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TERRA INDUSTRIES INC
Form 10-Q
May 14, 2002

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

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	52-1145429
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Terra Centre	
P.O. Box 6000	
600 Fourth Street	51102-6000
Sioux City, Iowa	(Zip Code)
(Address of principal executive offices)	

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 ☒ No ☐

As of April 30, 2002, the following shares of the registrant's stock were outstanding:

Common Shares, without par value	76,478,183 shares
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PART I. FINANCIAL INFORMATION

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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(in thousands)
(unaudited)

	March 31, 2002	December 31, 2001
<hr/>		
ASSETS		
Cash and short-term investments	\$ 2,063	\$ 7,125
Accounts receivable, less allowance for doubtful accounts of \$978, \$936, \$868	84,044	101,363
Inventories	126,597	110,027
Other current assets	37,024	35,142
<hr/>		
Total current assets	249,728	253,657
<hr/>		
Property, plant and equipment, net	806,748	824,982
Excess of cost over net assets of acquired businesses	---	206,209
Other assets	45,364	51,195
<hr/>		
Total assets	\$ 1,101,840	\$ 1,336,043
<hr/>		
LIABILITIES		
Debt due within one year	\$ 81	\$ 68
Accounts payable	67,472	75,077
Accrued and other liabilities	63,460	42,134
<hr/>		
Total current liabilities	131,013	117,279
<hr/>		
Long-term debt	400,291	436,534
Deferred income taxes	111,061	112,645
Other liabilities	67,993	69,639
Minority interest	99,713	99,167
<hr/>		
Total liabilities	\$ 810,071	\$ 835,264
<hr/>		
STOCKHOLDERS' EQUITY		
Capital stock		
Common Shares, authorized 133,500 shares;		
Outstanding 76,476, 76,451 and 75,823 shares	128,388	128,363
Paid-in capital	554,864	554,850
Accumulated other comprehensive loss	(72,454)	(78,470)
Retained deficit	(319,029)	(103,964)
<hr/>		
Total stockholders' equity	291,769	500,779
<hr/>		
Total liabilities and stockholders' equity	\$ 1,101,840	\$ 1,336,043
<hr/>		

See Accompanying Notes to the Consolidated Financial Statements.

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

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	Three
	2002

REVENUES	
Net sales	\$ 213,2
Other income, net	2
-----	-----
Total revenues	213,5
-----	-----
COSTS AND EXPENSES	
Cost of sales	206,1
Selling, general and administrative expense	8,7
-----	-----
	214,9
-----	-----
Income (loss) from operations	(1,3
Interest income	
Interest expense	(13,2
Minority interest	(5
-----	-----
Loss before income taxes and cumulative effect of change in accounting principle	(15,1
Income tax benefit	6,0
-----	-----
Loss before cumulative effect of change in accounting principle	(9,0
Cumulative effect of change in accounting principle	(205,9
-----	-----
NET LOSS	\$ (215,0
=====	=====
Basic and diluted loss per share:	
Loss before cumulative effect of change in accounting principle	\$ (0.
Cumulative effect of change in accounting principle	(2.
-----	-----
Net loss per share	\$ (2.
=====	=====
Basic and diluted weighted average shares outstanding	75,2
=====	=====

See Accompanying Notes to the Consolidated Financial Statements.

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

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	Three Months Ended March 31, 2002
	2002
OPERATING ACTIVITIES	
Net loss	\$ (215,065)
Cumulative effect of change in accounting principle	205,968
Adjustments to reconcile net loss from operations to net cash flows from operating activities:	
Depreciation and amortization	23,399
Deferred income taxes	(9,515)
Minority interest in earnings	546
Changes in current assets and liabilities:	
Accounts receivable	16,696
Inventories	(17,111)
Other current assets	11,234
Accounts payable	(7,079)
Accrued and other liabilities	26,922
Other	(292)
Net cash flows from operating activities	35,703
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(6,328)
Other	---
Net cash flows from investing activities	(6,328)
FINANCING ACTIVITIES	
Principal payments on long-term debt	(36,230)
Stock issuance-net	39
Repurchases of TNCLP common units	---
Distributions to minority interests	---
Other	1,781
Net cash flows from financing activities	(34,410)
Effect of exchange rate changes on cash	(27)
Decrease to cash and short-term investments	(5,062)
Cash and short-term investments at beginning of period	7,125
Cash and short-term investments at end of period	\$ 2,063

See Accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED March 31, 2002 AND 2001
(in thousands)
(unaudited)

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	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	
Balance at January 1, 2002	\$ 128,363	\$ 554,850	\$ (78,470)	\$
Comprehensive loss:				
Net loss	---	---	---	
Foreign currency translation adjustment	---	---	(6,055)	
Change in fair value of derivatives, net of taxes	---	---	12,071	
Comprehensive loss				
Exercise of stock options	25	14	---	
Balance at March 31, 2002	\$ 128,388	\$ 554,864	\$ (72,454)	\$

	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	---	---	(25,322)	
Cumulative effect of change in accounting for derivative financial instruments	---	---	31,400	
Change in fair value of derivatives, net of taxes	---	---	(32,317)	
Comprehensive loss				
Exercise of stock options	6	2	---	
Balance at March 31, 2001	\$ 128,289	\$ 554,752	\$ (74,354)	\$

See Accompanying Notes to the Consolidated Financial Statements.

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

- 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

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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 2001 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)	March 31, 2002	December 31, 2001	Mar 2
Raw materials	\$ 36,577	\$ 27,904	\$ 2
Supplies	27,378	21,471	2
Finished goods	62,642	60,652	14
Total	\$ 126,597	\$ 110,027	\$ 18

The components of accumulated other comprehensive loss at March 31, 2002 consisted of foreign currency translation adjustment, derivatives (net of taxes) and minimum pension liability (net of taxes) in the amounts of \$69.1 million, \$(7.6) million and \$10.9 million, respectively. At March 31, 2001, accumulated other comprehensive loss consisted of foreign currency translation adjustment and derivatives (net of taxes) in the amounts of \$73.4 million and \$1.0 million, respectively.

Revenue is recognized when title to finished product passes to the customer. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and trade allowances. Revenues include amounts paid by customers for shipping and handling.

Realized gains and losses from hedging activities and premiums paid for option contracts are deferred and recognized in the month in which the hedged transactions closed. Swaps, options and other derivative instruments that do not qualify for hedge accounting treatment are marked to market each accounting period. Costs associated with settlement of natural gas purchase contracts and costs for shipping and handling are included in cost of sales.

In July 2001, the Financial Accounting Standards Board ("FASB") voted to issue Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". This standard requires Terra 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 Terra's fiscal year 2003. Terra has not yet quantified the impact, if any, arising from the adoption of this standard.

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2. On July 13, 2001, a British court found Terra Nitrogen (U.K.) Ltd. liable for damages associated with May 1998 recalls of carbonated beverages containing carbon dioxide 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. Natural gas prices are volatile and we manage this volatility through the use of derivative commodity instruments. Terra's normal policy is to hedge 20-80% of our natural gas requirements for the upcoming 12 months and up to 50% of the requirements for the following 24-month period, provided that such arrangements would not result in costs greater than expected selling prices for our finished products. 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 2002 and part of 2003, 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 March 31, 2002 to cover 15% of natural gas requirements for the succeeding twelve months. The March 31, 2002 contracts covered 13% of Terra's expected North American natural gas requirements and 28% of its expected U.K. natural gas requirements.

Unrealized gains from forward pricing positions in North America totaled \$6.0 million as of March 31, 2002. In addition, Terra had purchase commitments for natural gas in the U.K. at prices \$1.2 million lower than March 31, 2002 forward markets. The amount ultimately recognized by Terra will be dependent on published prices in effect at the time of settlement. Terra also had \$4.6 million of realized gains on closed North America contracts relating to future periods that have been deferred to the respective period.

