TERRA INDUSTRIES INC
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from____to____

Commission file number: 1-8520

TERRA INDUSTRIES INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1145429 (I.R.S. Employer Identification No.)
Terra Centre P.O. Box 6000 600 Fourth Street Sioux City, Iowa (Address of principal executive offices)	51102-6000 (Zip Code)

Registrant's telephone number, including area code: (712) 277-1340

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

As of October 31, 2001, the following shares of the registrant's stock were outstanding:

Common Shares, without par value	76,440,540 shares

PART I. FINANCIAL INFORMATION

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)
(unaudited)

	September 30, 2001	December 31, 2000
ASSETS		
Cash and short-term investments	$ 44,132	$ 101,425
Accounts receivable, less allowance for doubtful accounts of $879, $889, $443	97,947	107,299
Inventories	123,627	101,526
Other current assets	32,414	17,448
Total current assets	298,120	327,698
Equity and other investments	2,412	1,865
Property, plant and equipment, net	849,188	902,801
Excess of cost over net assets of acquired businesses	211,098	231,372
Other assets	37,547	48,816
Total assets	$ 1,398,365	$ 1,512,552
LIABILITIES		
Debt due within one year	$ 5,108	$ 5,546
Accounts payable	73,742	62,820
Accrued and other liabilities	53,435	60,324
Total current liabilities	132,285	128,690
Long-term debt	453,921	467,808
Deferred income taxes	121,537	156,475
Other liabilities	50,115	43,508
Minority interest	98,947	105,274
Total liabilities	856,805	901,755
STOCKHOLDERS' EQUITY		
Capital stock		
Common Shares, authorized 133,500 shares; outstanding 76,441, 75,885 and 75,989 shares	128,363	128,283
Paid-in capital	554,850	554,750
Accumulated other comprehensive loss	(66,571)	(48,115)
Retained deficit	(75,082)	(24,121)
Total stockholders' equity	541,560	610,797
Total liabilities and stockholders' equity	$ 1,398,365	$ 1,512,552

See Accompanying Notes to the Consolidated Financial Statements. 2

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)
(unaudited)

	Three Months Ended September 30, 2001	2000	20
REVENUES			
Net sales	$ 237,224	$ 263,175	$ 8
Other income, net	481	1,934	
Total revenues	237,705	265,109	8
COSTS AND EXPENSES			
Cost of sales	255,783	228,690	8
Selling, general and administrative expense	8,394	9,410	
Product claim costs	--	--	
Equity in earnings of unconsolidated affiliates	(264)	(248)	
	263,913	237,852	8
Income (loss) from operations	(26,208)	27,257	(
Insurance settlement costs	--	(879)	
Interest income	977	1,231	
Interest expense	(12,034)	(12,981)	(
Minority interest	2,785	(985)	
Income (loss) before income taxes	(34,480)	13,643	(
Income tax provision (benefit)	(10,344)	7,447	(
NET INCOME (LOSS)	$ (24,136)	$ 6,196	$ (
Basic and diluted income (loss) per share	$ (0.32)	$ .08	$
Basic weighted average shares outstanding	75,175	74,704	
Diluted weighted average shares outstanding	75,175	75,995	

See Accompanying Notes to the Consolidated Financial Statements.

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Month Septemb 2001

OPERATING ACTIVITIES	
Net loss from operations	$ (50,961)
Adjustments to reconcile net loss from operations to net cash flows from operating activities:	
Depreciation and amortization	84,870
Deferred income taxes	(31,080)
Minority interest in earnings	(2,470)
Changes in current assets and liabilities:	
Accounts receivable	8,221
Inventories	(23,652)
Other current assets	(16,388)
Accounts payable	11,847
Accrued and other liabilities	(11,550)
Other	9,022
Net cash flows from operating activities	(22,141)
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(11,136)
Other items	(5,887)
Net cash flows from investing activities	(17,023)
FINANCING ACTIVITIES	
Net changes in short-term borrowings	--
Principal payments on long-term debt	(14,325)
Stock issuance-net	180
Repurchases of TNCLP common units	(1,671)
Distributions to minority interests	(2,028)
Deferred financing costs	--
Other	--
Net cash flows from financing activities	(17,844)
Effect of exchange rate changes on cash	(285)
Increase (decrease) to cash and short-term investments	(57,293)
Cash and short-term investments at beginning of period	101,425
Cash and short-term investments at end of period	$ 44,132

See Accompanying Notes to the Consolidated Financial Statements.

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED September 30, 2001 AND 2000
(in thousands)
(unaudited)

	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss

	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	
Balance at January 1, 2001	$ 128,283	$ 554,750	$ (48,115)	$
Comprehensive loss:				
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	(12,343)	
Cumulative effect of change in accounting for derivative financial instruments	--	--	31,400	
Income tax effect of change in accounting	--	--	(10,990)	
Change in fair value of derivatives, net of income taxes	--	--	(26,523)	
Comprehensive loss				
Exercise of stock options	80	100	--	
Balance at September 30, 2001	$ 128,363	$ 554,850	$ (66,571)	$

	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	
Balance at January 1, 2000	$ 127,890	$ 552,903	$ (9,852)	$
Comprehensive loss:				
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	(36,911)	
Comprehensive loss				
Balance at September 30, 2000	$ 127,890	$ 552,903	$ (46,763)	$

See Accompanying Notes to the Consolidated Financial Statements. 5

TERRA INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments necessary, in the opinion of management, to summarize fairly the financial position of Terra Industries Inc. and all majority-owned subsidiaries ("Terra") and the results of Terra's operations for the periods presented. Because of the seasonal nature of Terra's operations and effects of weather-related conditions in several of its marketing areas, results of any interim reporting period should not be considered as indicative of results for a full year. These statements

should be read in conjunction with Terra's 2000 Annual Report to Stockholders. Certain reclassifications have been made to prior years' financial statements to conform with current year presentation.

