technologies, Inc., Sirona Dental Systems GmbH, Sirona Dental Services GmbH, Sirona Dental Systems LLC, Sirona Holding GmbH, Sirona Immobilien GmbH, J.P. Morgan PLC, UBS Limited, JPMorgan Chase Bank, N.A., and J.P. Morgan Europe Limited, dated November 22, 2006*
- 10.17 Amendment Letter to the Senior Facilities Agreement from Sirona Dental Systems, Inc. as Obligors Agent under the Senior Facilities Agreement to J.P. Morgan Europe Limited as Facility Agent under the Senior Facilities Agreement, dated December 5, 2006.*
- 14.1 Code of Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K, filed on June 25, 2004)
- 16.1 Letter from Grant Thornton LLP to the Securities and Exchange Commission confirming statements made about it by Company in connection with changes to the Company's certifying accountant (incorporated by reference to Exhibit 16.1 to Form 8-K, filed June 26, 2006)
- 21.1 List of Subsidiaries of Company*
- 23.1 Consent of Independent Registered Public Accounting Firm*
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 32.1 Section 1350 Certification of Chief Executive Officer*
- 32.2 Section 1350 Certification of Chief Financial Officer*

Compensatory plan or arrangement

* Filed herewith

** Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

December 8, 2006

SIRONA DENTAL SYSTEMS, INC.

By:

/s/ JOST FISCHER

Jost Fischer

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOST FISCHER Jost Fischer	Chairman of the Board and Director, President and Chief Executive Officer (Principal Executive Officer)	December 8, 2006
/s/ SIMONE BLANK Simone Blank	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	December 8, 2006
/s/ NICHOLAS W. ALEXOS Nicholas W. Alexos	Director	December 8, 2006
/s/ DAVID BEECKEN David Beecken	Director	December 8, 2006
/s/ WILLIAM K. HOOD William K. Hood	Director	December 8, 2006
/s/ ARTHUR D. KOWALOFF Arthur D. Kowaloff	Director	December 8, 2006
/s/ HARRY M. JANSEN KRAEMER, JR. Harry M. Jansen Kraemer, Jr.	Director	December 8, 2006

/s/ TIMOTHY D. SHEEHAN Timothy D. Sheehan	Director	December 8, 2006
/s/ JEFFREY T. SLOVIN Jeffrey T. Slovin	Director	December 8, 2006
/s/ TIMOTHY P. SULLIVAN Timothy P. Sullivan	Director	December 8, 2006

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES**

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SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2006

AND SEPTEMBER 30, 2005

AND

FOR THE YEAR ENDED SEPTEMBER 30, 2006

AND FOR THE PERIOD FROM

JULY 1, 2005 TO SEPTEMBER 30, 2005 (SUCCESSOR)

AND FOR THE PERIOD FROM

OCTOBER 1, 2004 TO JUNE 30, 2005

AND FEBRUARY 17, 2004 TO SEPTEMBER 30, 2004 (PREDECESSOR 2)

AND OCTOBER 1, 2003 TO FEBRUARY 16, 2004 (PREDECESSOR 1)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FIRM

The Board of Directors

Sirona Dental Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Sirona Dental Systems, Inc. and subsidiaries (Successor) as of September 30, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the periods from October 1, 2005 to September 30, 2006 and from July 1, 2005 to September 30, 2005 (Successor periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH and subsidiaries (Predecessor 2) for the periods from October 1, 2004 to June 30, 2005 and from February 17, 2004 to September 30, 2004 (Predecessor 2 periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Sirona Beteiligungs- und Verwaltungsgesellschaft mbH and subsidiaries (Predecessor 1) for the period from October 1, 2003 to February 16, 2004 (Predecessor 1 period). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned Successor consolidated financial statements present fairly, in all material respects, the financial position of Sirona Dental Systems, Inc. and subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for the Successor periods, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the aforementioned Predecessor 2 consolidated financial statements present fairly, in all material respects, the results of operations and cash flows for Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH and subsidiaries for the Predecessor 2 periods, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the aforementioned Predecessor 1 consolidated financial statements present fairly, in all material respects, the results of operations and cash flows for Sirona Beteiligungs- und Verwaltungsgesellschaft mbH and subsidiaries for the Predecessor 1 period, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sirona Dental Systems, Inc.'s internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 8, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

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As discussed in Notes 2 and 5 to the consolidated financial statements, effective June 30, 2005, the Sirona Dental Services GmbH acquired all of the outstanding stock of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH in a business combination accounted for as a purchase. Further, as discussed in Notes 2 and 5 to the consolidated financial statements, effective February 16, 2004, Sirona Dental Systems Beteiligungs- und Verwaltungsgesellschaft GmbH acquired all of the outstanding stock of Sirona Beteiligungs- und Verwaltungsgesellschaft mbH in a business combination accounted for as a purchase. As a result of the acquisitions, the respective consolidated financial information for the periods after each of the acquisitions is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Frankfurt, Germany

December 8, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FIRM

The Board of Directors
Sirona Dental Systems, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A, that Sirona Dental Systems, Inc. maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sirona Dental Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Sirona Dental Systems, Inc. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by COSO. Also, in our opinion, Sirona Dental Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sirona Dental Systems, Inc. and subsidiaries (Successor) as of September 30, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the periods from October 1, 2005 to September 30, 2006 and from July 1, 2005 to September 30, 2005 (Successor periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash

flows of Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH and subsidiaries (Predecessor 2) for the periods from October 1, 2004 to June 30, 2005 and from February 17, 2004 to September 30, 2004 (Predecessor 2 periods), and the consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Sirona Beteiligungs- und Verwaltungsgesellschaft mbH and subsidiaries (Predecessor 1) for the period from October 1, 2003 to February 16, 2004 (Predecessor 1 period), and our report dated December 8, 2006 contains an explanatory paragraph that states that the respective financial information for the periods after each of the acquisitions described in notes 2 and 5 to the consolidated financial statements is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

*KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft*

Frankfurt, Germany
December 8, 2006

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Note	Successor September 30, 2006	Successor September 30, 2005
		\$ 000 (except for share amounts)	
ASSETS			
Current assets			
Cash and cash equivalents		\$ 80,560	\$ 65,941
Restricted cash		953	674
Restricted short term investments			745
Accounts receivable, net of allowance for doubtful accounts of \$837 and \$402, respectively	8	66,090	47,631
Inventories, net	9	57,303	47,340
Deferred tax assets	13	4,671	3,242
Prepaid expenses and other current assets	10	16,074	33,856
Total current assets		225,651	199,429
Property, plant and equipment, net of accumulated depreciation and amortization of \$18,139 and \$3,428, respectively	11	61,042	49,180
Goodwill	12	613,549	468,769
Investments		750	
Intangible assets, net of accumulated amortization of \$66,242 and \$11,852, respectively	12	618,993	489,442
Other non-current assets		17,370	21,981
Deferred tax assets	13	3,649	9,874
Total assets		1,541,004	1,238,675
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts payable		\$ 30,303	\$ 22,173
Current portion of long-term debt	15	14,738	10,103
Income taxes payable		10,434	1,531
Deferred tax liabilities	13	3,208	3,219
Accrued liabilities and deferred income	14	65,203	63,757
Total current liabilities		123,886	100,783
Long term debt	15	518,634	576,622
Deferred tax liabilities	13	243,491	196,392
Other non-current liabilities		18,128	9,585
Indebtedness to related parties			184,712
Pension related provisions	22	48,167	43,847
Deferred income	16	100,589	100,000
Total liabilities		1,052,895	1,211,941
Minority interest		263	42
Shareholders equity			
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued and outstanding)			
Common stock (\$0.01 par value; 95,000,000 shares authorized; 54,608,134 shares issued and outstanding)		546	30
Additional paid-in capital		582,447	123,696
Excess of purchase price over predecessor basis		(49,103)	(49,103)
Accumulated deficit		(47,406)	(48,161)
Accumulated other comprehensive income	7	1,362	230
Total shareholders equity		487,846	26,692
Total liabilities, minority interest and shareholders equity		\$ 1,541,004	\$ 1,238,675

The accompanying notes are an integral part of these financial statements.

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Notes	Successor Year ended September 30, 2006	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
	\$ 000s					
Revenue	23	\$ 520,604	\$ 105,071	\$ 358,285	\$ 229,216	\$ 158,601
Cost of sales	23	278,685	71,614	199,463	152,938	76,947
Gross profit		241,919	33,457	158,822	76,278	81,654
Selling, general and administrative expense		148,715	34,544	93,236	65,424	33,454
Research and development		33,107	7,863	21,700	16,594	8,575
Provision for doubtful accounts and notes receivable		348	(192)	(127)	(846)	368
Write off of in-process research and development		6,000	33,796		20,217	
Net other operating expense/(income)		1,733	(723)	(384)	955	82
Operating income / (loss)		52,016	(41,831)	44,397	(26,066)	39,175
Foreign currency transactions (gain)/loss, net		(9,873)	601	749	4,129	1,491
(Gain)/Loss on derivative instruments		(719)	(1,682)	4,383	1,498	(1,358)
Interest expense, net	21	54,275	11,087	22,774	14,413	5,292
Other (income)				(129)		
Income/(Loss) before taxes and minority interest		8,333	(51,837)	16,620	(46,106)	33,750
Income tax provision/(benefit)	13	7,360	(5,796)	5,444	(11,748)	13,181
Minority interest		218	(6)	50		
Net income/(loss)		\$ 755	\$ (46,035)	\$ 11,126	\$ (34,358)	\$ 20,569
Income/(Loss) per share						
Basic	17	\$ 0.02	N/A	N/A	N/A	N/A
Diluted	17	\$ 0.02	N/A	N/A	N/A	N/A

The accompanying notes are an integral part of these financial statements.

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS)

	Common share capital	Amount of common shares issued	Additional paid-in capital	Excess of purchase price over predecessor basis	Retained earnings/ (accumulated deficit)	Accumulated other comprehensiv income/(loss)	Total
	\$ 000s (except for amount of common shares issued)						
Balances as of September 30, 2003	\$ 434		\$ 72,568	\$	\$ 16,694	\$ (1,601)	\$ 88,095
Comprehensive income:							
Net income					20,569		20,569
Cumulative translation adjustment						5,727	5,727
Total comprehensive income					20,569	5,727	26,296
Balances as of February 16, 2004	434		72,568		37,263	4,126	114,391
Restructuring adjustments	195		(20,811)		(37,263)	(4,126)	(62,005)
	\$ 629		\$ 51,757	\$	\$	\$	\$ 52,386
Predecessor 2							
Comprehensive loss:							
Net loss					(34,358)		(34,358)
Cumulative translation adjustment						(752)	(752)
Total comprehensive loss					(34,358)	(752)	(35,110)
Balances as of September 30, 2004	\$ 629		\$ 51,757	\$	\$ (34,358)	\$ (752)	\$ 17,276
Comprehensive income:							
Net income					11,126		11,126
Cumulative translation adjustment						(1,287)	(1,287)
Total comprehensive income					11,126	(1,287)	9,839
Balances as of June 30, 2005	\$ 629		\$ 51,757	\$	\$ (23,232)	\$ (2,039)	\$ 27,115
Restructuring adjustments	(599)		71,939	(49,103)	21,106	1,852	45,195
	\$ 30		\$ 123,696	\$ (49,103)	\$ (2,126)	\$ (187)	\$ 72,310
Successor							
Comprehensive loss:							
Net loss					(46,035)		(46,035)
Cumulative translation adjustment						417	417
Total comprehensive loss					(46,035)	417	(45,618)
Balances as of September 30, 2005	\$ 30		\$ 123,696	\$ (49,103)	\$ (48,161)	\$ 230	\$ 26,692
Successor	\$	36,972,480		\$	\$	\$	\$
Issuance of common stock in							
Exchange	516	17,617,433	455,007				455,523
Issuance of common stock upon							
exercise of options		18,221	160				160
Stock compensation			3,537				3,537
Tax benefit of stock options							
exercised			47				47
Comprehensive loss:							
Net income					755		755
Cumulative translation adjustment						1,132	1,132
Total comprehensive income					755	1,132	1,887
Balances as of September 30, 2006	\$ 546	54,608,134	\$ 582,447	\$ (49,103)	\$ (47,406)	\$ 1,362	\$ 487,846

The accompanying notes are an integral part of these financial statements.

SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Cash flows from operating activities					
Net income/(loss)	\$ 755	\$ (46,035)	\$ 11,126	\$ (34,358)	\$ 20,569
Adjustments to reconcile net income/(loss) to net cash used in operating activities					
Minority interest	199				
Depreciation and amortization	62,931	15,392	44,155	32,703	6,530
(Gain) on disposal of property, plant and equipment	(22)	(23)	(45)	(2)	(9)
(Gains)/losses on derivate instruments	(719)	(1,682)	4,383	1,498	(1,358)
Foreign currency transactions (gain)/loss	(9,873)	601	749	4,129	1,491
Accreted interest on long term debt	14,907	4,590	3,115	5,003	
Deferred income taxes	(12,340)	1,198	(2,546)	(9,076)	3,567
Write off of in-process research and development	6,000	33,796		20,217	
Amortization of debt issuance cost	5,820	907	1,807	1,344	970
Compensation expense from stock options	3,537				
Changes in assets and liabilities					
Accounts receivable and accounts receivable from related parties	(6,850)	10,287	(1,547)	(83)	230
Inventories	(529)	11,887	(2,869)	19,865	(11,821)
Prepaid expenses and other current assets	18,110	(15,474)	(13)	(3,355)	1,224
Restricted Cash	(222)	443	(276)	170	1,706
Other non-current assets	5,805	846	(51)	970	(1)
Trade accounts payable and accounts payable to related parties	(2,247)	4,195	(6,701)	(4,413)	363
Accrued liabilities	(6,332)	12,155	8,068	733	5,557
Deferred income	347	100,000			
Other non-current liabilities	9,207	7,809	(6,809)	8,233	(5,429)
Income taxes payable	8,230	(3,489)	2,260	(6,122)	4,669
Net cash provided by operating activities	96,714	137,403	54,806	37,456	28,258
Cash flows from investing activities					
Investment in property, plant and equipment	(20,950)	(3,634)	(11,041)	(8,837)	(4,446)
Proceeds from sale of property, plant and equipment	804	741	191	66	11
Restricted short term investments/securities	717	(410)	(272)	(4)	5
Purchase of intangible assets	(1,531)	(398)	(586)	(337)	(168)
Aquisition of Sirona by MDP		(556,297)			
Acquisition of Sirona by EQT			(25,700)	(359,531)	
Acquisition of businesses, net of cash acquired	14,643			(5,782)	
Net cash used in investing activities	(6,317)	(559,998)	(37,408)	(374,425)	(4,598)

The accompanying notes are an integral part of these financial statements.

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	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Cash flows from financing activities					
Repayment of shareholder loans		(51,458)	2,596	(110,661)	1,129
Repayments of long-term debt	(78,653)	(440,593)	(17,220)	(35,670)	(12,717)
Proceeds from borrowings		662,805		372,089	
Proceeds shareholder loan		181,960		47,832	
Debt issuance cost		(26,259)		(14,341)	
Common shares issued on share based compensation plans	160				
Capital infusion		122,392		51,384	
Net cash (used in)/provided by financing activities	(78,493)	448,847	(14,624)	310,633	(11,588)
Change in cash and cash equivalents	11,904	26,252	2,774	(26,336)	12,072
Effect of exchange rate change on cash & cash equivalents	2,715	(2,839)	877	40	2,049
Cash and cash equivalents at beginning of period	65,941	42,528	38,877	65,173	51,052
Cash and cash equivalents at end of period	\$ 80,560	\$ 65,941	\$ 42,528	\$ 38,877	\$ 65,173
Supplemental information					
Interest paid	\$ 32,456	\$ 7,554	\$ 22,274	\$ 13,697	\$ 1,885
Interest capitalized	244	3	51	22	72
Income taxes paid / (received)	6,499	2,054	(1,393)	(212)	10,046
Accrued acquisition costs (non-cash investing activity)		3,580		25,700	
Acquisition of businesses, net of cash acquired					
Current assets	\$ 19,450			\$ 6,219	
Property, plant and equipment	207,961			341	
Goodwill and licenses	289,048			5,839	
Current liabilities	(75,579)			(1,315)	
Other long term liabilities				(5,302)	
Shares and options exchanged	(455,523)				
	\$ (14,643)			\$ 5,782	

SIRONA DENTAL SYSTEMS, INC AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and its operations

Sirona Dental Systems, Inc. and its subsidiaries manufacture high quality, technologically advanced dental equipment and systems solutions for the global dental equipment market. We offer a broad range of products across all major segments of the dental equipment market including CEREC, CAD/CAM systems, digital and film based intra oral and panoramic imaging systems, treatment centers and instruments. We recently acquired the Schick business, which further expanded our global presence and product offerings and strengthened our research and development capabilities. Sirona has served equipment dealers and dentists worldwide for more than 125 years. Sirona's headquarters are located in Long Island City, New York with a significant facility located in Bensheim, Germany, as well as other manufacturing, assembling and sales & service facilities throughout the world.

2. Basis of presentation and summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (" U.S. GAAP "). Except as otherwise disclosed, all amounts are reported in thousands of U.S. dollars (\$), except per share amounts or otherwise disclosed.

Principles of consolidation

The consolidated financial statements include, after eliminating inter-company transactions and balances, the accounts of Sirona Dental Systems, Inc. and its subsidiaries. The Company applies the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

On September 25, 2005 Schick Technologies, Inc. (" Schick ") which on June 20, 2006 was renamed as Sirona Dental Systems, Inc. (" Sirona " or the " Company "), entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. (" Luxco ") and Sirona Holding GmbH (" Sirona Holding ") providing for an issuance of 36,972,480 shares of Schick common stock to Luxco in exchange for Luxco's entire economic interest in Sirona Holding, which consists of all of the issued and outstanding share capital of Sirona Holding and the existing indebtedness of Sirona Holding owed to Luxco in the principal amount of 150,992 (\$181,960) plus accrued interest (the " Exchange "). The Exchange closed on June 20, 2006. For accounting purposes, the Exchange has been accounted for as a reverse acquisition of Schick by Sirona Holding. The historical financial statements of Sirona Holding and its predecessors are the historical financial statements of the Company, and the acquisition by Sirona Holding of the assets and liabilities of Schick has been accounted for under the purchase method of accounting. Results of operations of Schick and its wholly owned subsidiary have been included in these annual financial statements from June 20, 2006, the effective date of the Exchange (see Note 4 " The Exchange Acquisition ").

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

On June 30, 2005, Sirona Holdings Luxco S.C.A. (" Luxco "), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH (formerly Blitz 05-118 GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the " MDP Transaction "). The MDP Transaction was accounted for in accordance with Emerging Issues Task Force Issue 88-16, Basis in Leveraged Buyout Transactions (" EITF 88-16 "), in a manner similar to a

business combination under FASB Statement No. 141, Business Combinations (SFAS 141). Certain members of Sirona management who were deemed to be in the control group held equity interests in Sirona Group prior to and subsequent to the MDP Transaction (Continuing Shareholders). The interests of the Continuing Shareholders have been reflected at the predecessor basis, resulting in 9.15% of each asset and liability acquired being valued at historical cost at June 30, 2005. The remaining 90.85% interest in each asset and liability was recognized at fair value at June 30, 2005.

On February 16, 2004, funds managed by EQT, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using four new legal entities headed by Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH to acquire 100% of the interest in Sirona Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the EQT Transaction). The EQT Transaction resulted in a change in control over the Sirona business and has, therefore, been accounted for as a business combination under SFAS 141. The carrying values of the assets and liabilities were adjusted to their fair value on February 16, 2004, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill. Refer to note 5, Leveraged Buy-Out Transactions, for further discussion of the transactions and their impact on the Company s and its predecessors consolidated financial statements. Since both transactions materially changed the carrying values recorded in the Company s and its predecessors consolidated balance sheet, the following naming convention has been used to distinguish between periods for which the financial statements are not prepared on a comparable basis:

Sirona Beteiligungs- und Verwaltungsgesellschaft mbH Predecessor 1

October 1, 2003 February 16, 2004

Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH Predecessor 2

February 17, 2004 September 30, 2004

October 1, 2004 June 30, 2005

Sirona Dental Systems, Inc. (now the parent of Sirona Holding GmbH) Successor

July 1, 2005 September 30, 2005

October 1, 2005 September 30, 2006

The accounting policies of the successor and predecessor entities have not changed, except for a change in basis resulting from purchase accounting.

Fiscal year

The Company s fiscal year ends on September 30.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from estimates. Some of the more significant estimates include allowances for doubtful accounts, inventory valuation reserves, purchase accounting assumptions, depreciable lives of assets, amortization periods, impairment of long-lived assets, deferred tax asset valuation allowance, pension reserves, provisions and warranty reserves.

Foreign currency

The functional currency for foreign operations has been determined in all cases to be the local currency. Assets and liabilities of foreign subsidiaries are translated at exchange rates on the balance sheet date; revenue and expenses are translated at the weighted average exchange rates for the interim periods

within the full period. Cash flows are translated based on the weighted average exchange rates for the full period on the net income line specific operating, investing and financing cash flows are translated based on the exchange rate applicable to the respective transaction. The effects of these translation adjustments are recognized in shareholders' equity, as a component of accumulated other comprehensive income (loss). Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, as well as the fair value adjustment of forward foreign exchange contracts, are shown separately on the face of the consolidated statements of operations.

Comprehensive income

In addition to net income (loss), comprehensive income (loss) includes other charges or credits to equity other than those resulting from transactions with shareholders. Accumulated other comprehensive income relates to foreign currency translation adjustments related to the Company's foreign subsidiaries. Components of comprehensive income are included within the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

Revenue recognition

Revenue, net of related discounts and allowances, is recognized when persuasive evidence of the arrangement exists, the price is fixed or determinable, collectibility is reasonably assured and title and risk of loss has passed to customers based on the shipping terms. Returns on products, excluding warranty related returns, are infrequent and insignificant. Revenue related to products that contain software which is more than incidental to the product is recognized in accordance with SOP 97-2, Software Revenue Recognition, as amended by SOP 98-9,

Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. For orders which contain one or more elements to be delivered at a future date, but do not include software that is more than incidental to the other elements, the Company recognizes revenue in accordance with EITF 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. For revenue on certain CEREC units recognized in accordance with both SOP 97-2 and EITF 00-21, the Company allocates revenues between the various elements using the relative fair value method because evidence of fair value exists for all elements. Under the relative fair value method, as applied by the Company, the revenue is allocated between the elements of the arrangement in proportion to the fair value of each element. The revenue allocated to the service contract is deferred until the service is provided.

The revenue allocated to the CEREC product sold, which contains software and hardware the functionality of which is dependent on the software and for which the software is integral (i.e., software-related hardware), is recognized as revenue upon transfer of the risk and rewards of ownership. The fair value of the product and the service contract is based on the price charged when the same element is sold separately to customers.

The Company uses the relative fair value method to recognize revenues when an order includes one or more elements to be delivered at a future date and evidence of the fair value of each of the elements exists.

The Company offers its customers an option to purchase extended warranties on certain products. The Company recognizes revenue on these extended warranty contracts ratably over the life of the contract. The costs associated with these extended warranty contracts are recognized when incurred.

The Company offers discounts to its distributors if certain conditions are met. Discounts and allowances are primarily based on the volume of products purchased or targeted to be purchased by the individual customer or distributor. Discounts are deducted from revenue at the time of sale. The Company estimates volume discounts based on the individual customer's historical and estimated future product purchases.

Amounts received from customers in advance of product shipment are classified as deferred income until the revenue can be recognized in accordance with the Company's revenue recognition policy.

Research and Development

Amounts spent by the Company for research and development (R&D) efforts are recorded as R&D expenses when incurred. R&D costs relate primarily to internal costs for salaries, direct overhead costs and outside vendors. The Company capitalizes costs of equipment used for general R&D if it has alternative future use. The depreciation related to this capitalized equipment is included in the Company's R&D costs. Software development costs incurred prior to the attainment of technological feasibility are considered R&D and are expensed as incurred.

Warranty Expense

The Company offers warranties on its products for periods between one and three years. Estimated future warranty obligations related to product sales are charged to operations in the period in which the related revenue is recognized. These estimates are based on historical warranty experience and other relevant information of which the Company is aware. Estimated warranty expenses are recorded as an accrued liability and selling, general and administrative expense. During the year ended September 30 2006, warranty expense was \$14,355 (July 1, 2005 to September 30, 2005, \$3,807; October 1, 2004 to June 30, 2005, \$10,138; February 17, 2004 to September 30, 2004, \$8,367; October 1, 2003 to February 16, 2004, \$4,924).

Shipping and handling costs

Shipping and handling costs charged to customers are included in revenues and the associated expense is recorded in cost of sales for all periods presented.

Advertising costs

Advertising costs are expensed as incurred and recorded within selling, general and administrative expense. During the year ended September 30, 2006, advertising expense was \$19,774 (July 1, 2005 to September 30, 2005, \$4,865; October 1, 2004 to June 30, 2005, \$14,742; February 17, 2004 to September 30, 2004, \$8,212; October 1, 2003 to February 16, 2004, \$6,541).

Pension benefits

The Company has both defined benefit and defined contribution pension plans, as well as an early retirement plan.

The Company accounts for its defined benefit pension plans using FASB Statement 87, Employer's Accounting for Pensions (SFAS 87) and the disclosure requirements under FASB Statement No. 132, Employer's Disclosure about Pensions and Other Post-Retirement Benefits (Revised) (SFAS 132), an amendment of FASB Statements No. 87, 88 and 106. Under SFAS 87, pension expense is recognized on an accrual basis over the employee's approximate service periods. SFAS 87 requires the use of an actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specified corridor) that result from changes in assumptions or actual experience differing from that assumed. SFAS 87 also provides for the prospective amortization of costs relating to changes in the benefit plan, as well as the obligation resulting from the transition. Disclosure of the components of periodic pension cost and the funded status of the pension plans are also required. When purchase accounting is applied, pension liabilities are recognized for the projected benefit obligation in excess of plan assets.

