

TERRA INDUSTRIES INC

Form 11-K

June 26, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the Year Ended December 31, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 (NO FEE REQUIRED)**

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-8520

A. Full title of the Plan and the address of the Plan, if different from that of the issuer named below:

TERRA INDUSTRIES INC. EMPLOYEES SAVINGS AND INVESTMENT PLAN

B. Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office:

TERRA INDUSTRIES INC.  
TERRA CENTRE  
600 FOURTH STREET  
P.O. BOX 6000  
SIOUX CITY, IOWA 51102-6000

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**REQUIRED INFORMATION**

Plan financial statements and schedules are prepared in accordance with the financial reporting requirements of ERISA and are included therein as listed in the table of contents below.

**Table of Contents**

|  | <b>Pages</b> |
|--|--------------|
| <b>(a) Financial Statements</b>  |              |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 1            |
| <u>Statements of Net Assets Available for Benefits at December 31, 2007 and 2006</u>   | 2            |
| <u>Statements of Changes in Net Assets Available for Benefits for the Years Ended December 31, 2007 and 2006</u>   | 3            |
| <u>Notes to Financial Statements</u>   | 4-8          |
| <b>(b) Supplemental Schedules</b>  |              |
| <u>Form 5500, Schedule H, Part IV, Line 4(i) Schedule of Assets (Held at End of Year) as of December 31, 2007</u>  | 9            |
| <b>(c) Signatures</b>  |              |
| <u>Signatures</u>  | 10           |
| <b>(d) Consent of Independent Registered Public Accounting Firm</b>  |              |
| Exhibit 23 - Consent of Independent Registered Public Accounting Firm  | 11           |
| <u>Consent of Independent Registered Public Accounting Firm</u>  |              |
| All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Securities Act of 1974 have been omitted because they are not applicable. |              |

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**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Participants of and  
Administrator of the

Terra Industries Inc. Employees Savings and Investment Plan

We have audited the accompanying statement of net assets available for benefits of the Terra Industries Inc.

Employees Savings and Investment Plan as of December 31, 2007 and 2006, and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting.

Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2007, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2007 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

**BROWN SMITH WALLACE, L.L.C.**

Saint Louis, Missouri

June 26, 2008

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**Table of Contents**

**TERRA INDUSTRIES INC.  
EMPLOYEES SAVINGS AND INVESTMENT PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS  
DECEMBER 31, 2007 AND 2006**

|  | <b>2007</b>           | <b>2006</b>           |
|--|-----------------------|-----------------------|
| <b>ASSETS:</b>   |                       |                       |
| Investments, at fair value (Note E)  | \$ 161,914,580        | \$ 127,615,992        |
| Receivables:   |                       |                       |
| Securities sold  | 1,369,974             | 767,385               |
| Total assets   | 163,284,554           | 128,383,377           |
| <b>LIABILITIES:</b>  |                       |                       |
| Securities purchased   | (1,259,222)           | (171,195)             |
| <b>Net assets available for benefits, at fair value</b>  | <b>162,025,332</b>    | <b>128,212,182</b>    |
| Adjustments from fair value to contract value for interest in collective trust relating to fully benefit-responsive investment contracts | 116,015               | 561,011               |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>   | <b>\$ 162,141,347</b> | <b>\$ 128,773,193</b> |
| See accompanying notes to the financial statements   |                       |                       |

**Table of Contents**

**TERRA INDUSTRIES INC.  
EMPLOYEES SAVINGS AND INVESTMENT PLAN  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

|   | <b>2007</b>    | <b>2006</b>    |
|---|----------------|----------------|
| Additions to net assets attributed to:        |                |                |
| Investment income:                            |                |                |
| Dividends and interest                        | \$ 1,569,135   | \$ 1,084,081   |
| Net appreciation in fair value of investments | 36,878,654     | 20,631,228     |
| Total investment income                       | 38,447,789     | 21,715,309     |
| Contributions:                                |                |                |
| Employer                                      | 1,845,380      | 1,776,174      |
| Participant                                   | 4,746,901      | 4,113,047      |
| Total contributions                           | 6,592,281      | 5,889,221      |
| Total additions                               | 45,040,070     | 27,604,530     |
| Deductions from net assets attributed to:     |                |                |
| Benefit payments                              | 11,553,511     | 13,852,723     |
| Administrative expenses                       | 118,405        | 115,987        |
| Total deductions                              | 11,671,916     | 13,968,710     |
| Net increase                                  | 33,368,154     | 13,635,820     |
| Net assets available for benefits:            |                |                |
| Beginning of year                             | 128,773,193    | 115,137,373    |
| End of year                                   | \$ 162,141,347 | \$ 128,773,193 |

See accompanying notes to the financial statements

**Table of Contents**

**TERRA INDUSTRIES INC.  
EMPLOYEES SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**A. DESCRIPTION OF PLAN**

The following description of the Terra Industries Inc. Employees Savings and Investment Plan (the Plan ) is provided for general information only. Participants should refer to the Plan Document for more complete information.