Basic earning (loss) per share data are based on the weighted-average number of Common Shares outstanding during the period. Diluted earnings per share data are based on the weighted-average number of Common Shares outstanding and the effect of all dilutive potential common shares including stock options, restricted shares and contingent shares.

Inventories consisted of the following:

(in thousands)	September 30, 2001	December 31, 2000	September 30, 2000
Raw materials	$ 28,696	$ 24,085	$ 26,963
Supplies	21,587	20,918	20,952
Finished goods	73,344	56,523	44,950
Total	$ 123,627	$ 101,526	$ 92,865

2. On July 13, 2001, a British court found Terra Nitrogen (U.K.) Ltd. liable for damages associated with recalls of carbonated beverages containing CO_2 tainted with benzene, plus interest and attorney fees. In addition, there are two similar cases awaiting trial and certain other beverage manufacturers have indicated their intention to file claims for unspecified amounts. Management estimates total claims against Terra from these lawsuits may be (pound)10 million, or $14 million. Terra has established reserves to cover estimated losses.

   In addition to Terra's plan to appeal the British court's decision, Terra's management also believes it has recourse for these claims against both its insurer and the previous owner of Terra's U.K. operations. Management will vigorously pursue Terra's rights against these parties, but there will be no income recognition for those rights until settlements are finalized.

   Terra is involved in various other legal actions and claims, including environmental matters, arising from the normal course of business. While it is not feasible to predict with certainty the final outcome of these proceedings, management does not believe that these matters, or the U.K. benzene claims, will have a material adverse effect on the results of operations, financial position or net cash flows.

3. Natural gas is the principal raw material used in Terra's production of nitrogen products and methanol. Terra enters into forward pricing arrangements for natural gas provided that such arrangements would not result in costs greater than expected selling prices for nitrogen products

and methanol. Terra's normal natural gas procurement policy is to effectively fix or cap the price of between 25% and 80% of its natural gas requirements for a one-year period and up to 50% of its natural gas requirements for the subsequent two-year period through supply contracts, financial derivatives and other forward pricing techniques. In response to extremely volatile natural gas costs during the last six months of 2000 and uncertainties regarding the ability of finished goods to recover the increases to gas costs, Terra amended its policy and eliminated the minimum hedge requirement through the end of 2001. The financial derivatives are traded in months forward and settlement dates are scheduled to coincide with gas purchases during those future periods. These contracts reference physical natural gas prices or appropriate NYMEX futures contract prices. Contract prices are frequently based on prices at the most common and financially liquid location of reference for financial derivatives related to natural gas. However, natural gas supplies for Terra's facilities are purchased for each plant at locations other than reference points, which often creates a location basis differential between the contract price and the physical price of natural gas. Accordingly, the use of financial derivatives may not exactly offset the change in the price of physical gas.

Terra has entered into forward pricing positions for a portion of its natural gas requirements for the remainder of 2001 and part of 2002, consistent with its policy. As a result of its policies, Terra has reduced the potential adverse financial impact of natural gas price increases during the forward pricing period, but conversely, if natural gas prices were to fall, Terra will incur higher costs. Contracts were in place at September 30, 2001 to cover 16% of natural gas requirements for the succeeding twelve months. The September 30, 2001 contracts covered 12% of Terra's expected North American natural gas requirements and 36% of its expected U.K. natural gas requirements.

Unrealized losses from forward pricing positions in North America totaled $1.3 million as of September 30, 2001. In addition, Terra had purchase commitments for natural gas in the U.K. at prices $5.8 million lower than September 30, 2001 forward markets. The amount ultimately recognized by Terra will be dependent on published prices in effect at the time of settlement. Terra also had $4.2 million of realized losses on closed North America contracts relating to future periods that have been deferred to the respective period.

4. On April 29, 2001, Terra's Canadian facility was shut down due to a mechanical outage, resulting in a $4 million charge to second quarter earnings. Insurance proceeds for business interruption claims associated with the outage will be reported as income when received.

   On June 10, 2001, Terra suspended production of ammonia and urea at its Blytheville, Arkansas plant due to its inability to generate cash flow under existing price and cost conditions. The restart of production at that facility began on October 1, 2001.

5. Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities" requires that all derivative instruments, whether designated in hedging relationships or not, be recorded in the balance sheet at fair value. If the derivative is designated as a fair value hedge, the change in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. Terra has designated its natural gas derivative instruments as cash flow hedges. The effective portion of the cash flow hedge is deferred in OCI until the natural gas it relates to is used in production which is then reclassified from OCI to earnings.

