COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
October 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 001-31921

Compass Minerals International, Inc.

(Exact name of registrant as specified in its charter)

Delaware	36-3972986
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9900 West 109th Street
Suite 100
Overland Park, KS 66210
(913) 344-9200
(Address of principal executive offices, zip code and telephone number, including area code)

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: R No: £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: R No: £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

The number of shares outstanding of the registrant's common stock, $0.01 par value per share, at October 25, 2012 was 33,110,639 shares.

COMPASS MINERALS INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	(Unaudited) September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 116.4	$ 130.3
Receivables, less allowance for doubtful accounts of $2.2 in 2012 and $2.4 in 2011	110.0	158.8
Inventories	227.3	207.2
Deferred income taxes, net	7.0	7.2
Other	10.2	12.3
Total current assets	470.9	515.8
Property, plant and equipment, net	640.3	573.4
Intangible assets, net	60.2	57.5
Other	66.6	58.8
Total assets	$ 1,238.0	$ 1,205.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3.9	$ 156.0
Accounts payable	62.8	86.8
Accrued expenses	76.4	59.2
Accrued salaries and wages	14.9	17.3
Income taxes payable	0.8	6.6
Accrued interest	3.0	0.9
Total current liabilities	161.8	326.8
Long-term debt, net of current portion	479.3	326.7
Deferred income taxes, net	72.4	70.7
Other noncurrent liabilities	34.9	34.7
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock: $0.01 par value, 200,000,000 authorized shares; 35,367,264 issued shares	0.4	0.4
Additional paid-in capital	45.1	37.4
Treasury stock, at cost — 2,256,625 shares at September 30, 2012 and 2,344,060 shares at December 31, 2011	(4.3)	(4.5)
Retained earnings	381.6	372.5
Accumulated other comprehensive income	66.8	40.8
Total stockholders' equity	489.6	446.6
Total liabilities and stockholders' equity	$ 1,238.0	$ 1,205.5

The accompanying notes are an integral part of the consolidated financial statements.

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COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	$181.0	$229.1	$674.8	$799.6
Shipping and handling cost	40.9	56.1	177.3	214.9
Product cost	103.9	102.0	340.0	361.8
Gross profit	36.2	71.0	157.5	222.9
Selling, general and administrative expenses	22.1	22.4	66.5	67.6
Operating earnings	14.1	48.6	91.0	155.3
Other (income) expense:				
Interest expense	4.2	5.0	13.7	15.9
Other, net	(0.3)	(1.7)	4.4	(1.5)
Earnings before income taxes	10.2	45.3	72.9	140.9
Income tax expense	0.8	10.7	14.1	35.8
Net earnings	$9.4	$34.6	$58.8	$105.1
Basic net earnings per common share	$0.28	$1.04	$1.76	$3.14
Diluted net earnings per common share	$0.28	$1.03	$1.75	$3.14
Weighted-average common shares outstanding (in thousands):				
Basic	33,110	32,906	33,080	32,877
Diluted	33,138	32,931	33,105	32,907
Cash dividends per share	$0.495	$0.45	$1.485	$1.35

The accompanying notes are an integral part of the consolidated financial statements.

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COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net earnings	$9.4	$34.6	$58.8	$105.1
Other comprehensive income (loss):				
Gain from change in pension obligations, net of tax of $0.1 and $(0.1) in the three and nine months ended September 30, 2012, respectively, and $(0.0) and $(1.3) in the three and nine months ended September 30, 2011, respectively	0.3	1.1	0.6	4.5
Net gain (loss) on cash flow hedges, net of tax of $(0.7) and $(1.5) in the three and nine months ended September 30, 2012, respectively, and $0.1 and $(1.0) in the three and nine months ended September 30, 2011, respectively	1.2	(0.1)	2.4	1.7
Cumulative translation adjustment	19.8	(26.2)	23.0	(13.9)
Comprehensive income	$30.7	$9.4	$84.8	$97.4

The accompanying notes are an integral part of the consolidated financial statements.

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COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2012
(Unaudited, in millions)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	$0.4	$37.4	$(4.5)	$372.5	$ 40.8	$446.6
Dividends on common stock				(49.7)		(49.7)
Shares issued for restricted stock units		(0.1)	0.1			-
Stock options exercised		1.5	0.1			1.6
Income tax benefits from equity awards		0.9				0.9
Stock-based compensation		5.4				5.4
Comprehensive income				58.8	26.0	84.8
Balance, September 30, 2012	$0.4	$45.1	$(4.3)	$381.6	$ 66.8	$489.6

The accompanying notes are an integral part of the consolidated financial statements.