For the defined contribution pension plans, the net pension cost is equal to the contributions required by the plan.

The Company also has an early retirement plan, Altersteilzeit (ATZ), which allows certain German employees who have been accepted into the plan to retire at 60 rather than at the legal retirement age of 65. Eligible employees are those who have attained the age of 55 or who will attain the age of 55 by calendar year 2009 and have been accepted to participate in the ATZ plan. The ATZ plan can cover a period between the ages of 58 to 63 of the participating employees and is split into an active service period, where the employees work full time for the Company, and an inactive service period, where the employees do not work for the company. During the active service period, the employees receive 50% of their salary and the remaining 50% of their salary, plus a bonus payment equal to 35% of their salary is paid during the inactive service period. The Company recognizes the salary component of the ATZ plan over the period from the beginning of the ATZ period to the end of the active service period. The Company recognizes the bonus component over the period from the point at which the employee signs the ATZ contract until the end of the active service period.

Income Taxes

Differences between the basis of assets and liabilities for financial statement purposes and for tax return purposes are recorded as deferred tax assets or deferred tax liabilities in the accompanying consolidated financial statements. Deferred taxes represent the tax consequences in future years of these differences at each balance sheet date, based on the enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. The provision (benefit) for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities. A valuation allowance is established when it is more likely than not that the deferred tax assets are not realizable. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income as an adjustment to income tax expense in the period that includes the enactment date.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Restricted cash and restricted short-term investments

Restricted cash represents cash balances pledged as collateral to financial institutions that provide security for prepayments from customers and other bonds. Restricted short-term investments represent fixed term bank deposits with a maturity of greater than three months to secure guarantees given to customers by subsidiaries.

Accounts receivable

Accounts receivable are stated at the invoiced amount, less allowances for doubtful accounts. Collectibility of accounts receivable is regularly reviewed and is based upon managements knowledge of customers and compliance with credit terms. The allowance for doubtful accounts is adjusted based on such evaluation, with a corresponding provision included in selling, general and administrative expense. Accounts receivable balances are written off when management deems the balances uncollectible.

Inventory

Inventory is carried at the lower of cost or market value. Cost is determined using standard costing, which approximates the weighted average cost method. In addition to direct material and direct labor costs, certain costs related to the overhead and production expenses are included in inventory. Inventory reserves are provided for risks relating to slow moving, unmarketable and obsolete items.

Investments in companies

The Company uses the equity method of accounting for investments in associated companies over which the Company has significant influence but does not have effective control.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation. As a result of the transactions described in Note 5, a new cost basis was established and adjustments were recorded to record property, plant and equipment assets at fair value in connection with the EQT transaction and 90.85% of fair value in connection with the MDP transaction. Additions, improvements and major renewals, which extend the useful life of the asset are capitalized; maintenance and repairs are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in current operating income. Development costs for external use software incurred after the establishment of technological feasibility are capitalized and amortized to cost of revenues on a straight-line basis over the expected useful life of the software. Costs of software developed for internal use incurred during the development of the application are capitalized and amortized to operating expense on a straight-line basis over the expected useful life of the software. Prepayments for property, plant & equipment are classified as property, plant and equipment and are not depreciated until the assets are received and placed into service.

The cost of plant and equipment is depreciated using the straight-line method over the following estimated useful lives of the respective assets.

Buildings	25 to 50 years
Building improvements and leasehold improvements	5 to 10 years
Machinery and technical equipment	3 to 10 years
Software and software licenses	3 to 5 years

Finite-lived intangible assets

Finite-lived intangible assets are amortized according to the pattern in which the economic benefit of the asset is used up over their estimated useful lives, as shown below.

Patents and licenses	10 - 13 years
Technologies and Dealer Relationships	1 - 13 years

Impairment of long-lived and finite-lived assets

Long lived assets held for use by the Company are reviewed for impairment whenever events or circumstances provide evidence that suggests the carrying amount of the asset may not be recoverable. The Company performs ongoing impairment analysis on intangible assets related to new technology. Determination of whether an impairment exists is based upon a comparison of the identifiable undiscounted cash flows of the assets or groups of assets to the carrying amount of the assets or groups of assets. If impaired, the resulting charge reflects the excess of the asset's carrying amount over its fair value.

Goodwill and indefinite-lived intangible assets

Goodwill and indefinite lived intangible assets, consisting of certain trademarks are not amortized, but are tested for impairment on an annual basis as of September 30, or whenever events or circumstances indicate that the carrying amount may not be recoverable. These impairment tests are based upon a comparison of the fair value of the reporting units to their respective carrying amount. If the carrying

amount of the reporting unit exceeds its fair value, the goodwill impairment loss is measured as the excess of the carrying amount of goodwill over its implied fair value. If impairment is identified on indefinite-lived intangibles, the resulting charge reflects the excess of the asset's carrying amount over its fair value.

Other non-current assets

Other non-current assets and prepaid expenses are mainly comprised of capitalized debt issuance costs. The costs are amortized using the effective interest method. The unamortized balance of such debt issuance costs was \$16,780 and \$21,567 as of September 30, 2006 and 2005, respectively.

Derivative financial instruments

The Company enters into forward foreign currency contracts in order to manage currency risks arising from its forecasted and firmly committed foreign currency denominated cash flows. The Company enters into these contracts to limit the foreign exchange rate risk for periods generally not to exceed six months. The Company also enters into interest rate swaps and collars to manage its interest rates on its long term debt.

The Company does not utilize financial instruments for speculative purposes. The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. The Company has not designated any of its derivatives as qualifying for hedge accounting under SFAS 133. All derivatives instruments are therefore recognized as either assets or liabilities in the consolidated balance sheet at fair value. The fair value of the forward foreign currency contracts and interest rate swaps and collars are included within prepaid and other current assets and the change in fair value is recognized within Gains (losses) on derivative instruments in the consolidated statement of operations.

Fair value of financial instruments

Financial instruments consist of cash, accounts receivable, accounts payable and other accrued expenses that approximate fair value because of the short-term nature of these items. The fair value of the foreign currency forward contracts and interest rate swaps are estimated by obtaining quotes from financial institutions.

At September 30, 2006, the foreign exchange forward contracts outstanding had notional amounts of \$26,150 (\$53,881 as at September 30, 2005) and a fair value liability of \$(107) (\$(1,399) as at September 30, 2005), with the unrealized fair value gain for the twelve months period ended September 30, 2006 of \$1,377 (July 1, 2005 to September 30, 2005 of \$1,682; October 1, 2004 to June 30, 2005 of \$(4,382)).

As September 30, 2006, the interest rate swaps and collars had notional amounts of \$337,358 (\$341,000 as at September 30, 2005), and a fair value of \$1,838 (\$2,258 as at September 30, 2005), with the unrealized fair value loss for the twelve month period ended September 30, 2006 of \$(659) (three month period ended September 30, 2005 of \$502; October 1, 2004 to June 30, 2005, \$401).

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk include cash and cash equivalents and accounts receivable. Sirona has two customers accounting for more than 10% of revenue for the year ended September 30, 2006. The accounts receivables from these customers amount to \$20,073 in the aggregate as of September 30, 2006.

3. Recent accounting pronouncements - not yet adopted

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections* (a replacement of APB Opinion No. 20 and FASB Statement No. 3) . SFAS 154 requires that changes in accounting principles be given retrospective application to prior periods' financial statements. Previously most changes in accounting principle were recognized by including in net income of the period of the change the cumulative effect of the change. SFAS 154 is effective for fiscal years beginning after December 15, 2005. The Company is still determining the effect SFAS 154 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In September 2006, the FASB issued SFAS No. 157 (FAS 157), *Fair Value Measurements*. Among other requirements, SFAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is still determining the effect SFAS 157 will have on its consolidated financial statements, but it currently does not expect the effect to be material.

In September 2006, the FASB issued SFAS No. 158 (FAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R) . SFAS 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's under-funded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for the Company for the fiscal year ending on September 30, 2007. The Company already measures plan assets and benefit obligations as of the date of fiscal year-end. The Company is still determining the effect SFAS 158 will have on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* which is an interpretation of FASB Statement 109, *Accounting for Income Taxes*. FIN 48 requires managements to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the 'more-likely than not' recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. FIN 48 is effective for the Company's fiscal year ending September 30, 2008. The Company is still determining the effect FIN 48 will have on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for fiscal years ending after November 15, 2006. The Company is still determining the effect SAB 108 will have on its consolidated financial statements.

4. The Exchange

On September 25, 2005, Schick, a Delaware Corporation, which on June 20, 2006 was renamed Sirona Dental Systems, Inc., entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. and Sirona Holding providing for the issuance of 36,972,480 shares of Schick common stock to Luxco in exchange for Luxco's entire economic interest in Sirona Holding, which consisted of all of the issued and outstanding share capital of Sirona Holding and the existing indebtedness of Sirona Holding owed to Luxco in the principal amount of 150,992 plus accrued interest totalling \$ 205.566 as of June 20, 2006. It was also agreed that Schick shareholders would receive a special \$2.50 per share cash dividend.

At a special meeting, which took place on June 14, 2006, Schick's shareholders approved the Exchange Agreement and the amendment to the Amended and Restated Certificate of Incorporation to increase Schick's authorized shares of capital stock and to change Schick's corporate name to Sirona Dental Systems, Inc., and the amendment of Schick's 1996 Stock Option Plan. The fiscal year was changed from March 31 to September 30, Sirona Holding's year end.

The Exchange was completed on June 20, 2006 and Schick has been included in the Company's consolidated statement of operations since then. The cash dividend was paid on June 23, 2006. Sirona Holding is deemed to be the acquiring company under U.S. GAAP because Luxco, Sirona Holding's shareholder, has a controlling ownership interest in the combined company, Sirona Holding's designees to the board represent a majority of the directors and Sirona Holding's senior management represents a majority of management.

The transaction was accounted for as a purchase business combination in accordance with FASB Statement No. 141, Business Combinations (SFAS 141). The carrying values of Schick's assets and liabilities were adjusted to their fair values on June 20, 2006, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill.

The purchase price was comprised of 17,615,660 Schick shares outstanding on June 20, 2006. Based on the average of the closing prices for a range of trading days (September 22, 2005 through September 28, 2005, inclusive) around the announcement date of September 26, 2005 of the Exchange Agreement, the fair value is \$24.96 per share, or approximately \$439,687. The purchase price also includes the estimated fair value of 862,220 vested stock options which were not exercised prior to the Exchange (\$15,363), 458,179 unvested stock options (\$8,111), reduced by the unvested options relating to services to be provided in the future (\$7,638), and direct acquisition costs of \$7,338. The fair value of the vested and unvested options was estimated using the Black-Scholes model and assumptions as follows: the relevant exercise price, a market price of \$24.96 (average of closing prices around the Exchange announcement date), volatility of 34.0%, estimated life of five years, and a risk free rate of 3.73%. The cost of the acquired business is reduced by the unearned portion of the unvested options relating to services to be provided in the future (see Note 4).

The total purchase price of Schick in the Exchange was as follows:

	\$ 000s
Purchase price	
Schick common stock	\$ 439,687
Schick restricted vested options	15,363
Schick unvested options	8,111
Schick unvested options relating to services to be provided in the future	(7,638)
Sirona direct transaction costs	7,338
	\$ 462,861

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The allocation of the purchase price, which is preliminary and therefore may change, is as follows:

	\$ 000s
Current assets	\$ 41,431
Property, plant and equipment	1,335
Intangible assets subject to amortization	132,300
Trade name not subject to amortization	24,000
In process research and development	6,000
Goodwill	126,748
Receivable from Luxco	205,566
Other assets	1,060
Total assets	538,440
Current liabilities	(12,445)
Deferred taxes	(63,134)
Total liabilities assumed	(75,579)
Purchase Price	\$ 462,861

The Company believes the acquisition will strengthen its competitive position in the technology-driven Imaging Systems segment by uniting research and development capabilities to accelerate product developments and expanding its global presence, particularly in the significant U.S. market, and is expected to provide certain synergies.

Schick designs, develops and manufactures digital imaging systems for the dental market. Schick currently manufactures and markets a variety of digital imaging products including an intra-oral digital radiography system (CDR® and CDR Wireless), a digital panoramic radiography sensor (CDRPan®) and integrated device (CDRPanX), an intra-oral camera system (USBCam®), and a DC dental x-ray generator (SDX). The fair value of in process research and development (IPR&D) projects relate to these Intra-Oral products. IPR&D was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the acquisition date. The cash flows derived from IPR&D projects were discounted at a rate of 13%. The Company believes the rate used was appropriate given the risks associated with the technologies including their incomplete status. No alternative future use was identified for IPR&D projects so the entire \$6,000 value of those assets was charged to the income statement at the acquisition date, included in the write off in-process research and development line item, for the year ended September 30, 2006.