On January 1, 2001 Terra adopted SFAS 133 which resulted in a cumulative $23.3 million increase to current assets, a $9.2 million reduction to current liabilities, a $1.1 million increase in long-term debt and a $31.4 million increase, before deferred taxes of $11.0 million, to accumulated OCI, which reflected the effective portion of the derivatives designated as cash flow hedges. The increase to current assets was to recognize the value of open natural gas contracts, the reduction to current liabilities was to reclassify deferred gains on closed contracts relating to future periods and the increase to long-term debt related to interest rate hedges. The changes in the components of accumulated OCI during the three months ended September 30, 2001 follow:

(in thousands)	Net Unrealized Gain (Loss) on Natural Gas Hedging Activity	Realized Gain (Loss) Deferred to Future Periods	Unrealized Gain (Loss) on Interest Rate Hedge
Balance June 31, 2001	$ (6,341)	$ (3,338)	$ (2,535
Net unrealized gain (loss) arising during period	(3,756)	(4,838)	(2,568
Transfer net loss realized to production costs and interest expense	8,820	3,338	874
Balance September 30, 2001	(1,277)	(4,838)	(4,229
Deferred Tax Effect	764	1,860	1,607
Balance Net of Tax September 30, 2001	$ (513)	$ (2,978)	$ (2,622

In addition to the $4.2 million of realized losses on closed North American gas contracts, the company had $0.6 million of losses related to fertilizer swaps at September 30, 2001.

6. Terra classifies its continuing operations into two business segments: nitrogen products and methanol. The nitrogen products business produces and distributes ammonia, urea, nitrogen solutions and ammonium nitrate to farm distributors and industrial users. The methanol business manufactures and distributes methanol which is used in the production of a variety of chemical derivatives and in the production of methyl tertiary butyl ether (MTBE), an oxygenate and an octane enhancer for gasoline. Terra does not allocate interest, income taxes or infrequent items to continuing business segments. Included in Other are general corporate activities not attributable to a specific industry segment. The following summarizes operating results by business segment:

(in thousands)	Three Months Ended September 30		Nine Sep
	2001	2000	2001

Revenues - Nitrogen Products	$ 209,224	$ 220,465	$ 661,065
- Methanol	28,000	42,710	141,011
- Other	481	1,934	1,001
Total revenues	$ 237,705	$ 265,109	$ 803,077
Income (loss) from operations			
- Nitrogen Products	$ (21,328)	$ 17,506	$ (35,176)
- Methanol	(5,109)	9,974	(6,082)
- Other	229	(223)	994
Total income (loss) from operations	$ (26,208)	$ 27,257	$ (40,264)

7. In June 2001, the Financial Accounting Standards Board ("FASB") approved the issuance of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards, issued in July 2001, establish accounting and reporting for business combinations. SFAS No. 141 requires all business combinations entered into subsequent to June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 142 provides that goodwill and other intangible assets with indefinite lives will not be amortized, but will be tested for impairment on an annual basis. These standards are effective for Terra beginning on January 1, 2002. The historical impact of not amortizing goodwill (and other intangible assets with indefinite lives) would have been to decrease the net loss for the nine months ended September 30, 2001 and 2000 by $9.9 million and $11.6 million, respectively. Terra has not yet quantified the impact resulting from the adoption of the other provisions of these standards. Such adoption could result in the write-off in the first quarter of 2002 of a substantial portion of the goodwill on Terra's balance sheet, currently classified as "Excess of cost over net assets of acquired businesses."

   In July 2001, the Financial Accounting Standards Board voted to issue Statement No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). This standard requires the Company to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and is effective for the Company's fiscal year 2003. The Company has not yet quantified the impact, if any, arising from adoption of this standard.

   In August 2001, the Financial Accounting Standards Board voted to issue Statement No. 144, "Accounting for the Impairment of Long-lived Assets" (FAS 144). This standard requires the Company to recognize an impairment loss if the carrying amount of a long-lived asset or asset group is not recoverable and exceeds its fair value and is effective for the Company's fiscal year 2002. The Company has not yet quantified the impact, if any, arising from adoption of this standard.

8. On October 10, 2001, Terra Capital, Inc., a wholly owned subsidiary of Terra Industries Inc., issued $200 million of 12.875% Senior Secured Notes due in 2008. The notes were priced at 99.43% to yield 13%. The estimated fees and expenses of the transaction total $11 million. The proceeds will be used to repay existing debt. The notes are secured by a first priority interest in ownership or leasehold interest in substantially all real

property, machinery and equipment owned or leased by Terra Capital and the guaranteeing subsidiaries, the limited partnership's interest in Terra Nitrogen Company, L.P. owned by Terra Capital and the guaranteeing subsidiaries, and certain intercompany notes issued to Terra Capital by non-guaranteeing subsidiaries.

Concurrent with note issuance, Terra Industries Inc. entered into an amended and restated revolving credit facility that increased the commitments under the revolving credit facility from $115.6 million to $175 million, and extended the revolving credit facility from January 2, 2003 to June 30, 2005. The revolving credit facility is secured by substantially all of the assets of Terra Industries Inc. and its subsidiaries other than the assets constituting collateral for the notes. Borrowings under the revolving credit facility will bear interest at a floating rate, which can be either a base rate, or, at the company's option, a LIBOR rate. The base rate is the highest of 1) Citibank, N.A.'s base rate 2) the federal funds effective rate, plus one-half percent (0.50%) per annum or 3) the base three month certificate of deposit rate, plus one-half percent (0.50%) per annum, plus an applicable margin in each case. LIBOR loans will bear interest at LIBOR plus an applicable margin. The initial applicable margin for base rate loans and LIBOR loans are 1.75% and 2.75%, respectively.

