

TERRA INDUSTRIES INC
Form DEFA14A
October 26, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(RULE 14a-101)

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to 240.14a-12

Terra Industries Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the

Edgar Filing: TERRA INDUSTRIES INC - Form DEFA14A

Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

On October 26, 2009, Terra Industries Inc. (the Company) began using the following presentation in connection with investor meetings and posted it on the Company s website (www.terrainindustries.com):

Supplying Industry Cleaning the Air Feeding the World Terra Industries Inc. Investor presentation
October 2009

1 Forward looking statements Certain statements in this communication may constitute forwardlooking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forwardlooking statements are based upon assumptions as to future events that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecasted in these forwardlooking statements. As a result, these statements speak only as of the date they were made and Terra undertakes no obligation to publicly update or revise any forwardlooking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. Words such as expects, intends, plans, projects, believes, estimates, and similar expressions are used to identify these forwardlooking statements. In particular, statements about our plans or intentions regarding the offering of Terra Capital, Inc. s Senior Notes due 2019 (the Notes), Terra s declaration and payment of the special cash dividend, the completion of the tender offer and consent solicitation for Terra Capital, Inc. s 7.00% Senior Notes due 2017 and the completion of the Carselandacquisition and the benefits to Terra from such acquisition areforwardlooking statements and may not necessarily occur. Forwardlooking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These risks, uncertainties and assumptions include, among others:the risk that Terra Capital, Inc. s offering of the Notes will not be completed,the risk that Terra Capital, Inc. s cash tender offer for the 7.00% Senior Notes due 2017 will notbe completed;the risk that the closing of the Carselandacquisition, which is conditioned on the completion of Agrium s unsolicited bid for CF Industries Holdings, Inc., may not occur,risks related to potential acquisition transactions,changes in financial and capital markets,general economic conditions within the agricultural industry,competitive factors and price changes (principally, sales pricesof nitrogen and methanol products and natural gas costs),changes in product mix,changes in the seasonality of demand patterns,changes in weather conditions,changes in environmental and other government regulation,changes in agricultural regulations, andchanges in the securities trading markets.Additional information as to these factors can be found in Terra s 2008 Annual Report/10K, in the sections entitled Business, Risk Factors, Legal Proceedings, and Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the consolidated financial statements.

2Important Information and Where to Find ItOn October 13, 2009, Terra filed with the Securities and Exchange Commission (the SEC) a definitive proxy statement in connection with its 2009 Annual Meeting, and is mailing the definitive proxy statement to its shareholders. Investors and security holders are urged to read the definitive proxy statement relating to the 2009 Annual Meeting and any other relevant documents filed with the SEC (when available), because they contain important information. Investors and security holders may obtain a free copy of the definitive proxy statement and other documents that Terra files with the SEC (when available) at the SEC's Web site at www.sec.gov and Terra's Web site at www.terraindustries.com. In addition, the definitive proxy statement and other documents filed by Terra with the SEC (when available) may be obtained from Terra free of charge by directing a request to Terra Industries Inc., Attn: Investor Relations, Terra Industries Inc., 600 Fourth Street, P.O. Box 6000, Sioux City, IA 511026000. Important additional information

3Certain Information Concerning ParticipantsTerra, its directors, executive officers and certain employees specified in Annex A to Terra s definitive proxy statement for the 2009 Annual Meeting, which was filed with the SEC on October 13,2009, are participants in the solicitation of Terra s security holders in connection with its 2009 Annual Meeting. Security holders may obtain information regarding the names, affiliations and interests of such individuals in Terra s Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on February 27, 2009 and amended on April 28, 2009,and its definitive proxy statement for the 2009 Annual Meeting. To the extent holdings of Terra securities have changedsince the amounts printed in the definitive proxy statement for the 2009 Annual Meeting, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. These documents (when available) may be obtained free of charge from the SEC s Web site at www.sec.gov and Terra s Web site at www.terrainindustries.com.Important additional information (cont d)

Terra is a strong investment proposition The leading pure play nitrogen producer with focus on more stable, higher margin products Track record of using cash to Well positioned to add value capture growth Strong nitrogen industry Solid liquidity position fundamentals Experienced management team with track record of delivering Strong financial position shareholder value Significant cash returns to shareholders 4