A summary of the identifiable intangible assets acquired is as follows:

	Fair value	Weighted average amortization period
Developed technologies	\$ 127,000	10 years
Dealer relationships	3,300	10 years
CDR trademark	2,000	20 years
Schick trademark	24,000	indefinite

The fair value of the technology assets was determined by using an earnings - based valuation method. The useful life was determined based on the expected use of the technology, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expenses required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 10 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers to service Schick's products. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 2.0%. The Company deems the Schick trademark to be an indefinite lived intangible asset as it is used worldwide, can be separated from other assets, does not have any legal, regulatory, contractual, competitive, economic or other factors that limit its useful life, and requires no material levels of maintenance to retain its cash flow. As such, that trademark is not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for this asset.

5. Leveraged Buy-out transactions

MDP Transaction

On June 30, 2005, Sirona Holdings Luxco S.C.A. (Luxco), a Luxembourg-based holding entity owned by funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using new legal entities, Sirona Holding GmbH (formerly Blitz 05-118 GmbH) and its wholly owned subsidiary Sirona Dental Services GmbH to acquire 100% of the interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the MDP Transaction). Results of operations for the Sirona businesses subsequent to that date have been included in the successor period in the consolidated statements of operations and cash flows.

The purchase price, comprising cash paid and direct acquisition costs, was 464,590, consisting of 454,990 paid in cash and 9,600 of direct acquisition costs. The purchase price was denominated in Euros and translated to U.S. dollars at the exchange rate prevailing on the date of the transaction of 1.2051. The purchase price denominated in U.S. dollars is \$559,877.

The transaction was accounted for in accordance with Emerging Issues Task Force Issue 88-16, Basis in Leveraged Buyout Transactions (EITF 88-16), in a manner similar to a business combination under FASB Statement No. 141, Business Combinations (SFAS 141). Certain members of Sirona management who were deemed to be in the control group held equity interests in Sirona Group prior to and subsequent to the MDP Transaction (Continuing Shareholders). The interests of the continuing Shareholders have been reflected at the predecessor basis, resulting in 9.15% of each asset and liability acquired being valued at historical cost at June 30, 2005. The remaining 90.85% interest in each asset and liability was recognized at fair value at June 30, 2005. The application of the preceding guidance to the book and fair values of the acquired assets resulted in a difference between the purchase price in the acquisition (464,590) and the recorded value of the acquired assets. This difference was recorded as a reduction to the shareholders' equity of Sirona.

In connection with the leveraged buy-out transaction, Sirona incurred debt of 700,992 (\$844,765) to finance the purchase price and repay the shareholder loan granted by the sellers and repay other existing debt of 301,012 (\$362,261). The debt comprised 550,000 (\$662,805) of bank loans and a shareholder loan of 150,992 (\$181,960) granted by Luxco.

The purchase price was allocated to the assets acquired and liabilities assumed as of June 30, 2005 and the difference between the purchase price allocation and the fair value of the net assets was recorded as goodwill. However, due to the continuing ownership by management, the assets and liabilities were carried over from the Predecessor 2 balance sheet upon closing to the extent that management had an ownership

interest in Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH. A contra equity account named Excess of purchase price over predecessor basis has been recorded in the successor period to reflect the predecessor basis of management that acquired an interest in Sirona Holding GmbH. The purchase price allocation was based on information available and expectations and assumptions deemed reasonable by management.

In process research and development (IPR&D) was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the date of the valuation exercise. Discount rates of between 25-30% were applied to the cash flows, depending on level of risk associated with the project. In process research and development (IPR&D) projects primarily relate to (i) 3D-Imaging, (ii) enhancements to the CAD/CAM system s hardware and software and (iii) a new treatment center platform.

The fair values of these projects and estimated costs to complete at June 30, 2005 were:

Project	Fair value	Estimated Cost
3 D Imaging	\$ 9,310	\$ 7,000
CAD/CAM enhancements	10,310	8,000
New Treatment Center platforms	10,295	8,000
Other	3,882	2,000

No alternative future use was identified for these assets, and therefore the entire value of those assets was charged to the income statement, included in the write off in-process research and development line item, for the three month period to September 30, 2005.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition:

\$ 000s	As of June 30, 2005
Current assets	\$ 176,691
Property, plant and equipment	49,724
Intangible assets subject to amortization	407,903
Trademarks not subject to amortization	93,488
In process research and development	33,797
Goodwill	469,198
Other assets	13,702
Total assets	1,244,503
Current liabilities	176,663
Non-current liabilities	355,477
Deferred taxes	201,589
Total liabilities assumed	733,729
Excess purchase price over predecessor basis	49,103
Purchase price	\$ 559,877

		Weighted average amortization period
Licensing agreements, patents and similar rights	\$ 124,264	13 years
Technologies	273,930	10 years
Dealer relationships	9,709	10 years
	\$ 407,903	

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Technology assets include trade secrets, production processes, CAD drawings, parts lists, blueprints and software for products that reached technological feasibility.

The fair value of the technology assets was determined by using an earnings-based valuation method. The useful life was determined based on the expected use of the technology by Sirona, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expense required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 1 to 13 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 1.0%. The Company deems trademarks to be indefinite lived intangible assets as the trademarks are used worldwide, can be separated from any other asset, do not have any legal, regulatory, contractual competitive, economic or other factors that limit their useful lives, and require no material levels of maintenance to retain their cash flow. As such, trademarks are not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for these assets. The transaction resulted in goodwill due to the significant growth prospects and industry dynamics as well as the experienced management team which are not recognized as a separate asset.

EQT Transaction

On February 16, 2004, funds managed by EQT, directors, management and employees of Sirona, obtained control over the Sirona business. The transaction was effected by using four new legal entities headed by Sirona Dental Systems Beteiligungs- und Verwaltungs GmbH to acquire 100% of the interest in Sirona Beteiligungs- und Verwaltungs GmbH, the former parent of the Sirona business through a leveraged buy-out transaction (the EQT Transaction). The transaction resulted in a change in control over the Sirona business and has, therefore, been accounted for as a business combination under SFAS 141. The carrying values of the assets and liabilities were adjusted to their fair value on February 16, 2004, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill. There was no shareholder interest that continued to be carried at predecessor basis. Results of operations for the Sirona businesses from the date of this transaction until the MDP Transaction have been included in the Predecessor 2 period in the consolidated statement of operations and cash flows.

The purchase price, comprising cash paid and direct acquisition costs, was 309,873 consisting of 284,167 paid at closing, a 20,000 holdback payment, subject to possible indemnification claims by EQT, and 5,706 of direct acquisition costs. Payment of 20,000 was made on December 15, 2004 at the expiration of the indemnification period, as no claims were made. In connection with the leveraged buy-out transaction, Sirona incurred debt of 338,566 (\$419,923) to finance the purchase price and repay the shareholder loan granted by the sellers and repay other existing debt of 109,918 (\$136,331). The debt incurred comprised 300,000 (\$372,090) of bank loans and a shareholder loan of 38,566 (\$47,833) granted by EQT.

The carrying values of the assets and liabilities were stepped up to their fair values on February 16, 2004 and the difference between the purchase price and the fair value of the net assets was recorded as goodwill. The purchase price was denominated in Euros and translated to U.S. Dollars at the exchange rate prevailing on the date of the transaction of 1.2403. The purchase price denominated in U.S. dollars was \$384,335.

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The purchase price allocation was based on information available and expectations and assumptions deemed reasonable by management.

IPR&D was appraised using discounted future probable cash flows on a project by project basis. Cash inflows from significant projects were forecast to commence in the 1-2 years following the date of the valuation exercise. Discount rates of between 25-30% were applied to the cash flows, depending on level of risk associated with the project. No alternative future use was identified for these assets, and therefore the entire value of those assets was charged to the income statement, included in the write off in-process research and development line item, for the three month period to September 30, 2004.

The following table summarizes the purchase price allocation for the transaction:

\$ 000s	As of February 16, 2004
Current assets	\$ 191,310
Property, plant and equipment	56,122
Intangible assets subject to amortization	393,980
Trademarks not subject to amortization	86,945
In process research and development	20,217
Goodwill	67,989
Other assets	9,038
Total assets	825,601
Current liabilities	107,455
Non-current liabilities	147,964
Deferred taxes	185,847
Total liabilities assumed	441,266
Purchase price	\$ 384,335

		Weighted average amortization period
Licensing agreements, patents and similar rights	\$ 122,739	13 years
Technologies	258,962	10 years
Dealer relationships	12,279	10 years
	\$ 393,980	

Technology assets include trade secrets, production processes, CAD drawings, parts lists, blueprints and software products that reached technological feasibility.

The fair value of the technology assets was determined by using an earnings-based valuation method. The useful life was determined based on the expected use of the technology by Sirona, any legal provisions that may limit the useful life of the technology, the effects of known advances, obsolescence, demand and competition and the level of maintenance expense required to obtain the future cash flows of the technology. Based on these factors, technologies were assigned useful lives of 1 to 13 years.

The fair value of the dealer relationships was determined using the replacement cost valuation method, which considered the cost which would have been incurred to search, engage and train the new dealers. The remaining useful life of a contractual dealer relationship relates to the estimated average period of 10 years after which an existing dealer needs to be retrained, similar to a new dealer.

The fair values of the trademarks were determined using the relief from royalty method and assumed royalty rates ranging from 0.25% to 1.0%. The Company deems trademarks to be indefinite lived intangible assets as the trademarks are used worldwide, can be separated from any other asset, do not have

any legal, regulatory, contractual competitive, economic or other factors that limit their useful lives, and require no material levels of maintenance to retain their cash flow. As such, trademarks are not currently subject to amortization. The Company evaluates the useful life of trademarks each year to determine whether facts and circumstances continue to support an indefinite life for these assets.

Pro Forma Information on Business Combinations

The pro forma condensed consolidated information for the year ended September 30, 2005 gives effect to the Exchange and the MDP Transaction as if they had occurred on October 1, 2004; the pro forma information for the year ended September 30, 2006 gives effect to the Exchange as if it had occurred on October 1, 2005.

\$ 000s	Fiscal year ended September 30, 2006(1)	September 30, 2005(2)
Revenue	\$ 575,899	\$ 523,817
Cost of Sales	305,609	308,061
Gross profit	270,290	215,756
Operating expenses/(income):		
Selling general and administrative expense	171,615	158,750
Research and development	37,067	34,462
Provision for doubtful accounts and notes receivable	348	(319)
Net other operating expenses	1,732	
Operating income	59,528	22,863
Foreign currency transaction (gain) / loss	(9,873)	1,350
(Gain) / Loss on derivative instruments	(719)	2,701
Interest expense, net	43,207	39,814
Other (income)	(30)	(128)
Income/(loss) before income taxes and minority interest	26,943	(20,874)
Income tax provision/(benefit)	10,704	(7,584)
Minority interest	218	44
Net income / (loss)	\$ 16,021	\$ (13,334)
Income / (loss) per share basic	\$ 0.29	\$ (0.24)
Income / (loss) per share diluted	\$ 0.29	\$ (0.24)
Weighted average shares - basic	54,608,134	54,588,140
Weighted average shares - basic and diluted	54,683,307	54,588,140

(1) Gives pro forma effect to the Exchange, as if it occurred on October 1, 2005.

(2) Gives pro forma effect to the Exchange and the MDP Transaction as if the transactions occurred on October 1, 2004.

6. Employee Share-Based Compensation

FASB Statement No. 123 (Revised 2004), Share-Based Payment (SFAS 123(R)) requires that all share-based compensation arrangements, including grants of stock option awards to employees, be recognized based on the estimated fair value of the share-based payment award. The historical financial information of the Company is based on Sirona Holding's financial information prior to the Exchange which closed on June 20, 2006. Sirona Holding was a non-public entity and did not grant any share-based payment awards prior to the June 20, 2006 Exchange. The share-based awards assumed or issued in connection with the Exchange are subject to the guidance of SFAS 123(R). As there were no share-based awards issued by Sirona Holding prior to the Exchange, the adoption of SFAS 123(R) did not result in any transitional adjustments or a requirement to provide pro forma disclosures for prior periods.

In connection with the reverse acquisition of Schick effected by the Exchange, share-based awards outstanding under Schick's 1996 Stock Option Plan (the Plan) and 1997 Stock Option Plan for Non-Employee Directors (the Directors Plan) continue to be outstanding. At the date of the Exchange, 862,220 vested and 458,179 unvested options were outstanding (see note 4). Stock options granted under the assumed stock option plans have a contractual life of 10 years from the date of grant and requisite service periods of 2 to 4 years. The Company does not expect to repurchase these shares within the next 12 months.

The Plan permitted incentive and non-qualified options to purchase shares of common stock to be granted to employees, directors and consultants. The 1996 Plan allowed for the issuance of 4,700,000 options and expired on April 22, 2006. Accordingly, no further options may be granted under the Plan.

The Directors Plan stipulates that the exercise price of non-qualified options granted under that plan must equal or exceed 85% of the fair market value of the common stock as of the date of grant of the option, and no option may be exercisable after ten years from the date of grant. The Company has never granted options at less than market on the date of grant. The Directors Plan also provides that certain awards will become fully vested and/or exercisable upon a change in control (as defined in the Directors Plan) subject to certain restrictions. At September 30, 2006, 7,000 shares were available for grant.

