AQUA AMERICA INC
Form 10-Q
November 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended September 30, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from __________ to __________
Commission File Number 1-6659
AQUA AMERICA, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1702594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania	19010 -3489
(Address of principal executive offices)	(Zip Code)

(610) 527-8000
(Registrant s telephone number, including area code)
(Former Name, former address and former fiscal year, if changed since last report.)

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 þ No o

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 þ No o

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 12(b)-2 of the Exchange Act.:

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of October 26, 2010: 137,540,249.

AQUA AMERICA, INC. AND SUBSIDIARIES

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Part 1 Financial Information
Item 1. Financial Statements

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	September 30, 2010	December 31, 2009
Assets		
Property, plant and equipment, at cost	$ 4,389,159	$ 4,141,690
Less: accumulated depreciation	991,859	914,396
Net property, plant and equipment	3,397,300	3,227,294
Current assets:		
Cash and cash equivalents	13,554	21,869
Accounts receivable and unbilled revenues, net	96,467	78,742
Income tax receivable	18,365	0
Inventory, materials and supplies	10,013	9,519
Prepayments and other current assets	10,766	11,441
Total current assets	149,165	121,571
Regulatory assets	219,396	226,351
Deferred charges and other assets, net	63,441	59,468
Funds restricted for construction activity	42,329	84,830
Goodwill	41,651	43,083
	$ 3,913,282	$ 3,762,597
Liabilities and Equity		
Aqua America stockholders equity:		
Common stock at $.50 par value, authorized 300,000,000 shares, issued 138,191,194 and 137,148,749 in 2010 and 2009	$ 69,095	$ 68,574
Capital in excess of par value	658,563	642,786
Retained earnings	423,621	409,402
Treasury stock, at cost, 678,572 and 662,410 shares in 2010 and 2009	(12,403)	(12,138)
Accumulated other comprehensive income	124	280
Total Aqua America stockholders equity	1,139,000	1,108,904
Noncontrolling interest	565	560
Total equity	1,139,565	1,109,464

Long-term debt, excluding current portion	1,450,338	1,386,557
Commitments and contingencies		
Current liabilities:		
Current portion of long-term debt	12,805	59,577
Loans payable	69,472	27,487
Accounts payable	36,540	57,862
Accrued interest	19,161	16,265
Accrued taxes	17,504	18,813
Dividends payable	21,314	0
Other accrued liabilities	29,782	21,003
Total current liabilities	206,578	201,007
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	446,641	408,583
Customers advances for construction	68,592	76,913
Regulatory liabilities	32,789	28,812
Other	113,557	114,490
Total deferred credits and other liabilities	661,579	628,798
Contributions in aid of construction	455,222	436,771
	$ 3,913,282	$ 3,762,597

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating revenues	$ 546,758	$ 502,646
Operating expenses:		
Operations and maintenance	209,879	204,026
Depreciation	80,433	76,795
Amortization	10,115	8,848
Taxes other than income taxes	39,985	35,892
	340,412	325,561
Operating income	206,346	177,085
Other expense (income):		
Interest expense, net	56,084	50,693
Allowance for funds used during construction	(4,079)	(1,940)
Gain on sale of other assets	(2,330)	(375)
Income before income taxes	156,671	128,707
Provision for income taxes	61,554	51,013
Net income attributable to common shareholders	$ 95,117	$ 77,694
Net income attributable to common shareholders	$ 95,117	$ 77,694
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	1,174	127
Reclassification adjustment for (gains) losses reported in net income	(1,330)	5
Comprehensive income	$ 94,961	$ 77,826
Net income per common share:		
Basic	$ 0.70	$ 0.57
Diluted	$ 0.69	$ 0.57
Average common shares outstanding during the period:		
Basic	136,798	135,673

Diluted		137,112		136,006
Cash dividends declared per common share	$	0.59	$	0.55

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended September 30,	
	2010	2009
Operating revenues	$ 207,797	$ 180,826
Operating expenses:		
Operations and maintenance	72,968	68,488
Depreciation	27,431	25,436
Amortization	3,629	3,029
Taxes other than income taxes	14,182	12,418
	118,210	109,371
Operating income	89,587	71,455
Other expense (income):		
Interest expense, net	19,150	17,256
Allowance for funds used during construction	(1,077)	(747)
Gain on sale of other assets	(291)	(162)
Income before income taxes	71,805	55,108
Provision for income taxes	28,054	21,638
Net income attributable to common shareholders	$ 43,751	$ 33,470
Net income attributable to common shareholders	$ 43,751	$ 33,470
Other comprehensive income, net of tax:		
Unrealized holding gain (loss) on investments	272	(142)
Comprehensive income	$ 44,023	$ 33,328
Net income per common share:		
Basic	$ 0.32	$ 0.25
Diluted	$ 0.32	$ 0.25
Average common shares outstanding during the period:		
Basic	137,095	135,975

Diluted		137,394		136,260
Cash dividends declared per common share	$	0.30	$	0.28

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
(UNAUDITED)

		September 30, 2010	December 31, 2009
Aqua America stockholders equity:			
Common stock, $.50 par value		$ 69,095	$ 68,574
Capital in excess of par value		658,563	642,786
Retained earnings		423,621	409,402
Treasury stock, at cost		(12,403)	(12,138)
Accumulated other comprehensive income		124	280
Total Aqua America stockholders equity		1,139,000	1,108,904
Noncontrolling interest		565	560
Total equity		1,139,565	1,109,464
Long-term debt:			
Long-term debt of subsidiaries (substantially secured by utility plant):			
Interest Rate Range	Maturity Date Range		
0.00% to 0.99%	2012 to 2034	6,420	6,868
1.00% to 1.99%	2011 to 2035	21,057	21,917
2.00% to 2.99%	2019 to 2029	13,626	12,935
3.00% to 3.99%	2016 to 2025	26,568	28,455
4.00% to 4.99%	2020 to 2041	269,967	271,346
5.00% to 5.99%	2011 to 2043	384,794	384,694
6.00% to 6.99%	2011 to 2036	121,587	121,876
7.00% to 7.99%	2012 to 2025	30,432	31,236
8.00% to 8.99%	2021 to 2025	34,332	34,543
9.00% to 9.99%	2011 to 2026	45,228	69,983
10.40%	2018	6,000	6,000
		960,011	989,853
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		68,000	64,149
Unsecured notes payable:			
Notes ranging from 4.62% to 4.87%, due 2013 through 2024		193,000	185,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037		242,132	207,132
		1,463,143	1,446,134
Current portion of long-term debt		12,805	59,577

Long-term debt, excluding current portion		1,450,338		1,386,557
Total capitalization	$	2,589,903	$	2,496,021

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(In thousands of dollars)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2009	$ 68,574	$ 642,786	$ 409,402	$ (12,138)	$ 280	$ 560	$ 1,109,464
Net income	0	0	95,117	0	0	5	95,122
Unrealized holding gain on investments, net of income tax of $632	0	0	0	0	1,174	0	1,174
Reclassification adjustment for gain reported in net income, net of income tax of $716	0	0	0	0	(1,330)	0	(1,330)
Dividends paid	0	0	(59,584)	0	0	0	(59,584)
Dividends declared	0	0	(21,314)	0	0	0	(21,314)
Sale of stock (543,506 shares)	259	8,550	0	479	0	0	9,288
Repurchase of stock (41,255 shares)	0	0	0	(744)	0	0	(744)
Equity compensation plan (196,688 shares)	98	(98)	0	0	0	0	0
Exercise of stock options (327,344 shares)	164	3,725	0	0	0	0	3,889
Stock-based compensation	0	3,095	0	0	0	0	3,095
Employee stock plan tax benefits	0	505	0	0	0	0	505
Balance at September 30, 2010	$ 69,095	$ 658,563	$ 423,621	$ (12,403)	$ 124	$ 565	$ 1,139,565

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)
(UNAUDITED)

	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net income attributable to common shareholders	$ 95,117	$ 77,694
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	90,548	85,643
Deferred income taxes	35,557	33,608
Provision for doubtful accounts	3,556	4,608
Stock-based compensation	3,095	2,714
Gain on sale of utility system	0	(1,009)
Gain on sale of other assets	(2,330)	(375)
Net increase in receivables, inventory and prepayments	(19,867)	(6,091)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(13,179)	(9,332)
Other	(3,119)	(6,555)
Net cash flows used in operating activities	189,378	180,905
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of $4,079 and $1,940	(239,467)	(194,886)
Acquisitions of utility systems and other, net	(1,948)	(1,523)
Additions to funds restricted for construction activity	(1,051)	(59,722)
Release of funds previously restricted for construction activity	43,552	74,016
Net proceeds from the sale of utility system and other assets	3,582	1,985
Other	(4,438)	(3,504)
Net cash flows used in investing activities	(199,770)	(183,634)
Cash flows from financing activities:		
Customers advances and contributions in aid of construction	5,682	3,852
Repayments of customers advances	(5,203)	(2,070)
Net proceeds (repayments) of short-term debt	41,985	(4,043)
Proceeds from long-term debt	114,313	69,833
Repayments of long-term debt	(97,678)	(6,505)
Change in cash overdraft position	(10,173)	(10,449)
Proceeds from issuing common stock	9,288	8,776
Proceeds from exercised stock options	3,889	1,579
Stock-based compensation windfall tax benefits	302	98
Repurchase of common stock	(744)	(302)
Dividends paid on common stock	(59,584)	(54,969)
Net cash flows from financing activities	2,077	5,800

Net (decrease) increase in cash and cash equivalents	(8,315)	3,071
Cash and cash equivalents at beginning of period	21,869	14,944
Cash and cash equivalents at end of period	$ 13,554	$ 18,015

See notes to consolidated financial statements beginning on page 8 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the Company) at September 30, 2010, the consolidated statements of income and comprehensive income for the nine and three months ended September 30, 2010 and 2009, the consolidated statements of cash flow for the nine months ended September 30, 2010 and 2009, and the consolidated statement of equity for the nine months ended September 30, 2010, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2009 consolidated balance sheet data presented herein was derived from the Company s December 31, 2009 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements.

Note 2 Goodwill

The following table summarizes the changes in the Company s goodwill, by business segment:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2009	$ 38,962	$ 4,121	$ 43,083
Reclassifications to utility plant acquisition adjustment	(1,522)	0	(1,522)
Other	90	0	90
Balance at September 30, 2010	$ 37,530	$ 4,121	$ 41,651

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable public utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with certain acquisitions upon achieving certain objectives.

As of July 31, 2010, management performed its annual test of goodwill for impairment, in conjunction with the timing of the Company s annual five-year financial plan. Based on the Company s comparison of the estimated fair value of each reporting unit to its respective carrying amounts management concluded that none of the Company s goodwill was impaired.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 3 Dispositions

The City of Fort Wayne, Indiana (the City) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. The Company challenged whether the City was following the correct legal procedures in connection with the City s attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City s position. In October 2007, the City s Board of Public Works approved proceeding with its process to condemn the northern portion of the Company s utility system at a preliminary price based on the City s valuation. The Company has filed an appeal with the Allen County Circuit Court challenging the Board of Public Works valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company s system and the payment of $16,911 based on the City s valuation of this portion of the system. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City s initial valuation payment of $16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company s system will be determined through a continuation of the legal proceedings that were filed challenging the City s valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company s consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works assessment based upon a capricious, arbitrary or an abuse of discretion standard. The Company disagrees with the Court s decision and is evaluating its legal options with respect to this decision. Depending upon the ultimate outcome of all of the legal proceedings, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of the Company s total assets.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 4 Long-term Debt and Loans Payable

In June 2010, the Company issued $70,000 of senior unsecured notes, of which $15,000 is due in 2021, $20,000 in 2024, and $35,000 in 2028 with interest rates of 4.62%, 4.83%, and 5.22%, respectively.

Note 5 Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company s long-term debt are as follows:

	September 30, 2010	December 31, 2009
Carrying Amount	$ 1,463,143	$ 1,446,134
Estimated Fair Value	1,524,859	1,315,954

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company s customers advances for construction and related tax deposits have a carrying value of $68,592 as of September 30, 2010, and $76,913 as of December 31, 2009. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 6 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of diluted net income per common share. The dilutive effect of stock options is calculated using the treasury stock method and expected proceeds upon exercise of the stock options. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Average common shares outstanding during the period for basic computation	136,798	135,673	137,095	135,975
Dilutive effect of employee stock options	314	333	299	285
Average common shares outstanding during the period for diluted computation	137,112	136,006	137,394	136,260

For the nine and three months ended September 30, 2010, employee stock options to purchase 2,623,273 and 1,512,197 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options exercise were greater than the average market price of the Company s common stock during these periods. For the nine and three months ended September 30, 2009, employee stock options to purchase 2,705,004 shares of common stock, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options exercise were greater than the average market price of the Company s common stock during these periods.

Note 7 Stock-based Compensation

Under the Company s 2009 Omnibus Equity Compensation Plan (the 2009 Plan), as approved by the Company s shareholders to replace the 2004 Equity Compensation Plan (the 2004 Plan), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 5,000,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as restricted stock and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 200,000. Awards under the 2009 Plan are made by a committee of the Board of Directors. At September 30, 2010, 4,322,775 shares underlying stock option and restricted stock awards were still available for grants under the 2009 Plan. No further grants may be made under the 2004 Plan.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Stock Options During the nine months ended September 30, 2010 and 2009, the Company recognized compensation costs associated with stock options as a component of operations and maintenance expense of $1,540 and $1,866, respectively. During the three months ended September 30, 2010 and 2009, the Company recognized compensation costs associated with stock options as a component of operations and maintenance expense of $526 and $665, respectively. For the nine months ended September 30, 2010 and 2009, the Company recognized income tax benefits associated with stock options in its income statement of $502 and $359, respectively. For the three months ended September 30, 2010 and 2009, the Company recognized income tax benefits associated with stock options in its income statement of $201 and $124, respectively. In addition, for the nine and three months ended September 30, 2010 and 2009, the Company capitalized compensation costs associated with stock options within property, plant and equipment of $0 and $73, respectively.

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The per share weighted-average fair value at the date of grant for stock options granted during the nine months ended September 30, 2010 and 2009 was $3.49 and $4.37 per option, respectively. There were no stock options granted during the three months ended September 30, 2010 and 2009. The following assumptions were used in the application of this valuation model:

	2010	2009
Expected term (years)	6.0	5.3
Risk-free interest rate	2.8%	2.2%
Expected volatility	26.7%	31.3%
Dividend yield	3.3%	3.0%

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted-average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

The following table summarizes stock option transactions for the nine months ended September 30, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding at beginning of period	3,895,329	$ 19.17		
Granted	459,837	17.14		
Forfeited	(11,839)	18.91		
Expired	(43,033)	23.22		
Exercised	(327,344)	11.88		
Outstanding at end of period	3,972,950	$ 19.50	5.9	$ 9,157
Exercisable at end of period	2,952,181	$ 19.87	5.0	$ 7,141

Restricted Stock During the nine months ended September 30, 2010 and 2009, the Company recorded stock-based compensation related to restricted stock awards as a component of operations and maintenance expense in the amounts of $1,555 and $848, respectively. During the three months ended September 30, 2010 and 2009, the Company recorded stock-based compensation related to restricted stock awards as a component of operations and maintenance expense in the amounts of $412 and $219, respectively. The following table summarizes nonvested restricted stock transactions for the nine months ended September 30, 2010:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	102,918	$ 19.73
Granted	197,288	17.19
Vested	(64,587)	19.66
Forfeited	(600)	17.23
Nonvested shares at end of period	235,019	$ 17.62

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
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Note 8 Pension Plans and Other Postretirement Benefits

The Company maintains qualified defined benefit pension plans, nonqualified pension plans and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values and an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company s employees, mortality, turnover, and medical costs. The following tables provide the components of net periodic benefit costs:

	Pension Benefits			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Service cost	$ 3,396	$ 3,276	$ 1,052	$ 1,092
Interest cost	9,702	9,411	3,262	3,137
Expected return on plan assets	(8,545)	(7,037)	(2,953)	(2,346)
Amortization of transition asset		(136)		(45)
Amortization of prior service cost	141	113	71	38
Amortization of actuarial loss	3,222	3,848	1,162	1,283
Capitalized costs	(2,493)	(2,027)	(808)	(707)
Settlement charge	1,068	641	184	0
Net periodic benefit cost	$ 6,491	$ 8,089	$ 1,970	$ 2,452

	Other Postretirement Benefits			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Service cost	$ 847	$ 810	$ 237	$ 270
Interest cost	1,831	1,716	591	572
Expected return on plan assets	(1,402)	(1,266)	(478)	(422)
Amortization of transition obligation	78	78	26	26
Amortization of prior service cost	(201)	(209)	(67)	(70)
Amortization of actuarial loss	464	440	122	147
Amortization of regulatory asset	102	102	34	34
Capitalized costs	(369)	(274)	(119)	(95)
Net periodic benefit cost	$ 1,350	$ 1,397	$ 346	$ 462

The Company made cash contributions of $12,706 to its defined benefit pension plans during the first nine months of 2010, and intends to make cash contributions of $300 to the plans during the remainder of 2010. In addition, the Company made cash contributions of $191 and expects to make cash contributions of $1,494 for the funding of its other postretirement benefit plans during the remainder of 2010.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 9 Water and Wastewater Rates

On June 17, 2010, the Pennsylvania Public Utility Commission granted the Company s operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by $23,600, on an annualized basis. The rates in effect at the time of the filing included $24,256 in Distribution System Improvement Charges (DSIC) or 7.5% above prior base rates. Consequently, the total base rates increased by $47,856, and the DSIC was reset to zero. During the first nine months of 2010, in addition to Pennsylvania, the Company s operating divisions in New York, New Jersey, Maine, North Carolina, Ohio, Missouri, and Indiana were granted base rate increases designed to increase total operating revenues on an annual basis by approximately $14,275.

Note 10 Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Property	$ 20,466	$ 17,941	$ 7,376	$ 6,115
Capital stock	2,641	1,887	850	642
Gross receipts, excise and franchise	7,790	6,740	3,111	2,534
Payroll	5,267	5,313	1,519	1,582
Other	3,821	4,011	1,326	1,545
Total taxes other than income	$ 39,985	$ 35,892	$ 14,182	$ 12,418

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 11 Segment Information

The Company has identified fifteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of fourteen operating segments for the Company s water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, one segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services and certain other non-regulated water and wastewater services. This segment is included as a component of Other in the tables below. Also included in Other are corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

The following tables present the Company s segment information:

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	$ 204,976	$ 2,821	$ 207,797	$ 177,872	$ 2,954	$ 180,826
Operations and maintenance expense	70,074	2,894	72,968	66,133	2,355	68,488
Depreciation	27,643	(212)	27,431	25,854	(418)	25,436
Operating income (loss)	89,700	(113)	89,587	70,819	636	71,455
Interest expense, net of AFUDC	16,727	1,346	18,073	16,443	66	16,509
Income tax	29,124	(1,070)	28,054	21,548	90	21,638
Net income (loss) attributable to common shareholders	44,113	(362)	43,751	32,986	484	33,470

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	$ 538,575	$ 8,183	$ 546,758	$ 493,911	$ 8,735	$ 502,646
Operations and maintenance expense	202,655	7,224	209,879	197,403	6,623	204,026
Depreciation	81,427	(994)	80,433	77,990	(1,195)	76,795
Operating income	205,589	757	206,346	175,007	2,078	177,085
Interest expense, net of AFUDC	49,292	2,713	52,005	48,495	258	48,753
Gain on sale of other assets	257	2,073	2,330	359	16	375
Income tax	62,977	(1,423)	61,554	50,876	137	51,013
Net income attributable to common shareholders	93,577	1,540	95,117	75,995	1,699	77,694
Capital expenditures	239,141	326	239,467	194,196	690	194,886

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AQUA AMERICA, INC. AND SUBSIDIARIES
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(UNAUDITED)

	September 30, 2010	December 31, 2009
Total assets:		
Regulated	$ 3,833,263	$ 3,689,689
Other and eliminations	80,019	72,908
Consolidated	$ 3,913,282	$ 3,762,597

Note 12 Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued revised accounting guidance for variable interest entities, which replaces the quantitative approach for determining which reporting entity has a controlling financial interest in a variable interest entity with a qualitative approach that focuses on which reporting entity controls the most significant economic activities of the variable interest entity. The revised guidance is effective January 1, 2010. The Company adopted the revised guidance as required, and the adoption did not have an impact on the Company s consolidated results of operations or consolidated financial position.

Note 13 Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of September 30, 2010, the aggregate amount of $14,860 is accrued for loss contingencies and is reported in the Company s consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management s best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company s financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for certain of these loss contingencies, and as of September 30, 2010, estimates that approximately $2,920 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company s consolidated balance sheet as deferred charges and other assets, net.

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AQUA AMERICA, INC. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our belief in our ability to renew our short-term lines of credit; the impact and the actions we may need to take if we are unable to obtain sufficient capital; the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words believes, expects, anticipates, plans, future, potential, probably, predictions, intends, will, continue or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the captions Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Nature of Operations Aqua America, Inc. (we or us), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, South Carolina, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 13 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies service territories as well as sludge hauling, septage and grease services and backflow prevention services.

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Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 13 other states.

Financial Condition

During the first nine months of 2010, we had $239,467 of capital expenditures, issued $114,313 of long-term debt, repaid debt and made sinking fund contributions and other loan repayments of $97,678, and repaid $5,203 of customer advances for construction. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of $114,313 of long-term debt was comprised principally of the proceeds received from the June 2010 issuance of senior unsecured notes payable of $70,000, and the funds borrowed under our revolving credit facility of $43,000.

At September 30, 2010, we had $13,554 of cash and cash equivalents compared to $21,869 at December 31, 2009. During the first nine months of 2010, we used the proceeds from internally generated funds, the issuance of long-term debt, the issuance of common stock, the sale of other assets, and available working capital to fund the cash requirements discussed above and to pay dividends.

At September 30, 2010, our $95,000 unsecured revolving credit facility, which expires in May 2012, had $10,848 available for borrowing. At September 30, 2010, we had short-term lines of credit of $137,000, of which $67,528 was available. One of our short-term lines of credit is an Aqua Pennsylvania $70,000 364-day unsecured revolving credit facility with two banks, which is used to provide working capital.

Our short-term lines of credit of $137,000 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The United States credit and liquidity crisis that started in 2008 and caused substantial volatility in capital markets, including credit markets and the banking industry, has reduced the availability of credit from financing sources, which may continue or worsen in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources, although there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures and our ability to pursue acquisitions that we may rely on for future growth could be impaired.

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The Company s consolidated balance sheet historically has had a negative working capital position whereby routinely our current liabilities exceed our current assets. Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Results of Operations

Analysis of First Nine Months of 2010 Compared to First Nine Months of 2009

Revenues increased $44,112 or 8.8% primarily due to additional revenues associated with increased water and wastewater rates of $25,310, increased water consumption as compared to the first nine months of 2009, additional revenues associated with increased infrastructure rehabilitation surcharges of $2,413, and additional wastewater and water revenues of $2,118 associated with a larger customer base due to acquisitions. The increase in customer water consumption is largely due to favorable weather conditions in many of our service territories during May, June, and the third quarter of 2010, which increased water usage. Further impacting the comparison is the unfavorable weather conditions experienced in 2009 in our service territories that reduced water usage in the third quarter of 2009.