5The leading pure-play nitrogen company Leading pure play producer of nitrogen fertilizerServes both agriculture and more stable industrial customersUpgrades significant portion of ammonia capacity to higher value-added products Focus on higher margin products vs. ammonia and ureaFacilities ideally located to take advantage of low-cost natural gas and favorable transportation costs UAN48%Ammonia Agricultural15%Ammonium Nitrate11%Urea4%Other3%Ammonia - Industrial19%2008 product mix by revenue2008 customer mix by revenueAgricultural71%Industrial29%2008 revenue: \$2,891 million2008 revenue: \$2,891 millionSource:Terra Management.

6Terra is exposed to advantaged geographies and feedstocksTerra's production is ideally situated to serve the CornbeltNote:Shaded states indicate Cornbelt. Terra ProductionNatural gas at basis advantage to Henry HubUKTrinidad and Tobago65% of Terra's total ammonia production volume is located inland or in gas advantaged regionsTerra's mid-continent plants have lower transportation costsTerra has deliberately located its core manufacturing assets away from the U.S. Gulf Coast, where import competition is most severe

7Strong nitrogen industry fundamentals Agricultural business is projected to grow over the next 10 years Nitrogen is required each year to fertilize crops, unlike phosphate and potash whose application can be discretionary Nitrogen consumption is expected to be robust, driven by planted acres of corn Planted acres of corn in the United States (acres in millions)

Year	Planted acres (millions)
2008	86.0
2009	87.0
2010	89.0
2011	90.0
2012	90.5
2013	91.3
2014	91.8
2015	92.5
2016	93.2
2017	93.8
2018	94.5
2019	95.2

Planted acres (millions) Source: USDA.

8Strong nitrogen industry fundamentalsOutlook for farm incomeCrop prices generally rising in recent weeks due to 2009 production potentialSoybean prices have also been boosted by strong exports and tightening stocksLivestock cash receipts will be down this year due to lower prices for milk, hogs and cattleCrop cash receipts in 2009 will be down by about \$10 billion as a result of lower prices compared to the very strong prices recorded in 2008Cash production expenses in 2009 likely to be down by about \$8 billion due to lower costs for feed, fuel and fertilizer; costs for almost all other production inputs will be upNet cash farm income falls from the record high of around \$93 billion in 2008 to about \$54 billion in 2009\$0\$10\$20\$30\$40\$50\$60\$70\$80\$90\$100199319951997199920012003200520072009EFarm incomes remain strong by historical standards(\$ in billions)The average size of a U.S. farm is 418 acresSource:Doane, USDA.Net cash farm income

9Nitrogen import

volumes-1,0002,0003,0004,0005,0006,0007,0008,0009,000AmmoniaUANUrea2004/052005/062006/072007/082008/
09Source:USITC.Nitrogen import volumes for the 2008 / 2009 fertilizer year are downJuly / August import
volumesAmmonia imports are important for U.S. nitrogen
supply-2004006008001,0001,2001,4001,600AmmoniaUANUrea2004/052005/062006/072007/082008/092009/10 000
tons 000 tons

10 Well positioned to capture growth Increased production to UAN, a high growth, flexible product Expanding Woodward facility UAN capacity from 300,000 tons to 825,000 tons Positions Terra to take advantage of continued growth in UAN UAN is the fastest-growing nitrogen product in North America Terra Environmental Technologies is focused on liquid urea sales into the fast-growing environmental sector

Year	Volume (2003 = 100)
2003	100
2004	101
2005	100
2006	101
2007	102
2008	103
2009	104
2010	105
2011	106
2012	107
2013	108
2014	109
2015	110

Urea Indexed North America UREA & UAN Volume (2003 = 100)(consumption + exports) Source: Fertecon.