In contemplation of the Exchange, Schick conditionally granted to certain employees and consultants options to purchase 1,530,000 shares of Schick common stock as of September 25, 2005. The options granted were conditional on the Exchange closing. Upon the June 20, 2006 closing of the Exchange, the date of grant for accounting purposes, the conditional options commenced vesting over a four year period.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions noted in the following table. The expected life represents the period of time the options are expected to be outstanding. As a public company with no prior option history, Sirona assessed Schick's historical volatilities and compared these to a peer group. Because Schick did not trade on an organized marketplace or exchange from 1999 to 2002 that period is not indicative of the expected volatility. Furthermore the volatility after the announcement date in 2005 is affected by the Exchange Agreement. Based on these factors and after consideration of the historical volatilities of the peer group companies, the Company determined that the volatility of Schick shares during the 52 week period prior to the announcement date results in the best estimate of the expected volatility at 34%. The average option life was estimated to range between 5 and 6.25 years based on anticipated employee exercise behaviour. It has been common for option recipients to realize gains as the market price of the stock attained in the money levels. Substantial share appreciation in the two years prior to the announced Exchange triggered significant option exercises at Schick. The Exchange itself triggered additional disqualifying distributions in response to the subsequent stock price run up in spite of the announced dividend. The expected dividend yield is based on Sirona's history of not paying regular dividends in the past and the Company's current intention not to pay regular dividends in the foreseeable future. The

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risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options.

	Year ended September 30, 2006	
Expected Volatility	34	%
Risk-free rate	3.73	%
Expected term	5 to 6.25 years	
Expected dividends		

Compensation expense of \$3,537 has been charged against income for stock-based compensation for the year ended September 30, 2006. This charge was recorded within selling, general and administration for \$2,544, research and development for \$601, and cost of sales for \$391. The total income tax benefit recognized in the income statement for the share-based compensation arrangements was \$1,395, for the fiscal year ended September 30, 2006. Sirona did not grant any share-based awards prior to the closing of the Exchange so prior periods were not burdened by share-based compensation expense.

The following is a summary of Sirona's stock option activity for the year ended September 30, 2006:

	Year ended September 30, 2006	
	Number of options	Weighted average exercise price \$
Outstanding at beginning of period		
Schick awards assumed in Exchange and included in purchase accounting	1,320,399	\$ 11.16
Conditional Schick awards not reflected in purchase accounting	1,530,000	25.10
Granted	60,000	42.50
Exercised	(18,221)	9.79
Expired		
Forfeited	(32,500)	25.10
Outstanding at end of period	2,859,678	19.13
Exercisable at end of point	1,026,761	11.19

There were 18,221 options, exercised during the year ended September 30, 2006. The total intrinsic value of options exercised for the fiscal year ended September 30, 2006 was \$457. The aggregate intrinsic value of stock options exercisable at September 30, 2006 was \$22,318 and these options have a weighted average remaining contractual life of 6.9 years. The aggregate intrinsic value of stock options outstanding at September 30, 2006 was approximately \$39,452 and these options have a weighted-average remaining contractual life of 8.6 years.

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A summary of the status of Sirona's non-vested options as of September 30, 2006, and the changes during the year ended September 30, 2006, is presented below:

Nonvested stock options	Year ended September 30, 2006 Number of shares	Weighted average grant date fair value \$
Schick awards assumed in Exchange and included in purchase accounting		
Nonvested at beginning of period	1,320,399	\$ 23.43
Conditional Schick awards not reflected in purchase accounting	1,530,000	24.17
Granted	60,000	15.46
Vested	(1,026,761)	26.08
Forfeited	(32,500)	20.83
Nonvested at September 30, 2006	1,832,917	25.08

As of September 30, 2006, there was \$41,331 of total compensation cost to be recognized in future periods related to outstanding non-vested share-based compensation awards. The cost is expected to be recognized over a weighted-average period of 2.75 years. The cash received and the actual tax benefit realized for the tax deductions from option exercises was \$160 and \$32 for the year ended September 30, 2006. The total fair value of options vested for the year ended September 30, 2006 is \$2,321.

7. Comprehensive Income

Comprehensive income for the fiscal year ending September 30, 2006 was \$1,887 comprising net income of \$755 and cumulative translation adjustment of \$1,132.

Comprehensive (loss)/income for the three month period ending September 30, 2005 and for the nine-month periods ending June 30, 2005 was (\$45,618) and \$9,839, respectively. These amounts were comprised of net / (loss) income of (\$46,035) and net income of \$11,126, respectively, and cumulative translation adjustments of \$417 and (\$1,287), respectively.

8. Accounts receivable

The allowance for doubtful accounts was developed as follows:

	Balance at beginning of period	Additions Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Successor					
For the year ended September 30, 2006	\$ 402	\$ 647		\$ 212	\$ 837
From July 1, 2005 to September 30, 2005		402			402
Predecessor 2					
From October 1, 2004 to June 30, 2005	526	427		462	491
From February 17, 2004 to September 30, 2004		526			526
Predecessor 1					
From October 1, 2003 to February 16, 2004	2,886	1,160		609	3,437

9. Inventories, net

	Successor September 30, 2006 \$ 000s	Successor September 30, 2005
Finished goods	\$ 28,382	\$ 24,439
Work in progress	11,688	12,153
Raw materials	25,630	18,460
	65,700	55,052
Inventory reserve	(8,397)	(7,712)
	\$ 57,303	\$ 47,340

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The inventory reserve was developed as follows:

	Balance at beginning of period	Charged to Cost and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Successor					
For the year ended September 30, 2006	\$ 7,712	\$ 1,976		\$ 1,291	\$ 8,397
From July 1, 2005 to September 30, 2005	7,542	425		255	7,712
Predecessor 2					
From October 1, 2004 to June 30, 2005	6,950	1,833		1,241	7,542
From February 17, 2004 to September 30, 2004	6,776	2,062		1,888	6,950
Predecessor 1					
From October 1, 2003 to February 16, 2004	6,201	781		206	6,776

In the fiscal year ending September 30, 2006, \$4,214 of general and administrative cost was charged to inventory (July 1, 2005 to September 30, 2005, \$1,091; October 1, 2004 to June 30, 2005, \$3,728; February 17, 2004 to September 30, 2004, \$2,720; October 1, 2003 to February 16, 2004, \$1,990).

In the period ending September 30, 2006, \$401 of general and administrative cost remained in inventory (September 30, 2005; \$541).

10. Prepaid expenses and other current assets

Included within prepaid expenses and other current assets as at September 30, 2006 is a VAT receivable of \$ 2,666 (September 30, 2005, \$17,179).

11. Property, plant and equipment, net

Successor As of September 30, 2006	Gross \$ 000s	Accumulated Depreciation and Amortization	Net
Land	\$ 11,859	\$	\$ 11,859
Buildings, building improvements and leasehold improvements	14,841	1,775	13,066
Machinery and technical equipment	34,992	14,263	20,729
Software and software licences	13,101	2,101	11,000
Prepayments for property, plant and equipment	4,388		4,388
	\$ 79,181	\$ 18,139	\$ 61,042

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Successor As of September 30, 2005	Gross \$ 000s	Accumulated Depreciation and Amortization	Net
Land	\$ 10,391	\$	\$ 10,391
Buildings, building improvements and leasehold improvements	14,968	291	14,677
Machinery and technical equipment	22,383	2,563	19,820
Software and software licences	4,866	574	4,292
	\$ 52,608	\$ 3,428	\$ 49,180

Depreciation and amortization expense for the year ended September 30, 2006 was \$13,771, for the twelve month period ended September 30, 2005, \$16,192 (October 1, 2004 to June 30, 2005, \$12,738, July 1, 2005 to September 2005, \$3,454) and for the twelve month period ending September 30, 2004, \$13,894 (October 1, 2003 to February 16, 2004, \$4,501, February 17, 2004 to September 30, 2004, \$9,393).

Amortization expense for capitalized software development costs for the year ended September 30, 2006 was \$270, for the twelve month period ended September 30, 2005 was \$995 (October 1, 2004 to June 30, 2005, \$840, July 1, 2005 to September 2005, \$155) and for the twelve month period ending September 30, 2004 was \$949 (October 1, 2003 to February 16, 2004, \$583, February 17, 2004 to September 30, 2004, \$366). Buildings and leasehold improvements includes office space that is leased under operating leases to third parties with a historical cost of \$1,719 and \$1,634 and carrying amount of \$675 and \$629 at September 30, 2006 and 2005, respectively.

12. Intangible assets and goodwill

The Company performed the required annual impairment tests as of September 30 in each year and identified no impairment.

Amortization and depreciation expense for finite-lived identifiable intangible assets for the year ended September 30, 2006 was \$52,813, for the twelve month period ending September 30, 2005 was \$43,355 (October 1, 2004 to June 30, 2005, \$31,417, July 1, 2005 to September 30, 2005, \$11,938) and for the twelve month period ending September 30, 2004, \$25,339 (October 1, 2003 to February 16, 2004, \$2,029, February 17, 2004 to September 30, 2004, \$23,310). The annual estimated amortization expense related to these intangible assets for the fiscal years 2007, 2008, 2009, 2010 and 2011 is \$75,651, \$78,256, \$65,913, \$55,201 and \$47,910, respectively.

The following table presents details of intangible assets, related accumulated amortization and goodwill:

Successor September 30, 2006	Gross \$ 000s	Accumulated amortization	Net
Patents & Licenses	\$ 132,736	\$ 17,168	\$ 115,568
Trademarks	124,282	28	124,254
Technologies and dealer relationships	428,217	49,046	379,171
	685,235	66,242	618,993
Goodwill	613,549		613,549
Total intangible assets	\$ 1,298,784	\$ 66,242	\$ 1,232,542

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	Gross \$ 000s	Accumulated amortization	Net
Successor			
September 30, 2005			
Patents & Licenses	\$ 124,510	\$ 2,263	\$ 122,247
Trademarks	93,403		93,403
Technologies and dealer relationships	283,381	9,589	273,792
	501,294	11,852	489,442
Goodwill	468,769		468,769
Total intangible assets	\$ 970,063	\$ 11,852	\$ 958,211

The change in the value of goodwill from September 30, 2005 to September 30, 2006 is related to the Exchange as well as differences in exchange rates. Goodwill has also been reduced by \$132 as a result of tax benefits received from exercises subsequent to the Exchange of options vested and included in the determination of purchase price at the time of the Exchange. The goodwill generated by the Exchange was allocated to the Imaging Systems segment and amounted to \$126,748. The change related to the differences in exchange rate amounted to \$18,164.

13. Income taxes

The income tax (provision) benefit is comprised of the following:

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Current					
Domestic (U.S.)	\$ (2,031)	\$	\$	\$ (6)	\$ (66)
Foreign	(16,784)	(182)	(7,643)	1,011	(12,591)
Total Current	(18,815)	(182)	(7,643)	1,005	(12,657)
Deferred					
Domestic (U.S.)	2,444	57	10	1,054	
Foreign	9,011	5,921	2,189	9,689	(524)
Total Deferred	11,455	5,978	2,199	10,743	(524)
Total	\$ (7,360)	\$ 5,796	\$ (5,444)	\$ 11,748	\$ (13,181)

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The significant components of deferred tax assets and liabilities of continuing operations included in the consolidated balance sheets are:

	Successor At September 30, 2006		Successor At September 30, 2005	
	Current assets (liabilities) \$ 000s	Non-current assets (liabilities)	Current assets (liabilities)	Non-current assets (liabilities)
Employee benefit accruals	\$ 62	\$ 7,497	\$	\$ 275
Goodwill amortization for tax purposes (historical tax deductible goodwill)		(5,520)		(1,049)
Debt issuance costs	(1,232)	(5,939)		(8,984)
Inventory reserve	3,410		(1,329)	
Receivables	(245)			
Property, plant and equipment		(5,987)		(494)
Intangible assets		(232,168)		(183,171)
Long term debt	(247)	(2,033)		
Deferred income		(1,697)		
Tax loss carryforward	1,361	8,963	191	9,093
Valuation allowances on tax loss carryforwards		(3,208)		(3,782)
Other	(1,646)	250	1,161	1,594
Total	1,463	(239,842)	23	(186,518)
Deferred tax assets current and non-current	4,671	3,649	3,242	9,874
Deferred tax liabilities current and non-current	(3,208)	(243,491)	(3,219)	(196,392)
Net deferred tax asset (liability)	\$ 1,463	\$ (239,842)	\$ 23	\$ (186,518)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon sufficient taxable income within the carryback years and the generation of future taxable income during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers taxable income in the carry back years, if carry back is permitted in the tax law, the projected future taxable income, and tax planning strategies in making this assessment.

As of September 30, 2006 the Company had \$ 35,389 of gross tax loss carry-forwards subject to expiration as follows:

Year of expiration	Losses
2009	\$ 1,440
2010	380
2011	517
2012	1,971
2013 - 2025	4,727
Subtotal	9,035
Indefinite	26,354
Total	\$ 35,389

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The Company recognized a valuation allowance of \$3,208 at September 30, 2006 (\$3,782 at September 30, 2005) on deferred tax assets relating to tax loss carry-forwards of \$ 9,154, as management believes that it is more likely than not, that the benefits of those existing tax loss carry-forwards will not be realized within the period those tax losses are deductible.