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On March 31, 2002, the fair value of derivatives resulted in a \$10.7 million increase to current assets, a \$4.6 million reduction to current liabilities, a \$2.6 million increase in long-term liabilities and a

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\$12.7 million increase, before deferred taxes of \$5.1 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.

For the three months ended March 31, 2002, Terra recognized gains in cost of sales of \$4.3 million on closed forward contracts and contracts de-designated as hedges from the date of de-designation. This was offset by losses of \$4.2 million on derivative instruments that do not qualify for hedge accounting treatment being marked to market.

4. 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:

	Three Months Ended March 31, 2002
(in thousands)	2002
Revenues - Nitrogen Products	\$ 184,987
- Methanol	28,303
- Other	270
Total revenues	\$ 213,560
Income (loss) from operations	
- Nitrogen Products	\$ 666
- Methanol	(2,523)
- Other	489
Total income (loss) from operations	\$ (1,368)

5. In June 2001, the Financial Accounting Standards Board ("FASB") approved the issuance of Statement of Financial Accounting Standards ("SFAS") No.

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142, "Goodwill and Other Intangible Assets." 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. This standard is effective for Terra beginning on January 1, 2002 and resulted in the determination that \$206.0 million of assets classified as "Excess of cost over net assets of acquired businesses" suffered impairment and had no value. Consequently, these assets were written off through a charge that is reported as a change in accounting principle during the 2002 first quarter.

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A reconciliation of the historical impact of the change in accounting principle to earnings per share follows:

	Three Months March 31, 2002
(in thousands)	2002
Reported net income	\$ (215,065)
Goodwill amortization, net of tax	---
Adjusted net income	\$ (215,065)
Reported basic and diluted loss per share	\$ (2.86)
Goodwill amortization, net of tax per basic share	---
Adjusted basic loss per share	\$ (2.86)

6. Condensed consolidating financial information regarding the Parent, Terra Capital, Inc. ("TCAPI"), the Guarantor Subsidiaries and subsidiaries of the Parent that are not guarantors of the Senior Secured Notes for March 31, 2002 and 2001 are presented below for purposes of complying with the reporting requirements of the Guarantor Subsidiaries.

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Condensed Consolidating Statement of Financial Position as of March 31, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations
Assets					
Cash	\$ ---	\$ ---	\$ ---	\$ 44,622	\$ (42,559)
Accounts Receivable	---	86	22,983	60,975	---
Inventories	---	---	37,826	88,770	1
Other current assets	13,877	---	8,234	17,521	(2,608)

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Total current assets	13,877	86	69,043	211,888	(45,166)
Property, plant and equipment, net	---	---	427,743	380,927	(1,922)
Investments in and advanced to (from) affiliates	637,887	448,492	1,255,468	98,133	(2,439,980)
Other assets	698	11,733	7,530	25,402	1
Total assets	\$ 652,462	\$ 460,311	\$ 1,759,784	\$ 716,350	\$ (2,487,067)
Liabilities					
Debt due within one year	\$ ---	\$ ---	\$ 81	\$ ---	\$ ---
Accounts payable	1	36,847	33,942	41,847	(45,165)
Accrued and other liabilities	8,793	13,621	19,021	18,599	3,426
Total current liabilities	8,794	50,468	53,044	60,446	(41,739)
Long-term debt	200,000	200,000	291	---	---
Deferred income taxes	110,083	19,802	(7,257)	(8,143)	(3,424)
Other liabilities	41,816	13,189	2,423	10,567	(2)
Minority interest	---	19,504	80,209	---	---
Total liabilities	360,693	302,963	128,710	62,870	(45,165)
Stockholders' Equity					
Common stock	128,388	---	73	49,709	(49,782)
Paid in capital	554,864	150,218	1,756,742	899,962	(2,806,922)
Accumulated other comprehensive loss	(72,454)	(72,454)	---	(64,701)	137,155
Retained earnings (deficit)	(319,029)	79,584	(125,741)	(231,490)	277,647
Total stockholders' equity	291,769	157,348	1,631,074	653,480	(2,441,902)
Total liabilities and stockholders equity	\$ 652,462	\$ 460,311	\$ 1,759,784	\$ 716,350	\$ (2,487,067)