Operations and maintenance expenses increased by $5,853 or 2.9% primarily due to the write-off of previously deferred regulatory expenses of $2,082, the absence of the June 2009 gain on sale of a utility system of $1,009, which had the effect of reducing operations and maintenance expense in 2009, increases in operating costs associated with acquisitions of $938, a write-off of capitalized costs of $715, increases in fuel costs for our service vehicles of $536, and normal increases in other operating costs. Offsetting these increases were decreases in water production costs of $1,227, decreased bad debt expense of $1,052, and reduced expenses of $175 associated with the dispositions of utility systems. The decreased water production costs, principally for chemicals utilized to treat water, were associated with vendor price decreases.

Depreciation expense increased $3,638 or 4.7% due to the utility plant placed in service since September 30, 2009, offset by the effect of the additional expense of $2,037 recognized in the first quarter of 2009 resulting from a rate case adjustment related to our rate filing in North Carolina.

Amortization increased $1,267 or 14.3% primarily due to additional amortization of $579 resulting from the recovery through a surcharge of our costs associated with our rate filing in Texas and the amortization of the costs associated with, and other costs being recovered in, various rate filings, offset by the effect of the additional amortization recognized in the first quarter of 2009 of $394 resulting from a rate case adjustment related to a rate filing.

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Taxes other than income taxes increased by $4,093 or 11.4% primarily due to an increase in property taxes of $2,525, an increase in gross receipts, excise and franchise taxes of $1,050 and an increase in capital stock taxes for our operating subsidiary in Pennsylvania of $754. The increase in property taxes is attributable to an increase in recoverable expenses associated with a recent rate award. The increase in gross receipts, excise and franchise taxes is attributable to an increase in revenue.

Interest expense increased by $5,391 or 10.6% primarily due to an increase in borrowings to finance capital projects, offset partially by decreased interest rates on long-term debt.

Allowance for funds used during construction (AFUDC) increased by $2,139 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied, and an increase in short-term interest rates, which are a component of the applied AFUDC rate.

Gain on sale of other assets totaled $2,330 during the first nine months of 2010 and $375 in the first nine months of 2009. The increase of $1,955 is due primarily to a gain on the sale of an investment in the first quarter of 2010.

Our effective income tax rate was 39.3% in the first nine months of 2010 and 39.6% in the first nine months of 2009. The effective income tax rate decreased due to an increase in a tax credit for qualified domestic production activities in the first nine months of 2010 versus the same period in 2009.

Net income attributable to common shareholders increased by $17,423 or 22.4%, in comparison to the same period in 2009 primarily as a result of the factors described above. On a diluted per share basis, earnings increased $0.12 reflecting the change in net income attributable to common shareholders and a 0.8% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, employee stock purchase plan, and the additional shares issued in August 2009 in connection with an acquisition.

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Results of Operations

Analysis of Third Quarter of 2010 Compared to Third Quarter of 2009

Revenues increased $26,971 or 14.9% primarily due to additional revenues associated with increased water and wastewater rates of $17,431, increased water consumption as compared to the third quarter of 2009, and additional water and wastewater revenues of $815 associated with a larger customer base due to acquisitions. The increase in customer water consumption is largely due to favorable weather conditions in many of our service territories during the third quarter of 2010, which increased water usage. Further impacting the comparison is the unfavorable weather conditions experienced in some of our service territories that resulted in reduced water usage in the third quarter of 2009.

Operations and maintenance expenses increased by $4,480 or 6.5% primarily due to the write-off of previously deferred regulatory expenses of $1,071, increased water production costs of $534, increases in operating costs associated with acquisitions of $326, and normal increases in other operating costs. Offsetting these increases was decreased bad debt expense of $169. The increase in water production costs is a result of increased water consumption, offset primarily by vendor price decreases for chemicals utilized to treat water.

Depreciation expense increased $1,995 or 7.8% due to the utility plant placed in service since September 30, 2009.

Amortization increased $600 or 19.8% due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by $1,764 or 14.2% primarily due to an increase in property taxes of $1,261, an increase in gross receipts, excise and franchise taxes of $577, and an increase in capital stock taxes for our operating subsidiary in Pennsylvania of $208. The increase in property taxes is attributable to an increase in recoverable expenses associated with a recent rate award. The increase in gross receipts, excise and franchise taxes is attributable to an increase in revenue.

Interest expense increased by $1,894 or 11.0% primarily due to additional borrowings to finance capital projects, offset partially by decreased interest rates on long-term debt.

Allowance for funds used during construction (AFUDC) increased by $330 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied, and an increase in short-term interest rates, which are a component of the applied AFUDC rate.

Gain on sale of other assets totaled $291 in the third quarter of 2010 and $162 in the third quarter of 2009. The increase of $129 is principally due to the timing of sales of land and other property.

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Our effective income tax rate was 39.1% in the third quarter of 2010 and 39.3% in the third quarter of 2009. The effective income tax rate decreased due to an increase in a tax credit for qualified domestic production activities in the third quarter of 2010 versus the same period in 2009.

Net income attributable to common shareholders increased by $10,281 or 30.7%, in comparison to the same period in 2009 primarily as a result of the factors described above. On a diluted per share basis, earnings increased $0.07 reflecting the change in net income attributable to common shareholders and a 0.8% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, and employee stock purchase plan, and the additional shares issued in August 2009 in connection with an acquisition.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 12, *Recent Accounting Pronouncements*, of the consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2009. Refer to Item 7A of the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for additional information.

Item 4. Controls and Procedures

(a) 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 of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

The City of Fort Wayne, Indiana (the City) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company s operating subsidiaries in Indiana. We challenged whether the City was following the correct legal procedures in connection with the City s condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City s position. In October 2007, the City s Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City s valuation. In October 2007, we filed an appeal with the Allen County Circuit Court challenging the Board of Public Works valuation on several bases. In November 2007, the City Council authorized the taking of this portion of our system and the payment of $16,910,500 based on the City s valuation of the system. In January 2008, we reached a settlement agreement with the City to transition this portion of the system in February 2008 upon receipt of the City s initial valuation payment of $16,910,500. The settlement agreement specifically states that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works assessment based upon a capricious, arbitrary or an abuse of discretion standard. The Company disagrees with the Court s decision and is evaluating its legal options with respect to this decision. Depending upon the ultimate outcome of all of the legal proceedings we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represented approximately 0.50% of Aqua America s total assets.

A lawsuit was filed by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by one of the Company s subsidiaries, Aqua Utilities Florida, Inc., in Pasco County, Florida. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleges our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. The plaintiffs filed an amended complaint in July 2008 to include additional counts alleging nuisance and strict liability. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other homes in the area, filed another lawsuit with the same court making similar allegations against our subsidiary with respect to the operation of the facility. Both lawsuits have been submitted to our insurance carriers, who have reserved their rights with respect to various portions of the plaintiffs claims. Based on the ultimate outcome of the litigation, we may or may not have insurance coverage for parts or all of the claims. The Company continues to assess the matter and any potential losses. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company s consolidated results of operations or consolidated financial condition.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Two homeowners associations comprised of approximately 180 homes located next to a wastewater plant owned by one of the Company s subsidiaries in Indiana claim that the subsidiary s prior management, before our acquisition of the subsidiary in 2003, allegedly entered into an agreement to cease the majority of operations at the wastewater plant and to remove most of the facilities located at the plant site by April 2009. The Company filed a formal request for review of the purported agreement with the Indiana Utility Regulatory Commission (IURC). In September 2009, the homeowners associations filed suit in Allen County, Indiana Superior Court, claiming breach of contract, breach of warranty, fraud, unjust enrichment, promissory estoppel and constructive fraud. On September 8, 2010, the IURC approved the settlement agreement between the Company and the homeowners associations, and the suit filed by the homeowners association was dismissed. The settlement agreement includes the payment of $2,600,000 to the homeowners associations, certain conditions for future plant improvements, which should not materially interfere with the operation of the plant, and the transfer of a parcel of land to the homeowners associations for which the Company will receive a $50,000 credit to the settlement amount. This matter is not covered by any of the Company s insurance policies.

In July, 2010 one of the Company s subsidiaries received a notice of violation from the Pennsylvania Department of Environmental Protection (DEP). The notice of violation resulted from the subsidiary s commencement of construction of a water tank prior to receipt of a construction permit from DEP. The permit was subsequently received. On September 29, 2010, the DEP notified the Company about a proposed penalty of $120,000 in connection with the notice of violation. The Company s subsidiary is contesting the amount of the proposed penalty and working with DEP to reach an amicable resolution.

There are no other pending legal proceedings to which we or any of our subsidiaries is a party or to which any of their properties is the subject that we believe are material or are expected to have a material effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009 (Form 10-K) under Part 1, Item 1A Risk Factors.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes Aqua America s purchases of its common stock for the quarter ended September 30, 2010:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
July 1 31, 2010	8,508	$ 19.26	0	548,278
August 1 31, 2010	2,602	$ 19.93	0	548,278
September 1 30, 2010	112	$ 20.71	0	548,278
Total	11,222	$ 19.43	0	548,278

(1) These amounts consist of the following: (a) shares we purchased from employees who elected to have us withhold shares to pay certain withholding taxes upon the vesting of restricted stock awards granted to such employees; and (b) shares we purchased from employees who elected to pay the exercise price of their stock options (and then hold shares of the

stock) upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation under the plans. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day of vesting of the restricted stock award or on the day prior to the option exercise.

(2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that

was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Item 6. Exhibits

The information required by this Item is set forth in the Exhibit Index hereto which is incorporated herein by reference.

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SIGNATURES

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

November 5, 2010

Aqua America, Inc.
Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and
Chief Executive Officer

/s/ David P. Smeltzer

David P. Smeltzer
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

nitrogen into compounds that plants can assimilate, could also reduce the use of chemical fertilizers and adversely affect the demand for our products. In addition, from time to time various state legislatures have considered limitations on the use and application of chemical fertilizers due to concerns about the impact of these products on the environment.

Our transportation and distribution activities rely on third party providers, which subjects us to risks and uncertainties beyond our control that may adversely affect our operations and exposure to liability.

We rely on railroad, trucking, pipeline, river barge and ocean vessel companies to transport raw materials to our manufacturing facilities, to coordinate and deliver finished products to our distribution system and to ship finished products to our customers. We also lease rail cars in order to ship raw materials and finished products. These transportation operations, equipment and services are subject to various hazards, including adverse operating conditions on the inland waterway system, extreme weather conditions, system failures, work stoppages, delays, accidents such as spills and derailments and other accidents and other operating hazards.

These transportation operations, equipment and services are also subject to environmental, safety, and regulatory oversight. Due to concerns related to accidents, terrorism or the potential use of fertilizers as explosives, local, state and federal governments could implement new regulations affecting the transportation of raw materials or finished products.

If shipping of our products is delayed or we are unable to obtain raw materials as a result of these transportation companies' failure to operate properly, or if new and more stringent regulatory requirements are implemented affecting transportation operations or equipment, or if there are significant increases in the cost of these services or equipment, our revenues and cost of operations could be adversely affected. In addition, increases in our transportation costs, or changes in such costs relative to transportation costs incurred by our competitors, could have an adverse effect on our business, results of operations, financial condition and cash flows.

The railroad industry continues various efforts to limit the railroads' potential liability stemming from the transportation of Toxic Inhalation Hazard (TIH) materials, such as the anhydrous ammonia we transport to and from our manufacturing and distribution facilities. For example, various railroads have implemented tariffs that include provisions that purport to shift liability to shippers to the extent that liabilities arise from third parties with insufficient resources. These initiatives could materially and adversely affect our operating expenses and potentially our ability to transport anhydrous ammonia and increase our liability for releases of our anhydrous ammonia while in the care, custody and control of the railroads, for which our insurance may be insufficient or unavailable. New regulations also could be implemented affecting the equipment used to ship our raw materials or finished products.

Our operations and the production and handling of our products involve significant risks and hazards. We are not fully insured against all potential hazards and risks incident to our business. Therefore, our insurance coverage may not adequately cover our losses.

Our operations are subject to hazards inherent in the manufacturing, transportation, storage and distribution of chemical fertilizers, including ammonia, which is highly toxic and corrosive. These

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hazards include: explosions; fires; severe weather and natural disasters; train derailments, collisions, vessel groundings and other transportation and maritime incidents; leaks and ruptures involving storage tanks, pipelines and rail cars; spills, discharges and releases of toxic or hazardous substances or gases; deliberate sabotage and terrorist incidents; mechanical failures; unscheduled plant downtime; labor difficulties and other risks. Some of these hazards can cause bodily injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties and liabilities.

We maintain property, business interruption, casualty and liability insurance policies, but we are not fully insured against all potential hazards and risks incident to our business. If we were to incur significant liability for which we were not fully insured, it could have a material adverse effect on our business, results of operations, financial condition and cash flows. We are subject to various self-retentions, deductibles and limits under these insurance policies. The policies also contain exclusions and conditions that could have a material adverse impact on our ability to receive indemnification thereunder. Our policies are generally renewed annually. As a result of market conditions, our premiums, self-retentions and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. In addition, significantly increased costs could lead us to decide to reduce, or possibly eliminate, coverage.

In April 2013, there was a fire and explosion at the West Fertilizer Co. fertilizer storage and distribution facility in West, Texas. According to published reports, 15 people were killed and approximately 200 people were injured in the incident, and the fire and explosion damaged or destroyed a number of homes and buildings around the facility. We have been named as defendants in lawsuits filed in 2013 in the District Court of McLennan County, Texas by the City of West, individual residents of the County and other parties seeking recovery for damages allegedly sustained as a result of the explosion. Plaintiffs allege various theories of negligence, strict liability and breach of warranty under Texas law. Although we do not own or operate the facility or directly sell our product to West Fertilizer Co., products we have manufactured and sold to others have been delivered to the facility and may have been stored at the West facility at the time of the incident. Based on the initial analysis of the pending lawsuits, we believe that we have strong legal and factual defenses to the claims and intend to defend ourselves vigorously in the pending lawsuits and any other claims brought against us in connection with the incident. In addition, the increased focus on the risks associated with fertilizers as a result of the incident could impact the regulatory environment and requirements applicable to fertilizer manufacturing and storage facilities.

Cyber security risks could result in disruptions in business operations and adverse operating results.

As we continue to increase our dependence on information technologies to conduct our operations, the risks associated with cyber security also increase. We rely on management information systems, among other things, to manage our accounting, manufacturing, supply chain and financial functions. This risk not only applies to us, but also to third parties on whose systems we place significant reliance for the conduct of our business. We have implemented security procedures and measures in order to protect our information from being vulnerable to theft, loss, damage or interruption from a number of potential sources or events. We believe these measures and procedures are appropriate. However, we may not have the resources or technical sophistication to anticipate, prevent, or recover from rapidly evolving types of cyber-attacks. Compromises to our information systems could have severe financial and other business implications.

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Adverse weather conditions may decrease demand for our fertilizer products, increase the cost of natural gas or materially disrupt our operations.

Weather conditions that delay or intermittently disrupt field work during the planting and growing seasons may cause agricultural customers to use different forms of nitrogen fertilizer, which may adversely affect demand for the forms that we sell or may impede farmers from applying our fertilizers until the following growing season, resulting in lower demand for our products.

Adverse weather conditions following harvest may delay or eliminate opportunities to apply fertilizer in the fall. Weather can also have an adverse effect on crop yields, which could lower the income of growers and impair their ability to purchase fertilizer from our customers. Our quarterly financial results can vary significantly from one year to the next due to weather-related shifts in planting schedules and purchasing patterns.

Weather conditions or, in certain cases, weather forecasts, also can affect the price of natural gas, the principal raw material used to make our nitrogen based fertilizers. Colder than normal winters and warmer than normal summers increase the demand for natural gas for residential and industrial use. In addition, hurricanes affecting the Gulf of Mexico coastal states can impact the supply of natural gas and cause prices to rise.

We may not be able to complete our capacity expansion projects on schedule as planned, on budget or at all due to a number of factors, many of which are beyond our control.

On November 1, 2012, we announced that we will construct new ammonia and urea/UAN plants at our complex in Donaldsonville, Louisiana, and new ammonia and urea units at our complex in Port Neal, Iowa. Our Board of Directors has authorized expenditures of $3.8 billion for the projects. Total invested on these projects through December 31, 2013 was $680.5 million.

The design, development, construction and start-up of the new plants are subject to a number of risks, any of which could prevent us from completing the projects on schedule as planned and on budget or at all, including cost overruns, performance of third parties, permitting matters, adverse weather, defects in materials and workmanship, labor and raw material shortages, transportation constraints, engineering and construction change orders, and other unforeseen difficulties.

The Donaldsonville and Port Neal expansion projects are dependent on the availability and performance of the engineering firms, construction firms, equipment suppliers, transportation providers and other vendors necessary to build the new units on a timely basis and on acceptable economic terms. If any of the third parties fails to perform as we expect, our ability to meet our expansion goals would be affected.

Our expansion plans may also result in other unanticipated adverse consequences, such as the diversion of management's attention from our existing plants and businesses and other opportunities.

Other expansions of our business may result in unanticipated adverse consequences.

We routinely consider possible expansions of our business, both domestically and in foreign locations. Major investments in our business, including as a result of acquisitions, partnerships, joint ventures or other major investments require significant managerial resources, which may be diverted from our other activities and may impair the operation of our businesses. The risks of any expansion of our business through investments, acquisitions, partnerships or joint ventures are increased due to the significant capital and other resources that we may have to commit to any such expansion, which may not be recoverable if the expansion initiative to which they were devoted is ultimately not implemented. As a result of these and other factors, including general economic risk, we may not be able to realize

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our projected returns from any future acquisitions, partnerships, joint ventures or other major investments.

We are subject to numerous environmental and health and safety laws, regulations and permitting requirements, as well as potential environmental liabilities, which may require us to make substantial expenditures.

We are subject to numerous environmental and health and safety laws and regulations in the United States, Canada, the United Kingdom and the Republic of Trinidad and Tobago, including laws and regulations relating to land reclamation; the generation, treatment, storage, disposal and handling of hazardous substances and wastes; the cleanup of hazardous substance releases; the discharge of regulated substances to air or water; and the demolition of existing plant sites upon permanent closure. In the United States, these laws include the Clean Air Act, the Clean Water Act, RCRA, CERCLA, the Toxic Substances Control Act and various other federal, state, provincial, local and international statutes.

As a fertilizer company working with chemicals and other hazardous substances, our business is inherently subject to spills, discharges or other releases of hazardous substances into the environment. Certain environmental laws, including CERCLA, impose joint and several liability, without regard to fault, for cleanup costs on persons who have disposed of or released hazardous substances into the environment. Given the nature of our business, we have incurred, are incurring currently, and are likely to incur periodically in the future, liabilities under CERCLA and other environmental cleanup laws at our current or former facilities, adjacent or nearby third-party facilities or offsite disposal locations. The costs associated with future cleanup activities that we may be required to conduct or finance may be material. Additionally, we may become liable to third parties for damages, including personal injury and property damage, resulting from the disposal or release of hazardous substances into the environment.

Violations of environmental and health and safety laws can result in substantial penalties, court orders to install pollution-control equipment, civil and criminal sanctions, permit revocations and facility shutdowns. Environmental and health and safety laws change rapidly and have tended to become more stringent over time. As a result, we have not always been and may not always be in compliance with all environmental and health and safety laws and regulations. Additionally, future environmental and health and safety laws and regulations or reinterpretation of current laws and regulations may require us to make substantial expenditures. Additionally, our costs to comply with, or any liabilities under, these laws and regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

From time to time, our production of anhydrous ammonia has resulted in accidental releases that have temporarily disrupted our manufacturing operations and resulted in liability for administrative penalties and claims for personal injury. To date, our costs to resolve these liabilities have not been material. However, we could incur significant costs if our liability coverage is not sufficient to pay for all or a large part of any judgments against us, or if our insurance carrier refuses coverage for these losses.

Our operations are dependent on numerous required permits, approvals and meeting financial assurance requirements from governmental authorities.

We hold numerous environmental, mining and other governmental permits and approvals authorizing operations at each of our facilities. Expansion of our operations is dependent upon securing the necessary environmental or other permits or approvals. A decision by a government agency to deny or delay issuing a new or renewed material permit or approval, or to revoke or substantially modify an

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existing permit or approval, could have a material adverse effect on our ability to continue operations at the affected facility and on our business, financial condition, results of operations and cash flows.

In certain cases, as a condition to procure such permits and approvals or as a condition to maintain existing approvals, we may be required to comply with regulatory financial assurance requirements. The purpose of these requirements is to assure local, state or federal government agencies that we will have sufficient funds available for the ultimate closure, post-closure care and reclamation at our facilities. For example, we have funded an escrow account for the benefit of the Florida Department of Environmental Protection (FDEP) as a means of complying with Florida's regulations governing financial assurance related to closure and post-closure of phosphogypsum stacks. Also, pursuant to a Consent Decree with the U.S. EPA and the FDEP, we have funded a trust as a means of complying with similar requirements for closure, post closure and monitoring of the phosphogypsum stack system at our Plant City, Florida phosphate fertilizer complex.

Florida regulations also mandate payment of certain mining taxes based on the quantity of ore mined and are subject to change based on local regulatory approvals. Additional financial assurance requirements or other increases in local mining regulations and taxes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Florida regulations also require phosphate rock mining companies to demonstrate financial responsibility for wetland and other surface water mitigation measures in advance of any mining activities. If and when we are able to expand our Hardee mining activities to areas not currently permitted, we will be required to demonstrate financial responsibility for wetland and other surface water mitigation measures in advance of any mining activities. The demonstration of financial responsibility may be provided by passage of financial tests. In the event that we are unable to satisfy these financial tests, alternative methods of complying with the financial assurance requirements would require us to expend funds for the purchase of bonds, letters of credit, insurance policies or similar instruments. It is possible that we will not be able to comply with either current or new financial assurance regulations in the future, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As of December 31, 2013, the area permitted by local, state and federal authorities for mining at our Hardee phosphate complex contained approximately 38.5 million tons of recoverable phosphate rock reserves, which will meet our requirements, at current operating rates, for approximately 11 years. We have initiated the process of applying for authorization and permits to expand the geographical area in which we can mine at our Hardee property. The expanded geographical area has an estimated 35.3 million tons of recoverable phosphate reserves, which will allow us to conduct mining operations at our Hardee property for approximately 10 additional years at current operating rates, assuming we secure the authorization and permits to mine in this area. In Florida, local community participation has become an important factor in the authorization and permitting process for mining companies. A denial of the authorizations or permits to continue or expand our mining operations at our Hardee property would prevent us from mining all of our reserves and have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have secured the state environmental authorization to increase the capacity of our phosphogypsum stack system at Plant City. The Phase II expansion project was completed in July 2013 and will provide sufficient capacity to meet our requirements through 2026 at current operating rates and subject to regular renewals of our operating permits. Including further expansion phases, the estimated stack system capacity is expected to meet our requirements until 2040 at current operating rates and is subject to securing the corresponding construction and operating permits. This time frame is approximately five years beyond our current estimate of available phosphate rock reserves at our

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Hardee mine. A decision by the state or federal authorities to deny a renewal of our current permits or to deny operating permits for the expansion of our stack system could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Future regulatory restrictions on greenhouse gas emissions in the jurisdictions in which we operate could materially adversely affect our business, financial condition, results of operations and cash flows.