**General** The Plan, established January 1, 1984, is a defined contribution plan covering eligible employees of Terra Industries Inc. ( Terra ) and eligible subsidiaries and affiliates (collectively, the Company ). The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended ( ERISA ) and is administered by the Benefits Committee (the Committee ) of the Company.

**Participation** All full-time or part-time employees of the Company (whose customary employment is at least 1,000 hours of service during a twelve month period) are eligible for Plan participation upon hire or any time thereafter. Temporary employees are eligible after completing twelve continuous months of employment that include at least 1,000 hours of service.

**Participant Accounts** Individual accounts are maintained for each Plan participant. Each participant s account is credited with the participant s contributions, the Company s contributions and an allocation of Plan earnings and is charged with withdrawals and an allocation of Plan losses and administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

**Contributions** Each year participants may contribute a maximum before-tax , after-tax and Roth 401(k) combined deferral of 25% as defined by the Plan, subject to certain Internal Revenue Code limitations. The Roth 401(k) deferral contribution was added to the plan effective June 11, 2007. Participants direct their contributions into various investment options offered by the Plan. Effective January 1, 2005, highly compensated employees were not eligible to make after-tax contributions.

The Company contributes a matching amount determined by its Board of Directors, equal to 100% of the participants contributions up to 3% of their annual compensation, and 60% up to an additional 3% of annual compensation. Fully vested participants may elect to invest the contributions made by the Company into one or more of the available investment options. Prior to January 1, 2006, employer contributions for participants not fully vested in the Plan were automatically invested in the Terra Industries Inc. Common Stock Fund. The Plan was amended effective January 1, 2005 so that all employees with at least one hour of service on or after January 1, 2005 are fully vested in employer matching contribution balances and all employer matching contributions could be invested in any of the Plan s investment options at the participant s discretion.

Employees hired on or after July 1, 2003, employees rehired on or after August 1, 2003, and employees who selected the one-time irrevocable election to stop accruing benefits under the Terra Industries Inc. Employees Retirement Plan in exchange for future non-elective contributions receive non-elective contributions from Terra of 3.2% of eligible earnings. Fully vested participants may elect to invest the contributions made by the Company into one or more of the available investment options. Non-elective

**Table of Contents**

**TERRA INDUSTRIES INC.**

**EMPLOYEES SAVINGS AND INVESTMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS Continued**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

employer contributions for participants not fully vested in the Plan are automatically invested in the Terra Industries Inc. Common Stock Fund. Effective January 1, 2006 the Plan was amended to state that non-elective contributions shall not be automatically invested in the Employer stock fund, but instead shall be invested under the same direction as a Participant's Pre-tax Savings Account, After-Tax Contribution Account, Employer Matching Contributions Account and Rollover Account, regardless of whether or not the participant is fully vested.

The Company may elect to make an additional contribution, subject to certain limitations as defined in the Plan, in such amount as its Board of Directors shall determine. No such additional contributions were made in 2007 or 2006. Employer contributions are reduced by the amount of any participant forfeitures during the period. Participant forfeitures totaled \$20,187 and \$18,434 in 2007 and 2006, respectively.

***Vesting*** Participants are immediately fully vested in their contributions and earnings (losses) on their voluntary contributions. Effective January 1, 2005, the Plan was amended so that employer matching contributions vest at 100% for participants with at least one hour of service on or after January 1, 2005. Employer non-elective contributions continue to vest ratably over five years of service.

***Participant Loans*** Participants may borrow from their individual contribution accounts subject to maximum limitations as defined in the Plan. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Loan fund. Loan terms range from one to five years or up to thirty years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a reasonable rate based on the published prime rate. As of December 31, 2007, interest rates on outstanding loans ranged from 6% to 11%. Principal and interest is paid ratably through payroll deductions. Participant loans totaled \$3,067,605 and \$2,881,060 for the years ended December 31, 2007 and 2006, respectively.