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Condensed Consolidating Statement of Operations for the three months ended March 31, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Revenues					
Net sales	\$ ---	\$ ---	\$ 71,846	\$ 137,533	\$ 3,911
Other income, net	---	---	837	3,343	(3,910)
	---	---	72,683	140,876	1
Cost and Expenses					
Cost of sales	---	---	75,580	131,453	(893)
Selling, general and					

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administrative expenses	626	(470)	5,605	2,413	614
Equity in the (earnings) loss of subsidiaries	215,271	208,868	(1,368)	(2,504)	(420,267)
	215,897	208,398	79,817	131,362	(420,546)
Income (loss) from operations	(215,897)	(208,398)	(7,134)	9,514	420,547
Interest income	19	1,052	1,351	23	(2,397)
Interest expense	(5,465)	(7,818)	(12)	(2,396)	2,395
Minority interest	---	(107)	(439)	---	---
Income (loss) from operations before taxes and cumulative effect of change in accounting principle	(221,343)	(215,271)	(6,234)	7,141	420,545
Income tax (provision) benefit	6,278	---	---	(213)	---
Income (loss) cumulative effect of change in accounting principle	(215,065)	(215,271)	(6,234)	6,928	420,545
Cumulative effect of change in accounting principle	---	---	(189,971)	(15,996)	(1)
Net income (loss)	\$ (215,065)	\$ (215,271)	\$ (196,205)	\$ (9,068)	\$ 420,544

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Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Operating Activities					
Net income (loss)	\$ (215,065)	\$ (215,271)	\$ (196,205)	\$ (9,068)	\$ 420,544
Cumulative effect of change in accounting principle	---	---	189,971	15,996	
Adjustments to reconcile net loss to net cash flows from operating activities:					
Depreciation and amortization	---	566	12,712	10,121	---
Deferred income taxes	(6,835)	---	(3,887)	129	1,077
Minority interest in earnings	---	107	439	---	---
Equity in earnings (loss) of subsidiaries	215,271	208,868	(1,368)	(2,504)	(420,267)
Change in operating assets and liabilities	(313)	7,649	5,782	13,493	4,051
Other	---	---	---	---	(29)
Net Cash Flows from Operating Activities	(6,942)	1,919	7,444	28,167	5,111
Investing Activities					
Purchase of property, plant and equipment	---	---	(1,048)	(5,280)	---

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Net Cash Flows from					
Investing Activities	---	---	(1,048)	(5,280)	--
Financing Activities					
Principal payments on long-term debt	---	(36,278)	48	---	--
Change in investments and advances from (to) affiliates	4,830	37,426	(24,116)	(5,284)	(12,85
Stock (repurchase) issuance - net	39	---	---	---	--
Other	2,073	(3,067)	739	2,274	(23
Net Cash Flows from Financing Activities	6,942	(1,919)	(23,329)	(3,010)	(13,09
Effect of Foreign Exchange Rate on Cash	---	---	---	---	(2
Increase (decrease) in Cash and Short-term Investments	---	---	(16,933)	19,877	(8,00
Cash and Short-term Investments at Beginning of Period	---	---	16,933	24,745	(34,55
Cash and Short-term Investments At End of Period	\$ ---	\$ ---	\$ ---	\$ 44,622	\$ (42,55