We are subject to greenhouse gas (GHG) regulations in the United Kingdom, Canada and the United States. There are substantial uncertainties as to the nature, stringency and timing of any future GHG regulations. More stringent GHG limitations, if they are enacted, are likely to have significant impacts on the fertilizer industry due to the fact that our production facilities emit GHGs such as carbon dioxide and nitrous oxide. Regulation of GHGs may require us to make changes in our operating activities that would increase our operating costs, reduce our efficiency, limit our output, require us to make capital improvements to our facilities, increase our costs for or limit the availability of energy, raw materials or transportation, or otherwise materially adversely affect our business, financial condition, results of operations and cash flows. In addition, to the extent that GHG restrictions are not imposed in countries where our competitors operate or are less stringent than regulations that may be imposed in the United States or Canada, our competitors may have cost or other competitive advantages over us.

Our inability to predict future seasonal fertilizer demand accurately could result in excess inventory, potentially at costs in excess of market value, or product shortages. Our operating results fluctuate due to seasonality.

The fertilizer business is seasonal. The degree of seasonality of our business can change significantly from year to year due to conditions in the agricultural industry and other factors. The strongest demand for our products occurs during the spring planting season, with a second period of strong demand following the fall harvest. We and our customers generally build inventories during the low demand periods of the year in order to ensure timely product availability during the peak sales seasons. Seasonality is greatest for ammonia due to the short application season and the limited ability of our customers and their customers to store significant quantities of this product. The seasonality of fertilizer demand results in our sales volumes and net sales being the highest during the spring and our working capital requirements being the highest just prior to the start of the spring season.

If seasonal demand is less than we expect, we may be left with excess inventory that will have to be stored (in which case our results of operations will be negatively affected by any related increased storage costs) or liquidated (in which case the selling price may be below our production, procurement and storage costs). The risks associated with excess inventory and product shortages are particularly acute with respect to our nitrogen fertilizer business because of the volatility of natural gas and nitrogen fertilizer prices and the relatively brief periods during which farmers can apply nitrogen fertilizers. If prices rapidly decrease, we may be subject to inventory write-downs, causing an adverse change in operating results.

A change in the volume of products that our customers purchase on a forward basis could increase our exposure to fluctuations in our profit margins and materially adversely affect our business, financial condition, results of operations and cash flows.

We offer our customers the opportunity to purchase product on a forward basis at prices and delivery dates we propose. This improves our liquidity due to the cash payments received from customers in advance of shipment of the product and allows us to improve our production scheduling and planning and the utilization of our manufacturing assets.

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Under our forward sales programs, customers generally make an initial cash down payment at the time of order and pay the remaining portion of the contract sales value in advance of the shipment date, thereby significantly increasing our liquidity. Any cash payments received in advance from customers in connection with forward sales are reflected on our balance sheet as a current liability until the related orders are shipped, which can take up to several months. As of December 31, 2013 and 2012, our current liability for customer advances related to unshipped orders equaled approximately 7% and 17%, respectively, of our cash and cash equivalents.

We believe the ability to purchase product on a forward basis is most appealing to our customers during periods of generally increasing prices for nitrogen fertilizers. Our customers may be less willing or even unwilling to purchase products on a forward basis during periods of generally decreasing or stable prices or during periods of relatively high fertilizer prices due to the expectation of lower prices in the future or limited capital resources. In periods of rising fertilizer prices, selling our nitrogen fertilizers on a forward basis may result in lower profit margins than if we had not sold fertilizer on a forward basis. Conversely, in periods of declining fertilizer prices, selling our nitrogen fertilizers on a forward basis may result in higher profit margins than if we had not sold fertilizer on a forward basis. In addition, fixing the selling prices of our products, often months in advance of their ultimate delivery to customers, typically causes our reported selling prices and margins to differ from spot market prices and margins available at the time of shipment.

We also sell phosphate products on a forward basis. In 2013, forward sales of phosphate fertilizer products represented approximately 14% of our phosphate fertilizer volume. Unlike our nitrogen fertilizer products where we have the opportunity to fix or cap the cost of natural gas, we typically are unable to do the same for the cost of phosphate raw materials, such as sulfur and ammonia, which are among the largest components of our phosphate fertilizer costs. As a result, we are typically exposed to margin risk on phosphate products sold on a forward basis.

Our business is subject to risks involving derivatives, including the risk that our hedging activities might not prevent losses.

We manage the risk of changes in commodity prices and foreign currency exchange rates using derivative instruments. Our business, financial condition, results of operations and cash flows could be adversely affected by changes involving commodity price volatility, adverse correlation of commodity prices, or market liquidity issues.

In order to manage financial exposure to commodity price and market fluctuations, we often utilize natural gas derivatives to hedge our exposure to the price volatility of natural gas, the principal raw material used in the production of nitrogen based fertilizers. We have used fixed-price, forward, physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges. In order to manage our exposure to changes in foreign currency exchange rates, we use foreign currency derivatives, primarily forward exchange contracts. Hedging arrangements are imperfect and unhedged risks will always exist.

Our use of derivatives can result in volatility in reported earnings due to the unrealized mark-to-market adjustments that occur from changes in the value of the derivatives that do not qualify for or for which we do not apply hedge accounting. To the extent that our derivative positions lose value, we may be required to post collateral with our counterparties, thereby negatively impacting our liquidity.

In addition, our hedging activities may themselves give rise to various risks that could adversely affect us. For example, we are exposed to counterparty credit risk when our derivatives are in a net asset position. The counterparties to our derivatives are either large oil and gas companies or large

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financial institutions. We monitor the derivative portfolio and credit quality of our counterparties and adjust the level of activity we conduct with individual counterparties as necessary. We also manage the credit risk through the use of multiple counterparties, established credit limits, cash collateral requirements and master netting arrangements. However, our liquidity could be negatively impacted by a counterparty default on derivative settlements.

We are reliant on a limited number of key facilities.

Our nitrogen fertilizer operations are concentrated in seven separate nitrogen complexes, the largest of which is the Donaldsonville complex, which represents approximately 40% of the Company's ammonia production capacity. Our phosphate fertilizer operations are dependent on our phosphate mine and associated beneficiation plant in Hardee County, Florida; our phosphate fertilizer complex in Plant City, Florida; and our ammonia terminal in Tampa, Florida. The suspension of operations at any of these key facilities could adversely affect our ability to produce our products and fulfill our commitments, and could have a material adverse effect on our business. In addition, a number of our key facilities, including the Donaldsonville complex and all of our phosphate operations, are located in regions of the United States that experience a relatively high level of hurricane activity. Such storms, depending on their severity and location, have the potential not only to damage our facilities and disrupt our operations, but also to adversely affect the shipping and distribution of our products and the supply and price of natural gas and sulfur in the Gulf of Mexico region.

We are exposed to risks associated with our joint ventures.

We participate in joint ventures including Point Lisas (which owns a facility in the Republic of Trinidad and Tobago), GrowHow (which owns facilities in Billingham and Ince, United Kingdom) and Keytrade (a global fertilizer trading company headquartered near Zurich, Switzerland). Our joint venture partners may share a measure of control over the operations of our joint ventures. As a result, our investments in joint ventures involve risks that are different from the risks involved in owning facilities and operations independently. These risks include the possibility that our joint ventures or our partners: have economic or business interests or goals that are or become inconsistent with our business interests or goals; are in a position to take action contrary to our instructions, requests, policies or objectives; subject the joint venture to liabilities exceeding those contemplated; take actions that reduce our return on investment; or take actions that harm our reputation or restrict our ability to run our business.

In addition, we may become involved in disputes with our joint venture partners, which could lead to impasses or situations that could harm the joint venture, which could reduce our revenues or increase our costs.

Acts of terrorism and regulations to combat terrorism could negatively affect our business.

Like other companies with major industrial facilities, our plants and ancillary facilities may be targets of terrorist activities. Many of these plants and facilities store significant quantities of ammonia and other materials that can be dangerous if mishandled. Any damage to infrastructure facilities, such as electric generation, transmission and distribution facilities, or injury to employees, who could be direct targets or indirect casualties of an act of terrorism, may affect our operations. Any disruption of our ability to produce or distribute our products could result in a significant decrease in revenues and significant additional costs to replace, repair or insure our assets, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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In addition, due to concerns related to terrorism or the potential use of certain fertilizers as explosives, local, state, federal and foreign governments could implement new regulations impacting the security of our plants, terminals and warehouses or the transportation and use of fertilizers. These regulations could result in higher operating costs or limitations on the sale of our products and could result in significant unanticipated costs, lower revenues and reduced profit margins. We manufacture and sell certain nitrogen fertilizers that can be used as explosives. It is possible that the U.S. or foreign governments could impose additional limitations on the use, sale or distribution of nitrogen fertilizers, thereby limiting our ability to manufacture or sell those products, or that such illicit use of our products could result in liability for the Company.

Our operations and those of our joint ventures are dependent upon raw materials provided by third parties and an increase in the price or any delay or interruption in the delivery of these raw materials may adversely affect our business.

We and our joint ventures use natural gas, ammonia and sulfur as raw materials in the manufacture of fertilizers. We purchase these raw materials from third-party suppliers. Prices for these raw materials can fluctuate significantly due to changes in supply and demand. We may not be able to pass along to our customers increases in the costs of raw materials, which could have a material adverse effect on our business. These products are transported by barge, truck, rail or pipeline to our facilities and those of our joint ventures by third-party transportation providers or through the use of facilities owned by third parties. Any delays or interruptions in the delivery of these key raw materials, including those caused by capacity constraints; explosions; fires; severe weather and natural disasters; train derailments, collisions, vessel groundings and other transportation and maritime incidents; leaks and ruptures involving pipelines; deliberate sabotage and terrorist incidents; mechanical failures; unscheduled downtime; or labor difficulties, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to risks associated with international operations.

Our international business operations are subject to numerous risks and uncertainties, including difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations; unexpected changes in regulatory environments; currency fluctuations; tax rates that may exceed those in the United States; earnings that may be subject to withholding requirements; and the imposition of tariffs, exchange controls or other restrictions. During 2013, we derived approximately 18% of our net sales from outside of the United States. Our business operations include our nitrogen fertilizer complex in Medicine Hat, Alberta, our nitrogen fertilizer manufacturing facility in Courtright, Ontario, a 50% interest in an ammonia production joint venture in Trinidad, a 50% interest in a U.K. joint venture for the production of anhydrous ammonia and other fertilizer products and a 50% interest in a fertilizer trading operation headquartered near Zurich, Switzerland.

Our investments in securities are subject to risks that may result in losses.

Our cash flows from operations have resulted in cash and cash-equivalents of approximately $1.7 billion as of December 31, 2013. We generally invest these cash and cash equivalents in what we believe to be relatively short-term, highly liquid and high credit quality instruments, including notes and bonds issued by governmental entities or corporations and money market funds. Securities issued by governmental agencies include those issued directly by the U.S. government, those issued by state, local or other governmental entities, and those guaranteed by entities affiliated with governmental entities. Our investments are subject to fluctuations in both market value and yield based upon changes in market conditions, including interest rates, liquidity, general economic and credit market conditions and conditions specific to the issuers.

Due to the risks of investments, we may not achieve expected returns or may realize losses on our investments, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Deterioration of global market and economic conditions could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A slowdown of, or persistent weakness in, economic activity caused by a deterioration of global market and economic conditions could adversely affect our business in the following ways, among others: conditions in the credit markets could impact the ability of our customers and their customers to obtain sufficient credit to support their operations; the failure of our customers to fulfill their purchase obligations could result in increases in bad debts and impact our working capital; and the failure of certain key suppliers could increase our exposure to disruptions in supply or to financial losses. We also may experience declining demand and falling prices for some of our products due to our customers' reluctance to replenish inventories. The overall impact of a global economic downturn on us is difficult to predict, and our business could be materially adversely impacted.

In addition, conditions in the international market for nitrogen fertilizer significantly influence our operating results. The international market for fertilizers is influenced by such factors as the relative value of the U.S. dollar and its impact on the importation of fertilizers, foreign agricultural policies, the existence of, or changes in, import or foreign currency exchange barriers in certain foreign markets and other regulatory policies of foreign governments, as well as the laws and policies of the United States affecting foreign trade and investment.

We have a material amount of indebtedness and may incur additional indebtedness, or need to refinance existing indebtedness, in the future, which may adversely affect our operations.

As of December 31, 2013, we had approximately $3.1 billion of total indebtedness, consisting primarily of senior notes with varying maturity dates between 2018 and 2043. We had excess borrowing capacity for general corporate purposes under our existing revolving credit facility of approximately $995.1 million. The terms of our existing indebtedness allow us to incur significant additional debt in the future. Our existing indebtedness and any additional debt we may incur in the future could have negative consequences on our business should operating cash flows be insufficient to cover debt service, which would adversely affect our operations and liquidity.

From time to time we consider our options to refinance our outstanding indebtedness. Our ability to obtain any financing, whether through the issuance of new debt securities or otherwise, and the terms of any such financing are dependent on, among other things, our financial condition, financial market conditions within our industry and generally, credit ratings and numerous other factors. Consequently, in the event that we need to access the credit markets, including to refinance our debt, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable timeframe, if at all. An inability to obtain financing with acceptable terms when needed could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The loss of key members of our management and professional staff may adversely affect our business.

We believe our continued success depends on the collective abilities and efforts of our senior management and professional staff. The loss of one or more key personnel could have a material

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adverse effect on our results of operations. Additionally, if we are unable to find, hire and retain needed key personnel in the future, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

We are subject to risk associated with the strategic agreements that we entered into with the Mosaic Company, including the risk that we may not be able to complete the sale of our phosphate business to the Mosaic Company as planned, or at all, due to a number of factors, many of which are beyond our control.

In October 2013, we entered into a definitive agreement with the Mosaic Company (Mosaic) to sell our entire phosphate mining and manufacturing business, which is located in Florida, and entered into two agreements to supply ammonia to Mosaic. The first agreement, which is not conditioned upon completion of the phosphate business sale transaction, provides for us to supply between 600,000 and 800,000 tons of ammonia per year from our Donaldsonville, Louisiana nitrogen complex beginning no later than 2017. The second agreement provides for us to supply approximately 300,000 tons of ammonia per year sourced from our Point Lisas Nitrogen Limited (PLNL) joint venture beginning at the closing of the phosphate business sale transaction. Mosaic is assuming certain liabilities related to the phosphate mining and manufacturing, and we will transfer to Mosaic the value of our asset retirement obligation trust and escrow funds. The phosphate business sale transaction is expected to close in the first half of 2014.

The closing of the phosphate business sale transaction is subject to various conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), approvals under applicable foreign antitrust laws, receipt of other governmental and third party consents and other customary closing conditions. In January 2014, we were notified that the U.S. Department of Justice closed its review and terminated the waiting period under the HSR Act relating to the phosphate business sale transaction. If these conditions are not satisfied or waived (to the extent permitted by law), the closing of the phosphate sale transaction may be delayed or may not occur. Further, disruptions related to the proposed transactions with Mosaic could harm our relationships with our customers, employees or suppliers.

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FORWARD LOOKING STATEMENTS

From time to time, in this Annual Report on Form 10-K as well as in other written reports and verbal statements, we make forward-looking statements that are not statements of historical fact and may involve a number of risks and uncertainties. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to our future prospects, developments and business strategies. We have used the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," and similar terms and phrases, including references to assumptions, to identify forward-looking statements in this document. These forward-looking statements are made based on currently available competitive, financial and economic data, our current expectations, estimates, forecasts and projections about the industries and markets in which we operate and management's beliefs and assumptions concerning future events affecting us. These statements are not guarantees of future performance and are subject to risks, uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Therefore, our actual results may differ materially from what is expressed in or implied by any forward-looking statements. We want to caution you not to place undue reliance on any forward-looking statements. We do not undertake any responsibility to release publicly any revisions to these forward- looking statements to take into account events or circumstances that occur after the date of this document. Additionally, we do not undertake any responsibility to provide updates regarding the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this document.

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

- the volatility of natural gas prices in North America;
- the cyclical nature of our business and the agricultural sector;
- the global commodity nature of our fertilizer products, the impact of global supply and demand on our selling prices, and the intense global competition from other fertilizer producers;
- conditions in the U.S. agricultural industry;
- reliance on third party providers of transportation services and equipment;
- risks associated with cyber security;
- weather conditions;
- our ability to complete our production capacity expansion projects on schedule as planned, on budget or at all;
- risks associated with other expansions of our business, including unanticipated adverse consequences and the significant resources that could be required;
- potential liabilities and expenditures related to environmental and health and safety laws and regulations;

our potential inability to obtain or maintain required permits and governmental approvals or to meet financial assurance requirements from governmental authorities;

future regulatory restrictions and requirements related to GHG emissions;

the seasonality of the fertilizer business;

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the impact of changing market conditions on our forward sales programs;

risks involving derivatives and the effectiveness of our risk measurement and hedging activities;

the significant risks and hazards involved in producing and handling our products against which we may not be fully insured;

our reliance on a limited number of key facilities;

risks associated with joint ventures;

acts of terrorism and regulations to combat terrorism;

difficulties in securing the supply and delivery of raw materials, increases in their costs or delays or interruptions in their delivery;

risks associated with international operations;

losses on our investments in securities;

deterioration of global market and economic conditions;

our ability to manage our indebtedness;

loss of key members of management and professional staff; and

risks and uncertainties arising from the possibility that the proposed transactions with Mosaic may be delayed or may not occur, including delays arising from any ability to obtain governmental approvals of the transactions; the risk that other conditions to the closing of the proposed transactions with Mosaic may not be satisfied; difficulties with realization of the benefits of the proposed transactions with Mosaic; the risk that disruptions from the proposed transactions with Mosaic will harm relationships with customers, employees and suppliers.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Information regarding our facilities and properties is included in Part I, Item 1. Business Operating Segments and Part I, Item 1. Business Storage Facilities and Other Properties.

ITEM 3. LEGAL PROCEEDINGS.

Litigation

West Fertilizer Co.

In April 2013, there was a fire and explosion at the West Fertilizer Co. fertilizer storage and distribution facility in West, Texas. According to published reports, 15 people were killed and approximately 200 people were injured in the incident, and the fire and explosion damaged or destroyed a number of homes and buildings around the facility. We have been named as defendants in lawsuits filed in 2013 in the District Court of McLennan County, Texas by the City of West, individual residents of the County and other parties seeking recovery for damages allegedly sustained as a result of the explosion. Plaintiffs allege various theories of negligence, strict liability and breach of warranty under Texas law. Although we do not own or operate the facility or directly sell our product to West Fertilizer Co., products we have manufactured and sold to others have been delivered to the facility and may have been stored at the West facility at the time of the incident. Based on the initial analysis of the pending lawsuits, we believe that we have strong legal and factual defenses to the claims and intend to defend ourselves vigorously in the pending lawsuits and any other claims brought against us in connection with the incident.

Other 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 routine matters will not have a material adverse effect on our consolidated financial position or results of operations.

Environmental

Clean Air Act Notice of Violation

The Company received a Notice of Violation (NOV) from the EPA by letter dated June 16, 2010, alleging that the Company violated the Prevention of Significant Deterioration (PSD) Clean Air Act regulations relating to certain projects undertaken at the Plant City facility's sulfuric acid plants. This NOV further alleges that the actions that are the basis for the alleged PSD violations also resulted in violations of Title V air operating permit regulations. Finally, the NOV alleges that the Company failed to comply with certain compliance dates established by hazardous air pollutant regulations for phosphoric acid manufacturing plants and phosphate fertilizer production plants. Although this matter has been referred to the United States Department of Justice (DOJ), the Company has continued to meet with the EPA to discuss these alleged violations. The Company does not know at this time if it will settle this matter prior to initiation of formal legal action.

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We cannot estimate the potential penalties, fines or other expenditures, if any, that may result from the Clean Air Act NOV and, therefore, we cannot determine if the ultimate outcome of this matter will have a material impact on the Company's financial position, results of operations or cash flows.

EPCRA/CERCLA Notice of Violation

By letter dated July 6, 2010, the EPA issued a NOV to the Company alleging 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. The NOV also included an allegation that the Company violated Section 304 of EPCRA and Section 103 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) by failing to file a timely notification relating to the release of hydrogen fluoride above applicable reportable quantities. The Company does not know at this time if it will settle this matter prior to initiation of formal legal action.

We do not expect that penalties or fines, if any, that may arise out of the EPCRA/CERCLA matter will have a material impact on the Company's financial position, results of operations or cash flows.

Federal and State Numeric Nutrient Criteria Regulation

For information on the Company's challenge to the EPA's regulation establishing numeric nutrient criteria for Florida waters, see Business Environmental, Health and Safety and Note 28 Contingencies.

CERCLA/Remediation Matters

For information on pending proceedings relating to environmental remediation matters, see Business Environmental, Health and Safety and Note 28 Contingencies.

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to the annual report.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the New York Stock Exchange, Inc. (NYSE) under the symbol "CF". Quarterly high and low sales prices, as reported by the NYSE, are provided below:

2013	Sales Prices High	Low	Dividends per Share
First Quarter	$ 233.43	$ 189.74	$ 0.40
Second Quarter	197.38	170.53	0.40
Third Quarter	216.49	169.33	0.40
Fourth Quarter	239.40	203.04	1.00

2012	Sales Prices High	Low	Dividends per Share
First Quarter	$ 195.48	$ 149.58	$ 0.40
Second Quarter	203.32	154.17	0.40
Third Quarter	227.99	190.10	0.40
Fourth Quarter	226.50	191.90	0.40

As of February 12, 2014, there were 902 stockholders of record.

The following table sets forth stock repurchases for each of the three months of the quarter ended December 31, 2013.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Cumulative Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in thousands)
October 1, 2013 - October 31, 2013	65(2)	$ 215.16	5,827,272	$ 1,889,000
November 1, 2013 - November 30, 2013	628,967(1)	216.57(3)	6,456,239	1,752,300
December 1, 2013 - December 31, 2013	884,443(1)	227.94(3)	7,340,682	1,550,700
Total	1,513,475	223.21		

(1) In the third quarter of 2012, our Board of Directors authorized management to repurchase common stock for a total expenditure of up to $3.0 billion through December 31, 2016, subject to market conditions (the 2012 Stock Repurchase Program). This program is discussed in Note 25 Stockholders' Equity, in the notes to the consolidated financial statements included in Item 8 of this report.

(2) Repurchases represents shares withheld to pay employee tax obligations upon the vesting of restricted stock awards.

(3) Average price paid per share of common stock repurchased under the 2012 Stock Repurchase Program is the execution price, excluding commissions paid to brokers.

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ITEM 6. SELECTED FINANCIAL DATA.