***Payment of Benefits*** Participants or their beneficiaries are eligible to receive the value of their vested account balance upon the occurrence of one of the following: early or normal retirement; termination of employment; death or total disability. Benefits are recorded when paid.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting*** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, except for benefits, which are recorded when paid.

As described in Financial Standards Board Staff Position, FSB AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investments held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attributable for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The plan invests in investment contracts through a



**Table of Contents**

**TERRA INDUSTRIES INC.**

**EMPLOYEES SAVINGS AND INVESTMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS Continued**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

collective trust. As required by the FSP, the Statement of Net Assets Available for Benefits presents the fair value of the investment in the collective trust as well as the adjustment of the investment in the collective trust from fair value to contract value relating to the investment contracts. The Statement of Changes in Net Assets Available for Benefits is presented on a contract value basis.

***Investment Valuation and Income Recognition*** The Plans' investments are stated at fair value. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. The Terra Industries Inc. common stock fund is valued at its year-end closing price (comprised of year-end quoted market price plus uninvested cash). Common collective trusts are valued at fair value as determined by the trustee based on the underlying assets of the trust. Participant loans are valued at cost, which approximates fair value. In accordance with the policy of stating investments at fair value, the net change in realized and unrealized appreciation or depreciation in fair value is included in investment income, which is reflected in the statement of changes in net assets available for benefits. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Investment transactions are recognized on a trade-date basis.

***Benefits Payable*** The Plan's policy is to record benefit payments upon distribution of balances to participants. There were no benefits payable as of December 31, 2007 and 2006.

***Administrative Expenses*** Administrative expenses are comprised of charges relating to routine services provided by the Plan's trustee and recordkeeping agent and fees associated with the annual audit of the Plan's financial statements. Administrative expenses are charged directly to related investment funds.

***Use of Estimates*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and reported changes in net assets available for benefits during the reporting period. Actual results could differ from these estimates.

***Risks and Uncertainties*** The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

**C. PLAN TERMINATION**

Although it has expressed no intent to do so, the Company specifically reserves the right to amend or terminate the Plan or to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA.

**Table of Contents****TERRA INDUSTRIES INC.****EMPLOYEES SAVINGS AND INVESTMENT PLAN****NOTES TO FINANCIAL STATEMENTS Continued****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006****D. FEDERAL INCOME TAX STATUS**

The Internal Revenue Service has determined and informed the Company by letter dated May 28, 2002, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code.

Although the Plan has been amended since receiving the determination letter, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable provisions of the Internal Revenue Code and the Plan continues to be tax exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**E. INVESTMENTS**

The Plan's investments are held in a bank-administered trust fund. The following table separately identifies investments that represent 5% or more of the Plan's net assets.

|   | <b>December 31,</b> |               |
|---|---------------------|---------------|
|   | <b>2007</b>         | <b>2006</b>   |
| <b>Investments at Fair Value as Determined by Quoted Market Price</b> |                     |               |
| Terra Industries Inc. Common Stock Fund                               | \$ 34,422,924       | \$ 14,633,864 |
| Mutual Funds:   |                     |               |
| Dodge & Cox Stock Fund  | 11,208,624          | 11,759,805    |
| American Funds Growth Fund of America                                 | 15,920,008          | 15,754,093    |
| Vanguard Wellington Fund  | 15,896,513          | 10,890,801    |
| ABN AMRO Mid Cap  | 9,799,284           | 9,534,122     |
| <b>Investments at Contract Value</b>                                  |                     |               |
| Wells Fargo Collective Stable Return Fund                             | 33,374,942          | 29,174,520    |
| Wells Fargo Collective/BGI S&P500 Index High Balance                  | 8,352,372           | 8,697,467     |

**Table of Contents**

**TERRA INDUSTRIES INC.  
EMPLOYEES SAVINGS AND INVESTMENT PLAN  
NOTES TO FINANCIAL STATEMENTS Continued  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

During 2007 and 2006, the Plan's investments, including investments bought, sold and held during the year, appreciated (depreciated) in value as follows:

|   | <b>Years Ended December 31,</b> |               |
|---|---------------------------------|---------------|
|   | <b>2007</b>                     | <b>2006</b>   |
| Net appreciation (depreciation) in fair value of investments:         |                                 |               |
| <b>Investments at Fair Value as Determined by Quoted Market Price</b> |                                 |               |
| Terra Industries Common Stock Fund                                    | \$ 29,909,512                   | \$ 9,163,783  |
| Mutual funds  | 4,673,252                       | 8,270,231     |
| Net change in fair value  | 34,582,764                      | 17,434,014    |
| <b>Investments at Contract Value</b>                                  |                                 |               |
| Common collective trusts  | 2,295,890                       | 3,197,214     |
| Net (depreciation) appreciation in fair value of investments          | \$ 36,878,654                   | \$ 20,631,228 |