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Condensed Consolidating Statement of Financial Position as of March 31, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminatio
Assets					
Cash	\$ ---	\$ 26,312	\$ 78,646	\$ ---	\$ (41,9
Accounts Receivable	---	---	40,354	59,885	(3
Inventories	---	---	63,564	119,269	
Other current assets	6,133	2,654	12,646	20,404	(11,4
Total current assets	6,133	28,966	195,210	199,558	(53,7
Property, plant and equipment, net	---	---	469,152	407,350	(3,5
Excess of cost over net assets of acquired businesses	---	---	203,231	16,689	-
Investments in and advanced to (from) affiliates	1,116,634	451,506	1,247,610	307,057	(3,122,8
Other assets	2,683	4,379	8,513	24,918	4,
Total assets	\$ 1,125,450	\$ 484,851	\$ 2,123,716	\$ 955,572	\$ (3,176,0
Liabilities					
Debt due within one year	\$ ---	\$ ---	\$ 8,028	\$ 5,000	\$ ---

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Accounts payable	---	3,879	35,024	92,936	(41,9
Accrued and other liabilities	14,675	112	30,089	28,661	3,5
<hr/>					
Total current liabilities	14,675	3,991	73,141	126,597	(38,3
<hr/>					
Long-term debt	358,755	---	797	96,780	
Deferred income taxes	150,289	9,682	---	5,129	(11,2
Other liabilities	22,404	12,986	669	5,013	
Minority interest	---	20,180	82,778	---	-
<hr/>					
Total liabilities	546,123	46,839	157,385	233,519	(49,6
<hr/>					
Stockholders' Equity					
Common stock	128,289	---	73	49,709	(49,7
Paid in capital	554,752	150,218	1,856,742	927,153	(2,934,1
Accumulated other comprehensive loss	(74,354)	(74,354)	835	(73,184)	146,7
Retained earnings (deficit)	(29,360)	362,148	108,681	(181,625)	(289,2
<hr/>					
Total stockholders' equity	579,327	438,012	1,966,331	722,053	(3,126,3
<hr/>					
Total liabilities and stockholders equity	\$ 1,125,450	\$ 484,851	\$ 2,123,716	\$ 955,572	\$ (3,176,0
<hr/>					

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Condensed Consolidating Statement of Operations for the three months ended March 31, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
<hr/>					
Revenues					
Net sales	\$ ---	\$ ---	\$ 88,579	\$ 155,669	\$ (380
Other income, net	---	---	854	(397)	252
<hr/>					
	---	---	89,433	155,272	(128
<hr/>					
Cost and Expenses					
Cost of sales	---	---	93,257	139,819	795
Selling, general and administrative expenses	399	988	5,176	1,809	(1,016
Equity in the (earnings) loss of subsidiaries	(1,422)	(1,738)	(6,677)	(2,231)	12,068
<hr/>					
	(1,023)	(750)	91,756	139,397	11,847
<hr/>					
Income (loss) from operations	1,023	750	(2,323)	15,875	(11,975
Interest income	5	1,382	3,072	160	(2,919
Interest expense	(10,750)	(606)	(92)	(4,055)	2,921
Minority interest	---	(104)	(424)	---	---
<hr/>					
Income (loss) before income taxes	(9,722)	1,422	233	11,980	(11,973

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Income tax (provision) benefit	4,483	---	---	(1,662)	---
Net income (loss)	\$ (5,239)	\$ 1,422	\$ 233	\$ 10,318	\$ (11,971)