The following selected historical financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements and related notes included elsewhere in this document. The following selected historical financial data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009 have been derived from our consolidated financial statements, which are not included in this document. Since April 2010, the results of Terra have been included in our consolidated financial statements.

The selected historical financial data should be read in conjunction with the information contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in millions, except per share amounts)				
Statement of Operations Data:					
Net sales	$ 5,474.7	$ 6,104.0	$ 6,097.9	$ 3,965.0	$ 2,608.4
Cost of sales	2,954.5	2,990.7	3,202.3	2,785.5	1,769.0
Gross margin	2,520.2	3,113.3	2,895.6	1,179.5	839.4
Selling, general and administrative	166.0	151.8	130.0	106.1	62.9
Restructuring and integration costs			4.4	21.6	
Other operating net	(15.8)	49.1	20.9	166.7	96.7
Total other operating costs and expenses	150.2	200.9	155.3	294.4	159.6
Equity in earnings of operating affiliates	41.7	47.0	50.2	10.6	
Operating earnings	2,411.7	2,959.4	2,790.5	895.7	679.8
Interest expense (income) net	147.5	131.0	145.5	219.8	(3.0)
Loss on extinguishment of debt				17.0	
Other non-operating net	54.5	(1.1)	(0.6)	(28.8)	(12.8)
Earnings before income taxes and equity in earnings (loss) of non-operating affiliates	2,209.7	2,829.5	2,645.6	687.7	695.6
Income tax provision	686.5	964.2	926.5	273.7	246.0
Equity in earnings (loss) of non-operating affiliates net of taxes	9.6	58.1	41.9	26.7	(1.1)
Net earnings	1,532.8	1,923.4	1,761.0	440.7	448.5
Less: Net earnings attributable to the noncontrolling interest	68.2	74.7	221.8	91.5	82.9
Net earnings attributable to common stockholders	$ 1,464.6	$ 1,848.7	$ 1,539.2	$ 349.2	$ 365.6
Cash dividends declared per common share	$ 2.20	$ 1.60	$ 1.00	$ 0.40	$ 0.40

Share and per share data:					
Net earnings attributable to common stockholders:					
Basic	$ 24.87	$ 28.94	$ 22.18	$ 5.40	$ 7.54
Diluted	24.74	28.59	21.98	5.34	7.42
Weighted average common shares outstanding:					
Basic	58.9	63.9	69.4	64.7	48.5
Diluted	59.2	64.7	70.0	65.4	49.2

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	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in millions)				
Other Financial Data:					
Depreciation, depletion and amortization	$ 410.6	$ 419.8	$ 416.2	$ 394.8	$ 101.0
Capital expenditures	823.8	523.5	247.2	258.1	235.7

	December 31,				
	2013	2012	2011	2010	2009
	(in millions)				
Balance Sheet Data:					
Cash and cash equivalents	$ 1,710.8	$ 2,274.9	$ 1,207.0	$ 797.7	$ 697.1
Short-term investments				3.1	185.0
Total assets	10,678.1	10,166.9	8,974.5	8,758.5	2,494.9
Customer advances	120.6	380.7	257.2	431.5	159.5
Total debt	3,098.1	1,605.0	1,617.8	1,959.0	4.7
Total equity	5,438.4	6,282.2	4,932.9	4,433.4	1,744.9

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data. All references to "CF Holdings," "we," "us," "our" and "the Company" refer to CF Industries Holdings, Inc. and its subsidiaries, except where the context makes clear that the reference is only to CF Holdings itself and not its subsidiaries. References to tons refer to short-tons. Footnotes referenced in this discussion and analysis refer to the notes to consolidated financial statements that are found in the following section: Item 8. Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements. The following is an outline of the discussion and analysis included herein:

- *Overview of CF Holdings*
  - *Our Company*
  - *Items Affecting Comparability of Results*
  - *Financial Executive Summary*
- *Key Industry Factors*
- *Factors Affecting Our Results*
- *Results of Consolidated Operations*
  - *Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*
  - Y*ear Ended December 31, 2012 Compared to Year Ended December 31, 2011*
  - *Operating Results by Business Segment*
- *Liquidity and Capital Resources*
- *Off-Balance Sheet Arrangements*
- *Critical Accounting Policies and Estimates*
- *Recent Accounting Pronouncements*
- *Discussion of Seasonality Impacts on Operations*

Overview of CF Holdings

Our Company

We are one of the largest manufacturers and distributors of nitrogen and phosphate fertilizer products in the world. Our operations are organized into two business segments the nitrogen segment and the phosphate segment. Our principal customers are cooperatives and independent fertilizer distributors. Our principal fertilizer products in the nitrogen segment are ammonia, granular urea, urea ammonium nitrate solution, or UAN, and ammonium nitrate, or AN. Our other nitrogen products include urea liquor, diesel exhaust fluid, or DEF, and aqua ammonia, which are sold primarily to our industrial customers. Our principal fertilizer products in the phosphate segment are diammonium phosphate, or DAP, and monoammonium phosphate, or MAP.

Our core market and distribution facilities are concentrated in the midwestern United States and other major agricultural areas of the United States and Canada. We also export nitrogen fertilizer products from our Donaldsonville, Louisiana manufacturing facilities and phosphate fertilizer products from our Florida phosphate operations through our Tampa port facility.

In October 2013, we entered into a definitive agreement with the Mosaic Company (Mosaic) to sell our entire phosphate mining and manufacturing business, which is located in Florida for, a purchase price of approximately $1.4 billion in cash, subject to adjustment as provided in the agreement, and entered into two agreements to supply ammonia to Mosaic. The first agreement, which is not conditioned upon completion of the phosphate business sale transaction, provides for us to supply between 600,000 and 800,000 tons of ammonia per year from our Donaldsonville, Louisiana

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nitrogen complex beginning no later than 2017. The second agreement provides for us to supply approximately 300,000 tons of ammonia per year sourced from our Point Lisas Nitrogen Limited (PLNL) joint venture beginning at the closing of the phosphate business sale transaction. The closing of the phosphate business sale transaction is subject to various conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), approvals under applicable foreign antitrust laws, receipt of other governmental and third party consents and other customary closing conditions. In January 2014, we were notified that the U.S. Department of Justice closed its review and terminated the waiting period under the HSR Act relating to the phosphate business sale transaction. The phosphate business sale transaction is expected to close in the first half of 2014. For additional details regarding this sale, see Note 12 Assets and Liabilities Held for Sale to the consolidated financial statements to our consolidated financial statements included in Item 8 of this report.

Our principal nitrogen segment assets include:

- six nitrogen fertilizer manufacturing facilities in Donaldsonville, Louisiana (the largest nitrogen fertilizer complex in North America), Medicine Hat, Alberta (the largest nitrogen fertilizer complex in Canada), Port Neal, Iowa, Courtright, Ontario, Yazoo City, Mississippi, and Woodward, Oklahoma;

- a 75.3% interest in Terra Nitrogen Company, L.P. (TNCLP), a publicly traded limited partnership of which we are the sole general partner and the majority limited partner and which, through its subsidiary Terra Nitrogen, Limited Partnership (TNLP), operates a nitrogen fertilizer manufacturing facility in Verdigris, Oklahoma;

- an extensive system of terminals and associated transportation equipment located primarily in the midwestern United States; and

- joint venture investments that we account for under the equity method, which consist of:

  - a 50% interest in GrowHow UK Limited (GrowHow), a nitrogen products production joint venture located in the United Kingdom and serving primarily the British agricultural and industrial markets;

  - a 50% interest in Point Lisas Nitrogen Limited (PLNL), an ammonia production joint venture located in the Republic of Trinidad and Tobago; and

  - a 50% interest in KEYTRADE AG (Keytrade), a global fertilizer trading company headquartered near Zurich, Switzerland.

As a result of the agreement to sell the phosphate mining and manufacturing business to Mosaic, the assets and liabilities of our phosphate segment, including an integrated ammonium phosphate fertilizer complex and a phosphate rock mine and associated beneficiation plant but excluding accounts receivable, accounts payable and certain phosphate inventory, which will be retained by us and settled in the ordinary course are classified as assets or liabilities held for sale.

Items Affecting Comparability of Results

Planned Disposition of the Phosphate Business and Ammonia Supply Agreements

In October 2013, we entered into a definitive agreement with Mosaic to sell our entire phosphate mining and manufacturing business, which is located in Florida, for a purchase price of approximately $1.4 billion in cash, subject to adjustment as provided in the agreement, and entered into two agreements to supply ammonia to Mosaic. The first agreement, which is not conditioned upon

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completion of the phosphate business sale transaction, provides for us to supply between 600,000 and 800,000 tons of ammonia per year from our Donaldsonville, Louisiana nitrogen complex beginning no later than 2017. The second agreement provides for us to supply approximately 300,000 tons of ammonia per year sourced from our PLNL joint venture beginning at the closing of the phosphate business sale transaction. The ammonia price under the Donaldsonville supply agreement will be based on the cost of natural gas delivered to Donaldsonville. Pricing under the PLNL supply agreement will be similar to that in the existing agreement under which CF Industries purchases ammonia from PLNL.

The phosphate mining and manufacturing business assets we are selling in the phosphate business sale transaction include the Hardee County Phosphate Rock Mine; the Plant City Phosphate Complex; an ammonia terminal, phosphate warehouse and dock at the Port of Tampa; and the site of the former Bartow Phosphate Complex. In addition, Mosaic is assuming certain liabilities related to the phosphate mining and manufacturing business, including responsibility for closure, water treatment and long-term maintenance and monitoring of the phosphogypsum stacks at the Plant City and Bartow complexes. We are also transferring to Mosaic the value of the phosphate mining and manufacturing business asset retirement obligation trust and escrow funds totaling approximately $200 million.

The closing of the phosphate business sale transaction is subject to various conditions, including the expiration or termination of the waiting period under the HSR Act, approvals under applicable foreign antitrust laws, receipt of other governmental and third party consents and other customary closing conditions. In January 2014, we were notified that the U.S. Department of Justice closed its review and terminated the waiting period under the HSR Act relating to the phosphate business sale transaction. The phosphate business sale transaction is expected to close in the first half of 2014.

The assets and liabilities of our phosphate business segment being sold to Mosaic comprise a disposal group that is classified on our December 31, 2013 Consolidated Balance Sheet as assets or liabilities held for sale. The accounts receivable, and accounts payable pertaining to the phosphate mining and manufacturing business and certain phosphate inventory held in distribution facilities will not be sold to Mosaic in the phosphate business sale transaction and will be retained by us and settled in the ordinary course. These retained assets and liabilities of our phosphate segment are not included in assets or liabilities held for sale. Effective November 1, 2013 we ceased depreciation on amounts in property, plant and equipment classified as held for sale. The depreciation that would have been recorded for November and December is estimated at approximately $8.1 million. The contract to supply ammonia to the disposed business from our PLNL joint venture represents the continuation, following the phosphate business sale transaction, of a supply arrangement that historically has been maintained between the phosphate business and other operations of the Company and its subsidiaries. Because of the significance of this continuing supply arrangement, in accordance with U.S. generally accepted accounting principles, the phosphate mining and manufacturing business is not reported as discontinued operations in our consolidated statement of operations.

CFL Selling Price Modifications

Prior to April 30, 2013, CF Industries, Inc. (CF Industries) owned 49% of the voting common shares and 66% of the non-voting preferred shares of Canadian Fertilizers Limited (CFL), an Alberta, Canada based nitrogen fertilizer manufacturer and had the right to purchase 66% of the production of CFL. Also prior to April 30, 2013, Viterra, Inc. (Viterra) held 34% of the equity ownership of CFL and had the right to purchase up to 34% of CFL's production. Both CF Industries and Viterra were entitled to receive distributions of net earnings of CFL based upon their respective purchases from CFL. CFL was a variable interest entity that was consolidated in our financial statements. On April 30, 2013, CF Industries completed the acquisitions of all of the outstanding interests in CFL that it did not already own and CFL became our wholly owned subsidiary.

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CF Industries' and Viterra's purchases of nitrogen fertilizer products from CFL were made under product purchase agreements, and the selling prices were determined under the provisions of these agreements. An initial selling price was paid to CFL based upon CFL's production cost plus an agreed-upon margin once title passed as the product was shipped. At the end of the year, the difference between the market price of products purchased from CFL and the price based on production cost plus an agreed-upon margin was paid to CFL. The sales revenue attributable to this difference was accrued by the Company on an interim basis. Until April 30, 2013 when CFL became a wholly owned subsidiary in our financial statements, net sales and accounts receivable attributable to CFL were solely generated by transactions with Viterra, as all transactions with CF Industries were eliminated in consolidation in our financial statements.

In the fourth quarter of 2012, the CFL Board of Directors approved amendments to the product purchase agreements retroactive to January 1, 2012 that modified the selling prices that CFL charged for products sold to Viterra and CF Industries, which eliminated the requirement to pay to CFL the difference between the market price and the price based on production cost plus an agreed-upon margin. The following summarizes the selling prices in the product purchase agreements that impacted the Company's results due to sales transactions to Viterra both before and after the effective date of the amendment.

For the 2011 annual reporting period, the Company's consolidated financial statements reflect market-based selling prices for products purchased from CFL, including sales made by CFL to Viterra.

For the 2012 annual reporting period, and between the period of January 1, 2013 and April 30, 2013, CFL selling prices were based on production cost plus an agreed-upon margin.

Starting on April 30, 2013, CFL became a wholly owned subsidiary of CF Industries. Once CFL became a wholly owned subsidiary, CF industries began purchasing all of the output of CFL for resale and reported those sales in its consolidated financial statements at market prices.

As a result, the financial results for 2013 include four months of selling prices based on production cost plus an agreed-upon margin and eight months of market based selling prices. These selling price amendments to the product purchase agreements impact the comparability of the Company's financial results. These changes affect the year-over-year comparability of net sales, gross margin, operating earnings, earnings before income taxes and net earnings attributable to noncontrolling interest, but do not impact the comparability of the Company's net earnings attributable to common stockholders or net cash flows for the same period.

In order to provide comparable information for the periods presented, certain financial information is being provided for the prior year comparable periods adjusted as if the current year CFL pricing calculation pattern of four months of cost based pricing and eight months of market based pricing had been used in the prior year comparable periods.

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). Management believes that the presentation in this report of non-GAAP financial measures of certain adjusted data and the period-to-period percentage changes in such measures, provides investors with additional meaningful information to assess period-to-period changes in our underlying operating performance. This information includes net sales, gross margin, net earnings attributable to the noncontrolling interest, nitrogen net sales, nitrogen gross margin, nitrogen gross margin as a percentage of nitrogen net sales, and average selling prices per ton of ammonia and urea presented on an as adjusted basis as if all CFL sales to the noncontrolling interest had been priced based on the modified pricing calculation methodology (production cost plus the agreed-upon margin) for the first four

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months and at market for the remaining eight months of 2011 and 2012. These non-GAAP financial measures are provided only for the purpose of facilitating comparisons between the periods, operating performance and do not purport to represent what our actual consolidated results of operations would have been, nor are they necessarily indicative of our future consolidated results of operations. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

Net Operating Loss (NOL) Settlement

At the time of our initial public offering (IPO) in 2005, we had accumulated a substantial amount of NOLs. Due to the uncertainty of realizing the tax benefit from the NOLs when we ceased to be a non-exempt cooperative for income tax purposes and became a public company, a full valuation allowance was recorded against the benefit of those NOLs. At that time, we entered into an agreement (NOL Agreement) with the pre-IPO owners under which they would benefit should any of the pre-IPO NOLs be realized in future years by using the NOLs to offset post-IPO taxable income. If this were to occur, we would pay the pre-IPO owners amounts equal to the resulting federal and state income taxes actually saved. At December 31, 2012, the NOLs had a potential tax benefit of $94.3 million, which had been fully reserved by the valuation allowance.

In January 2013, we and the pre-IPO owners amended the NOL Agreement to provide, among other things, that we would be entitled to retain 26.9% of any settlement realized and 73.1% would be payable to them.

In March 2013, we entered into a closing agreement with the IRS to resolve the tax treatment of the pre-IPO NOLs. Pursuant to the Closing Agreement, we have agreed with the IRS that we will be entitled to a tax deduction equal to a portion of the NOLs over five years commencing with the 2012 tax year. The $20.6 million net benefit from this NOL settlement was recognized in the first quarter of 2013 as follows:

NOL tax benefits of $75.8 million were recognized, which reduced income tax expense.

A charge of $55.2 million was recognized for the 73.1% portion of the NOL benefit that will be paid to the pre-IPO owners as the tax benefits are realized. The $55.2 million charge is recognized in the consolidated statement of operations in Other non-operating net.

Financial Executive Summary

During 2013, we experienced lower net sales and net earnings as compared to the prior year due to weakness in the global fertilizer markets. The lower earnings were due primarily to lower selling prices for both nitrogen and phosphate fertilizers and higher natural gas costs as compared to the prior year. The decline in global nitrogen selling prices was attributable to increased supply due primarily to higher exports from China. The decline in phosphate selling prices reflected weaker demand from India.

In 2013, we reported net earnings attributable to common stockholders of $1.5 billion compared to net earnings of $1.8 billion in 2012, or a decline of 21%. Our 2013 results included $52.9 million of pre-tax unrealized mark-to-market gains ($33.5 million after tax) on natural gas derivatives and $20.8 million of realized and unrealized net gains ($13.2 million after tax) on foreign currency derivatives related to our capacity expansion projects in Donaldsonville, Louisiana, and Port Neal, Iowa, and a net $20.6 million benefit from a settlement with the IRS concerning certain pre-IPO NOLs.

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Net earnings attributable to common stockholders of $1.8 billion for 2012 included $66.5 million of net pre-tax unrealized mark-to-market gains ($41.2 million after tax) on natural gas derivatives, $8.1 million of realized and unrealized net gains ($5.0 million after tax) on foreign currency derivatives, a $15.2 million charge ($9.4 million after tax) for the accelerated amortization of deferred loan fees on our 2010 credit agreement that we replaced in May 2012 and a $10.9 million pre-tax curtailment gain ($6.8 million after tax) from a reduction in certain retiree medical benefits.

Diluted net earnings per share attributable to common stockholders decreased 13% to $24.74 in 2013 from $28.59 for 2012 due to lower earnings partially offset by a lower average number of outstanding common shares due to our share repurchase program.

Our gross margin declined by $593.1 million, or 19%, to $2.5 billion in 2013 from $3.1 billion in 2012 due to lower nitrogen and phosphate segment earnings as a result of lower average selling prices and lower phosphate sales volume. In the nitrogen segment, gross margin decreased by $468.3 million, or 16%, due primarily to lower average selling prices. In the phosphate segment, gross margin decreased $124.8 million, or 62%, due to declines in both average selling prices and volume.

Our net sales decreased $629.3 million, or 10%, in 2013 compared to 2012. In the nitrogen segment, net sales decreased by 8% due primarily to an 8% reduction in average selling prices. In the phosphate segment, net sales declined by 21% due to a 13% decline in average selling prices and a 9% decline in sales volume.

Net cash generated from operating activities during 2013 was $1.5 billion as compared to $2.4 billion in 2012. The $0.9 billion decline was due to the combination of lower net earnings and higher net working capital levels due primarily to lower accrued income taxes and lower customer advances as customers delayed purchasing decisions in 2013 as compared to the prior year.

Cash used in investing activities increased by $505.8 million in 2013 to $1,019.3 million as compared to $513.5 million in the prior year. The increase was due primarily to a $300.3 million increase in capital expenditures and a $154.0 million deposit into a restricted cash account, both primarily related to our capacity expansion projects in Donaldsonville, Louisiana, and Port Neal, Iowa.

In October 2013, we entered into a set of strategic agreements with Mosaic. The agreements include: a definitive agreement to sell the entirety of CF Industries' phosphate mining and manufacturing business, which is located in Florida, to Mosaic for a purchase price of approximately $1.4 billion in cash, subject to adjustment as provided in the agreement, and agreements under which the Company will supply Mosaic with ammonia from its Donaldsonville, Louisiana nitrogen complex and the Company's Point Lisas Nitrogen Ltd. (PLNL) joint venture.

During 2013, we repurchased 7.3 million shares of our common stock at an average price of $197.43 representing 12% of the prior year end outstanding shares at a cost of $1.4 billion.

Key Industry Factors

We operate in a highly competitive, global industry. Our agricultural products are globally-traded commodities and, as a result, we compete principally on the basis of delivered price and to a lesser extent on customer service and product quality. Moreover, our operating results are influenced by a broad range of factors, including those outlined below.

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Global Supply & Demand

Historically, global fertilizer demand has been driven primarily by population growth, changes in dietary habits and planted acreage and application rates, among other things. We expect these key variables to continue to have major impacts on long-term fertilizer demand for the foreseeable future. Short-term fertilizer demand depends on global economic conditions, weather patterns, the level of global grain stocks relative to consumption, federal regulations, including requirements mandating increased use of bio-fuels and farm sector income. Other geopolitical factors like temporary disruptions in fertilizer trade related to government intervention or changes in the buying/selling patterns of key consuming/exporting countries such as China, India and Brazil, among others, often play a major role in shaping near-term market fundamentals. The economics of fertilizer manufacturing play a key role in decisions to increase or reduce production capacity. Supply of fertilizers is generally driven by available capacity and operating rates, raw material costs, availability of raw materials, government policies and global trade.

Natural Gas Prices

Natural gas is the principal raw material used to produce nitrogen fertilizers. We use natural gas both as a chemical feedstock and as a fuel to produce ammonia, granular urea, UAN and AN. Because most of our nitrogen fertilizer manufacturing facilities are located in the United States and Canada, the price of natural gas in North America directly impacts a substantial portion of our operating expenses. Due to increases in natural gas production resulting from the rise in production from shale gas formations, natural gas prices in North America declined over the past several years, but are subject to volatility. During the three year period ended December 31, 2013, the average daily closing price at the Henry Hub reached a high of $4.92 per MMBtu on June 9, 2011 and a low of $1.84 per MMBtu on April 20, 2012. Natural gas costs rose 8% in 2013 from 2012. Expenditures on natural gas, including realized gains and losses, comprised approximately 41% of the total cost of sales for our nitrogen fertilizer products in 2013 up from 39% in 2012. Natural gas costs represented a higher percentage of cash production costs (total production costs less depreciation and amortization).

Farmers' Economics

The demand for fertilizer is affected by the aggregate crop planting decisions and fertilizer application rate decisions of individual farmers. Individual farmers make planting decisions based largely on prospective profitability of a harvest, while the specific varieties and amounts of fertilizer they apply depend on factors like their current liquidity, soil conditions, weather patterns and the types of crops planted.

Global Trade in Fertilizer

In addition to the relationship between global supply and demand, profitability within a particular geographic region is determined by the supply/demand balance within that region. Regional supply and demand can be influenced significantly by factors affecting trade within regions. Some of these factors include the relative cost to produce and deliver product, relative currency values, the availability of credit and governmental policies affecting trade and other matters. The development of additional natural gas reserves in North America over the last few years has decreased natural gas costs relative to the rest of the world, making North American nitrogen fertilizer producers more competitive. These lower natural gas costs contributed to announcements of several nitrogen fertilizer capacity expansion projects in North America. Changes in currency values may also alter our cost competitiveness relative to producers in other regions of the world.