The revolving credit facility requires an initial one-half percent (0.50%) commitment fee on the difference between committed amounts and amounts actually borrowed.

The company will be required to recognize an extraordinary loss of approximately $2.0 million in the fourth quarter of 2001 in connection with the early extinguishment of debt.

Condensed Consolidating Statement of Financial Position for the nine months ended September 30, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminat
Assets					
Cash	$ --	$ (3,391)	$ 45,607	$ 1,916	$
Accounts Receivable	--	--	34,939	63,008	
Inventories	--	--	35,417	88,210	
Other current assets	5,568	4,215	6,871	25,777	(10
Total current assets	5,568	824	122,834	178,911	(10
Property, plant and equipment, net	--	--	448,789	403,138	(2
Excess of cost over net assets of acquired businesses	--	--	194,391	16,707	
Investments in and advanced to (from) affiliates	1,064,912	444,106	1,285,567	240,188	(3,034
Other assets	775	7,005	7,233	24,592	
Total assets	$ 1,071,255	$ 451,935	$ 2,058,814	$ 863,536	$ (3,047

Liabilities					
Debt due within one year	$ --	$ --	$ 47	$ 5,061	$
Accounts payable	--	3,773	17,227	56,540	(3
Accrued and other liabilities	14,675	629	19,271	7,873	10
Total current liabilities	14,675	4,402	36,545	69,474	7
Long-term debt	358,755	--	947	94,219	
Deferred income taxes	134,882	9,682	(4,232)	(121)	(18
Other liabilities	21,383	13,841	510	13,454	
Minority interest	--	19,394	79,553	--	
Total liabilities	529,695	47,319	113,323	177,026	(10
Stockholders' Equity					
Common stock	128,363	--	73	49,709	(49
Paid in capital	554,850	150,218	1,856,742	918,886	(2,925
Accumulated other comprehensive loss	(66,571)	(66,571)	2,204	(69,543)	133
Retained earnings (deficit)	(75,082)	320,969	86,472	(212,542)	(194
Total stockholders' equity	541,560	404,616	1,945,491	686,510	(3,036
Total liabilities and stockholders equity	$ 1,071,255	$ 451,935	$ 2,058,814	$ 863,536	$ (3,047

Condensed Consolidating Statement of Operations for the three months ended September 30, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Revenues					
Net sales	$ --	$ --	$ 99,062	$ 138,086	$ 76
Other income, net	(2)	--	429	129	(75
	(2)	--	99,491	138,215	1
Cost and Expenses					
Cost of sales	--	--	108,905	132,841	14,037
Selling, general and administrative expenses	750	695	7,235	13,844	(14,130
Equity in the (earnings) loss of subsidiaries	24,639	23,204	4,395	11,020	(63,522
	25,389	23,899	120,535	157,705	(63,615
Income (loss) from operations	(25,391)	(23,899)	(21,044)	(19,490)	63,616
Interest income	28	428	1,628	511	(1,618
Interest expense	(9,142)	(1,714)	(12)	(2,780)	1,614
Minority interest	--	546	2,239	--	--

Income (loss) before income taxes	(34,505)	(24,639)	(17,189)	(21,759)	63,612
Income tax provision (benefit)	(10,369)	--	--	25	--
Net income (loss)	$ (24,136)	$ (24,639)	$ (17,189)	$ (21,784)	$ 63,612

Condensed Consolidating Statement of Operations for the nine months ended September 30, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Revenues					
Net sales	$ --	$ --	$ 328,408	$ 473,592	$ 76
Other income, net	(2)	--	1,369	(291)	(75
	(2)	--	329,777	473,301	1
Cost and Expenses					
Cost of sales	--	--	343,802	445,772	14,037
Selling, general and administrative expenses	1,827	2,804	19,087	16,666	(14,130
Product claim costs	--	--	--	14,023	--
Equity in the (earnings) loss of subsidiaries	39,757	36,736	(3,436)	9,453	(83,057
	41,584	39,540	359,453	485,914	(83,150
Income (loss) from operations	(41,586)	(39,540)	(29,676)	(12,613)	83,151
Interest income	69	2,085	5,861	511	(5,674
Interest expense	(29,326)	(2,786)	(147)	(11,268)	5,670
Minority interest	--	484	1,984	--	--
Income (loss) before income taxes	(70,843)	(39,757)	(21,978)	(23,370)	83,147
Income tax provision (benefit)	(19,882)	--	--	(1,958)	--
Net income (loss)	$ (50,961)	$ (39,757)	$ (21,978)	$ (21,412)	$ 83,147

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimi
Operating Activities					
Net income (loss)	$ (50,961)	$ (39,757)	$ (21,978)	$ (21,412)	$