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Condensed Consolidating Statement of Cash Flows for the three months ended March 31, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
Operating Activities					
Net income (loss)	\$ (5,239)	\$ 1,422	\$ 233	\$ 10,318	\$ (11,971)
Adjustments to reconcile net loss to net cash flows from operating activities:					
Depreciation and amortization	---	978	16,959	11,153	---
Deferred income taxes	(432)	(7,500)	---	1,174	4,051
Minority interest in earnings	---	104	424	---	---
Equity in earnings (loss) of subsidiaries	(1,422)	(1,738)	(6,677)	(2,231)	12,061
Change in operating assets and liabilities	7,211	(4,237)	(26,967)	20,713	(46,700)
Other	---	---	---	---	(91)
Net Cash Flows from Operating Activities	118	(10,971)	(16,028)	41,127	(42,641)
Investing Activities					
Purchase of property, plant and equipment	---	---	(2,204)	(1,526)	---
Other	---	---	---	---	(33)
Net Cash Flows from Investing Activities	---	---	(2,204)	(1,526)	(33)
Financing Activities					
Principal payments on long-term debt	---	---	(149)	(3,845)	---
Change in investments and advances from (to) affiliates	281	(38,982)	86,110	(65,797)	18,381
Stock issuance - net	8	---	---	---	---
Distributions to minority interests	---	(337)	(678)	---	---
Repurchase of TNLP common Units	---	(1,671)	---	---	---
Other	(407)	1314	(249)	17,419	(17,161)
Net Cash Flows from Financing Activities	(118)	(39,676)	85,034	(52,223)	1,221
Effect of exchange rates on cash	---	---	---	---	(18)
Increase (decrease) in Cash					

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and Short-term Investments	---	(50,647)	66,802	(12,622)	(41,93)

Cash and Short-term Investments at Beginning of Period	---	76,959	11,844	12,622	-

Cash and Short-term Investments At End of Period	\$	---	\$ 26,312	\$ 78,646	\$ --- \$ (41,9
=====					

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

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States for interim reporting purposes. The preparation of these financial statements requires us to make estimates and judgments that affect the amount of assets, liabilities, revenues and expenses at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below.

Impairments of long-lived assets - We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of these items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

Pension assets and liabilities - Pension assets and liabilities are affected by the estimated market value of plan assets, estimates of the expected return on plan assets and discount rates. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets and the expected return on plan assets will affect the amount of pension expense ultimately recognized.

Post-retirement benefits - Post-retirement benefits are determined on an actuarial basis and are affected by assumptions including the discount rate and expected trends in health care costs. Changes in the discount rate and differences between actual and expected health care costs will affect the recorded amount of post-retirement benefits expense ultimately recognized.

Revenue recognition - Revenue is recognized when title to finished product passes to the customer. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and trade allowances. Revenue includes amounts paid by customers for shipping and handling.

Deferred income taxes - Deferred income tax assets and liabilities are based on

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the differences between the financial statement carrying amounts and the tax bases as well as temporary differences resulting from differing treatment of items for tax and accounting purposes. Deferred tax assets are regularly reviewed for recoverability and a valuation allowance is established based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we continue to operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, a valuation allowance against all or a significant portion of our deferred tax assets may be required.

Inventory valuation - Inventories are stated at the lower of cost or estimated net realizable value. The average cost of inventories is determined using the first-in, first-out method. The nitrogen and methanol

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industries are characterized by rapid change in both demand and pricing. Rapid declines in demand could result in temporary or permanent curtailment of production, while rapid declines in price could result in a lower of cost or market adjustment.

RESULTS OF OPERATIONS

QUARTER ENDED MARCH 31, 2002 COMPARED WITH
QUARTER ENDED MARCH 31, 2001

CONSOLIDATED RESULTS

Terra reported a net loss before cumulative effect of change in accounting principle of \$9.1 million for the 2002 first quarter compared with net loss of \$5.2 million in 2001. The increase in the 2002 loss was primarily related to decreased operating income as the result of lower sales prices only partly offset by higher sales volumes and lower raw material costs.