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Imports account for a significant portion of the nitrogen fertilizer consumed in North America. Producers of nitrogen based fertilizers located in the Middle East, Ukraine, Republic of Trinidad and Tobago, Venezuela, North Africa and China are major exporters to North America.

The domestic phosphate industry is tied to the global market through its position as the world's largest exporter of DAP/MAP. Consequently, phosphate fertilizer prices and demand for U.S. DAP/MAP are subject to considerable volatility and dependent on a wide variety of factors impacting the world market, including fertilizer and trade policies of foreign governments, changes in ocean bound freight rates and international currency fluctuations.

Political and Social Government Policies

The political and social policies of governments around the world can result in restrictions on imports and exports, the subsidization of natural gas prices, the subsidization of domestic producers and the subsidization of exports. Due to the critical role that fertilizers play in food production, the construction and operation of fertilizer plants often are influenced by these political and social objectives.

Factors Affecting Our Results

Net Sales. Our net sales are derived primarily from the sale of nitrogen and phosphate fertilizers and are determined by the quantities of fertilizers we sell and the selling prices we realize. The volumes, mix and selling prices we realize are determined to a great extent by a combination of global and regional supply and demand factors. Net sales also include shipping and handling costs that are billed to our customers. Sales incentives are reported as a reduction in net sales.

Cost of Sales. Our cost of sales includes manufacturing costs, purchased product costs, and distribution costs. Manufacturing costs, the most significant element of cost of sales, consist primarily of raw materials, realized and unrealized gains and losses on natural gas derivative instruments, maintenance, direct labor, depreciation and other plant overhead expenses. Purchased product costs primarily include the cost to purchase nitrogen and phosphate fertilizers to augment or replace production at our facilities. Distribution costs include the cost of freight required to transport finished products from our plants to our distribution facilities and storage costs incurred prior to final shipment to customers.

We offer our customers the opportunity to purchase product on a forward basis at prices and on delivery dates we propose. As our customers enter into forward nitrogen fertilizer purchase contracts with us, we use derivative instruments to reduce our exposure to changes in the cost of natural gas, the largest and most volatile component of our manufacturing cost. We report our natural gas derivatives on the balance sheet at their fair value. Changes in the fair value of these derivatives are recorded in cost of sales as the changes occur. See "Forward Sales and Customer Advances" later in this discussion and analysis. As a result of fixing the selling prices of our products, often months in advance of their ultimate delivery to customers, our reported selling prices and margins may differ from market spot prices and margins available at the time of shipment. Volatility in quarterly reported earnings also may arise from the unrealized mark-to-market adjustments in the value of derivatives.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses consist primarily of corporate office expenses such as salaries and other payroll-related costs for our executive, administrative, legal, financial and marketing functions, as well as certain taxes and insurance and other professional service fees, including those for corporate initiatives.

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Other Operating Net. Other operating net includes the costs associated with engineering studies for proposed capital projects, administrative costs associated with our capacity expansion projects, and other costs that do not relate directly to our central operations. Costs included in "other costs" can include foreign exchange gains and losses, unrealized gains and losses on foreign currency derivatives, costs associated with our closed facilities, engineering studies, amounts recorded for environmental remediation for other areas of our business, litigation expenses and gains and losses on the disposal of fixed assets.

Equity in Earnings of Operating Affiliates. We have investments accounted for under the equity method for which the results are included in our operating earnings. These consist of the following: (1) 50% ownership interest in PLNL and (2) 50% interest in an ammonia storage joint venture located in Houston, Texas. We include our share of the net earnings from these investments as an element of earnings from operations because these investments provide additional production and storage capacity to our operations and are integrated with our other supply chain and sales activities in the nitrogen segment. Our share of the net earnings includes the amortization of certain tangible and intangible assets identified as part of the application of purchase accounting at acquisition.

Interest Expense. Our interest expense includes the interest on our long-term debt and notes payable, amortization of the related fees required to execute financing agreements and annual fees on our senior revolving credit facility. Capitalized interest relating to the construction of major capital projects reduces interest expense as the interest is capitalized and amortized over the estimated useful lives of the facility along with all other construction costs.

Interest Income. Our interest income represents amounts earned on our cash, cash equivalents, investments and advances to unconsolidated affiliates.

Income Tax Provision. Our income tax provision includes all currently payable and deferred United States and foreign income tax expense applicable to our ongoing operations.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are projected to be recovered or settled. Realization of deferred tax assets is dependent on our ability to generate sufficient taxable income, of an appropriate character, in future periods. A valuation allowance is established if it is determined to be more likely than not that a deferred tax asset will not be realized. Interest and penalties related to unrecognized tax benefits are reported as interest expense and income tax expense, respectively.

Equity in Earnings of Non-Operating Affiliates Net of Taxes. Equity in earnings of non-operating affiliates net of taxes represents our share of the net earnings of the entities that we account for using the equity method and exclude from operating earnings. Income taxes related to these investments, if any, are reflected in this line. The amounts recorded as equity in earnings of non-operating affiliates net of taxes relate to our investments in GrowHow and Keytrade. Our share of the net earnings includes the amortization of certain tangible and intangible assets identified as part of the application of purchase accounting at acquisition. We account for these investments as non-operating equity method investments, and exclude the net earnings of these investments in earnings from operations since these operations do not provide additional production capacity to us, nor are these operations integrated within our supply chain.

Net Earnings Attributable to the Noncontrolling Interest. Net earnings attributable to the noncontrolling interest for 2013 and 2012 included the net earnings attributable to the 24.7% interest of the publicly held common units of TNCLP. Net earnings attributable to the noncontrolling interest

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for the first four months of 2013 and all of 2012 also included the interest of the 34% holder of CFL's equity ownership. On April 30, 2013 we purchased the noncontrolling interests of CFL, which is the primary reason for the 2013 decline in earnings attributable to the noncontrolling interest.

We own an aggregate 75.3% of TNCLP and outside investors own the remaining 24.7%. The TNCLP Agreement of Limited Partnership allows the General Partner to receive Incentive Distribution Rights once a minimum distribution threshold has been met. Partnership interests in TNCLP are traded on the NYSE and TNCLP is separately registered with the SEC.

Results of Consolidated Operations

The following table presents our consolidated results of operations:

	Year Ended December 31,						
	2013	2012	2011	2013 v. 2012		2012 v. 2011	
	(in millions, except per share amounts)						
Net sales	$ 5,474.7	$ 6,104.0	$ 6,097.9	$ (629.3)	(10)%	$ 6.1	%
Cost of sales	2,954.5	2,990.7	3,202.3	(36.2)	(1)%	(211.6)	(7)%
Gross margin	2,520.2	3,113.3	2,895.6	(593.1)	(19)%	217.7	8%
Selling, general and administrative expenses	166.0	151.8	130.0	14.2	9%	21.8	17%
Restructuring and integration costs			4.4		N/M	(4.4)	(100)%
Other operating net	(15.8)	49.1	20.9	(64.9)	(132)%	28.2	135%
Total other operating costs and expenses	150.2	200.9	155.3	(50.7)	(25)%	45.6	29%
Equity in earnings of operating affiliates	41.7	47.0	50.2	(5.3)	(11)%	(3.2)	(6)%
Operating earnings	2,411.7	2,959.4	2,790.5	(547.7)	(19)%	168.9	6%
Interest expense	152.2	135.3	147.2	16.9	12%	(11.9)	(8)%
Interest income	(4.7)	(4.3)	(1.7)	(0.4)	9%	(2.6)	153%
Other non-operating net	54.5	(1.1)	(0.6)	55.6	N/M	(0.5)	83%
Earnings before income taxes and equity in earnings of non-operating affiliates	2,209.7	2,829.5	2,645.6	(619.8)	(22)%	183.9	7%
Income tax provision	686.5	964.2	926.5	(277.7)	(29)%	37.7	4%
Equity in earnings of non-operating affiliates net of taxes	9.6	58.1	41.9	(48.5)	(83)%	16.2	39%
Net earnings	1,532.8	1,923.4	1,761.0	(390.6)	(20)%	162.4	9%
Less: Net earnings attributable to noncontrolling interest	68.2	74.7	221.8	(6.5)	(9)%	(147.1)	(66)%
Net earnings attributable to common stockholders	$ 1,464.6	$ 1,848.7	$ 1,539.2	$ (384.1)	(21)%	$ 309.5	20%

Diluted net earnings per share attributable to common stockholders	$	24.74	$	28.59	$	21.98	$	(3.85)	$	6.61
Diluted weighted average common shares outstanding		59.2		64.7		70.0		(5.5)		(5.3)
Dividends declared per common share	$	2.20	$	1.60	$	1.00	$	0.60	$	0.60

N/M Not Meaningful

Impact of CFL Selling Price Modifications

As discussed in the Items Affecting Comparability of Results section of this discussion and analysis, in the fourth quarter of 2012, the CFL selling prices to Viterra were modified to cost plus an

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agreed-upon margin from market-based pricing retroactive to January 1, 2012. This change had no impact on our net earnings attributable to common stockholders as CFL was a consolidated variable interest entity prior to April 30, 2013. However, these changes impact the comparability of certain amounts between 2013 and prior years. On April 30, 2013, CF Industries acquired the noncontrolling interests in CFL and CFL became a wholly owned subsidiary of CF Industries.

The financial results for 2013 include four months of CFL selling prices based on production cost plus an agreed-upon margin and eight months of market based selling prices.

The following table adjusts the results for 2012 and 2011 to a similar selling price pattern of four months based on production costs and eight months based on market prices to be comparable to the 2013 results.

	Year Ended December 31,						
	2013	2012	2011	2013 v. 2012		2012 v. 2011	
	(in millions)						
Net sales							
As Reported	$ 5,474.7	$ 6,104.0	$ 6,097.9	$ (629.3)	(10)%	$ 6.1	0%
Impact of selling price adjustment		135.9	(41.5)	(135.9)		177.4	
As adjusted	$ 5,474.7	$ 6,239.9	$ 6,056.4	$ (765.2)	(12)%	$ 183.5	3%
Gross margin							
As Reported	$ 2,520.2	$ 3,113.3	$ 2,895.6	$ (593.1)	(19)%	$ 217.7	8%
Impact of selling price adjustment		135.9	(41.5)	(135.9)		177.4	
As adjusted	$ 2,520.2	$ 3,249.2	$ 2,854.1	$ (729.0)	(22)%	$ 395.1	14%
Net earnings attributable to the noncontrolling interest							
As Reported	$ 68.2	$ 74.7	$ 221.8	$ (6.5)	(9)%	$ (147.1)	(66)%
Impact of selling price adjustment		135.9	(41.5)	(135.9)		177.4	
As adjusted	$ 68.2	$ 210.6	$ 180.3	$ (142.4)	(68)%	$ 30.3	17%

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Consolidated Operating Results

Net sales and net earnings for 2013 declined in both the nitrogen and phosphate segments from prior year levels. These declines were due to increased supply and weakness in global fertilizer markets. Higher exports by Chinese producers increased supply and weighed on global nitrogen prices, while weaker demand from India had a similar impact on phosphate prices. North American demand in 2013 for both nitrogen and phosphate fertilizers was impacted by a delayed fall application period due to a late harvest and a shortened application window due to adverse weather in the Midwest. Additionally, an 8% increase in realized natural gas costs contributed to lower earnings.

Our gross margin decreased $593.1 million, or 19%, to $2.5 billion in 2013 from $3.1 billion in 2012 reflecting declines in both the nitrogen and phosphate segments. The gross margin was impacted by the CFL selling price modifications previously discussed. On an as adjusted basis, the gross margin decreased 22% from the prior year.

In the nitrogen segment, the gross margin decreased by $468.3 million, or 16%, to $2.4 billion as compared to $2.9 billion in 2012 due primarily to an 8% decrease in average selling prices, an 8% increase in realized natural gas costs, and a $13.6 million decrease in net unrealized mark-to-market gains on natural gas derivatives in the current year as compared to 2012. The nitrogen segment gross margin was impacted by the CFL sales price modifications. On an as adjusted basis, the gross margin for the nitrogen segment decreased 20%.

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In the phosphate segment, gross margin decreased by $124.8 million, or 62%, to $74.9 million in 2013 from $199.7 million in 2012, due primarily to a 13% decline in average selling prices and a 9% decrease in volume.

Net earnings attributable to common stockholders of $1.5 billion for 2013 included $52.9 million of pre-tax unrealized mark-to-market gains ($33.5 million after tax) on natural gas derivatives and $20.8 million ($13.2 million after tax) of net realized and unrealized gains on foreign currency derivatives and a net $20.6 million benefit from a settlement with the IRS concerning certain pre-IPO NOLs. Net earnings in 2012 of $1.8 billion included $66.5 million of net pre-tax unrealized mark-to-market gains ($41.2 million after tax) on natural gas derivatives, $8.1 million ($5.0 million after tax) of net realized and unrealized gains on foreign currency derivatives, a $15.2 million charge ($9.4 million after tax) for the accelerated amortization of deferred loan fees on our 2010 credit agreement that we replaced in May 2012 and a $10.9 million pre-tax curtailment gain ($6.8 million after tax) from a reduction in certain retiree medical benefits.

Net Sales

Net sales decreased 10% to $5.5 billion in 2013 compared to 2012 due to an 8% decrease in the nitrogen segment and a 21% decrease in the phosphate segment. These results were impacted by the CFL selling price modifications. On an as adjusted basis, 2013 net sales decreased 12% compared to 2012.

In the nitrogen segment, net sales decreased by $418.8 million, or 8%, due primarily to an 8% decrease in average selling prices. The decrease in prices was due primarily to increased supply from China and a shift in product mix from ammonia to UAN. The comparability of 2013 nitrogen segment net sales to prior years was impacted by the CFL sales price modifications. On an as adjusted basis, nitrogen segment net sales declined 11% from 2012. In the phosphate segment, net sales declined $210.5 million, or 21%, due to a 13% decrease in average selling prices and a 9% decrease in volume. The decrease in prices was due primarily to lower global demand, notably India.

Cost of Sales

Cost of sales decreased $36.2 million, or 1%, from 2012 to 2013. Cost of sales per ton in our nitrogen segment averaged $172 in 2013, a 2% increase over a cost of sales per ton of $168 in 2012. The increase was due primarily to an 8% increase in realized natural gas costs and a $13.6 million decrease in net mark-to-market gains related to natural gas derivatives. Phosphate segment cost of sales averaged $389 per ton in 2013 compared to $397 per ton in the prior year. This 2% decrease was due primarily to reduced raw material costs, namely ammonia and sulfur.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $14.2 million to $166.0 million in 2013 from $151.8 million in 2012. The increase was due primarily to higher corporate office costs, including costs associated with certain information technology development activities, including the implementation and incremental amortization of the cost of a new enterprise resource planning system. Additionally, higher legal fees were incurred due to strategic initiatives including the acquisition of CFL and the sale of the phosphate business.

Other Operating Net

Other operating net was $15.8 million of income in 2013 compared to a $49.1 million net expense in 2012. The 2013 income included $34.3 million in realized and unrealized foreign exchange gains

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including gains on foreign currency derivatives related to our capacity expansion projects, partially offset by $10.8 million of expenses related to our capacity expansion activities and $5.6 million of losses on the disposal of fixed assets. The expense recorded in 2012 consisted primarily of $21.9 million of costs associated with engineering studies for capacity expansion projects at various nitrogen complexes, $13.3 million of environmental and other costs associated with our closed facilities and $5.5 million of losses on the disposal of fixed assets.

Equity in Earnings of Operating Affiliates

Equity in earnings of operating affiliates consists of our 50% share of the operating results of PLNL and our 50% interest in an ammonia storage joint venture located in Houston, Texas. Equity in earnings of operating affiliates decreased 11% to $41.7 million in 2013 compared to $47.0 million in 2012 due to reduced operating results from these ventures.

Interest Net

Net interest expense was $147.5 million in 2013 compared to $131.0 million in 2012. The $16.5 million increase was due primarily to the $1.5 billion of senior notes we issued during the second quarter of 2013, partially offset by higher capitalized interest in 2013 related to our capacity expansion projects.

Other Non-Operating Net

Other non-operating-net was a $54.5 million expense in 2013 compared to income of $1.1 million in 2012. As discussed under Items Affecting Comparability of Results-Net Operating Loss Settlement, in 2013 a charge of $55.2 million was recognized for the 73.1% portion of the NOL's we had accumulated prior to our 2005 public offering that will be paid to pre-IPO owners as NOL tax benefits are realized.

Income Taxes

Our income tax provision for 2013 was $686.5 million on pre-tax income of $2.2 billion, or an effective tax rate of 31.1%, compared to an income tax provision of $964.2 million on pre-tax income of $2.8 billion, or an effective tax rate of 34.1% in the prior year. The effective tax rate was reduced due to an IRS tax settlement (2.2%), the impact of lower state income taxes resulting from our legal entity restructuring (1.5%) and the increased tax benefits from a depletion tax method change (.8%), partially offset by an increased tax expense related to our future repatriation of foreign earnings (1.5%).

The effective tax rate does not reflect a tax provision on the earnings attributable to the noncontrolling interest in TNCLP (a partnership), which is not a taxable entity. For additional information on income taxes, see Note 11 to our consolidated financial statements included in Item 8 of this report.

Equity in Earnings of Non-Operating Affiliates Net of Taxes

Equity in earnings of non-operating affiliates net of taxes consists of our share of the operating results of unconsolidated joint venture interests in GrowHow and Keytrade. The $48.5 million decrease in 2013 compared to 2012 was due primarily to lower earnings at GrowHow due to higher natural gas costs and lower average fertilizer selling prices in the United Kingdom.

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Net Earnings Attributable to the Noncontrolling Interest

Net earnings attributable to the noncontrolling interest decreased $6.5 million in 2013 compared to 2012 due primarily to lower net earnings at TNCLP for the year and the April 30, 2013 purchase of the noncontrolling interests in CFL. Net earnings attributable to the noncontrolling interest for 2013 and 2012 include the net earnings attributable to the 24.7% interest of the publicly held common units of TNCLP for the entire year. For additional information, see the section titled Items Affecting Comparability of Results earlier in this discussion and analysis.

Diluted Net Earnings Per Share Attributable to Common Stockholders

Diluted net earnings per share attributable to common stockholders decreased to $24.74 in the 2013 from $28.59 in 2012 due to a decrease in net earnings attributable to common stockholders, partially offset by a decrease in the weighted average number of shares outstanding due to our share repurchase programs. During 2013, we repurchased 7.3 million shares of our common stock for $1.4 billion, representing 12% of the shares outstanding at December 31, 2012. During 2012, we repurchased 3.1 million shares for $500.0 million.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Consolidated Operating Results

Our total gross margin increased $217.7 million, or 8%, to $3.1 billion in 2012 from $2.9 billion in 2011 due to an increase in gross margin in the nitrogen segment, partially offset by a decrease in the phosphate segment. The gross margin was impacted by the CFL selling price modifications previously discussed. On an as adjusted basis, the gross margin increased 14%.

In the nitrogen segment, the gross margin increased by $350.4 million, or 14%, to $2.9 billion as compared to $2.6 billion in 2011 due to an increase in average nitrogen fertilizer selling prices, a decrease in natural gas costs and unrealized mark-to-market gains on natural gas derivatives in the current year as compared to unrealized losses in 2011. The nitrogen segment gross margin was impacted by the CFL selling price modifications. On an as adjusted basis, the gross margin for the nitrogen segment increased 21%.

In the phosphate segment, gross margin decreased by $132.7 million, or 40%, to $199.7 million in 2012 from $332.4 million in 2011, due primarily to lower average phosphate fertilizer selling prices, partially offset by an increase in sales volume.

Net earnings attributable to common stockholders of $1.8 billion for 2012 included $66.5 million of pre-tax unrealized mark-to-market gains ($41.2 million after tax) on natural gas derivatives and $8.1 million ($5.0 million after tax) of net realized and unrealized gains on foreign currency derivatives, a $15.2 million charge ($9.4 million after tax) for the accelerated amortization of deferred loan fees on our 2010 credit agreement that we replaced in May 2012 and a $10.9 million pre-tax curtailment gain ($6.8 million after tax) from a reduction in certain retiree medical benefits.

The net earnings attributable to common stockholders of $1.5 billion for 2011 included a $77.3 million pre-tax unrealized net mark-to-market loss ($48.0 million after tax) on natural gas derivatives, a $34.8 million pre-tax ($21.6 million after tax) non-cash impairment charge related to our Woodward, Oklahoma methanol plant, a $32.5 million ($20.0 million after tax) gain on the sale of four dry product warehouses, $19.9 million ($12.3 million after tax) of accelerated amortization of debt issuance costs recognized upon repayment of the remaining balance of the senior secured term loan in the first quarter of 2011, $4.4 million ($2.7 million after tax) of restructuring and integration costs

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associated with the acquisition of Terra Industries, Inc. (Terra) and a $2.0 million ($1.3 million after tax) gain on the sale of a non-core transportation business.

Net Sales

Net sales were $6.1 billion in both 2012 and 2011 as increases in the nitrogen segment in 2012 were offset by declines in the phosphate segment. These results were impacted by the CFL selling price modifications. On an as adjusted basis, net sales increased 3%.

In the nitrogen segment, net sales increased by $84.5 million, or 2%, due primarily to higher nitrogen fertilizer average selling prices which were partially offset by lower sales volume. Average selling prices for nitrogen fertilizer increased due primarily to positive market conditions as favorable weather created a longer application window, tight world market conditions existed for ammonia and urea due to lower international ammonia production and tight domestic supply conditions existed due to increased demand caused by the high level of planted acres and low downstream inventories. Nitrogen segment net sales was impacted by the CFL selling price modifications. On an as adjusted basis, net sales in the nitrogen segment increased 5%.

In the phosphate segment, net sales declined $78.4 million, or 7%, due to a 12% decline in average phosphate fertilizer selling prices, partially offset by a 6% increase in phosphate sales volume.

Cost of Sales

Total cost of sales in our nitrogen segment averaged approximately $168 per ton in 2012 compared to $188 per ton in 2011. This 11% decrease was due primarily to lower realized natural gas cost and a $66.5 million unrealized net mark-to-market gain on natural gas derivatives in the current year compared to a $77.3 million unrealized net loss in the prior year. Phosphate segment cost of sales averaged $397 per ton in 2012 compared to $392 per ton in the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $21.8 million to $151.8 million in 2012 from $130.0 million in 2011 due primarily to higher corporate office expenses including higher professional service fees associated with the design and implementation of a new enterprise resource planning (ERP) system and higher outside legal fees and employee incentive compensation costs. The higher legal costs were primarily associated with environmental regulatory costs and corporate activities including our planned acquisition of the noncontrolling interest in CFL and capacity expansion projects at Donaldsonville, Louisiana and Port Neal, Iowa.

Restructuring and Integration Costs

No restructuring and integration costs were incurred in 2012 compared to $4.4 million in 2011, as integration activities associated with the acquisition of Terra were completed in 2011.