11UANcommands a premium Green Markets -Mid Cornbelt(\$ per lb
N)-\$0.10\$0.20\$0.30\$0.40\$0.50\$0.60\$0.70\$0.80\$0.90\$1.00Mar-00Aug-01Dec-02Apr-04Sep-05Jan-07May-08Sep
-09UANUreaAmmoniaSource:Green Markets. Chinese raise export tariff on Urea to 135%Strong demand from
India and Pakistan tightens global supply

12UAN provides significant advantages to growersEfficiencyProtects yields through flexible applicationUAN can be mixed with other crop inputs (e.g. pesticides, herbicides) so the farmer can make one pass through the fieldUp to 1,500 acres/day of UAN can be applied, whereas ammonia is limited to ~200-300 acres/dayAmmonia equipment is capital-intensiveAmmonia freight/handling costs will continue to increaseField applicationAmmonia must be injected into the ground; farmers must use specialized equipment and can apply only when soil conditions are optimal (dry)UAN is non-hazardous and can be sprayed directly on the groundSafetyAmmonia is a hazardous product that must be shipped in specialized barges/railcars/trucksUAN is much safer and easier to handleUAN delivers economic benefits over ammonia. Why?

13 Strong nitrogen industry fundamentals Stable margin industrial and growing environmental businesses Growth driven by increased emission reduction requirements Environmental technologies Leader in NOx abatement reagents The leading North American diesel exhaust fluid (DEF) producer Dedicated DEF production capacity Dedicated technical team Full supply chain oversight Stable margin business Industrial chemicals Leading North American producer of ammonia and derivatives such as: Ammonium nitrate as a blasting product for mining applications Nitric Acid as a raw material for nylon fibers, polyurethane foams, specialty fibers, and other nitrogen products

14Uniquely positioned to serve DEF customersFast growing demandBy 2018, expect U.S. demand to be ~2.5 million tons of urea equivalentTerra expects to be a leading provider to DEF customersAdditional domestic capacity needed within a few years: Terra will decide within 12 to 18 months where / how to expand capacityDomestic production preferred due to quality requirementsLiquid product expensive to transport due to water contentGranular product uses formaldehyde as a stabilizer, which fouls catalyst systemsContribution to bottom lineMargins generally better than agricultural and other industrial marginsExpect \$400-\$500 million in related annual revenues by 2015

15 Agreement to purchase Canadian nitrogen production assets On October 19th, 2009, Terra announced that it had signed an agreement to acquire a 50% interest in Agrium Inc.'s Carseland, Alberta, Canada nitrogen production assets and certain U.S. assets for approximately \$250 million The Carseland facility has the capacity to produce approximately 590,000 short tons of ammonia and approximately 750,000 short tons of granular urea per year On an as adjusted operating basis for the twelve-month period ending June 30, 2009, Terra estimates gross revenues for 50% ownership of the Carseland facility would have been approximately \$125 million, operating income would have been approximately \$33 million and depreciation and amortization would have been approximately \$16 million (1) Acquisition will provide Terra with: Greater exposure to cost-advantaged natural gas More diverse geographic footprint in North America Ownership in a facility that enables the manufacturing of upgraded ammonia-based products Transaction is subject to certain closing conditions and contingencies, including the successful completion of Terra Capital, Inc.'s \$600 million notes offering and Agrium's completion of its proposed acquisition of CF Industries (1) The foregoing estimates were derived by Terra's management by applying certain adjustments and assumptions to underlying financial data provided to Terra by Agrium. These include adjustments to annual and quarterly data to derive data for the twelve-month period ended June 30, 2009 and adjustments regarding anticipated cost allocations. Terra cannot make any assurances, however, that these assumptions and adjustments accurately reflect actual historical operating results or will be indicative of future performance. Terra also cannot make any assurances that the underlying data provided by Agrium is accurate and will not change.