Adjustments to reconcile net loss to net cash flows from operating activities:				
Depreciation and amortization	--	2,779	50,911	31,180
Deferred income taxes	(15,839)	(7,500)	(4,232)	(4,076)
Minority interest in earnings	--	(484)	(1,984)	--
Equity in earnings (loss) of subsidiaries	39,758	36,736	(3,436)	9,453
Change in operating assets and liabilities	7,776	(5,393)	(16,404)	(5,466)
Other	--	--	--	--
Net Cash Flows from Operating Activities	(19,266)	(13,619)	2,877	9,679
Investing Activities				
Purchase of property, plant and equipment	--	--	(2,272)	(8,864)
Other	--	--	--	--
Net Cash Flows from Investing Activities	--	--	(2,272)	(8,864)
Financing Activities				
Principal payments on long-term debt	--	--	(7,980)	(6,345)
Change in investments and advances from (to) affiliates	19,013	(60,259)	46,283	(14,424)
Stock (repurchase) issuance - net	180	--	--	--
Distributions to minority inte rests	--	(337)	(1,691)	--
Repurchase of TNLP common units	--	(1,671)	--	--
Other	73	(4,464)	(3,454)	9,249
Net Cash Flows from Financing Activities	19,266	(66,731)	33,158	(11,520)
Effect of Foreign Exchange Rate on Cash	--	--	--	--
Increase (decrease) in Cash and Short-term Investments	--	(80,350)	33,763	(10,705)
Cash and Short-term Investments at Beginning of Year	--	76,959	11,844	12,622
Cash and Short-term Investments At End of Year	$ --	$ (3,391)	$ 45,607	$ 1,917

$

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Condensed Consolidating Statement of Financial Position for the nine months ended September 30, 2000:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimi

Assets					
Cash	$ 50	$ 88,620	$ 305	$ 12,941	$
Accounts Receivable	--	(51)	45,262	73,973	
Inventories	--	--	27,212	65,653	
Other current assets	5,164	4,434	25,364	16,241	
Total current assets	5,214	93,003	98,143	168,808	
Property, plant and equipment, net	37	4,077	494,270	429,374	
Excess of cost over net assets of acquired businesses	--	--	212,072	23,852	
Investments in and advanced to (from) affiliates	1,081,528	479,972	1,228,712	308,131	(3,
Other assets	5,745	6,466	9,810	33,685	
Total assets	$ 1,092,524	$ 583,518	$ 2,043,007	$ 963,850	$(3,
Liabilities					
Debt due within one year	$ --	$ --	$ 544	$ 5,424	$
Accounts payable	--	5,083	28,339	56,429	
Accrued and other liabilities	4,723	3,595	26,653	19,736	
Total current liabilities	4,723	8,678	55,536	81,589	
Long-term debt	358,755	--	8,471	101,875	
Deferred income taxes	96,159	99,435	48	836	
Other liabilities	27,047	13,255	5,522	4,431	
Minority interest	--	18,032	91,486	--	
Total liabilities	486,684	139,400	161,063	188,731	
Stockholders' Equity					
Common stock	127,890	--	73	50,586	
Paid in capital	552,903	150,218	1,798,969	917,735	(2,
Accumulated other comprehensive loss	(46,763)	(46,763)	--	(41,208)	
Retained earnings (deficit)	(28,190)	340,663	82,902	(151,994)	(
Total stockholders' equity	605,840	444,118	1,881,944	775,119	(3,
Total liabilities and stockholders equity	$ 1,092,524	$ 583,518	$ 2,043,007	$ 963,850	$(3,

Condensed Consolidating Statement of Operations for the three months ended September 30, 2000:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination

	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Revenues					
Net sales	$ --	$ --	$ 117,303	$ 150,368	$ (4,496
Other income, net	--	--	1,465	1,936	(1,467
	--	--	118,768	152,304	(5,963
Cost and Expenses					
Cost of sales	--	--	107,558	126,412	(5,280
Selling, general and administrative expenses	247	963	4,892	3,990	(682
Equity in the (earnings) loss of subsidiaries	(14,426)	(14,541)	(16,269)	(3,847)	48,835
	(14,179)	(13,578)	96,181	126,555	42,873
Income (loss) from operations	14,179	13,578	22,587	25,749	(48,836
Insurance settlement costs	--	--	(879)	--	--
Interest income	(6)	1,260	3,612	8,023	(11,658
Interest expense	(10,791)	(248)	(160)	(13,439)	11,657
Minority interest	--	(164)	(823)	--	2
Income (loss) before income taxes	3,382	14,426	24,337	20,333	(48,835
Income tax provision (benefit)	(2,814)	--	5,885	4,376	--
Net income (loss)	$ 6,196	$ 14,426	$ 18,452	$ 15,957	$ (48,835

Condensed Consolidating Statement of Operations for the nine months ended September 30, 2000:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Revenues					
Net sales	$ --	$ --	$ 291,904	$ 497,217	$ (3,952
Other income, net	--	401	3,662	3,908	(2,011
	--	401	295,566	501,125	(5,963
Cost and Expenses					
Cost of sales	--	--	291,236	441,729	(5,280
Selling, general and administrative expenses	553	790	20,626	13,036	(682
Equity in the (earnings) loss of subsidiaries	(959)	457	(30,897)	(20,140)	50,991
	(406)	1,247	280,965	434,625	45,029
Income (loss) from operations	406	(846)	14,601	66,500	(50,992
Insurance settlement costs	--	--	(5,529)	--	--
Interest income	--	3,249	10,233	266	(11,658
Interest expense	(31,245)	(554)	(635)	(17,907)	11,657
Minority interest	--	(890)	(4,472)	--	2
Income (loss) before income taxes	(30,839)	959	14,198	48,859	(50,991
Income tax provision (benefit)	(16,588)	--	10,660	2,365	--