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 March 31, 2002 and 2001 follow:

(in thousands)	2002
REVENUES:	
Nitrogen Products	\$ 184,987
Methanol	28,303
Other	270
	\$ 213,560

OPERATING INCOME (LOSS):

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Nitrogen Products	\$	666
Methanol		(2,523)
Other income - net		489

	\$	(1,368)
=====		

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NITROGEN PRODUCTS

Volumes and prices for the three-month periods ended March 31, 2002 and 2001 follow:

VOLUMES AND PRICES

	2002		
	Sales	Average	Sales
(quantities in thousands of tons)	Volumes	Unit Price	Volumes

Ammonia	341	\$ 133	182
Nitrogen solutions	636	66	534
Urea	178	108	90
Ammonium nitrate	243	121	118

Nitrogen products segment revenues declined \$15.2 million to \$185.0 million in the 2002 first quarter compared with \$200.2 million in the 2001 first quarter. Lower sales prices reduced 2002 revenues by approximately \$107.5 million primarily as the result of an over supply of nitrogen products in most of Terra's North American markets. During the 2001 first quarter, high natural gas prices forced industry wide production curtailments, which reduced supplies and caused unusually high prices.

The nitrogen products segment had operating income of \$0.7 million for the first quarter of 2002 compared with operating income of \$4.7 million for the 2001 first quarter. Lower sales prices reduced 2002 operating income by approximately \$107.5 million from last year and was mostly offset by natural gas costs that were \$103.8 million lower than the 2001 first quarter. Natural gas unit costs, net of forward pricing gains and losses, declined to \$2.72/MMBtu during the 2002 first quarter from \$5.69/MMBtu during the same 2001 period. First quarter 2002 natural gas costs for the nitrogen products segment were \$2.6 million higher than spot prices as a result of Terra's forward price contracts.

METHANOL

For the three months ended March 31, 2002 and 2001 the Methanol segment had revenues of \$28.3 million and \$43.6 million, respectively. Sales volumes increased 41% from prior year levels and selling prices decreased from \$.75/gallon in 2001 to \$.34/gallon in 2002.

The methanol segment had an operating loss of \$2.5 million for the 2002 first quarter compared to an operating loss of \$2.0 million for the 2001 first

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quarter. The decrease in the operating income was due primarily to lower prices, which reduced 2002 earnings by approximately \$33.9 million. The lower prices were partially offset by lower unit costs. Natural gas costs, net of forward pricing gains and losses, averaged \$2.53/MMBtu, during the 2002 first quarter compared to \$5.44/MMBtu during the 2001 period. As a result of forward pricing contracts, first quarter 2002 natural gas costs for the methanol segment were \$1.3 million higher than spot prices.

OTHER INCOME - NET

Terra had other operating income of \$0.5 million in the 2002 first quarter compared to other operating income of \$0.7 million in the 2001 first quarter.

INTEREST EXPENSE - NET

Interest expense, net of interest income, totaled \$13.2 million during the 2002 first quarter compared with \$10.9 million for the prior year period. The increase is attributable to the higher cost of borrowing related to the October 2001 issuance of Senior Secured Notes.

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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 charges of \$0.5 million were recorded for the 2002 first quarter as the result of TNCLP income, which were included in their entirety in consolidated operating results.

INCOME TAXES

Income taxes for the first quarter 2002 were recorded at an effective tax rate of 40%, Terra's estimated annual effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of funds will be to fund our working capital requirements, make payments on our debt and other obligations and make capital expenditures. The principal sources of funds will be cash flow from operations and borrowings under available bank facilities.

Net cash generated from operations in the first quarter of 2002 was \$35.7 million, composed of \$5.3 million of cash provided from operating activities and \$30.4 million of decreases to working capital balances. The decrease in working capital primarily consisted of lower accounts receivable and \$19.4 million of customer prepayments that were included in March 31, 2002 current liabilities. We expect substantially all customer prepayment balances will be utilized during the 2002 second quarter. Increases to inventory balances during the first quarter are typical in preparation for the second quarter planting season.