16Q3 earnings updateQ3 2009 resultsKey financial statement itemsWeaker agricultural and industrial demand related to the overalleconomic slowdown contributed to these factorsMarket conditions reflected undervalued, volume driven UANprices Decrease largely due to lower gross profits for our major products -ammonia, UAN and ammonium nitrate Scheduled turnarounds at the Verdigris facility and a curtailment and a maintenance related outage at the Donaldsonville facility further reduced operating incomeLower income tax expense offset a significant amount of the operating income changeRevenueOperating incomeNet incomePrimary drivers of Q3 resultsQ3 08Q2 09Q3 09Revenues\$790.2\$453.5\$347.0Operating income\$209.5\$131.9\$54.2Net income(1)\$164.9\$80.5\$45.9Balance sheet 9/30/09Cash and cash equivalents\$1,000.8Total assets2,031.4Customer prepayments40.9Long-term debt330.0Cash flowQ3 09Depreciation and amortization\$23.8(1)Attributable to Terra Industries Inc.Strong agricultural nitrogen demandStrengthening nitrogen selling pricesOutlook

17 Significant free cash flow generation Targeted uses of free cash flow (1) Investing in lower risk, high-return capacity and discretionary cost-reduction projects Accelerate growth through profitable new products and applications Pursue strategic, bolt-on acquisitions Strong free cash flow creates opportunities for future deployment (\$ in millions) \$203 \$106 \$449 \$883 \$478 2005A 2006A 2007A 2008ALTM 09/30/09(1) Defined as Adjusted EBITDA less capital expenditures and plant turnaround expenditures . Note: See free cash flow reconciliation to net income attributable to Terra Industries Inc. on page 25 and GAAP reconciliation disclosure on page 24.

Actual9/30/2009Cash and cash equivalents\$1,001(-) Prepayments(41)Cash, net of prepayments\$960(+)
 Net proceeds received from \$600 million 2019 notes(1)\$578(-) Repayment of 7.00% senior unsecured
 notes due 2017 and tender premiums(2)(381)(-) Special cash dividend of \$7.50 per share(3)(750)(-)
 Agrium s Carseland, Alberta facility acquisition(4)(250)Pro forma available cash and cash
 equivalents\$157Availability of revolving credit facilities (\$200 million)(5)\$200(-) Letters of credit(8)Pro
 forma available liquidity\$349Assumes repurchase or tender for all existing 7.00% Senior Notesdue 2017,
 issuance of \$600 million in new Senior Notes and payment of planned special cash dividend of \$7.50 per
 share and potential acquisition of Agrium s Carselandfacility and certain U.S. assetsPro forma liquidity
 Source:Company filings and Management. (1)Net of OIDand fees and expenses. (2)Inclusive of tender
 premium (assumes 100% of existing Senior Notes are tendered at 115.375). (3)Announced intention to
 declare and pay the dividend in the fourth quarter of 2009. (4)Announced 50% acquisition of Agrium s
 Carseland, Alberta nitrogen plant and certain U.S. assets, subject to Agrium s acquisition of CF Industries
 and customary closing conditions.(5)Revolving credit facilities of \$150 million at Terra Capital, Inc. and
 of \$50 million at Terra Nitrogen Company, L.P. (\$ in millions)

19US is steadily becoming a smaller player in global phosphate productionSource:FerteconResearch Centre Limited.(1)2009
estimated.26.2%24.3%24.6%24.8%23.7%22.1%19.7%18.7%17.4%16.0%05,00010,00015,00020,00025,00030,00035,0
0040,00045,00020002001200220032004200520062007200820090.0%5.0%10.0%15.0%20.0%25.0%30.0%35.0%40.0%45.
0%50.0%Asia / PacificUnited StatesAfrica / Middle EastFSUEuropeOther AmericasPhosphate fertilizer production(tons in
thousands)(1)US production as a % of global production

200.2500x0.3000x0.3500x0.4000x0.4500x0.5000x0.5500x8/11/054/23/061/4/079/16/075/29/082/8/0910/22/090
2505007501,0001,2501,500Exchange ratioDAP phosphate priceHistorical exchange ratio and DAP
pricingSource:FactSetResearch Systems and FerteconResearch Centre Limited.(1)DAP phosphate price reported
monthly and based on US Gulf -bulk fob.(1)Daily average exchange ratioPricing in US\$ / tonneMonthly US
DAP pricing(\$ / tonne)1/15/09: CF s proposal for Terra8/11/05 (CF IPO) -10/31/07 (Phosphate price similar to
current)Average exchange ratio: 0.4344xCF proposal: 0.4650xExch. ratio premium: 7.0%Exch. ratio discount
with CFSdilution: (2.8%)11/1/07 -1/15/09 (CF proposal)Average exchange ratio: 0.3511xCF proposal:
0.4650xExch. ratio premium: 32.4%Exch. ratio premium with CFSdilution: 20.3%CF s opportunistic proposal
coincided with the lowest exchange ratio between CF and Terra