The difference between the applicable statutory tax rate and the Company's income tax (provision) benefit included in the consolidated statements of operations consisted of the following: The statutory tax rate for 2006 is the U.S. federal tax rate as a result of the Exchange (described in Note 4). The expected tax rate of prior periods is the German Corporation tax rate, the applicable tax rate before the Exchange.

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Income/(loss) before income taxes and minority interest	\$ 8,333	\$ (51,837)	\$ 16,620	\$ (46,106)	\$ 33,750
Computed tax (provision)/benefit	(2,917)	19,128	(6,133)	17,014	(12,454)
Foreign tax differential	(314)	(352)	(2,584)	(313)	
Non deductible expenses	(127)	(23)	(179)	(74)	(22)
Permanent differences relating to German trade taxes	(2,600)	(1,283)	(1,101)	949	
Subpart F income net of tax credit	(372)				
IPR&D	(2,100)	(12,471)		(7,460)	
Tax income from prior periods			3,812	848	
Permanent differences	1,391	(79)		(62)	(250)
Additional state taxes	(420)				
Other	99	876	741	846	(455)
(Provision)/benefit for income taxes	\$ (7,360)	\$ 5,796	\$ (5,444)	\$ 11,748	\$ (13,181)

The permanent differences primarily include the effects of non-taxable interest.

During the period from October 1, 2004 to June 30, 2005, the Company resolved an issue related to its German income tax returns for the tax years 1998 to 2002 with the German authorities. The Company had filed an objection against taxable treatment of a transaction in 1998. The Company prevailed with its views that the transaction should be treated as non-taxable and recognized the impact of the non-taxable treatment when it became probable that it was sustainable; the balance is included in Tax income from prior periods. The German authorities refunded an amount of \$3,812 in connection with the issue.

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The components of income (loss) before income taxes and minority interests are:

	Successor Year ended September 30, 2006 \$ 000s	Predecessor 2 July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 1 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Germany	\$ 15,756	\$ (50,015)	\$ 23,936	\$ (44,731)	\$ 33,777
United States	(4,374)	(131)	(419)	24	(105)
Other Foreign	(3,049)	(1,691)	(6,897)	(1,399)	78
	\$ 8,333	\$ (51,837)	\$ 16,620	\$ (46,106)	\$ 33,750

None of the goodwill recognized in the Exchange is tax deductible. The portion of capitalized goodwill that is deductible for tax purposes as a result of the MDP and EQT Transactions as of June 30, 2005 and February 17, 2004 was \$88,219 and \$72,281 respectively.

	Balance at beginning of Period \$ 000s	Charged (credited) to Cost and Expenses	Addition Charged to other Accounts	Deductions	Balance at End of Period
Valuation allowance deferred tax asset					
For the year ended September 30, 2006	\$ 3,782	\$ (574)			\$ 3,208

Income taxes on cumulative earnings of foreign subsidiaries have not been provided for because such earnings are intended to be indefinitely reinvested in those operations.

The German tax authority is currently examining the Company's tax returns for the years 2001 to 2004. The Company does not believe the results of the examination will have an adverse material effect on the Company's financial position, results of operations or liquidity.

14. Accrued liabilities and deferred income

	Successor September 30, 2006 \$ 000s	Successor September 30, 2005
Employee benefits (e. g. bonuses, vacation, overtime, Christmas payment)	\$ 26,779	\$ 22,610
Product warranty	10,879	9,276
Property taxes	1,526	
Other provisions	12,648	11,967
VAT accruals		15,800
Other liabilities	13,371	4,104
	\$ 65,203	\$ 63,757

15. Long-term debt

	Successor September 30, 2006 \$ 000s	Successor September 30, 2005
Shareholder loan from Luxco	\$	\$ 184,712
Bank loans		
Senior syndicated loan, Tranches A, variable rate repayable in semi-annual installments starting September 2006 through June 2012	118,013	162,172
Senior syndicated loan, Tranches B, variable rate repayable at end of term in June 2013	158,587	150,500
Senior syndicated loan, Tranche C, interest at EURIBOR plus 3.25%, repayable in full at end of term in June 2014	139,574	150,500
Mezzanine loan, interest at EURIBOR plus 9.5%, repayable in full at end of term in June 2015	115,344	121,888
Other debt	1,854	1,665
	533,372	771,437
Less current portion	14,738	10,103
	\$ 518,634	\$ 761,334

The table below reflects the contractual maturity dates of the various borrowings at September 30, 2006:

Year ending September 30,	\$ 000s
2007	\$ 14,738
2008	17,478
2009	19,318
2010	19,318
2011	23,918
Thereafter	438,602
	\$ 533,372

The amounts disclosed above do not include interest, except for the 2007 amount, which includes interest of \$5.

In connection with the MDP Transaction, the financing of the Company was restructured.

Shareholder loan

Luxco granted Sirona Holding a loan of 150,992 in connection with the MDP Transaction. The loan accrues interest at 7.5% per annum. In connection with the Exchange, Sirona Dental Systems, Inc. took over the shareholder loan from Luxco. Effective June 20, 2006 (closing of the transaction) the shareholder loan is eliminated on consolidation. The interest is being accumulated until the end of the loan term on June 30, 2015, when the loan and the interest is required to be repaid. From October 1, 2005 through June 20, 2006 interest of 8,305 (\$10,086) has been accreted.

Bank loans

Bank loans outstanding at September 30, 2006 comprise senior ranking loans and accreted interest of \$531,518, divided into three tranches, including a mezzanine loan, plus an acquisition facility and an overdraft facility.

Tranche A is a U.S. Dollar denominated loan and has a principal amount of \$162,689 and is repayable in semi-annual instalments through June 30, 2012. The repayments will be calculated as a percentage of the loan amount. As of September 30, 2006 the loan, including accreted interest, amounts to \$118,013 as the company made an unscheduled repayment of \$38,379, which reduced the regular repayments pro rata, and a scheduled repayment of \$5,519. Tranche A has an interest rate of LIBOR plus a margin of 1.5% to 2.25% per annum. Interest is payable on a monthly, quarterly, or semi-annual basis, at the discretion of the Company. Two step up swaps have been established for 70% of the interest for the next three years. The interest rate swaps fix the LIBOR element of interest payable on 70% of the principal amount of the loan for defined twelve month periods over the three years. The defined interest rates fixed for each twelve month period range from 1.75% to 4.71%. Settlement of the swaps is required on a quarterly basis.

Tranche B is a denominated loan in the principal amount of 125.0 million and is repayable in a single amount of 125,000 on June 30, 2013. Including accreted interest the loan amounts to 125.0 million plus accreted interest of 0.2 million (\$158,587) as at September 30, 2006. Tranche B has an interest rate of EURIBOR plus a margin of 2.25% to 2.75% per annum. Interest is paid on a monthly, quarterly or semi annual basis, at the discretion of the Company. The Company entered into four cap/ floor collars for 51% of the interest for the next three years. Under the terms of the collars the floor interest rates are 1.595% and 1.85% and the cap interest rates are 5% and 4.10%. Settlements of the contracts are required on a quarterly basis.

Tranche C is a denominated loan and has a principle amount of 125,000 and is repayable on June 30, 2014. As at September 30, 2006 the loan amounts to 110,000 plus accreted interest of 170 (\$139,574) as the Company made an unscheduled repayment of 15,000 during the year. Tranche C has an interest rate of EURIBOR plus a margin of 3.25% per annum. Interest is paid on a monthly, quarterly or semi-annual basis, at the discretion of the Company. The Company entered into two cap/floor collars for 51% of the EURIBOR element of the interest for the next three years. Under the terms of the collars the floor interest rates are 1.595% and 1.85% and the cap interest rates are 5% and 4.10%. Settlements of the contracts are required on a quarterly basis.

At inception, the mezzanine loan had a principal amount of 165,000 (\$198,842), and under the terms of the loan, the full amount was repayable at the end of the loan term, in June 2015. The Company repaid 65,000 of the mezzanine debt in the three month period to September 30, 2005 and 15,000 in fiscal year 2006. The mezzanine loan has an interest rate of EURIBOR plus a margin of 9.5% per annum. The 9.5% margin is divided into two components: 4.5% per annum is payable on an on-going basis, and the remaining 5% per annum will accrete until the end of the loan term. The remaining loan outstanding as of September 30, 2006 including accreted interest amounts to 91,044 (\$115,344). The Company entered into two cap/ floor collars for 51% of the EURIBOR portion of the interest for the next three years. Under the terms of the collars the floor interest rates are 1.68% and 1.85% and the cap interest rates are 5% and 4.02%. Settlements of the contract are required on a quarterly basis.

The mezzanine loan is subordinated to the senior ranking loans, and the shareholder loans are subordinated to both the senior ranking loans and the mezzanine loan.

All of the bank loan agreements stipulate early repayment of certain amounts under certain conditions. In particular, up to 50% of excess cash flow, as defined in the contract, falls due one month after the issuance of audited consolidated German GAAP financial statements, starting in fiscal year 2007, depending on the level of the Company's adjusted EBITDA.

The Company has agreed to certain debt covenants in relation to this financing. The covenants stipulate that the Company must maintain certain ratios in respect of cash flows, interest payments and defined earnings measures and also place a limit on capital expenditures. If the Company breaches any of the covenants, the loans will become repayable on demand.

The margins of Tranches A and B and the acquisition facility are fixed for one year and thereafter will be calculated based on a ratio of net debt to EBITDA for the previous reporting period, all derived from the consolidated financial statements prepared in accordance with German GAAP, starting in fiscal year 2007.

The bank loans are secured by the pledge of the equity interests in certain Sirona subsidiaries. In addition, all receivables, bank accounts, tangible assets, inventories, patents, trademarks and other property rights of Sirona Dental Systems GmbH and Sirona Dental Services GmbH are also pledged as security for the loans.

In addition, as at September 30, 2006 an overdraft facility exists of 40,000 (\$50,676) and acquisition facility of 50,000 (\$63,345). At September 30, 2006, none of the overdraft or acquisition facilities had been drawn down.

16. Deferred income

On June 30, 2005, Sirona and its largest distributor, Patterson, amended the terms of an existing distribution agreement to extend Patterson's rights as exclusive distributor of certain Sirona products within the United States and Canada from October 1, 2007 through September 30, 2017. As consideration for the extension of its exclusivity rights, Patterson made a one-time payment of \$100 million to Sirona in July 2005. Sirona recorded the full amount of the payment as deferred revenue and will begin amortizing the amount into revenue on a straight-line basis over ten years beginning October 1, 2007. In the event of termination by Patterson for certain breaches of contract by Sirona, Sirona has to refund to Patterson the unearned portion of the \$100 million payment as liquidated damages. Depending on the reason for termination, the amount of liquidated damages declines (i) on a straight line basis beginning in fiscal 2008 or (ii) by \$15 million per year in each of fiscal 2008 through fiscal 2012 and by \$5 million per year thereafter. Sirona accounts for the deferred revenue related to the Patterson payment as a monetary liability so the effects of remeasurement of the amount from U.S. dollar to Euro are reflected currently in the statement of operations. Sirona recognized \$0.398 million loss and \$4.972 million of Foreign currency transaction gains in the statements of operations for the years ended September 30, 2005 and 2006, respectively.

17. Income per share

The computation of basic and diluted income (loss) per share is as follows:

\$ 000 except for share amounts	Year ended September 30, 2006
Net income	\$ 755
Weighted average shares outstanding - basic	41,884,704
Dilutive effect of stock options	321,933
Weighted average shares outstanding - diluted	42,206,637
Income per share	
Basic	\$ 0.02
Diluted	\$ 0.02

Stock options to acquire 60,000 shares of Sirona's common stock that were granted in connection with the Directors Plan were not included in the computation of diluted earnings per share for the twelve month ended September 30, 2006, because the options' underlying exercise prices were greater than the average market price of Sirona's common stock for the period.

Share and per share information is not presented for periods prior to the Exchange because such information is not meaningful.

18. Commitments and contingencies

Operating lease commitments

The Company leases certain vehicles and IT equipment from unrelated third parties. The leases are non-cancellable and have terms of greater than one year. During the year ended September 30, 2006 leasing expense was \$3,336 (July 1, 2005 to September 2005, \$255; October 1, 2004 to June 30, 2005, \$753; February 17, 2004 to September 30, 2004, \$571; October 2003 to February 16, 2004, \$400).

In July 2005, Sirona entered into a sale and leaseback agreement regarding unused land on the site of the headquarters in Bensheim. The land was sold for \$1,067 to an unrelated property development company, who will construct an office building based on Sirona's specifications on the site. Sirona will lease the property from the property development company through an 18-year lease. Under the terms of the lease, rent is fixed at \$1,202 (\$1,523 at the /\$ exchange rate of September 30, 2006) per annum until 2013. After 2013, rent is subject to adjustment according to an inflation index. Rental payments will commence once the building is ready for occupation, which is currently anticipated to be in April 2007. The land remains as an asset of Sirona's balance sheet and the building will be accounted for as an operating lease.