We have a \$175 million revolving credit facility that expires in June 2005. Borrowing availability under the credit facility is generally based on 85% of eligible accounts receivable and 65% of eligible inventory, less outstanding letters of credit. At March 31, 2002, we had no outstanding revolving credit borrowings and \$16.8 million in outstanding letters of credit, resulting in remaining borrowing availability of approximately \$96 million under the facility. We are required under the credit facility to maintain \$30 million minimum borrowing availability at all times. We expect the facility to be adequate to meet our operating cash needs. The credit facility also requires

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that we adhere to certain limitations on additional debt, capital expenditures, acquisitions, liens, asset sales, investments, prepayments of subordinated indebtedness, changes in lines of business and transactions with affiliates. In addition, we are required to maintain minimum levels of earnings before interest, income taxes, depreciation, amortization ("EBITDA") and other non-cash items (as defined in the credit facility) for the preceding 12 months (LTM) computed on a quarterly basis. The minimum LTM requirement under the facility is \$60 million at June 30, 2002, \$75 million at September 30, 2002 and \$90 million at December 31, 2002 and each quarter thereafter. During 2001, Terra Industries Inc. realized \$66 million of earnings before interest, income taxes, depreciation, amortization and other non-cash items (as defined in the financing agreement); consequently, 2002 amounts will need to be \$24 million higher than in 2001 to meet the credit facility covenants. Based on these requirements, we compute our EBITDA for the nine-month period July 2001-March 2002 at \$38 million. Therefore, our EBITDA requirement for the second quarter 2002 is \$22 million. Failure to meet these covenants would require us to incur additional costs to amend the bank facilities or could result in termination of the facilities.

During the first quarter of 2002 and 2001, we funded plant and equipment purchases of \$6.3 million and \$3.7 million, respectively, primarily for replacement or stay-in-business capital needs. We expect

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2002 plant and equipment purchases to approximate \$30 million consisting primarily of the expenditures for routine replacement of equipment at manufacturing facilities. On December 17, 1997, we announced that we were resuming purchases of common units of TNCLP on the open market and through privately negotiated transactions. We acquired 183,500 common units during the first quarter of 2001 at a cost of \$1.7 million. Additional purchases of TNCLP common units are restricted under the terms of our revolving credit agreement as described therein.

During the first quarter of 2001 we distributed \$1.0 million to the minority TNCLP common unitholders. TNCLP distributions are based on "Available Cash" (as defined in the Partnership Agreement).

Cash balances at March 31, 2002 were \$2.1 million, all of which is unrestricted.

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.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2002 Annual Meeting of stockholders was held on April 30, 2002, in New York, New York. At the meeting, a total of 66,867,637 votes were cast by stockholders.

The following directors were elected to hold office until the next Annual Meeting or until their successors are duly elected and qualified, and received the votes set forth opposite their respective name:

NAME ----	FOR ---	WITHHELD -----
Edward G. Beimfohr	65,996,778	870,859
Michael L. Bennett	65,373,393	1,494,244
Edward M. Carson	65,996,635	871,002
Thomas H. Claiborne	66,004,328	863,309
Eric K. Diack	66,004,828	862,809
David E. Fisher	66,004,628	863,009
Martha O. Hesse	65,988,136	879,501
Burton M. Joyce	65,897,763	969,874
William R. Loomis, Jr.	66,008,055	859,582
John R. Norton III	65,997,921	869,716
Henry R. Slack	66,007,521	860,116

The stockholders ratified the selection by the Corporation's Board of Directors of Deloitte & Touche LLP as independent accountants for the Corporation for 2002. The number of votes cast for such proposal was 66,334,025, the number against was 429,659, and the number of abstentions was 103,953.

The stockholders approved the Terra Industries Inc. Stock Incentive Plan of 2002. The number of votes cast for this proposal was 62,718,747, the number against was 3,014,744, and the number of abstentions was 1,134,146.

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

(a) Exhibits

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None

(b) Reports on Form 8-K

Form 8-K dated January 31, 2002, announcing completion of the work required to adopt Financial Accounting Standards Board Statement of Financial Accounting Standard ("SFAS") No. 142, Goodwill and Other Intangible Assets for 2002.

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: May 10, 2002

/s/ Francis G. Meyer

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

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