Net income (loss)	$ (14,251)	$ 959	$ 3,538	$ 46,494	$ (50,991

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2000:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimi
Operating Activities					
Net income (loss)	$ (14,251)	$ 959	$ 3,538	$ 46,494	$ (
Adjustments to reconcile net loss to net cash flows from operating activities:					
Depreciation and amortization	--	1,790	47,915	36,442	
Deferred income taxes	7,451	24,925	140	(27)	(
Minority interest in earnings	--	890	4,472	--	
Equity in earnings (loss) of subsidiaries	959	(457)	30,897	20,140	(
Change in operating assets and liabilities	8,325	(33,879)	24,809	50,825	(
Other	--	--	--	--	
Net Cash Flows from Operating Activities	2,484	(5,772)	111,771	153,874	(1
Investing Activities					
Purchase of property, plant and equipment	--	--	(5,752)	(5,267)	
Other	--	--	--	--	
Net Cash Flows from Investing Activities	--	--	(5,752)	(5,267)	
Financing Activities					
Net short-term borrowings (repayments)	--	(6,000)	--	--	
Principal payments on long-term debt	--	--	(2,452)	(2,940)	
Change in investments and advances from (to) affiliates	(3,659)	112,542	(133,024)	(137,388)	1
Deferred financing costs	--	(6,697)	--	--	
Other	1,217	(5,636)	1,309	23,516	(
Net Cash Flows from Financing Activities	(2,442)	94,209	(134,167)	(116,812)	1
Increase (decrease) in Cash and Short-term Investments	42	88,437	(28,148)	31,795	
Cash and Short-term Investments at Beginning of Year	8	183	28,453	(18,854)	

Cash and Short-term Investments					
At End of Year	$ 50	$ 88,620	$ 305	$ 12,941	$

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF
OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 2001 COMPARED WITH QUARTER ENDED SEPTEMBER 30, 2000

Consolidated Results

Terra reported a net loss of $24.1 million for the 2001 third quarter compared with net income of $6.2 million in 2000. The increase in the 2001 loss was primarily related to decreased operating income as the result of lower sales prices.

Terra classifies its operations into two business segments: nitrogen products and methanol. The nitrogen products segment represents operations directly related to the wholesale sales of nitrogen products from Terra's ammonia production and upgrading facilities. The methanol segment represents wholesale sales of methanol produced at Terra's two methanol manufacturing facilities.

Total revenues and operating income (loss) by segment for the three-month periods ended September 30, 2001 and 2000 follow:

(in thousands)	2001
REVENUES:	
Nitrogen Products	$ 209,224
Methanol	28,000
Other	481
	$ 237,705
OPERATING INCOME (LOSS):	
Nitrogen Products	$ (21,328)
Methanol	(5,109)
Other income - net	229
	$ (26,208)

Nitrogen Products

Volumes and prices for the three-month periods ended September 30, 2001 and 2000 follow:

VOLUMES AND PRICES

	2001		
(quantities in thousands of tons)	Sales Volumes	Average Unit Price	Sales Volumes
Ammonia	315	$ 154	311
Nitrogen solutions	989	80	887
Urea	65	128	69
Ammonium nitrate	257	124	283

Nitrogen products segment revenues declined $11.2 million to $209.2 million in the 2001 third quarter compared with $220.4 million in the 2000 third quarter. Lower sales prices reduced 2001 revenues $16 million primarily as the result of an over supply of nitrogen products in most of Terra's North American markets. This situation was caused by fewer planted acres of corn, wheat and other agricultural products and reduced application rates because of low grain prices. Some of the revenue shortfall from lower sales prices was offset by higher 2001 volumes as compared to last year's third quarter.

The nitrogen products segment had an operating loss of $21.3 million for the third quarter of 2001 compared with operating income of $17.5 million for the 2000 third quarter. Lower sales prices reduced 2001 operating income by $16 million from last year. Natural gas costs were lower than during the 2000 third quarter as unit costs, net of forward pricing gains and losses, decreased to $3.11/MMBtu, during the 2001 third quarter compared to $3.15/MMBtu during the same 2000 period. Third quarter 2001 natural gas costs for the nitrogen products segment were $5.2 million higher than spot prices as a result of Terra's forward price contracts.

Methanol

For the three months ended September 30, 2001 and 2000 the Methanol segment had revenues of $28.0 million and $42.7 million, respectively. Sales volumes decreased 5% from prior year levels and selling prices decreased from $.62/gallon in 2000 to $.43/gallon in 2001.

The methanol segment had an operating loss of $5.1 million for the 2001 third quarter compared to operating income of $10.0 million for the 2000 third quarter. The decrease in the operating income was due primarily to lower prices which reduced 2001 earnings by $12.3 million. Lower sales volumes and higher operating costs than during last year's third quarter also reduced operating income. These factors were partially offset by lower natural gas costs which, net of forward pricing gains and losses, averaged $3.31/MMBtu, during the 2001 third quarter compared to $3.50/MMBtu during the 2000 period. As a result of forward pricing contracts, third quarter 2001 natural gas costs for the methanol segment were $3.1 million higher than spot prices.

Other Income - Net

Terra had other operating income of $0.2 million in the 2001 third quarter compared to an other operating loss of $0.2 million in the 2000 third quarter.