**F. RELATED PARTY TRANSACTIONS**

Plan investments include the Terra Industries Inc. Common Stock Fund which holds 720,748 shares of Terra Industries Inc. Common Stock with a fair value of \$34,422,924 and 1,628,950 shares of Wells Fargo Short Term Investment plus accrued interest with a fair value of \$1,630,797 at December 31, 2007. At December 31, 2006 it held 1,221,384 shares of Terra Industries Inc. Common Stock with a fair value of \$14,633,864 and 435,827 shares of Wells Fargo Short Term Investment plus accrued interest with a fair value of \$435,827. Terra Industries Inc. is the Plan sponsor and therefore, these transactions qualify as party-in-interest transactions.

Certain Plan investments are shares of mutual funds managed by Wells Fargo. Wells Fargo is the trustee as designated by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

**Table of Contents**

**TERRA INDUSTRIES INC.  
EMPLOYEES SAVINGS AND INVESTMENT PLAN  
PN 333  
EIN #52-1145429  
SUPPLEMENTAL SCHEDULE  
FORM 5500, SCHEDULE H, PART IV, LINE 4(i)  
SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
DECEMBER 31, 2007**

| Column B  | Column C   | Column E         |
|---|--|------------------|
| Identity of issue, borrower,<br>lessor or similar party | Description of investment including<br>collateral, rate of interest, maturity date,<br>par or maturity value                       | Current<br>Value |
| <b>Common collective trusts:</b>                        |  |                  |
| *Wells Fargo  | Collective Stable Return 778,624.046 shares  | \$ 33,374,942    |
| *Wells Fargo  | Collective/BGI S&P 500 Index High Balance<br>129,073.902 shares  | 8,352,372        |
| *Wells Fargo  | Short Term Investment Fund 1,628,950.040 shares  | 1,630,797        |
| <b>Mutual funds:</b>                                    |  |                  |
| PIMCO Funds   | Total Return Fund 468,113.031 shares   | 5,020,122        |
| American Funds  | Growth Fund of America 471,564.213 shares  | 15,920,008       |
| Vanguard  | Vanguard Wellington 487,324.128 shares   | 15,896,513       |
| Lord Abbett   | Mid-Cap Value 235,082.793 shares   | 4,365,488        |
| Dodge & Cox   | Stock Fund 80,765.059 shares   | 11,208,624       |
| Davis   | New York Venture 29,399.327 shares   | 1,176,267        |
| American Funds  | Europacific Growth 158,163.729 shares  | 7,933,493        |
| ABN AMRO  | Mid Cap 345,897.764 shares   | 9,799,284        |
| *Wells Fargo  | Small Cap Opportunities 185,476.289 shares   | 6,068,784        |
| *Wells Fargo  | Dow Jones Target Today Fund 78,750.987 shares  | 806,410          |
| *Wells Fargo  | Dow Jones Target 2010 Fund 106,128.861 shares  | 1,368,001        |
| *Wells Fargo  | Dow Jones Target 2020 Fund 53,454.323 shares   | 775,622          |
| *Wells Fargo  | Dow Jones Target 2030 Fund 31,714.834 shares   | 489,994          |
| *Wells Fargo  | Dow Jones Target 2040 Fund 20,099.233 shares   | 353,345          |
| <b>Common stock:</b>                                    |  |                  |
| *Terra Industries Inc.                                  | Common stock 720,748 shares  | 34,422,924       |
| <b>Loans:</b>   |  |                  |
| *Loans to Participants                                  | Principal balance of \$3,067,605 bearing interest rates<br>ranging from 6% to 11% and maturing from<br>January 2008 to August 2037 | 3,067,605        |
|   |  | \$ 162,030,595   |

\* Party-In-Interest



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the Terra Industries Inc. Employee Benefit Committee have duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**TERRA INDUSTRIES INC. EMPLOYEES  
SAVINGS AND INVESTMENT PLAN**

**Date:** 6/26/08

**By:** /s/ Daniel D. Greenwell

Daniel D. Greenwell, Senior Vice President  
and Chief Financial Officer