Other Operating Net

Other operating net was $49.1 million in 2012 compared to $20.9 million in 2011. The expense recorded in 2012 consisted primarily of $21.9 million of costs associated with engineering studies for capacity expansion projects at various nitrogen complexes, $13.3 million of environmental and other costs associated with our closed facilities and $5.5 million of losses on the disposal of fixed assets. The expense recorded in 2011 included a $34.8 million impairment charge related to our Woodward, Oklahoma methanol plant, $8.1 million of costs associated with our closed facilities and losses of

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$7.2 million on the disposal of fixed assets, partially offset by a $32.5 million gain on the sale of four dry product warehouses and a $2.0 million gain on the sale of a non-core transportation business.

Equity in Earnings of Operating Affiliates

Equity in earnings of operating affiliates consists of our 50% share of the operating results of PLNL and our 50% interest in an ammonia storage joint venture located in Houston, Texas. Equity in earnings of operating affiliates decreased $3.2 million to $47.0 million in 2012 as compared to $50.2 million in 2011 due primarily to reduced sales and earnings at PLNL due to a planned turnaround, which was partially offset by improved sales and earnings for the ammonia storage joint venture.

Interest Net

Net interest expense was $131.0 million in 2012 compared to $145.5 million in 2011. The decrease in expense was due primarily to a decrease in amortized loan fees, including a $4.7 million decrease in accelerated loan fee amortization. In 2012, we terminated the 2010 credit agreement and recognized $15.2 million accelerated amortization of deferred loan fees. In 2011, we repaid the remaining balance of our senior secured term loan and recognized $19.9 million accelerated amortization of debt issuance costs.

Income Taxes

Our income tax provision for 2012 was $964.2 million on pre-tax income of $2.8 billion, or an effective tax rate of 34.1%, compared to an income tax provision of $926.5 million on a pre-tax income of $2.6 billion and an effective tax rate of 35.0% in 2011. The decline in the effective tax rate was driven primarily by lower U.S. taxes on foreign earnings as well as lower state taxes in 2012 than in the prior year. The effective tax rate does not include a tax provision on the earnings attributable to the noncontrolling interests in TNCLP (a partnership), which does not record an income tax provision. On August 2, 2012 we entered into a definitive agreement with Glencore International plc. ("Glencore") to acquire the interest in CFL currently owned by Viterra. As a result, CFL recorded an income tax provision in 2012. In 2011, CFL did not record an income tax provision. See Note 11 to our consolidated financial statements included in Item 8 of this report for additional information on income taxes.

Equity in Earnings of Non-Operating Affiliates Net of Taxes

Equity in earnings of non-operating affiliates net of taxes consists of our share of the operating results of unconsolidated joint venture interests in GrowHow and Keytrade. The $16.2 million increase in 2012 compared to 2011 was due to higher net earnings at GrowHow due to improved operating results, declines in UK corporate tax rates and an $11.1 million insurance settlement related to a fire that occurred in 2011.

Net Earnings Attributable to the Noncontrolling Interest

Net earnings attributable to the noncontrolling interest include the interest of the 34% holder of CFL's common and preferred shares and the net earnings attributable to the 24.7% interest of the publicly held common units of TNCLP. The $147.1 million decrease was mainly due to the impact of the CFL selling price modification that was made in 2012. During each quarter of 2012 and 2011, the TNCLP minimum quarterly distribution was exceeded, which entitled us to receive increased distributions on our general partner interests as provided for in the TNCLP Agreement of Limited

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Partnership. For additional information, see Note 4 to our consolidated financial statements included in Item 8 of this report.

Diluted Net Earnings Per Share Attributable to Common Stockholders

Diluted net earnings per share attributable to common stockholders increased to $28.59 in 2012 from $21.98 in 2011 due to an increase in net earnings attributable to common stockholders and a decrease in the weighted average number of shares outstanding due to our share repurchase program under which we repurchased 6.5 million shares of our common stock in 2011 and an additional 3.1 million shares in 2012.

Operating Results by Business Segment

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

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Nitrogen Segment

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

	Year Ended December 31,						
	2013	2012	2011	2013 v. 2012		2012 v. 2011	
	(in millions, except as noted)						
Net sales	$ 4,677.8	$ 5,096.6	$ 5,012.1	$ (418.8)	(8)%	$ 84.5	2%
Cost of sales	2,232.5	2,183.0	2,448.9	49.5	2%	(265.9)	(11)%
Gross margin	$ 2,445.3	$ 2,913.6	$ 2,563.2	$ (468.3)	(16)%	$ 350.4	14%
Gross margin percentage	52.3%	57.2%	51.1%				
Tons of product sold (000s)	12,945	12,969	13,002	(24)	(0)%	(33)	(0)%
Sales volume by product (000s)							
Ammonia	2,427	2,786	2,668	(359)	(13)%	118	4%
Granular urea	2,506	2,593	2,600	(87)	(3)%	(7)	(0)%
UAN	6,383	6,131	6,241	252	4%	(110)	(2)%
AN	859	839	953	20	2%	(114)	(12)%
Other nitrogen products	770	620	540	150	24%	80	15%
Average selling price per ton by product							
Ammonia	$ 592	$ 602	$ 586	$ (10)	(2)%	$ 16	3%
Granular urea	369	441	411	(72)	(16)%	30	7%
UAN	303	308	319	(5)	(2)%	(11)	(3)%
AN	250	266	260	(16)	(6)%	6	2%
Cost of natural gas (per MMBtu)[1]	$ 3.66	$ 3.39	$ 4.28	$ 0.27	8%	$ (0.89)	(21)%
Average daily market price of natural gas (per MMBtu) Henry Hub (Louisiana)	$ 3.72	$ 2.75	$ 3.99	$ 0.97	35%	$ (1.24)	(31)%
Depreciation and amortization	$ 328.4	$ 334.6	$ 316.3	$ (6.2)	(2)%	$ 18.3	6%
Capital expenditures	$ 759.5	$ 431.3	$ 177.0	$ 328.2	76%	$ 254.3	144%
Production volume by product (000s)							
Ammonia[2]	7,105	7,067	7,244	38	1%	(177)	(2)%
Granular urea	2,474	2,560	2,588	(86)	(3)%	(28)	(1)%
UAN (32%)	6,332	6,027	6,349	305	5%	(322)	(5)%
AN	882	839	952	43	5%	(113)	(12)%

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

(2) Gross ammonia production, including amounts subsequently upgraded into other nitrogen products.

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Impact of CFL Selling Price Modifications

As discussed in the Items Affecting Comparability of Results section of this discussion and analysis, in the fourth quarter of 2012, the CFL selling prices to Viterra were modified to cost plus an agreed-upon margin from market-based pricing retroactive to January 1, 2012. This change had no impact on our net earnings attributable to common stockholders as CFL was a consolidated variable interest entity prior to April 30, 2013. However, these changes impact the comparability of certain amounts between 2013 and prior years. On April 30, 2013, CF Industries acquired the noncontrolling interests in CFL and CFL became a wholly owned subsidiary of CF Industries.

The financial results for 2013 include four months of CFL selling prices based on production cost plus an agreed-upon margin and eight months of market based selling prices. The following table adjusts the nitrogen segment results for 2012 and 2011 to a similar selling price pattern of 4 months based on production costs and 8 months based on market prices to be comparable to the 2013 results.

	Year Ended December 31,						
	2013	2012	2011	2013 v. 2012		2012 v. 2011	
	(in millions)						
Net sales							
As Reported	$ 4,677.8	$ 5,096.6	$ 5,012.1	$ (418.8)	(8)%	$ 84.5	2%
Impact of selling price adjustment		135.9	(41.5)	(135.9)		177.4	
As adjusted	$ 4,677.8	$ 5,232.5	$ 4,970.6	$ (554.7)	(11)%	$ 261.9	5%
Gross margin							
As Reported	$ 2,445.3	$ 2,913.6	$ 2,563.2	$ (468.3)	(16)%	$ 350.4	14%
Impact of selling price adjustment		135.9	(41.5)	(135.9)		177.4	
As adjusted	$ 2,445.3	$ 3,049.5	$ 2,521.7	$ (604.2)	(20)%	$ 527.8	21%
Gross margin percentage							
As Reported	52.3%	57.2%	51.1%				
Impact of selling price adjustment		1.1	(0.4)				
As adjusted	52.3%	58.3%	50.7%				

Average selling price per ton by product											
Ammonia											
As Reported	$	592	$	602	$	586	$	(10)	(2)%	$ 16	3%
Impact of selling price adjustment				26		(10)		(26)		36	
As adjusted	$	592	$	628	$	576	$	(36)	(6)%	$ 52	9%
Granular Urea											
As Reported	$	369	$	441	$	411	$	(72)	(16)%	$ 30	7%
Impact of selling price adjustment				24		(6)		(24)		30	
As adjusted	$	369	$	465	$	405	$	(96)	(21)%	$ 60	15%

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net Sales. Net sales in the nitrogen segment decreased $418.8 million, or 8%, in 2013 from 2012 due primarily to an 8% decrease in average selling prices. The nitrogen segment net sales were

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impacted by the CFL selling price modifications. On an as adjusted basis, net sales in the nitrogen segment decreased by 11%. Average selling prices decreased to $361 per ton in 2013 from $393 per ton in 2012 including declines of 16% for urea, 6% for AN and 2% for both ammonia and UAN as compared to the prior year. The decline in urea prices versus the prior year was primarily due to increased supply as a result of higher urea exports from Chinese producers during the low tariff export season. The decline in ammonia prices versus the prior year was due to the combination of a weaker nitrogen pricing environment, higher domestic production rates and inventory levels and reduced demand associated with unfavorable weather conditions. During 2013, the cold and wet spring and the shortened fall application season reduced ammonia demand compared to the favorable application environment during 2012. The decline in UAN prices versus the prior year was due primarily to higher global supply of nitrogen products.

Cost of Sales. Cost of sales in the nitrogen segment averaged $172 per ton in 2013 compared to $168 per ton in 2012. This 2% increase was due primarily to an 8% increase in the realized cost of natural gas and a $13.6 million reduction in net unrealized mark-to-market gains on natural gas derivatives in the current year compared to 2012. The current year includes a mark-to-market gain on natural gas derivatives of $52.9 million, while 2012 includes a mark-to-market gain of $66.5 million.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net Sales. Net sales in the nitrogen segment increased $84.5 million, or 2%, to $5.1 billion in 2012 from $5.0 billion in 2011 due primarily to a 2% increase in average selling prices. The nitrogen segment net sales were impacted by the CFL selling price modifications. On an as adjusted basis, net sales in the nitrogen segment increased 5%. Average nitrogen fertilizer selling prices increased to $393 per ton in 2012 from $385 per ton in 2011 with increases in ammonia and urea. Higher ammonia and urea average selling prices resulted from tight industry-wide supply conditions due to increased U.S. demand caused by the higher level of planted acres in 2012 and expected in 2013, and lower downstream inventories. Sales volume in 2012 approximated the level in 2011 as higher sales of ammonia and other nitrogen products were offset by lower sales volumes of UAN and ammonium nitrate. A favorable application environment for ammonia during 2012 supported the higher sales volume for this product. The lower sales volumes of UAN and ammonia nitrate were due to scheduled plant turnarounds and maintenance activities during 2012 that resulted in lower production of these products. Lower UAN sales volume was also due to a shift in product mix favoring higher margin nitrogen products during the year.

Cost of Sales. Total cost of sales in the nitrogen segment averaged approximately $168 per ton in 2012 compared to $188 per ton in 2011. The 11% decrease was due primarily to lower realized natural gas costs and $66.5 million in unrealized net mark-to-market gains on natural gas derivatives in 2012 compared to net losses of $77.3 million in 2011. The average cost of natural gas declined by 21% from $4.28 per MMBtu in 2011 to $3.39 per MMBtu in 2012.

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Phosphate Segment

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

	Year Ended December 31,						
	2013	2012	2011	2013 v. 2012		2012 v. 2011	
	(in millions, except as noted)						
Net sales	$ 796.9	$ 1,007.4	$ 1,085.8	$ (210.5)	(21)%	$ (78.4)	(7)%
Cost of sales	722.0	807.7	753.4	(85.7)	(11)%	54.3	7%
Gross margin	$ 74.9	$ 199.7	$ 332.4	$ (124.8)	(62)%	$ (132.7)	(40)%
Gross margin percentage	9.4%	19.8%	30.6%				
Tons of product sold (000s)	1,857	2,035	1,922	(178)	(9)%	113	6%
Sales volume by product (000s)							
DAP	1,408	1,611	1,468	(203)	(13)%	143	10%
MAP	449	424	454	25	6%	(30)	(7)%
Domestic vs. export sales (000s)							
Domestic	1,061	1,254	1,197	(193)	(15)%	57	5%
Export	796	781	725	15	2%	56	8%
Average selling price per ton by product							
DAP	$ 427	$ 493	$ 565	$ (66)	(13)%	$ (72)	(13)%
MAP	437	502	565	(65)	(13)%	(63)	(11)%
Depreciation, depletion and amortization[1]	$ 42.3	$ 43.5	$ 50.7	$ (1.2)	(3)%	$ (7.2)	(14)%
Capital expenditures	$ 59.0	$ 64.4	$ 52.0	$ (5.4)	(8)%	$ 12.4	24%
Production volume by product (000s)							
Phosphate rock	3,565	3,483	3,504	82	2%	(21)	(1)%
Sulfuric acid	2,480	2,530	2,633	(50)	(2)%	(103)	(4)%
Phosphoric acid as P_2O_5[2]	921	975	1,005	(54)	(6)%	(30)	(3)%
DAP/MAP	1,847	1,952	1,997	(105)	(5)%	(45)	(2)%

(1) In October 2013 we entered into an agreement to sell the phosphate mining and manufacturing business, which is located in Florida, to Mosaic. The assets and liabilities expected to be sold are classified as held for sale. Effective November 1, 2013, we ceased depreciation on amounts in property, plant and equipment. The depreciation that would have been recorded for November and December is estimated at approximately $8.1 million.

(2) P_2O_5 is the basic measure of the nutrient content in phosphate fertilizer products.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net Sales. Phosphate segment net sales decreased $210.5 million, or 21%, to $796.9 million in 2013 compared to $1.0 billion in 2012 due to a 13% decline in average selling prices and a 9% decrease in volume. Average DAP and MAP selling prices each decreased 13% with DAP decreasing from $493 to $427 per ton and MAP decreasing from $502 to $437 per ton due primarily to lower global demand, notably India, and buyers delaying purchases due to the expectation for lower prices. Phosphate segment sales volume of 1,857,000 tons in 2013 was 9% lower than 2012 due primarily to reduced domestic sales partially offset by increased exports.

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Cost of Sales. The average phosphate segment cost of sales of $389 per ton in 2013 was 2% lower than the $397 per ton in the prior year due to lower raw material costs, primarily ammonia and sulfur.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net Sales. Phosphate segment net sales decreased $78.4 million, or 7%, to $1.0 billion in 2012 compared to $1.1 billion in 2011 due to lower average selling prices, partially offset by higher sales volume. Average selling prices for 2012 decreased by 12% compared to the prior year reflecting lower demand from India. Our total sales volume of phosphate fertilizer of 2.0 million tons in 2012 was 6% higher than in 2011 due primarily to higher export sales volume.

Cost of Sales. Average phosphate segment cost of sales of $397 per ton in 2012 was comparable to the $392 per ton in the prior year.

Liquidity and Capital Resources

Our primary uses of cash are for operating costs, working capital, capital expenditures, debt service, investments, taxes, share repurchases and dividends. Our working capital requirements are affected by several factors, including demand for our products, selling prices, raw material costs, freight and storage costs and seasonal factors inherent in the business. Generally, our primary source of cash is cash from operations, which includes cash generated by customer advances. We may also from time to time access the capital markets or engage in borrowings under our credit agreement.

During 2013, the following significant events have had or will have an impact on our cash and liquidity position.

- Under our current Board-authorized $3.0 billion share purchase program, we repurchased 7.3 million common shares in 2013 for a total cost of $1.4 billion.

- Through the end of 2013, we made $0.7 billion of capital expenditures related to our $3.8 billion capacity expansion projects. These projects are expected to be on-stream by 2016. During 2014, we expect to spend approximately $2.0 billion on these projects.

- In April 2013, we completed the acquisition of the remaining noncontrolling interest in CFL for $0.9 billion.

- In October 2013, we entered into a set of strategic agreements with Mosaic including a definitive agreement to sell the entirety of our phosphate mining and manufacturing business, which is located in Florida, for a purchase price of approximately $1.4 billion in cash, subject to adjustment as provided in the agreement, plus two agreements to supply ammonia to Mosaic. We expect the phosphate business sale transaction will close in the first half of 2014.

- In April 2013, we amended and restated our credit agreement, increasing the revolving credit facility by $0.5 billion to $1.0 billion and extending the maturity date to May 2018.

- In May 2013, we issued $1.5 billion in senior notes with $750 million due in 2023 and $750 million due in 2043.

- In December 2013, we announced our intent to raise up to $1.5 billion in long-term debt in 2014.

Further details regarding these events are provided below.

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Cash and Cash Equivalents

We had cash and cash equivalents of $1.7 billion as of December 31, 2013 and $2.3 billion as of December 31, 2012. Cash equivalents include highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less. Under our short-term investment policy, we may invest our excess cash balances in several types of securities including notes and bonds issued by governmental entities or corporations, and money market funds. Securities issued by governmental agencies include those issued directly by the U.S. and Canadian federal governments; those issued by state, local or other governmental entities; and those guaranteed by entities affiliated with governmental entities.

Share Repurchase Programs

In the third quarter of 2011, our Board of Directors authorized a program to repurchase up to $1.5 billion of CF Holdings common stock through December 31, 2013. During 2011, we repurchased 6.5 million shares under the program for $1.0 billion, and in the second quarter of 2012, we repurchased 3.1 million shares of CF Holdings common stock for $500.0 million, thereby completing this program. In June 2012, all 9.6 million shares that had been repurchased under this program were retired. In our consolidated balance sheet, the retirement of these shares eliminated the recorded treasury stock and reduced retained earnings and paid-in capital by $1,125.9 million and $374.2 million, respectively, as of June 30, 2012.

In the third quarter of 2012, our Board of Directors authorized a program to repurchase up to $3.0 billion of CF Holdings common stock through December 31, 2016. Repurchases under this program may be made from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing, and amount of any repurchases will be determined by our management based on evaluation of market conditions, stock price, and other factors. In 2013, we repurchased 7.3 million shares for $1.4 billion. There were no repurchases under this program in 2012. In 2013 we retired 6.4 million shares of our stock repurchased during the year. In our consolidated balance sheet, the retirement of these shares eliminated the recorded treasury stock and reduced retained earnings and paid-in capital by $1,067.4 million and $180.4 million, respectively.

Capacity Expansion Projects and Restricted Cash

In November 2012, we announced that our Board of Directors had authorized expenditures of $3.8 billion to construct new ammonia and urea/UAN plants at our Donaldsonville, Louisiana complex and new ammonia and urea plants at our Port Neal, Iowa complex. In combination, these two new facilities will be able to produce 2.1 million tons of gross ammonia per year and upgraded products ranging from 2.0 to 2.7 million tons of granular urea per year and up to 1.8 million tons of UAN 32% solution per year, depending on our choice of product mix. The $3.8 billion cost estimate includes: engineering and design; equipment procurement; construction; associated infrastructure including natural gas connections and power supply; and product storage and handling systems. These plants will increase our product mix flexibility at Donaldsonville, improve our ability to serve upper-Midwest urea customers from our Port Neal location, and allow us to benefit from the favorable cost advantage of North American natural gas. All of these new facilities are scheduled to be on-stream by 2016. We expect to finance the capital expenditures through available cash and securities, cash generated from operations and borrowings. Total cash spent to date on capital expenditures for the expansion projects was $476.9 million, including $356.1 million spent during 2013. In addition, $203.6 million was invested in the expansion project and not paid at December 31, 2013 and recognized in the consolidated balance sheet in the lines labeled accounts payable and accrued expenses and other non-current liabilities.

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We have retained engineering and procurement services from an affiliate of ThyssenKrupp Uhde (Uhde) for both the Donaldsonville, Louisiana and Port Neal, Iowa expansion projects. Under the terms of the engineering and procurement services contract, we have granted Uhde a security interest in a restricted cash account and maintain a cash balance in that account equal to the cancellation fees for procurement services and equipment that would arise if we were to cancel the projects. The amount in the account will change over time based on procurement costs. The amount is projected to reach approximately $375 million at certain points in time during construction and will be zero by the end of the project. At December 31, 2013 there was $154.0 million held in this account. This restricted cash is not included in our cash and cash equivalents and is reported separately on our consolidated balance sheet and statement of cash flows.

Capital Spending

We make capital expenditures to sustain our asset base, to increase our capacity, to improve plant efficiency and to comply with various environmental, health and safety requirements. Capital expenditures totaled $823.8 million in 2013 as compared to $523.5 million in 2012. The increase in capital expenditures is primarily the result of the $356.1 million spent on the two capacity expansion projects discussed above.

Projected Capital Spending

We expect capital expenditures in 2014 to be approximately $2.5 billion, including $2.0 billion for the capacity expansion projects and $0.5 billion of sustaining and other capital expenditures. Planned capital expenditures are subject to change due to delays in regulatory approvals or permitting, unanticipated increases in cost, changes in scope and completion time, performance of third parties, adverse weather, defects in materials and workmanship, labor or material shortages, transportation constraints, and other unforeseen difficulties.

Acquisitions of the Noncontrolling Interests in Canadian Fertilizers Limited

In 2012, we entered into agreements to acquire the 34% of CFL's common and preferred shares owned by Viterra, the product purchase agreement between CFL and Viterra, and the CFL common shares held by GROWMARK and La Coop fédérée for a total purchase price of approximately C$0.9 billion. In April 2013, we completed the acquisitions. Since CFL was previously a consolidated variable interest entity, the purchase price was recognized as follows: a $0.8 billion reduction in paid in capital; a $0.1 billion deferred tax asset; and the removal of the CFL noncontrolling interest. CFL is now a wholly owned subsidiary and we are entitled to purchase 100% of CFL's ammonia and granular urea production. For additional information, see Note 4 to our consolidated financial statements included in Item 8 of this report.

Planned Disposition of Phosphate Business and Ammonia Supply Agreements

In October 2013, we entered into a definitive agreement with Mosaic to sell our entire phosphate mining and manufacturing business, which is located in Florida, for a purchase price of approximately $1.4 billion in cash, subject to adjustment as provided in the agreement, and entered into two agreements to supply ammonia to Mosaic. The first agreement, which is not conditioned upon completion of the phosphate business sale transaction, provides for us to supply between 600,000 and 800,000 tons of ammonia per year from our Donaldsonville, Louisiana nitrogen complex beginning no later than 2017. The second agreement provides for us to supply approximately 300,000 tons of ammonia per year sourced from our Point Lisas Nitrogen Limited (PLNL) joint venture beginning at the closing of the phosphate business sale transaction. See further discussion of this transaction in the section titled Items Affecting Comparability of Results and in Note 12 Assets and Liabilities Held for Sale to the consolidated financial statements included in Item 8 of this report.