Insurance Settlement Costs

During the 2000 third quarter, Terra incurred $0.9 million of legal and other professional fees in connection with a lawsuit to recover costs from the 1994 explosion at Terra's Port Neal facility. These expenses were related to the insurance recovery gain reported in Terra's 1997 financial statements and, consequently, have been excluded from the determination of 2000 operating income.

Interest Expense - Net

Interest expense, net of interest income, totaled $11.1 million during the 2001 third quarter compared with $11.8 million for the prior year period.

Minority Interest

Minority interest represents third-party interests in the earnings of the publicly held common units of Terra Nitrogen Company, L.P. (TNCLP). Minority interest credits of $2.8 million were recorded for the 2001 third quarter as the result of TNCLP losses, which were included in their entirety in consolidated operating results. The decreased charge as compared to the 2000 second quarter reflected lower nitrogen earnings for TNCLP.

Income Taxes

Income taxes for the third quarter 2001 were recorded at an effective tax rate of 30%, Terra's estimated annual effective tax rate.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH
NINE MONTHS ENDED SEPTEMBER 30, 2000

Consolidated Results

Terra reported a net loss of $51.0 million for the nine months ended September 30, 2001 with a net loss of $14.3 million in 2000. The increase in the 2001 loss was primarily related to decreased operating income as the result of higher natural gas costs, lower sales volumes, and product recall costs, partially offset by higher product prices.

Terra classifies its operations into two business segments: nitrogen products and methanol. The nitrogen products segment represents operations directly related to the wholesale sales of nitrogen products from Terra's ammonia production and upgrading facilities. The methanol segment represents wholesale sales of methanol produced at Terra's two methanol manufacturing facilities.

Total revenues and operating income (loss) by segment for the nine-month periods ended September 30, 2001 and 2000 follows:

(in thousands)	2001	20
REVENUES:		
Nitrogen Products	$ 661,065	$ 688
Methanol	141,011	96
Other	1,001	5

	$ 803,077	$ 791
OPERATING INCOME (LOSS):		
Nitrogen Products, before product claim costs	$ (21,153)	$ 19
Less: product claim costs	(14,023)	
Net nitrogen products	(35,176)	19
Methanol	(6,082)	9
Other income - net	994	
	$ (40,264)	$ 29

Nitrogen Products

Volumes and prices for the nine-month periods ended September 30, 2001 and 2000 follow:

VOLUMES AND PRICES

	2001		20
(quantities in thousands of tons)	Sales Volumes	Average Unit Price	Sales Volumes
Ammonia	854	$ 204	1,130
Nitrogen solutions	2,324	108	3,066
Urea	294	157	353
Ammonium nitrate	490	129	819

Nitrogen products segment revenues decreased $27.2 million to $661 million in the 2001 first nine months compared with $668.2 million in the 2000 first nine months. Sales volumes declined as the result of fewer planted acres of corn, wheat and other agricultural products and reduced application rates because of low grain prices and high fertilizer costs. Sales volumes of ammonium nitrate, which is the primary form of fertilizer sold by Terra in the United Kingdom, were also limited as the result of British transportation restrictions in response to the outbreak of foot and mouth disease. A substantial portion of the revenue shortfall from lower sales volumes was offset by higher 2001 prices as compared to last year's first nine months. Price increases were realized in response to lower nitrogen supplies during the 2001 first half as high natural gas costs resulted in industry-wide production curtailments since the middle of last year.

The nitrogen products segment had an operating loss of $21.2 million for the first nine months of 2001, before product claim costs, compared with operating income of $19.3 million for the 2000 first nine months. The decrease in operating income was primarily related to higher natural gas costs and reduced sales volumes, offset in part by higher selling prices. Natural gas costs increased almost $126 million over the 2000 first nine months as unit costs, net of forward pricing gains and losses, increased to $4.40/MMBtu, during the 2001 first nine months compared to $2.77/MMBtu during the same 2000 period. Natural gas costs in the 2001 first nine months were $8.3 million lower than spot prices as the result of forward price contracts.

Following the judgment of a British court, Terra Industries recorded a $14 million charge to reflect the estimated value of claims (plus interest and attorney fees) associated with recalls of beverages containing carbon dioxide tainted with benzene. In addition to the right to appeal the British court's decision, we believe we have recourse for these claims against our insurer and the previous owner of Terra Industries' U.K. operations. We will vigorously pursue our rights against these parties, but there will be no income recognition for those rights until appeals or settlements are finalized.

Methanol

For the nine months ended September 30, 2001 and 2000 the methanol segment had revenues of $141 million and $97 million. Sales volumes increased 10% from prior year levels, and selling prices increased from $.48/gallon in 2000 to $.64/gallon in 2001. Selling price increases reflect higher raw material costs and the higher volumes were the result of a decrease in domestic supplies during 2001.

The methanol segment generated a $6.1 million operating loss in the 2001 first nine months compared to a $9.6 million operating income in the 2000 first nine months. The increased operating loss reflects cost increases that outpaced the effects of higher selling prices and increased volumes. In addition, contractual and market conditions necessitated the purchase of methanol products from other producers

which resulted in incrementally higher costs of approximately $14 million compared to the same period in 2000. The major cost increase was to natural gas costs which, net of forward pricing gains and losses, increased to $4.41/MMBtu, during the 2001 nine months compared to $2.92/MMBtu during the 2000 period. First nine month 2001 natural gas costs were $2.8 million lower than spot prices as a result of forward pricing contracts.