Future minimum lease payments under non-cancelable operating lease agreements as of September 30, 2006 are as follows:

Year ending September 30,	\$ 000s
2007	\$ 4,669
2008	4,144
2009	3,543
2010	2,765
2011	2,704
Thereafter	21,317
	\$ 39,142

Guarantees

Customers can finance their purchase of Sirona products from the respective dealer through financial institutions. Prior to March 2003, Sirona would offer to guarantee up to 10% of the total liability due to the financial institution from Sirona customers if the customer defaulted on their payments. However, the contracts negotiated with the dealers, who sold the products to the third party customers, granted Sirona a right of recourse against the dealer if the customer defaulted on their payments. The Company ceased issuing these guarantees after March 2003. The arrangements were generally provided for a five year period; therefore the related guarantees issued by Sirona are expected to expire by 2008. Under US GAAP, only guarantees issued after December 31, 2002 are required to be measured at fair value and recognized in Sirona's financial statements.

Contingencies

The Company may be involved in lawsuits, claims, investigations and proceedings, including patent and commercial matters that arise in the ordinary course of business. At September 30, 2006, there

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are no such matters pending that the Company expects to be material in relation to its business, consolidated financial position, results of operations or cash flows.

19. Product warranty

The following table provides the changes in the product warranty accrual for the year ended September 30, 2006

	Year ended September 30, 2006 \$ 000s
Opening balance	\$ 9,276
Accruals for warranties issued during the period	15,453
Warranty settlements made during the period	(14,355)
Translation adjustment	505
Closing balance	\$ 10,879

20. Unconditional purchase commitments

As of September 30, 2006, the Company had unconditional purchase commitments of \$43,820, mainly for purchases of raw material and components. The commitments are due in fiscal year 2007, (\$40,099), in fiscal year 2008, (\$3,469) and in fiscal year 2009, (\$252).

21. Interest

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Interest expense	\$ (45,675)	\$ (8,990)	\$ (21,306)	\$ (12,272)	\$ (1,895)
Interest expense from related parties	(10,086)	(2,939)	(2,594)	(2,573)	(3,730)
Interest income	1,486	842	1,126	432	333
	\$ (54,275)	\$ (11,087)	\$ (22,774)	\$ (14,413)	\$ (5,292)

22. Pension plans

Defined benefit plans

In Germany the Company traditionally had an unfunded defined benefit pension plan whose benefits are based primarily on years of service and wage and salary group. As of January 1, 2001, the company replaced its unfunded defined benefit pension plan with a new defined contribution plan. All new hires after that date only receive defined contributions to a pension plan based on a percentage of the employee's eligible compensation. However, due to grandfathering provisions for certain existing employees hired before that date, the Company continues to be obligated to provide pension benefits which are at a minimum equal to benefits that would have been available under the terms of the traditional defined benefit plans (Grandfathered Benefit). The Grandfathered Benefit and contributions to the Company's pension plan made for those employees after January 1, 2001 are included in the disclosures for defined benefit plans. The Company accounts for the Grandfathered Benefit by recognizing the higher of the defined contribution obligation or the defined benefit obligation for the minimum benefit.

In addition, the Company offers defined contribution benefits under the terms of a Section 401(k) plan to employees in the U.S.

The Company uses an actuarial measurement date of September 30.

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Change in the projected benefit obligation and plan assets for all of the Company's defined benefit plans is as follows:

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005
Projected benefits obligation at beginning of period	\$ 48,547	\$ 47,352	\$ 38,809
Service cost	1,149	906	247
Interest cost	1,941	476	1,563
Actuarial loss (gain)	(431)	46	8,596
Investment earnings	304	50	164
Benefits paid	(723)	(232)	(511)
Currency translation	2,601	(51)	(1,516)
Projected benefit obligation at end of period	53,388	48,547	47,352
Fair value of plan assets at beginning of period	4,656	3,839	3,772
Actual return on plan assets	304	50	164
Employer's contribution	1,268	831	
Benefits paid	(51)	(55)	
Currency Translation	(147)	(9)	(97)
Fair value of plan assets at end of period	6,030	4,656	3,839
Funded status	\$ (47,358)	\$ (43,891)	\$ (43,513)

Components of net periodic benefit costs are as follows:

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Service cost	\$ 1,149	\$ 906	\$ 247	\$ 1,053	\$ 163
Interest cost	1,941	476	1,563	1,105	792
Other					(343)
Net periodic benefit cost	\$ 3,090	\$ 1,382	\$ 1,810	\$ 2,158	\$ 612

The accumulated benefit obligation as of September 30, 2006 and 2005 was \$46,248 and \$43,720, respectively.

The reconciliation of the funded status of the Company's defined benefit plans to the amounts recognized on the balance sheets is as follows:

	Successor September 30, 2006 \$ 000s	Successor September 30, 2005
Funded status	\$ (47,358)	\$ (43,891)
Recognized pension provision	(48,167)	(43,847)
Un-recognized net (loss) / gain	\$ 809	\$ (44)

To the extent the defined benefit obligation is recognized for the Grandfather Benefit, the long-term estimated rate of return on plan assets is 5% per annum. This rate was based on an appropriate long-term rate for the plan assets held.

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The benefits expected to be paid in cash of the following five years, and in aggregate for the fiscal years thereafter, are as follows:

Year ending September 30,	\$ 000s
2007	\$ 1,023
2008	1,220
2009	1,669
2010	1,837
2011	2,035
Thereafter	11,404
	\$ 19,188

The contributions expected to be made in each of the following five years and in aggregate thereafter are as follows:

Year ending September 30,	\$ 000s
2007	\$ 1,300
2008	1,335
2009	1,367
2010	1,404
2011	1,418
Thereafter	19,823
	\$ 26,647

Weighted-average assumptions used to determine both benefit obligations and net periodic benefit costs are as follows:

	Successor Year ended September 30, 2006	July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Discount rate	4.50 %	4.25 %	5.75 %	5.75 %	5.75 %

The plan assets consist of contributions made by Sirona to a pension fund managed by an insurance company as custodian, which invests these funds. The insurance company guarantees a minimum return on the contributions. The expected long term return on plan assets is estimated to be 5%. This rate is based on an estimated long term return rate for the type of plan assets held.

The Company's weighted average asset allocations by the insurance company by asset category are as follows:

	Successor September 30, 2006	Successor September 30, 2005
Equity securities	34.8 %	40.5 %
Fixed income securities	52.0 %	41.3 %
Other	13.2 %	18.2 %
	100.0 %	100.0 %

Defined Contribution plans

The Company made contributions to the German plan of \$358 for the twelve month period ended September 30, 2006 (July 1, 2005 ended September 30, 2005, \$654; October 1, 2004 to June 30, 2005, \$0; February 17, 2004 to September 30, 2004, \$676; October 1, 2003 to February 16, 2004, \$0) and contributions to the U.S. plans of \$259 for the twelve month period ended September 30, 2006 (July 1, 2005 to September 30, 2005, \$41; October 1, 2004 to June 30, 2005, \$105; February 17, 2004 to September 30, 2004, \$52; October 1, 2003 to February 16, 2004, \$46). The Company is obligated to match employee contributions.

23. Segment reporting

Description of segments. Sirona manages its business on both a product and geographic basis and has four reporting segments; Dental CAD/CAM Systems, Imaging Systems, Treatment Centers, and Instruments. There are two regional sales organisations, USA and Other World Markets, which distribute Sirona's products globally through a network of independent distributors to dental practices, clinics and laboratories. The Electronic Center is a shared facility that manufactures electronic components and provides services for all Sirona segments, and to a very limited extent, external parties. Further shared functions including customer service, logistics, site management, IT and administration are operated centrally.

Description of the Company's segments:

Dental CAD/CAM Systems. Dental CAD/CAM Systems products comprise CAD/CAM chairside systems for the dentist (CEREC) as well as CAD/CAM systems for the laboratories, such as inlab, inEOS and a central manufacturing service for copings and bridge-frameworks. The CEREC system allows dentists to prepare restorations in an out-of-mouth pre-shaped process and insert them into the patient's mouths during a single appointment.

Imaging Systems. Imaging systems products comprise a broad range of equipment for diagnostic imaging in the dental practice, using both film-based and digital technologies. Sirona has developed a broad range of imaging systems for panoramic and intra-oral applications.

Treatment Centers. Sirona's treatment centers comprise a broad range, from standard dentist chairs to sophisticated centers with integrated diagnostic, hygiene and ergonomic functionalities, such as C2+ and M1+, as well as specialist centers used in preventative treatment (ProFeel+) and for training purposes.

Instruments. Sirona offers a wide range of handpiece products, encompassing handheld and power-operated handpieces for cavity preparation, endodontics, periodontology and prophylaxis. The handpieces are supplemented by multi-function tips, supply and suction hoses, as well as care and hygiene systems for handpiece preparation. Sirona's handpieces are often sold as complete packages in combination with treatment centers. The division also supplies parts for other divisions, especially Treatment Units (OEM turbines and tubes) and CAD/CAM Systems.

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The following tables reflect the results of the Company's reportable segments under the Company's management reporting system. The segment performance measure used to monitor segment performance is gross profit (Segment Performance Measure). Gross profit, which is based on the records as prepared under statutory German accounting standards, excluding the impact of the EQT Transaction and MDP Transaction, is considered to better reflect the performance of each segment as it eliminates the need to allocate centrally incurred costs and significant purchase accounting impacts that the Company does not believe are representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

	Successor October 1, 2005 to September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Revenue External					
Dental CAD/CAM Systems	\$ 183,810	\$ 31,269	\$ 137,699	\$ 66,454	\$ 54,319
Imaging Systems	132,726	27,211	72,963	50,185	30,349
Treatment Centers	130,108	33,235	95,908	73,099	50,793
Instruments	71,880	14,620	48,575	38,129	23,724
Total	\$ 518,524	\$ 106,335	\$ 355,145	\$ 227,867	\$ 159,185
Revenue Internal					
Dental CAD/CAM Systems	\$	\$	\$	\$	\$
Imaging Systems	74		85	335	72
Treatment Centers	60				
Instruments	11,355	2,678	8,653	7,108	4,415
Intercompany elimination	(11,489)	(2,678)	(8,738)	(7,443)	(4,487)
Total	\$	\$	\$	\$	\$
Revenue Total					
Dental CAD/CAM Systems	\$ 183,810	\$ 31,269	\$ 137,699	\$ 66,454	\$ 54,319
Imaging Systems	132,799	27,211	73,048	50,520	30,421
Treatment Centers	130,168	33,235	95,908	73,099	50,793
Instruments	83,236	17,298	57,228	45,237	28,139
Total	\$ 530,013	\$ 109,013	\$ 363,883	\$ 235,310	\$ 163,672
Segment performance measure					
Dental CAD/CAM Systems	\$ 135,678	\$ 22,903	\$ 98,677	\$ 46,438	\$ 39,781
Imaging Systems	67,686	11,195	29,377	19,928	11,767
Treatment Centers	49,112	13,074	32,996	21,528	17,712
Instruments	35,497	6,183	22,691	16,514	11,226
Total	\$ 287,973	\$ 53,355	\$ 183,741	\$ 104,408	\$ 80,486
Depreciation and amortization expense					
Dental CAD/CAM Systems	\$ 2,042	\$ 746	\$ 1,988	\$ 1,786	\$ 1,053
Imaging Systems	2,834	1,120	2,890	2,238	1,163
Treatment Centers	2,372	655	2,093	1,701	742
Instruments	2,722	756	1,785	1,306	652
Total	\$ 9,970	\$ 3,277	\$ 8,756	\$ 7,031	\$ 3,610

Reconciliation of the results of the segment performance measure to the consolidated statements of operations

Segment results are determined based on the Company's internal management reporting process, which reflects the way management views its businesses, and are not prepared in accordance with US GAAP, which is the basis of accounting used to prepare these consolidated financial statements. The following table and discussion provide a reconciliation of the total results of operations and total assets of the Company's business segments under management reporting to the consolidated financial statements. Inter-segment transactions are based on amounts which management believes approximate the amounts of transactions with unrelated third parties.