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Repatriation of Foreign Earnings and Income Taxes

We have operations in Canada and interests in corporate joint ventures in the United Kingdom, the Republic of Trinidad and Tobago, and Switzerland. The estimated additional U.S. and foreign income taxes due upon repatriation of the earnings of these foreign operations to the U.S. are recognized in our consolidated financial statements as the earnings are recognized, unless the earnings are considered to be indefinitely reinvested based upon our current plans. However, the cash payment of the income tax liabilities associated with repatriation of earnings from foreign operations occurs at the time of the repatriation. As a result, the recognition of income tax expense related to foreign earnings, as applicable, and the payment of taxes resulting from repatriation of those earnings can occur in different periods. Cash balances held by corporate joint ventures are maintained at sufficient levels to fund local operations as accumulated earnings are repatriated from the joint ventures on a periodic basis.

At December 31, 2013, approximately $282.3 million of our consolidated cash and cash equivalents balance of $1.7 billion was held by our Canadian subsidiaries. The cash balance held by the Canadian subsidiaries represents accumulated earnings of our foreign operations which is not considered to be permanently reinvested. We have recognized deferred income taxes on these earnings for the foreign and domestic taxes that would be due upon their repatriation to the United States. At December 31, 2013, the cash tax cost to repatriate the Canadian cash balances would be approximately $14.1 million.

Debt

We intend to raise up to $1.5 billion in long-term debt in 2014. This new debt, in addition to cash from operations and proceeds from the sale of the phosphate mining and manufacturing business, will fund our capital expenditure programs, dividends to shareholders, working capital and additional share repurchases.

Credit Agreement

On April 22, 2013, we amended and restated the CF Holdings credit agreement (Credit Agreement) increasing the revolving credit facility from $500 million to $1.0 billion and extending the maturity from May 1, 2017 to May 1, 2018. All obligations under the Credit Agreement are unsecured. Currently, CF Holdings is the only guarantor of CF Industries' obligations under the Credit Agreement. Certain of CF Industries' material domestic subsidiaries would be required to become guarantors under the Credit Agreement if such subsidiary were to guarantee our other debt or CF Industries' debt in excess of $350 million. As of December 31, 2013, $995.1 million was available for borrowing under our Credit Agreement, net of $4.9 million of outstanding letters of credit, and there were no outstanding borrowings.

Our Credit Agreement includes representations, warranties, covenants and events of default, including requirements that we maintain a minimum interest coverage ratio and not exceed a maximum total leverage ratio, as well as other customary covenants and events of default. Our senior notes indentures also include certain covenants and events of default. As of December 31, 2013, we were in compliance with all covenants under the Credit Agreement and the senior notes indentures.

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Senior Notes

At December 31, 2013 and December 31, 2012, we had $3.1 billion and $1.6 billion of senior notes outstanding, respectively, with maturities ranging from 2018 through 2043 as follows:

Senior Notes due 2018 and 2020

On April 23, 2010, CF Industries issued $800 million aggregate principal amount of 6.875% senior notes due May 1, 2018 and $800 million aggregate principal amount of 7.125% senior notes due May 1, 2020 (the 2018/2020 Notes). Interest is paid semiannually on May 1 and November 1 and the 2018/2020 Notes are redeemable at our option, in whole at any time or in part from time to time, at specified make-whole redemption prices.

Under the supplemental indentures governing the 2018/2020 Notes, the 2018/2020 Notes are guaranteed by CF Holdings. In addition, in the event that a subsidiary of ours, other than CF Industries, becomes a borrower or a guarantor under the Credit Agreement (or any renewal, replacement or refinancing thereof), such subsidiary would be required to become a guarantor of the 2018/2020 Notes.

Senior Notes due 2023 and 2043

On May 23, 2013, CF Industries issued $750 million aggregate principal amount of 3.450% senior notes due June 1, 2023 and $750 million aggregate principal amount of 4.950% senior notes due June 1, 2043 (the 2023/2043 Notes). Interest is paid semiannually on June 1 and December 1 and the 2023/2043 Notes are redeemable at our option, in whole at any time or in part from time to time, at specified make-whole redemption prices. We received net proceeds of approximately $1.48 billion from the issuance and sale of the 2023/2043 Notes, after deducting underwriting discounts and offering expenses.

Under the supplemental indentures governing the 2023/2043 Notes, the 2023/2043 Notes are guaranteed by CF Holdings. In addition, in the event that a subsidiary of ours, other than CF Industries, becomes a borrower or a guarantor under the Credit Agreement (or any renewal, replacement or refinancing thereof), such subsidiary would be required to become a guarantor of the 2023/2043 Notes, provided that such requirement will no longer apply following the repayment of both issues of the 2018/2020 Notes or the subsidiaries of ours, other than CF Industries, otherwise become no longer subject to such a requirement to guarantee the 2018/2020 Notes.

Forward Sales and Customer Advances

We offer our customers the opportunity to purchase product on a forward basis at prices and on delivery dates we propose. We also use derivative financial instruments to reduce our exposure to changes in prices for natural gas that will be purchased in the future. Natural gas is the largest and most volatile component of our manufacturing cost for nitrogen-based fertilizers. As a result of using derivative instruments to hedge against movements of future prices of natural gas, volatility in reported quarterly earnings can result from the unrealized mark-to-market adjustments in the value of the derivatives. Additionally, our reported fertilizer selling prices and margins may differ from market spot prices and margins available at the time of shipment. Unlike nitrogen fertilizer products sold under forward sales contracts, we typically are unable to use hedges to reduce our exposure to raw material price changes for components of our phosphate manufacturing cost, the largest of which are sulfur and ammonia. As a result, we typically are exposed to margin risk on phosphate products sold on a forward basis.

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Customer advances, which typically represent a portion of the contract's sales value, are received shortly after the contract is executed, with any remaining unpaid amount generally being collected by the time the product is shipped, thereby reducing or eliminating the accounts receivable related to such sales. Any cash payments received in advance from customers in connection with forward sales contracts are reflected on our consolidated balance sheets as a current liability until the related orders are shipped and revenue is recognized. As of December 31, 2013 and 2012, we had $120.6 million and $380.7 million, respectively, in customer advances on our consolidated balance sheets.

While customer advances are generally a significant source of liquidity, the level of forward sales contracts is affected by many factors including current market conditions and our customers' outlook of future market fundamentals. If the level of sales under our forward sales programs were to decrease in the future, our cash received from customer advances could likely decrease and our accounts receivable balances could likely increase. Also, borrowing under our Credit Agreement could become necessary. Due to the volatility inherent in our business and changing customer expectations, we cannot estimate the amount of future forward sales activity.

Under our forward sales programs, a customer may delay delivery of an order due to weather conditions or other factors. These delays generally subject the customer to potential charges for storage or may be grounds for termination of the contract by us. Such a delay in scheduled shipment or termination of a forward sales contract due to a customer's inability or unwillingness to perform may negatively impact our reported sales.

Derivative Financial Instruments

We use derivative financial instruments to reduce our exposure to changes in commodity prices and foreign currency exchange rates. Derivatives expose us to counterparties and the risks associated with their ability to meet the terms of the contracts. For derivatives that are in net asset positions, we are exposed to credit loss from nonperformance by the counterparties. We control our credit risk through the use of multiple counterparties that are either large oil and gas companies or large financial institutions and, in most cases, the use of master netting arrangements.

The master netting arrangements to most of our derivative instruments contain credit-risk-related contingent features with sliding-scale credit support thresholds that are dependent upon the ratings assigned to our long-term unsecured debt by certain credit rating agencies. Downgrades in our credit ratings could cause the applicable threshold levels to increase. If our net liability positions with the counterparties exceed the threshold amounts, those counterparties could require cash collateral, some other form of credit support, or daily cash settlement of unrealized losses.

As of December 31, 2013 and 2012, the aggregate fair value of the derivative instruments with credit-risk-related contingent features in net liability positions was $0.2 million and $0.9 million, respectively, which also approximates the fair value of the maximum amount of additional collateral that would need to be posted or assets needed to settle the obligations if the credit-risk-related contingent features were triggered at the reporting dates. As of December 31, 2013, we had open natural gas derivative contracts for 76.3 million MMBtus and the notional amount of our open foreign currency derivatives was $636.3 million. At December 31, 2013 and 2012, we had no cash collateral on deposit with counterparties for derivative contracts.

Financial Assurance Requirements

In addition to various operational and environmental regulations related to our phosphate segment, we are also subject to financial assurance obligations related to the closure and maintenance of our phosphogypsum stack systems at both our Plant City, Florida phosphate fertilizer complex and

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our closed Bartow, Florida phosphate fertilizer complex. These financial assurance obligations result from two requirements. The first is a 2010 consent decree with the EPA and the FDEP with respect to our compliance with the Resource Conservation and Recovery Act (RCRA) at our Plant City complex (the Plant City Consent Decree). The second is State of Florida financial assurance regulations (Florida Financial Assurance) that apply to both our Plant City and Bartow complexes. Both of these regulations allow the use of a funding mechanism as a means of complying with the financial assurance requirements associated with the closure, long-term maintenance, and monitoring costs for the phosphogypsum stacks, as well as costs incurred to manage the water contained in the stack system upon closure. We maintain a trust account for the benefit of the EPA and the FDEP and an escrow account for the benefit of the FDEP to meet these financial assurance requirements. On our consolidated balance sheets, these are collectively referred to as "Asset retirement obligation funds" (ARO funds) and at December 31, 2013, these assets were recorded as assets held for sale. The trust for the Plant City Consent Decree is fully funded, and we expect the remaining $1.0 million will be funded in the State of Florida Financial Assurance escrow account near the end of 2015. Both financial assurance funding obligations require estimates of future expenditures that could be impacted by refinements in scope, technological developments, cost inflation, changes in regulations, discount rates and the timing of activities. Additional funding would be required in the future if increases in cost estimates exceed investment earnings in the trust or escrow accounts. In the fourth quarter of 2013, we entered into a definitive agreement with Mosaic to sell our entire phosphate mining and manufacturing business, which is located in Florida. As a result, the asset retirement obligation funds are included in noncurrent assets held for sale at December 31, 2013. At December 31, 2013 and 2012, the balance in the ARO funds was $203.7 million and $200.8 million, respectively.

The amounts recognized as expense in operations pertaining to our phosphogypsum stack systems closure and land reclamation are determined and accounted for on an accrual basis as described in Note 10 to our consolidated financial statements included in Item 8 of this report. These expense amounts are expected to differ from the anticipated contributions to the trust and escrow accounts, which are based on the guidelines set forth in the Plant City Consent Decree and Florida Financial Assurance regulations. Ultimately, the funds in these accounts will be used to fund the closure and maintenance of the phosphogypsum stack systems.

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

Other Liquidity Requirements

We contributed $7.0 million to our pension plans in 2013. We expect to contribute approximately $21.2 million to our pension plans in 2014.

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Cash Flows

Operating Activities

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net cash generated from operating activities in 2013 was $1.5 billion as compared to $2.4 billion in 2012. The $0.9 billion decline was due to the combination of a $390.6 million decline in net earnings and a higher level of net working capital invested in the business in 2013 versus 2012. During 2013, $740.2 million more was invested in net working capital than in 2012 due primarily to higher income tax payments and lower customer advances as customers delayed purchasing decisions in 2013 as compared to 2012.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash generated from operating activities in 2012 was $2.4 billion as compared to $2.1 billion in 2011. The $296.7 million increase in cash provided by operating activities was due primarily to an increase in net earnings, and a lower level of working capital invested in the business at the end of 2012 as compared to the end of 2011 as lower inventory, lower receivables and higher customer advances and accounts payable and accrued expenses contributed to the lower levels of working capital.

Investing Activities

Years Ended December 31, 2013, 2012 and 2011

Net cash used in investing activities was $1,019.3 million in 2013 compared to $513.5 million in 2012. Cash used in investing activities in 2013 included $823.8 million in capital expenditures and $154.0 million transferred to a restricted cash account in support of the capacity expansion projects discussed previously. The cash used in investing activities in 2012 was primarily for capital expenditures, partially offset by $65.4 million from the sale of short term securities and property, plant and equipment. The cash used in investing activities in 2011 was primarily for capital expenditures, partially offset by $54.7 million in proceeds from the sale of property, plant and equipment and $37.9 million in sales and maturities of short term securities. Additions to property, plant and equipment accounted for $823.8 million, $523.5 million and $247.2 million of cash used in investing activities in 2013, 2012 and 2011, respectively. The increases in capital expenditures in 2013 and 2012 related primarily to cash spending for the major capacity expansion projects at our Donaldsonville, Louisiana and Port Neal, Iowa facilities.

We made contributions of $2.9 million, $55.4 million and $50.4 million in 2013, 2012 and 2011, respectively, to our asset retirement obligation trust and escrow accounts. The balance in these accounts is reported at fair value on our consolidated balance sheets.

Financing Activities

Years Ended December 31, 2013, 2012 and 2011

Net cash used in financing activities was $980.3 million in 2013, compared to $796.8 million in 2012, and $1.5 billion in 2011. In May 2013, we issued senior notes and received proceeds of approximately $1.5 billion. Cash used in financing activities in 2013 included $918.7 million to acquire the noncontrolling interests in CFL. Cash used for stock repurchases in 2013, 2012 and 2011 was $1.4 billion, $500.0 million and $1.0 billion, respectively. We distributed $73.7 million to the noncontrolling interests in 2013, compared to $231.8 million in 2012 and $145.7 million in 2011. The decrease in distributions to noncontrolling interests in 2013 was due to the acquisition of the

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noncontrolling interests in CFL in April and the modifications to CFL selling prices in the fourth quarter of 2012, which impacted the payments made the first four months of 2013. In 2012, $13.0 million was used for the repayment of long term debt compared to $346.0 million in 2011.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2013:

	2014	2015	2016	2017	2018	After 2018	Total
				(in millions)			
Contractual Obligations							
Debt							
Long-term debt[1]	$	$	$	$	$ 800.0	$ 2,300.0	$ 3,100.0
Interest payments on long-term debt[1]	177.6	177.6	177.6	177.6	148.4	1,111.5	1,970.3
Other Obligations							
Operating leases	88.8	81.5	76.1	58.7	42.3	91.0	438.4
Equipment purchases and plant improvements	175.7	9.2	0.7				185.6
Capacity expansion projects[2]	1,430.0	445.5	71.5				1,947.0
Transportation[3]	95.3	30.3	31.1	21.4	20.7	111.3	310.1
Purchase obligations[4][5]	537.5	260.3	137.9	134.1	101.1	0.8	1,171.7
Contributions to Pension Plans[6]	21.2						21.2
Net Operating Loss Settlement[7]	10.2	10.2	10.2	12.3			42.9
Total[8]	$ 2,536.3	$ 1,014.6	$ 505.1	$ 404.1	$ 1,112.5	$ 3,614.6	$ 9,187.2

(1) Based on debt balances before discounts, offering expenses and interest rates as of December 31, 2013.

(2) We expect to spend approximately $2.0 billion during 2014 related to the $3.8 billion Donaldsonville and Port Neal capacity expansion projects expected to be completed by 2016. Contractual commitments do not include any amounts related to our foreign currency derivatives. For further information, see our previous discussion under Capacity Expansion Projects and Restricted Cash in the Liquidity and Capital Resources section of this discussion and analysis.

(3) Includes anticipated expenditures under certain contracts to transport raw materials and finished product to and from our facilities. The majority of these arrangements allow for reductions in usage based on our actual operating rates. Amounts set forth above are based on projected normal operating rates and contracted or current spot prices, where applicable, as of December 31, 2013 and actual operating rates and prices may differ.

(4) Includes minimum commitments to purchase natural gas based on prevailing market-based forward prices at December 31, 2013. Purchase obligations do not include any amounts related to our natural gas derivatives.

(5)

Includes a commitment to purchase ammonia from PLNL at market-based prices under an agreement that expires in 2018. The annual commitment based on market prices at December 31, 2013 is $126.4 million with a total remaining commitment of $600.6 million.

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(6) Represents the contributions we expect to make to our pension plans during 2014. Our pension funding policy is to contribute amounts sufficient to meet minimum legal funding requirements plus discretionary amounts that we may deem to be appropriate.

(7) Represents the amounts we expect to pay to our pre-IPO owners in conjunction with the amended NOL Agreement and the 2013 settlement with the IRS. See Note 11 to our consolidated financial statements included in Item 8 of this report for further discussion of this matter.

(8) Excludes $128.1 million of unrecognized tax benefits due to the uncertainty in the timing of potential tax payments.

Other Long-Term Obligations

As of December 31, 2013, our liabilities held for sale included balances related to asset retirement obligations (AROs) and our other liabilities included environmental remediation liabilities. The estimated timing and amount of cash outflows associated with these liabilities are as follows:

	Payments Due by Period						
	2014	2015	2016	2017	2018	After 2018	Total
	(in millions)						
Other Long-Term Obligations							
Asset retirement obligations[1][2]	$ 12.7	$ 7.1	$ 11.8	$ 9.5	$ 14.0	$ 827.3	$ 882.4
Environmental remediation liabilities	3.0	0.6	0.6	0.6	0.6	2.3	7.7
Total	$ 15.7	$ 7.7	$ 12.4	$ 10.1	$ 14.6	$ 829.6	$ 890.1

(1) Represents the undiscounted, inflation-adjusted estimated cash outflows required to settle the recorded AROs. The corresponding present value of these future expenditures is $166.6 million as of December 31, 2013. Excludes any amounts we may be required to deposit into our escrow or trust accounts to meet our financial assurance funding requirements. See the discussion of our financial assurance requirements earlier in this section.

We also have unrecorded AROs at our nitrogen manufacturing facilities and at our distribution and storage facilities that are conditional upon cessation of operations. These AROs include certain decommissioning activities as well as the removal and disposition of certain chemicals, waste materials, structures, equipment, vessels, piping and storage tanks. Also included is reclamation of land and closure of effluent ponds. The most recent estimate of the aggregate cost of these AROs expressed in 2013 dollars is approximately $53.0 million. We do not believe that there is a reasonable basis for currently estimating a date or range of dates of cessation of operations at these facilities. Therefore, the table above does not contain any payments for these AROs. See Note 10 to our consolidated financial statements included in Item 8 of this report for further discussion of our AROs. As described in "Financial Assurance Requirements," we are required to set aside cash on an annual basis in escrow and trust accounts established to cover costs associated with closure of our phosphogypsum stack systems if necessary. These accounts will be the source of a significant portion of the cash required to settle the AROs pertaining to the phosphogypsum stack systems.

(2) Cash flows occurring after 2018 are detailed in the following table.

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The following table details the undiscounted, inflation-adjusted estimated payments after 2018 required to settle the recorded AROs, as discussed above.

	Payments Due by Period						
	2019	2020 - 29	2030 - 39	2040 - 49	2050 - 59	After 2059	Total
	(in millions)						
Asset retirement obligations	$ 5.7	$ 52.2	$ 164.3	$ 253.0	$ 74.0	$ 278.1	$ 827.3

Subsequent Event

In 2014, we repurchased 1.2 million of the Company's common shares for $294.9 million as part of the $3.0 billion share repurchase program announced in the third quarter of 2012. Together with the 7.3 million shares repurchased during 2013, these repurchases bring the total repurchased shares to date under this program to 8.5 million for an aggregate expenditure of $1.7 billion.

Off-Balance Sheet Arrangements

We have operating leases for certain property and equipment under various noncancelable agreements, the most significant of which are rail car leases and barge tow charters for the transportation of fertilizer. The rail car leases currently have minimum terms ranging from one to ten years and the barge charter commitments currently have terms ranging from two to seven years. We also have terminal and warehouse storage agreements for our distribution system, some of which contain minimum throughput requirements. The storage agreements contain minimum terms ranging from one to three years and commonly contain automatic annual renewal provisions thereafter unless canceled by either party. See Note 22 to our consolidated financial statements included in Item 8 of this report for additional information concerning leases.

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. GAAP requires that we select policies and make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience, technological assessment, opinions of appropriate outside experts, and the most recent information available to us. Actual results may differ from these estimates. Changes in estimates that may have a material impact on our results are discussed in the context of the underlying financial statements to which they relate. The following discussion presents information about our most critical accounting policies and estimates.

Revenue Recognition

We recognize revenue when title and risk of loss are transferred to the customer, which can be at the plant gate, a distribution facility, a supplier location or a customer destination. In some cases, application of this policy requires that we make certain assumptions or estimates regarding a component of revenue, discounts and allowances, rebates, or creditworthiness of some of our customers. We base our estimates on historical experience, and the most recent information available to us, which can change as market conditions change. Amounts related to shipping and handling that are billed to our customers in sales transactions are classified as sales in our consolidated statements of operations. Sales incentives are reported as a reduction in net sales.

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Property, Plant and Equipment

Property, plant and equipment is stated at historical cost and depreciation, depletion and amortization is computed using either the straight-line method or the units-of-production method over the lives of the assets. The lives used in computing depreciation expense are based on estimates of the period over which the assets will be of economic benefit to us. Estimated lives are based on historical experience, manufacturers' or engineering estimates, valuation or appraisal estimates and future business plans. We review the depreciable lives assigned to our property, plant and equipment on a periodic basis, and change our estimates to reflect the results of those reviews.

Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities during a full plant shutdown 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. Under the deferral method, expenditures related to turnarounds are capitalized into property, plant and equipment when incurred and amortized to production costs on a straight-line basis over the period benefited, which is until the next scheduled turnaround in up to 5 years. Should the estimated period between turnarounds change, we may be required to amortize the remaining cost of the turnaround over a shorter period, which would lead to higher production costs. If we used the direct expense method, turnaround costs would be expensed as incurred. 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 a full plant shut down including required safety inspections, which entails 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 amounts are not considered turnaround costs and are not capitalized. Turnaround costs are classified as investing activities in the Consolidated Statements of Cash Flows in the line entitled, "Additions to property, plant and equipment."

Inventory Valuation

We review our inventory balances at least quarterly, and more frequently if required by market conditions, to determine if the carrying amount of inventories exceeds their net realizable value. This review process incorporates current industry and customer-specific trends, current operating plans, historical price activity, and selling prices expected to be realized. If the carrying amount of our inventory exceeds its estimated net realizable value, we immediately adjust our carrying values accordingly. Upon inventory liquidation, if the actual sales prices ultimately realized are less than our most recent estimate of net realizable value, additional losses would be recorded in the period of liquidation. Fixed production costs related to idle capacity are not included in the cost of inventory but are charged directly to cost of sales.

Asset Retirement Obligations (AROs)

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. AROs are initially recognized as incurred when sufficient information exists to estimate fair value. When initially recognized, the fair value based on discounted future cash flows is recorded both as a liability and an increase in the carrying amount of the related long-lived asset. In subsequent periods, depreciation of the asset and accretion of the liability are recorded. For additional information, see Note 10 to our consolidated financial statements included in Item 8 of this report.

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Our most significant AROs are driven by regulations in Florida governing the construction, operation, closure and long-term maintenance of phosphogypsum stack systems and site reclamation for the phosphate rock mine in Hardee County, Florida. Other AROs consist of conditional AROs for the Plant City, Bartow and Hardee facilities for which a reasonable basis exists for estimating a settlement date. These AROs relate to cessation of operations, and generally include the removal and disposition of certain chemicals, waste materials, asbestos, equipment, vessels, piping, and storage tanks.