Other Income - Net

Terra had other operating income of $1.0 million in the 2001 first nine months compared to $0.8 million in the 2000 first nine months.

Insurance Settlement Costs

During the 2000 first nine months, Terra incurred $5.5 million of legal and other professional fees in connection with a lawsuit to recover costs from the 1994 explosion at Terra's Port Neal facility. Theses expenses related to the insurance recovery gain reported in Terra's 1997 financial statements and, consequently, have been excluded from the determination of 2000 operating income.

Interest Expense - Net

Interest expense, net of interest income, totaled $35.0 million during the 2001 first nine months compared with $36.6 million for the prior year period.

Minority Interest

Minority interest represents third-party interests in the earnings of the publicly held common units of Terra Nitrogen Company, L.P. (TNCLP). Minority interest credits of $2.5 million were recorded for the 2001 first nine months as the result of TNCLP losses, which were included in their entirety in consolidated operating results. The decreased charge as compared to the 2000 first nine months reflected lower nitrogen earnings for TNCLP.

Income Taxes

Income taxes for the first nine months of 2001 were recorded at an effective tax rate of 30%, Terra's estimated annual effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Terra's primary uses of funds are to fund its working capital requirements, make payments on its indebtedness and other obligations, make capital expenditures and acquisitions and fund repurchases of TNCLP common units. The principal sources of funds are cash flow from operations and borrowings under available bank facilities.

Net cash flows used in operations in the first nine months of 2001 were $22.1 million comprised of $22.5 million used by increases to net working capital balances, net of $0.4 million in operating profits after non-cash charges. Working capital increases during the 2001 second quarter are primarily related to carryover of inventory balances related to lower sales volumes experienced during the 2001 first half.

Terra funded plant and equipment expenditures of $11.1 million during the first nine months of 2001. Terra expects remaining 2001 capital expenditures to be less than $20 million consisting principally of routine equipment replacements.

Cash balance at September 30, 2001 was $44.1 million.

On October 10, 2001, Terra Capital, Inc., a wholly owned subsidiary of Terra, issued $200 million of 12.875% Senior Secured Notes due in 2008. The notes were priced at 99.43% to yield 13%. The proceeds will be used to repay existing debt. The notes are secured by a first priority interest in ownership or leasehold interest in substantially all real property, machinery and equipment owned or leased by Terra and its limited partnership interest in Terra Nitrogen Company, L.P. Pro forma sources and uses of funds at September 30, 2001 were as follows:

(in millions)

Sources		Uses	
Proceeds from issuance of senior secured notes due 2008	$ 198.9	Repay senior notes due 2003 including accrued interest of $8.5 million	
		Repay fixed asset term loan	
Reduction to cash balances	33.8	Repay current asset term loan	
Revolving credit facility	45.0	Fees and expenses	
Total soures	$ 277.7	Total uses	

Concurrent with note issuance, Terra amended its revolving credit facility that increased the facility to $175 million and extended its term to June 30, 2005.

The amended facility requires Terra to generate operating cash flows (as defined) for the most recent twelve month period of $40 million at December 31, 2001 and March 31, 2002; $60 million due at June 30, 2002; $75 million at September 30, 2002 and $90 million at December 31, 2002 and at each quarter end thereafter. The amended revolving credit facility also allows Terra to prepay senior notes due 2005, or purchase outstanding minority interests in Terra Nitrogen Company, L.P., subject to liquidity restrictions and minimum earnings levels. The liquidity restrictions require Terra have an available borrowing base under the revolving credit facility of $125 million following any such prepayment or purchase. Minimum earnings levels require that twelve month cash flows (as defined) at the most recent quarter end exceed $125 million when the prepayment or purchase occurs. Annual prepayments or purchases are limited to the amount Terra's average available borrowing base exceeds $125 million from June 15 through July 15 of each year, or $75 million, whichever is less. No prepayment or purchases are permitted until after July 15, 2002. At September 30, 2001, Terra's available borrowing base was approximately $60 million, adjusted for the effects of the October 10, 2001 senior secured bond offering and the amended revolving credit facility.

Terra management believes that cash from operations and available financing sources will be sufficient to meet anticipated cash requirements.

POTENTIAL CHANGE OF CONTROL

Anglo American plc, through its wholly-owned subsidiaries, owns 49.5% of Terra Industries' outstanding shares. Anglo American has made public its intention to dispose of its interest in Terra Industries with the timing based on market and other conditions.

FORWARD-LOOKING PRECAUTIONS

Information contained in this report, other than historical information, may be considered forward looking. Forward-looking information reflects management's current views of future events and financial performance that involve a number of risks and uncertainties. The factors that could cause actual results to differ materially include, but are not limited to, the following: changes in financial markets, general economic conditions within the agricultural industry, competitive factors and price changes (principally, sales prices of 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 agricultural regulations, and other risks detailed in the "Factors that Affect Operating Results" section of Terra's most recent Form 10-K.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

None

(b) Reports on Form 8-K

Form 8-K dated October 10, 2001, announcing completion of a new $175.0 million revolving credit facility and issuance of $200.0 million of 12 7/8% Senior Secured Notes due in 2008.

SIGNATURE

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

TERRA INDUSTRIES INC.

Date: November 14, 2001

/s/ Francis G. Meyer

Francis G. Meyer
Senior Vice President and Chief
Financial Officer and a duly authorized
signatory