	Successor Year ended September 30, 2006 \$ 000s	Successor July 1, 2005 to September 30, 2005	Predecessor 2 October 1, 2004 to June 30, 2005	Predecessor 2 February 17, 2004 to September 30, 2004	Predecessor 1 October 1, 2003 to February 16, 2004
Revenue					
Total segments	\$ 518,524	\$ 106,335	\$ 355,145	\$ 227,867	\$ 159,185
Electronic centre	181	4	971	1,243	1,159
Differences management reporting vs U.S. GAAP	1,899	(1,268)	2,169	106	(1,743)
Consolidated revenue	520,604	105,071	358,285	229,216	158,601
Depreciation and amortization					
Total segments	9,970	3,277	8,756	7,031	3,610
Electronic Centre and corporate	1,864	383	1,179	989	577
Differences management reporting vs. US GAAP	55,020	11,732	34,220	24,683	2,343
Consolidated depreciation and amortization	66,854	15,392	44,155	32,703	6,530
Segment performance measure					
Total segments	287,973	53,355	183,741	104,408	80,486
Electronic centre and corporate	4,266	1,336	2,323	4,998	1,033
Differences management reporting vs. US GAAP	(50,320)	(21,234)	(27,242)	(33,128)	135
Consolidated gross profit	241,919	33,457	158,822	76,278	81,654
Selling, general and administrative expense	148,715	34,544	93,236	65,424	33,454
Research and development	33,107	7,863	21,700	16,594	8,575
Provision for doubtful accounts and notes receivable	348	(192)	(127)	(846)	368
Write off of in-process research and development	6,000	33,796		20,217	
Net other operating (income) / loss	1,733	(723)	(384)	955	82
Foreign currency transaction loss	(9,873)	601	749	4,129	1,491
Loss / (gain) on derivative instruments	(719)	(1,682)	4,383	1,498	(1,358)
Interest expense, net		11,087	22,774	14,413	5,292
Other income	54,275		(129)		
Income/(Loss) before income taxes and minority interest	\$ 8,333	\$ (51,837)	\$ 16,620	\$ (46,106)	\$ 33,750

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The adjustments that the Company records to reconcile management reporting to the consolidated financial statements prepared in accordance with U.S. GAAP primarily relate to the exclusion of amortization and depreciation related to the step-up to fair value of the intangible and tangible assets as a result of the EQT Transaction and the MDP Transaction. In addition, management reporting is based on German GAAP which differs from US GAAP. The main differences between management reporting based on German GAAP and U.S. GAAP applicable to the Company include:

Revenue recognition

Management reporting recognizes revenue upon shipment of the product. For consolidated financial statements purposes, revenue is recognized upon risk of loss being transferred to the buyer, which depends in part on the shipping terms.

Provisions

Management reporting records provisions even though the occurrence of a loss may not be probable or a legal obligation may not exist. For consolidated financial statements purposes certain provisions such as the allowance for doubtful accounts and loss contingencies are recognized when a loss is probable and reasonably estimable.

Inventory

Management reporting does not include inventory overhead costs which relate to the production process. For consolidated financial statements purposes, these overhead costs are capitalized in inventory.

Pension expense

Management reporting measures pension expense using the entry age normal approach. For consolidated financial statements purposes, pension expense is recognized using the projected unit credit method.

Software cost capitalization

Management reporting does not capitalize costs relating to the development of software for internal use or software that is more than incidental to equipment that is intended to be sold. For consolidated financial statements purposes, certain costs that are incurred in the development stage are capitalized for software for internal use. For software developed and to be included in products that are intended to be sold, costs that are incurred after the software has achieved technological feasibility are capitalized until the software is available for market release.

Foreign currency accounting

Until September 30, 2005, Management reporting translated the income statements of foreign subsidiaries at the spot rate at the balance sheet date and only recognizes unrealized losses on foreign currency denominated receivables or payables. For consolidated financial statements purposes, the income statements of foreign subsidiaries are translated using a weighted average rate for the respective period, whereas foreign currency denominated receivables and payables are translated at the rate at the balance sheet date. Since October, 2005 the method used in management reporting has been adjusted to be consistent with the method used in the consolidated financial statements.

Purchase accounting

Management reporting excludes amortization and depreciation related to the step-up to fair value of the intangible and tangible assets as a result of the EQT Transaction, the MDP Transaction and the Exchange. In addition, management reporting also excludes the incremental cost of sales due to the step up in value of inventory recognized in purchase accounting. For consolidated financial statements purposes, amortization and depreciation related to the step up of definite-lived intangibles and tangible assets are recognized and amortized over their estimated useful lives. In addition, incremental costs due to the step-up in value of inventory recognized in purchase accounting are expensed when revenue for the product is recognized.

The following information is presented in accordance with U.S. GAAP:

	Successor September 30, 2006 \$ 000s	Successor September 30, 2005
Total assets		
Dental CAD/CAM Systems	\$ 757,071	\$ 755,591
Imaging Systems	493,133	177,131
Treatment Centers	196,010	203,142
Instruments	94,790	102,811
Total	\$ 1,541,004	\$ 1,238,675
Goodwill		
Dental CAD/CAM Systems	\$ 272,810	\$ 261,912
Imaging Systems	198,049	69,859
Treatment Centers	87,650	84,151
Instruments	55,040	52,847
Total	\$ 613,549	\$ 468,769

	Germany \$ 000s	United States	Rest of World	Total
Net Sales*				
October 1, 2005 to September 30, 2006	\$ 118,378	\$ 156,720	\$ 245,506	\$ 520,604
July 1, 2005 to September 30, 2005	27,467	20,833	56,771	105,071
October 1, 2004 to June 30, 2005	101,414	103,457	153,414	358,285
February 17, 2004 to September 30, 2004	66,888	52,240	110,088	229,216
October 1, 2003 to February 16, 2004	41,834	35,964	80,803	158,601
Long-lived assets				
September 30, 2006	1,025,891	281,762	4,051	1,311,704
September 30, 2005	1,026,409	576	2,387	1,029,372

During the periods of October 1, 2005 through September 30, 2006, July 1, 2005 through September 30, 2005, October 1, 2004 to June 30, 2005, February 17, 2004 to September 30, 2004, and October 1, 2004 to February 16, 2004, revenues from two customers represented 45%, 29%, 36%, 28%, and 40% of net sales, respectively. No other customer accounted for more than 10% of revenues.

* Sales are allocated to the country in which the customer is located.

24. Related parties

Other related party transactions MDP

In connection with the MDP Transaction a service agreement has been put in place between Sirona, MDP IV Offshore GP, LP and Harry M. Jansen Kraemer, who is a member of the Advisory Committee to the Board of Luxco Manager. This agreement provides for a one-time payment of 10,000 (\$12,000) from Sirona to the other two parties for advice, support for negotiating the purchase agreement, preparation of financial models and projections and due diligence services for Sirona related to the MDP Transaction. The payment was made in the three month period ended September 30, 2005.

EQT

In connection with the EQT transaction, a payment was made, for transaction related services performed by EQT, by Sirona to EQT Northern Europe Limited, Guernsey. The amount paid in the period from October 1, 2003 to February 16, 2004 was \$5,344, and there was no amount outstanding at September 30, 2004.

Sirona Dental Systems SARL, Luxembourg

Sirona Dental Systems SARL, Luxembourg was the parent company of Sirona from 1997 until the acquisition of the Company by EQT in February 2004. During this period Sirona incurred fees from Sirona Dental Systems SARL. Amounts charged in the period from October 1, 2003 to February 16, 2004 were \$202.

Sirona Equipos Dentales Iberica (SEDI)

SEDI was a related party of Sirona in the year ended September 30, 2003 and for part of the year ended September 30, 2004 due to Sirona's 25% equity investment in the company. SEDI ceased to be a related party on July 16, 2004. On July 16, 2004, Sirona acquired the remaining 75% of the equity in SEDI from the majority shareholder and SEDI therefore became a 100% owned subsidiary included within the Company's consolidated financial statements. SEDI acts as a distributor for Sirona in the Spanish market.

Revenue recorded by Sirona relating to sales to SEDI in the periods from February 17, 2004 to September 30, 2004, and for October 1, 2003 to February 16, 2004 were \$2,086 and \$2,108, respectively.

BERAG

The Company considers BERAG, an actuarial firm used by Sirona, to be a related party of Sirona. The Managing Director of BERAG, Dr. Blum, is also a member of the Supervisory Board of Sirona Dental Systems GmbH, a subsidiary of Sirona Dental Systems, Inc.

Sirona recorded expenses in relation to BERAG in each of the period being presented as follows; October 1, 2005 to September 30, 2006, \$94; July 1, 2005 to September 30, 2005, \$21; October 1, 2004 to June 30, 2005, \$67; February 17, 2004 to September 30, 2004, \$12; October 1, 2004 to February 16, 2004, \$9. Amounts owed to BERAG as at September 30, 2006 and September 30, 2005, were \$0 and \$69, respectively.

demedis Group

Revenue recorded by Sirona relating to sales to the demedis Group, an entity under control of Sirona Dental Systems SARL and a distributor of Sirona products in certain European markets, in the period from October 1, 2003 to February 16, 2004 was \$28,258.

Sirona Holdings S. C.A Luxembourg

Effective October 1, 2005, an advisory service agreement has been signed between the Company and Sirona Holdings S.C.A., Luxembourg. Under the agreement, Sirona will pay an annual fee to Sirona Holdings S.C.A., Luxembourg of 325 (\$400), and Sirona Holdings S.C.A., Luxembourg will provide to Sirona certain advisory services regarding the structure, terms and condition of debt offerings by Sirona, financing sources and options, business development and other services.

25. Subsequent event

On November 22, 2006, the Company entered into a new senior credit facility, which includes: (1) a term loan A1 in an aggregate principal amount of \$150,000 (the "tranche A1 term loan") available to Sirona's subsidiary, Schick Technologies, Inc., as borrower, (2) a term loan A2 in an aggregate principal amount of Euro 275,000 (the "tranche A2 term loan") available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower, and (3) a \$150,000 revolving credit facility available to Sirona Dental Systems GmbH, Schick Technologies, Inc. and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S.\$, Yen or any other freely available currency agreed to by the facility agent. Initial borrowings under the new credit facility plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities. Each of the facilities has a five-year maturity. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself.

Under Sirona's current financial ratios, the new facilities bear interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR. A margin ratchet has been agreed, which is subject to a certain ratio with respect of net debt and a defined earnings measure and becomes effective 12 months after the initial drawdown of the facility.

The new senior credit facility contains restrictive covenants that limit Sirona's ability to make loans, make investments, including in joint ventures, incur additional indebtedness, make acquisitions or pay dividends, subject to agreed upon exceptions. The Company has agreed to certain debt covenants in relation to this financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand. The Company has accounted for this re-financing as a debt extinguishment.

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26. Unaudited quarterly information

The following is a summary of the Company's unaudited quarterly operating results for the years ended September 30, 2006 and 2005:

	Successor Sept 30, 2006	Successor June 30, 2006	Successor Mar 31, 2006	Successor Dec 31, 2005
	\$ 000s (except for weighted average shares)			
Revenue	\$ 135,542	\$ 117,337	\$ 131,843	\$ 135,882
Cost of Sales	76,640	65,565	66,816	69,664
Gross profit	58,902	51,772	65,027	66,218
Operating expenses (income):				
Selling, general and administrative expense	47,603	33,470	35,339	32,303
Research and development	9,968	8,166	8,026	6,947
Write off of in-process research and development		6,000		
Provision for doubtful accounts and notes receivable	304	(138)	322	(140)
Other operating (income) expenses, net	(572)	622	1,376	308
Operating income	1,599	3,652	19,964	26,800
Foreign currency transactions (gain) / loss	(392)	(11,361)	(3,377)	5,257
Unrealized loss/(gain) on derivative instruments	3,050	(2,397)	(1,647)	275
Interest expense, net	10,382	14,893	13,545	15,455
Other income				
(Loss)/income before income taxes and minority interest	(11,441)	2,517	11,443	5,813
Income tax (benefit) provision	(10,103)	7,983	6,976	2,504
Minority interest	150	45	23	(1)
Net (loss) / income	\$ (1,488)	\$ (5,511)	\$ 4,444	\$ 3,310
Income / (loss) per share basic	\$ (0.03)	\$ (0.14)	N/A	N/A
Income / (loss) per share diluted	\$ (0.03)	\$ (0.14)	N/A	N/A
Weighted average shares basic	54,599,627	38,908,289	N/A	N/A
Weighted average shares diluted	54,599,627	38,908,289	N/A	N/A

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	Successor Sep 30, 2005 \$ 000s	Predecessor 2 June 30, 2005	Predecessor 2 March 31, 2005	Predecessor 2 Dec 31, 2004
Revenue	\$ 105,071	\$ 106,372	\$ 120,385	\$ 131,528
Cost of Sales	71,614	61,046	65,959	72,458
Gross profit	33,457	45,326	54,426	59,070
Operating expenses (income):				
Selling, general and administrative expense	34,544	32,677	30,082	30,477
Research and development	7,863	6,740	7,829	7,131
Write off of in-process research and development	33,796			
Provision for doubtful accounts and notes receivable	(192)	(130)	144	(141)
Other operating (income) expenses, net	(723)	(471)	(560)	647
Operating income	(41,831)	6,510	16,931	20,956
Foreign currency transactions loss / (gain)	601	8,578	3,437	(11,266)
Unrealized (gain) / loss on derivative instruments	(1,682)	4,304	1,093	(1,014)
Interest expense, net	11,087	7,035	7,725	8,014
Other income		(129)		
(Loss)/income before income taxes and minority interest	(51,837)	(13,278)	4,676	25,222
Income tax (benefit) provision	(5,796)	(3,234)	1,722	6,956
Minority interest	(6)	(236)	286	
Net (loss) / income	\$ (46,035)	\$ (9,808)	\$ 2,668	\$ 18,266

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