We have unrecorded AROs at our nitrogen fertilizer manufacturing facilities and at our distribution and storage facilities that are conditional upon cessation of operations. These AROs include certain decommissioning activities as well as the removal and disposition of certain chemicals, waste materials, structures, equipment, vessels, piping and storage tanks. Also included are reclamation of land and the closure of certain effluent ponds. The most recent estimate of the aggregate cost of these AROs expressed in 2013 dollars is $53.0 million. We have not recorded a liability for these conditional AROs at December 31, 2013 because we do not believe there is currently a reasonable basis for estimating a date or range of dates of cessation of operations at these facilities, which is necessary in order to estimate fair value. In reaching this conclusion, we considered the historical performance of each facility and have taken into account factors such as planned maintenance, asset replacements and upgrades of plant and equipment, which if conducted as in the past, can extend the physical lives of our nitrogen manufacturing facilities indefinitely. We also considered the possibility of changes in technology, risk of obsolescence, and availability of raw materials in arriving at our conclusion.

Recoverability of Long-Lived Assets, Goodwill and Investments in Unconsolidated Subsidiaries

We review the carrying values of our property, plant and equipment and other long-lived assets, including our finite-lived intangible assets, goodwill and investments in affiliates including joint ventures in accordance with GAAP in order to assess recoverability. Factors that we must estimate when performing impairment tests include sales volume, selling prices, raw material costs, operating expenses, inflation, discount rates, exchange rates, tax rates and capital spending. Significant judgment is involved in estimating each of these factors, which include inherent uncertainties. The factors we use are consistent with those used in our internal planning process. The recoverability of the values associated with our goodwill, long-lived assets and investments in unconsolidated subsidiaries is dependent upon future operating performance of the specific businesses to which they are attributed. Certain of the operating assumptions are particularly sensitive to the cyclical nature of the fertilizer business. Adverse changes in demand for our products, increases in supply and the availability and costs of key raw materials could significantly affect the results of our review.

The recoverability and impairment tests of long-lived assets are required only when conditions exist that indicate the carrying value may not be recoverable. For goodwill, impairment tests are required at least annually, or more frequently if events or circumstances indicate that it may be impaired. We review the carrying value of our investments in unconsolidated subsidiaries annually to determine if there is a loss in value of the investment. We determine the fair value of the investment using an income approach valuation method. If the sum of the expected future discounted net cash flows is less than the carrying value, an impairment loss is recognized immediately.

We evaluate goodwill for impairment in the fourth quarter at the reporting unit level, which in our case, are the nitrogen and phosphate segments. Our evaluation can begin with a qualitative assessment of the factors that could impact the significant inputs used to estimate fair value. If after performing the qualitative assessment, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, then no further testing is performed. However, if it is unclear based on the results of the qualitative test, we perform a quantitative test

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involving potentially two steps. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. We use an income based valuation method, determining the present value of future cash flows, to estimate the fair value of a reporting unit. If the fair value of a reporting unit exceeds its positive carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is unnecessary. The second step of the goodwill impairment test, if needed, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. We recognize an impairment loss immediately to the extent the carrying value exceeds its implied fair value. We identified no goodwill impairment in our 2013 or 2012 reviews. As of December 31, 2013 and 2012, the carrying value of our goodwill was $2.1 billion.

Derivative Financial Instruments

The accounting for the change in the fair value of a derivative instrument depends on whether the instrument has been designated as a hedging instrument and whether the instrument is effective as part of a hedging relationship. Changes in the fair value of derivatives designated as cash flow hedging instruments considered effective are recorded in accumulated other comprehensive income (AOCI) as the changes occur, and are reclassified into income or expense as the hedge item is recognized in earnings. The ineffective portion of derivatives designated as cash flow hedges and changes in the fair value of derivatives not designated as hedging instruments are recorded in the statement of operations as the changes occur.

Certain of our foreign currency derivatives that we use to manage our exposure to changes in exchange rates on Euro-denominated expenditures associated with our major capacity expansion projects have been designated as cash flow hedges. The expected cash flows for the capital projects involve the use of judgments and estimates, which are subject to change. We assess, both at the hedge's inception and on an ongoing basis, whether the designated cash flow hedges are highly effective in offsetting changes in cash flows of the hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued in accordance with the derecognition criteria for hedge accounting.

Income Taxes

We recognize expenses, assets and liabilities for income taxes based on estimates of amounts that ultimately will be determined to be taxable or deductible in tax returns filed in various jurisdictions. U.S. income taxes are provided on that portion of the earnings of foreign subsidiaries that is expected to be remitted to the U.S. and be taxable. The final taxes paid are dependent upon many factors and judgments, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The judgments made at any point in time may change from previous conclusions based on the outcome of tax audits, as well as changes to, or further interpretations of, tax laws and regulations. We adjust income tax expense in the period when these changes occur.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are projected to be recovered or settled. Realization of deferred tax assets is dependent on our ability to generate sufficient taxable income of an appropriate character in future periods. A valuation allowance is established if it is determined to be more likely than not that a deferred tax asset will not be realized. Significant judgment is applied in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. Interest and penalties related to unrecognized tax benefits are reported as interest expense and income tax expense, respectively.

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A deferred income tax liability is recorded for income taxes that would result from the repatriation of the portion of the investment in our non-U.S. subsidiaries and corporate joint ventures that are considered to not be permanently reinvested. No deferred income tax liability is recorded for the remainder of our investment in non-U.S. subsidiaries and corporate joint ventures, which we believe to be indefinitely reinvested.

As a large commercial enterprise with international operations, our income tax expense and our effective tax rate may change from period to period due to many factors. The most significant of these factors are changes in tax legislation, changes in the geographic mix of earnings, the tax characteristics of our income, the ability to realize certain foreign tax credits and net operating losses, and the portion of the income of our foreign subsidiaries and corporate joint ventures that is expected to be remitted to the U.S. and be taxable. It is reasonably likely that these items will impact income tax expense, net income and liquidity in future periods.

Pension Assets and Liabilities

Pension assets and liabilities are affected by the fair value of plan assets, estimates of the expected return on plan assets, plan design, actuarial estimates and discount rates. Actual changes in the fair value of plan assets and differences between the actual return on plan assets and the expected return on plan assets affect the amount of pension expense ultimately recognized. Our projected benefit obligation (PBO) related to our qualified pension plans was $768.6 million at December 31, 2013, which was $67.9 million higher than pension plan assets. The December 31, 2013 PBO was computed based on a weighted average discount rate of 4.8%, which was based on yields for high-quality (AA rated or better) fixed income debt securities that match the timing and amounts of expected benefit payments as of the measurement date of December 31. Declines in comparable bond yields would increase our PBO. If the discount rate used to compute the PBO was lower or higher by 50 basis points, our PBO would have been $49.0 million higher or $44.5 million lower, respectively, than the amount previously discussed.

The weighted average discount rate used to calculate pension expense in 2013 was 4.0%. If the discount rate used to compute 2013 pension expense decreased or increased by 50 basis points, the expense would have been approximately $4.9 million higher or $3.8 million lower, respectively, than the amount calculated. Our net benefit obligation, after deduction of plan assets, could increase or decrease depending on the extent to which returns on pension plan assets are lower or higher than the discount rate. The 5.1% weighted average expected long-term rate of return on assets used to calculate pension expense in 2013 is based on studies of actual rates of return achieved by equity and non-equity investments, both separately and in combination over historical holding periods. If the expected long-term rate of return on assets was higher or lower by 50 basis points, pension expense for 2013 would have been $3.2 million lower or higher, respectively. See Note 7 to our consolidated financial statements included in Item 8 of this report for further discussion of our pension plans.

Consolidation

We consolidate all entities that we control by ownership of a majority interest and use the equity method to account for investments in affiliates that we do not consolidate, but for which we have the ability to exercise significant influence over operating and financial policies. Our consolidated net earnings include our share of the net earnings of these companies plus the amortization expense of certain tangible and intangible assets identified as part of purchase accounting. Our judgment regarding the level of influence over our equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy decisions and

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material intercompany transactions. We regularly review our variable interest entities for potential changes in consolidation status.

We eliminate from our consolidated financial results all significant intercompany transactions.

Recent Accounting Pronouncements

See Note 3 to our consolidated financial statements included in Item 8 of this report for a discussion of recent accounting pronouncements.

Discussion of Seasonality Impacts on Operations

Our sales of fertilizers to agricultural customers are typically seasonal in nature. The strongest demand for our products occurs during the spring planting season, with a second period of strong demand following the fall harvest. We and our customers generally build inventories during the low demand periods of the year in order to ensure timely product availability during the peak sales seasons. Seasonality is greatest for ammonia due to the limited ability of our customers and their customers to store significant quantities of this product. The seasonality of fertilizer demand results in our sales volumes and net sales being the highest during the spring and our working capital requirements being the highest just prior to the start of the spring season. Our quarterly financial results can vary significantly from one year to the next due to weather related shifts in planting schedules and purchasing patterns.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to the impact of changes in commodity prices, the valuation of our investments, interest rates and foreign currency exchange rates.

Commodity Prices

Our net sales, cash flows and estimates of future cash flows related to fertilizer sales are sensitive to changes in fertilizer prices as well as changes in the prices of natural gas and other raw materials unless these costs have been fixed or hedged. A $1.00 per MMBtu change in the price of natural gas would change the cost to produce a ton of ammonia, granular urea and UAN (32%) by approximately $32, $22 and $14, respectively.

Natural gas is the largest and most volatile component of the manufacturing cost for nitrogen-based fertilizers. We manage the risk of changes in natural gas prices primarily through the use of derivative financial instruments covering periods of generally less than 18 months. The derivative instruments that we use currently are primarily natural gas fixed price swaps and call options. These derivatives settle using NYMEX futures price indexes, which represent the basis for fair value at any given time. The contracts are traded in months forward and settlements are scheduled to coincide with anticipated natural gas purchases during those future periods.

At December 31, 2013 and 2012, we had open derivative contracts for 76.3 million MMBtus and 58.9 million MMBtus, respectively. A $1.00 per MMBtu increase in the forward curve prices of natural gas at December 31, 2013 would result in a favorable change in the fair value of these derivative positions of $60.3 million, and a $1.00 per MMBtu decrease in the forward curve prices of natural gas would change their fair value unfavorably by $60.3 million.

We purchase ammonia and sulfur for use as raw materials in the production of DAP and MAP. There can be no guarantee that significant increases in input prices can always be recovered through increases in selling prices. We enter into raw material purchase contracts to procure ammonia and

CF INDUSTRIES HOLDINGS, INC.

sulfur at market prices. A $10 per ton change in the related cost of a short ton of ammonia or a long ton of sulfur would change DAP production cost by $2.18 per ton and $3.82 per ton, respectively. We also may, from time to time, purchase ammonia, granular urea, UAN, DAP and MAP to augment or replace production at our facilities.

Interest Rate Fluctuations

At December 31, 2013, we had four series of senior notes totaling $3.1 billion outstanding with maturity dates of May 1, 2018, May 1, 2020, June 1, 2023 and June 1, 2043. The senior notes have fixed interest rates. The fair value of our senior notes outstanding at December 31, 2013 was approximately $3.3 billion. Borrowings under our Credit Agreement bear a current market rate of interest and we are subject to interest rate risk on such borrowings. However, in 2013, there were no borrowings under that agreement.

Foreign Currency Exchange Rates

We have entered into Euro/U.S. Dollar derivative hedging transactions related to the Euro denominated construction costs associated with our capacity expansion projects at our Donaldsonville and Port Neal facilities. At December 31, 2013, the notional amount of our open foreign currency forward contracts was approximately $636.3 million and the fair value was a net unrealized gain of $28.9 million. A 10% change in USD/Euro forward exchange rates would change the fair value of these positions by $63.6 million.

We are also directly exposed to changes in the value of the Canadian dollar, the British pound, and the Swiss franc. We do not maintain any exchange rate derivatives or hedges related to these currencies.

CF INDUSTRIES HOLDINGS, INC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CF Industries Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of CF Industries Holdings, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2013. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CF Industries Holdings, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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), CF Industries Holdings, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

Chicago, Illinois
February 27, 2014

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2013	**2012**	**2011**
	(in millions, except per share amounts)		
Net sales	$ 5,474.7	$ 6,104.0	$ 6,097.9
Cost of sales	2,954.5	2,990.7	3,202.3
Gross margin	2,520.2	3,113.3	2,895.6
Selling, general and administrative expenses	166.0	151.8	130.0
Restructuring and integration costs			4.4
Other operating net	(15.8)	49.1	20.9
Total other operating costs and expenses	150.2	200.9	155.3
Equity in earnings of operating affiliates	41.7	47.0	50.2
Operating earnings	2,411.7	2,959.4	2,790.5
Interest expense	152.2	135.3	147.2
Interest income	(4.7)	(4.3)	(1.7)
Other non-operating net	54.5	(1.1)	(0.6)
Earnings before income taxes and equity in earnings of non-operating affiliates	2,209.7	2,829.5	2,645.6
Income tax provision	686.5	964.2	926.5
Equity in earnings of non-operating affiliates net of taxes	9.6	58.1	41.9
Net earnings	1,532.8	1,923.4	1,761.0
Less: Net earnings attributable to the noncontrolling interest	68.2	74.7	221.8
Net earnings attributable to common stockholders	$ 1,464.6	$ 1,848.7	$ 1,539.2
Net earnings per share attributable to common stockholders			
Basic	$ 24.87	$ 28.94	$ 22.18
Diluted	$ 24.74	$ 28.59	$ 21.98

Weighted average common shares outstanding			
Basic	58.9	63.9	69.4
Diluted	59.2	64.7	70.0

See Accompanying Notes to Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2013	2012	2011
		(in millions)	
Net earnings	$ 1,532.8	$ 1,923.4	$ 1,761.0
Other comprehensive income (loss):			
Foreign currency translation adjustment net of taxes	(30.2)	46.7	(7.6)
Unrealized gain on hedging derivatives net of taxes	1.9	4.6	
Unrealized gain on securities net of taxes	1.0	2.6	1.9
Defined benefit plans net of taxes	33.6	(3.5)	(40.9)
	6.3	50.4	(46.6)
Comprehensive income	1,539.1	1,973.8	1,714.4
Less: Comprehensive income attributable to the noncontrolling interest	67.5	75.4	221.2
Comprehensive income attributable to common stockholders	$ 1,471.6	$ 1,898.4	$ 1,493.2

See Accompanying Notes to Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,710.8	$ 2,274.9
Restricted cash	154.0	
Accounts receivable net	230.9	217.4
Inventories net	274.3	277.9
Deferred income taxes	60.0	9.5
Prepaid income taxes	33.4	
Assets held for sale	74.3	
Other	92.4	27.9
Total current assets	2,630.1	2,807.6
Property, plant and equipment net	4,101.7	3,900.5
Asset retirement obligation funds		200.8
Investments in and advances to affiliates	926.0	935.6
Goodwill	2,095.8	2,064.5
Noncurrent assets held for sale	679.0	
Other assets	245.5	257.9
Total assets	$ 10,678.1	$ 10,166.9
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 564.1	$ 366.5
Income taxes payable	73.3	187.1
Customer advances	120.6	380.7
Notes payable		5.0
Distributions payable to noncontrolling interest		5.3
Liabilities held for sale	26.8	
Other	43.5	5.6
Total current liabilities	828.3	950.2
Long-term debt	3,098.1	1,600.0
Deferred income taxes	833.2	938.8
Noncurrent liabilities held for sale	154.5	
Other noncurrent liabilities	325.6	395.7
Equity:		
Stockholders' equity:		
Preferred stock $0.01par value, 50,000,000 shares authorized		
Common stock $0.01 par value, 500,000,000 shares authorized, 2013 56,733,712 shares issued and 2012 62,961,628 shares issued	0.6	0.6

Paid-in capital	1,594.3	2,492.4
Retained earnings	3,725.6	3,461.1
Treasury stock at cost, 2013 885,518 shares and 2012 10,940 shares	(201.8)	(2.3)
Accumulated other comprehensive loss	(42.6)	(49.6)
Total stockholders' equity	5,076.1	5,902.2
Noncontrolling interest	362.3	380.0
Total equity	5,438.4	6,282.2
Total liabilities and equity	$ 10,678.1	$ 10,166.9

See Accompanying Notes to Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stockholders							
	$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Noncontrolling Interest	Total Equity
	(in millions)							
Balance at December 31, 2010	$ 0.7	$	$ 2,732.2	$ 1,370.8	$ (53.3)	$ 4,050.4	$ 383.0	$ 4,433.4
Net earnings				1,539.2		1,539.2	221.8	1,761.0
Other comprehensive income								
Foreign currency translation adjustment					(7.0)	(7.0)	(0.6)	(7.6)
Unrealized gain on securities net of taxes					1.9	1.9		1.9
Defined benefit plans net of taxes					(40.9)	(40.9)		(40.9)
Comprehensive income						1,493.2	221.2	1,714.4
Purchases of treasury stock		(1,000.2)				(1,000.2)		(1,000.2)
Acquisition of treasury stock under employee stock plans		(0.4)				(0.4)		(0.4)
Issuance of $0.01 par value common stock under employee stock plans		0.4	15.5	(0.3)		15.6		15.6
Stock-based compensation expense			9.9			9.9		9.9
Excess tax benefit from stock-based compensation			47.2			47.2		47.2
Cash dividends ($1.00 per share)				(68.7)		(68.7)		(68.7)
Distributions declared to noncontrolling interest							(213.9)	(213.9)
Effect of exchange rates changes							(4.4)	(4.4)
Balance at December 31, 2011	$ 0.7	$ (1,000.2)	$ 2,804.8	$ 2,841.0	$ (99.3)	$ 4,547.0	$ 385.9	$ 4,932.9
Net earnings				1,848.7		1,848.7	74.7	1,923.4
Other comprehensive income								
Foreign currency translation adjustment					46.0	46.0	0.7	46.7
Unrealized gain on hedging derivatives net of taxes					4.6	4.6		4.6
Unrealized gain on securities net of taxes					2.6	2.6		2.6
Defined benefit plans net of taxes					(3.5)	(3.5)		(3.5)
Comprehensive income						1,898.4	75.4	1,973.8
Purchases of treasury stock		(500.0)				(500.0)		(500.0)
Retirement of treasury stock	(0.1)	1,500.2	(374.2)	(1,125.9)				
Acquisition of treasury stock under employee stock plans		(2.3)				(2.3)		(2.3)
Issuance of $0.01 par value common stock under employee stock plans			14.6			14.6		14.6
Stock-based compensation expense			11.1			11.1		11.1
Excess tax benefit from stock-based compensation			36.1			36.1		36.1
Cash dividends ($1.60 per share)				(102.7)		(102.7)		(102.7)
Distributions declared to noncontrolling interest							(83.1)	(83.1)

Effect of exchange rates changes							1.8	1.8
Balance at December 31, 2012	$ 0.6	$ (2.3)	$ 2,492.4	$ 3,461.1	$ (49.6)	$ 5,902.2	$ 380.0	$ 6,282.2
Net earnings				1,464.6		1,464.6	68.2	1,532.8
Other comprehensive income (loss)								
Foreign currency translation adjustment					(29.5)	(29.5)	(0.7)	(30.2)
Unrealized gain on hedging derivatives net of taxes					1.9	1.9		1.9
Unrealized gain on securities net of taxes					1.0	1.0		1.0
Defined benefit plans net of taxes					33.6	33.6		33.6
Comprehensive income						1,471.6	67.5	1,539.1
Acquisitions of noncontrolling interests in CFL			(752.5)			(752.5)	(16.8)	(769.3)
Acquistion of treasury stock under employee stock plans		(3.2)				(3.2)		(3.2)
Purchases of treasury stock		(1,449.3)				(1,449.3)		(1,449.3)
Retirement of treasury stock		1,247.8	(180.4)	(1,067.4)				
Issuance of $0.01 par value common stock under employee stock plans		5.2	8.7	(3.6)		10.3		10.3
Stock-based compensation expense			12.6			12.6		12.6
Excess tax benefit from stock-based compensation			13.5			13.5		13.5
Cash dividends ($2.20 per share)				(129.1)		(129.1)		(129.1)
Distributions declared to noncontrolling interests							(68.5)	(68.5)
Effect of exchange rates changes							0.1	0.1
Balance at December 31, 2013	$ 0.6	$ (201.8)	$ 1,594.3	$ 3,725.6	$ (42.6)	$ 5,076.1	$ 362.3	$ 5,438.4

See Accompanying Notes to Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	**2012**	**2011**
		(in millions)	
Operating Activities:			
Net earnings	$ 1,532.8	$ 1,923.4	$ 1,761.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, depletion and amortization	410.6	419.8	416.2
Deferred income taxes	(34.3)	(138.4)	(32.9)
Stock compensation expense	12.6	11.9	10.6
Excess tax benefit from stock-based compensation	(13.5)	(36.1)	(47.2)
Unrealized (gain) loss on derivatives	(59.3)	(78.8)	77.3
Loss on disposal of property, plant and equipment and non-core assets	5.6	5.5	8.8
Undistributed earnings of affiliates net of taxes	(11.3)	(14.9)	(13.5)
Changes in:			
Accounts receivable net	0.4	53.2	(35.5)
Inventories net	(80.3)	34.8	(38.5)
Accrued income taxes	(153.4)	58.7	101.6
Accounts payable and accrued expenses	49.5	25.5	5.2
Customer advances	(260.1)	123.3	(174.3)
Margin deposits		0.8	1.4
Other net	67.5	(13.1)	38.7
Net cash provided by operating activities	1,466.8	2,375.6	2,078.9
Investing Activities:			
Additions to property, plant and equipment	(823.8)	(523.5)	(247.2)
Proceeds from sale of property, plant and equipment and non-core assets	12.6	17.0	54.7
Sales and maturities of short-term and auction rate securities	13.5	48.4	37.9
Canadian terminal acquisition	(72.5)		
Deposits to restricted cash funds	(154.0)		
Deposits to asset retirement obligation funds	(2.9)	(55.4)	(50.4)
Other net	7.8		31.2
Net cash used in investing activities	(1,019.3)	(513.5)	(173.8)
Financing Activities:			
Proceeds from long-term borrowings	1,498.0		
Financing fees	(14.5)		(1.5)
Purchase of treasury stock	(1,409.1)	(500.0)	(1,000.2)
Payments of long-term debt		(13.0)	(346.0)
Advances from unconsolidated affiliates		40.5	
Repayments of advances from unconsolidated affiliates		(40.5)	
Acquisitions of noncontrolling intrests in CFL	(918.7)		
Dividends paid on common stock	(129.1)	(102.7)	(68.7)
Distributions to noncontrolling interest	(73.7)	(231.8)	(145.7)
Issuances of common stock under employee stock plans	10.3	14.6	15.5
Excess tax benefit from stock-based compensation	13.5	36.1	47.2
Other	43.0		

Net cash used in financing activities	(980.3)	(796.8)	(1,499.4)