21Terra's strategy is right for the current environment and for potential future cyclesManage production to meet demand, keeping inventories lowLeverage advantageous gas pricing in energy marketsAcquire accretive, cash flow generating assets to provide returns to shareholdersUse cash reserves to reinvest in the Company through capital projects and/or strategic opportunitiesReturn excess cash to shareholdersWhy we're optimisticTerra's strategy for managing the current environmentFarm incomes projected to remain strongAgriculture fundamentals remain positiveGlobal population and demand for more protein continues to growGlobal grain inventories are lowTerra's industrial business focuses on mining, power generation and government-mandated emissions reductionCompetitors are now even less likely to build new capacity due to uncertain economic outlook and significant differential between cost to buy vs. buildUpgraded product will capture increasing market share from ammoniaTerra is well-positioned throughout industry cyclesNorth American assets have advantages in natural gas and freightcosts Terra is financially solidManagement has successfully navigated the Company through previous cycles

22Terra will deliver value for its shareholdersPure play focus on nitrogen productsProduct mix oriented to the growth trend in upgraded products for agricultural and industrial businessesEnvironmental Technologies business, which is uniquely positioned for revenue and margin growthSufficient scale to efficiently manage supply in the context of demand fluctuationsDiverse customer and business mix without significant customer or business concentrationsGeographic asset diversification and lower transportation costs to end-usersStrong balance sheet with significant financial flexibilityAcquire cash flow generating assets that are accretive to shareholders and provide an attractive return on invested capital

Supplying Industry Cleaning the Air Feeding the World Terra Industries Inc. 23Questions and answers

24GAAP reconciliation disclosure Terra prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). However, management believes that certain non-GAAP financial measures used to manage Terra s business that fall within the meaning of Regulation G (Disclosure of Non-GAAP Financial Measures) of the SEC may provide users of the financial information with additional meaningful information. Terra has provided EBITDA, adjusted EBITDA and free cash flow, which are non-GAAP financial measures. Terra s management evaluates its business and makes certain operating decisions using these adjusted numbers. A reconciliation between GAAP and the non-GAAP measure is provided. These non-GAAP measures should not be considered a substitute for GAAP measures.

Year ended December 31, Nine months ending LTM
 2005A 2006A 2007A 2008A 9/30/2008 9/30/2009 9/30/2009
 Net income attributable to Terra Industries Inc. \$22 \$4 \$202 \$641 \$476 \$156 \$321
 Income tax (benefit) expense 21 101 272 402 305 666
 Interest expense, net of interest income 45 42 124 117 19
 Depreciation and amortization 116 115 102 88 65 70 93
 EBITDA \$204 \$170 \$443 \$973 \$772 \$299 \$499
 Adjustments Distributions from unconsolidated affiliates greater (less) than equity earnings \$25 \$19 \$16 \$10 (\$52) \$30 \$92
 Distributions to noncontrolling interest less (greater) than noncontrolling interest expense 0 21 5(2)(4)(13)(11)
 Loss on early retirement of debt 27-39 Change in fair value of warrant liability (9) Other (income) costs, net (1) 14 14
 (Income) loss from discontinued operations, net of tax 10 11 9(8)(8)(1)(1)
 Adjusted EBITDA \$256 \$192 \$531 \$972 \$708 \$329 \$593 (-)
 Capital expenditures and turnaround expenditures (53)(86)(82)(89)(70)(96)(115)
 Free cash flow \$203 \$106 \$449 \$883 \$638 \$234 \$478
 Reconciliation of EBITDA, Adjusted EBITDA and free cash flow (\$ in millions)
 Source: Terra Management. (1) The 2009 other (income) costs, net consisted of \$14.3 million attributable to Terra's defense costs related to the unsolicited proposals by CF for a business combination with Terra.