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COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net earnings	$58.8	$105.1
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	47.2	48.8
Finance fee amortization	1.0	1.1
Early extinguishment and refinancing of long-term debt	2.8	-
Stock-based compensation	5.4	4.8
Deferred income taxes	(2.0)	5.4
Other, net	1.0	4.7
Asset impairment charges, Goderich tornado	-	4.1
Insurance advances for operating purposes, Goderich tornado	16.3	-
Insurance receivable accrued, Goderich tornado	-	(2.2)
Insurance advances for investment purposes, Goderich tornado	-	(4.1)
Changes in operating assets and liabilities, net of acquisition:		
Receivables	52.0	67.0
Inventories	(16.5)	18.3
Other assets	(3.0)	4.3
Accounts payable and accrued expenses	(29.9)	(58.1)
Other liabilities	(0.9)	1.6
Net cash provided by operating activities	132.2	200.8
Cash flows from investing activities:		
Capital expenditures	(98.9)	(66.5)
Insurance advances for investment purposes, Goderich tornado	-	4.1
Acquisition of a business, net	-	(58.1)
Other, net	(1.0)	0.7
Net cash used in investing activities	(99.9)	(119.8)
Cash flows from financing activities:		
Principal payments on long-term debt	(386.7)	(3.2)
Issuance of long-term debt	387.0	-
Fees paid to refinance long-term debt	(1.8)	-
Deferred financing costs	(2.2)	-
Dividends paid	(49.7)	(45.1)
Proceeds received from stock option exercises	1.6	1.9
Excess tax benefits from equity compensation awards	0.9	1.9
Net cash used in financing activities	(50.9)	(44.5)
Effect of exchange rate changes on cash and cash equivalents	4.7	(4.2)
Net change in cash and cash equivalents	(13.9)	32.3
Cash and cash equivalents, beginning of the year	130.3	91.1
Cash and cash equivalents, end of period	$116.4	$123.4
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$11.4	$13.1

Income taxes paid, net of refunds	$30.4	$42.4

In connection with the January 2011 acquisition of Big Quill Resources, Inc., the Company assumed liabilities as follows (in millions):

Fair value of assets acquired, net of deferred tax liabilites and cash acquired(a)	$60.0
Cash paid during the nine months ended September 30, 2011	(58.1)
Liabilities assumed	$1.9

(a) The Company recorded $11.1 million of deferred tax liabilities and acquired cash of $2.4 million.

The accompanying notes are an integral part of the consolidated financial statements.

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COMPASS MINERALS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies and Basis of Presentation:

Compass Minerals International, Inc. (“CMP”, “Compass Minerals”, or the “Company”), through its subsidiaries, is a producer and marketer of inorganic mineral products with manufacturing sites in North America and the U.K. Its principal products are salt, consisting of sodium chloride and magnesium chloride, and sulfate of potash (“SOP”), a specialty fertilizer. The Company provides highway deicing products to customers in North America and the U.K., and specialty fertilizer to growers worldwide. The Company also produces and markets consumer deicing and water conditioning products, ingredients used in consumer and commercial food preparation, and other mineral-based products for consumer, agricultural and industrial applications. Compass Minerals also provides records management services to businesses located in the U.K.

Compass Minerals International, Inc. is a holding company with no operations other than those of its wholly owned subsidiaries. The consolidated financial statements include the accounts of Compass Minerals International, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of CMP for the year ended December 31, 2011 as filed with the Securities and Exchange Commission in its Annual Report on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation, have been included.

The Company experiences a substantial amount of seasonality in salt segment sales, primarily with respect to its deicing products. As a result, sales and operating income are generally higher in the first and fourth quarters and lower during the second and third quarters of each year. In particular, sales of highway and consumer deicing salt and magnesium chloride products vary based on the severity of the winter conditions in areas where the product is used. Following industry practice in North America and the U.K., the Company stockpiles sufficient quantities of deicing salt throughout the second, third and fourth quarters to meet the estimated requirements for the upcoming winter season. Production of deicing salt can vary based on the severity or mildness of the preceding winter season. Due to the seasonal nature of the deicing product lines, operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

Recent Accounting Pronouncements – In July 2012, the Financial Accounting Standards Board (“FASB”) issued guidance, which allows entities to use a qualitative approach to test indefinite-lived intangibles for impairment. The new guidance permits an entity to perform a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite-lived intangible is less than its carrying value. If the fair value is less than the carrying value, the entity would be required to perform a quantitative impairment test. This guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this standard will not impact the Company’s consolidated financial statements.

In December 2011, the FASB issued guidance which requires an entity to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The update is effective for annual reporting periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. The adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

2. Goderich Tornado:

In August 2011, a tornado struck the Company's salt mine and its salt mechanical evaporation plant, both located in Goderich, Ontario. There was no damage to the underground operations at the mine. However, some of the mine's surface structures and the evaporation plant incurred significant damage which temporarily ceased production at both facilities. The Company resumed production and shipping activities, on a reduced basis, at the Goderich mine in early September 2011 and regained full hoisting capability in April 2012. However, the mine still requires significant repairs and reconstruction to fully restore the damaged surface structures and operating assets. The evaporation plant resumed limited activities in late September 2011 and reached full capability by the end of the first quarter of 2012.

The Company maintains comprehensive property and casualty insurance, including business interruption, which is expected to provide substantial coverage for the losses that have and will occur at these facilities and to our business related to the tornado. The Company made an estimate of the impairment of its property, plant and equipment pertaining to the impacted areas at both of the Goderich facilities. The Company may need to record additional impairment charges as more information becomes available. In addition, the Company incurred clean-up

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costs related to the storm. The Company expects to be fully reimbursed by its insurers for the replacement and repair costs for its property, plant and equipment and associated clean-up costs incurred, net of the Company's deductible. The impairment and clean-up and restoration costs incurred and insurance recoveries recognized in the consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011 are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Product cost:				
Property, plant and equipment impairment charges	$-	$4.1	$-	$4.1
Site clean-up and restoration costs	1.7	5.3	8.7	5.3
Estimated insurance recoveries recognized	(1.7)	(9.4)	(8.7)	(9.4)
Net impact on product cost excluding business interruption	$-	$-	$-	$-

The Company received approximately $25.0 million of insurance advances in the first quarter of 2012. The Company recorded approximately $1.7 million and $8.7 million of insurance advances as a reduction to salt product cost in the consolidated statements of operations for the three months and nine months ended September 30, 2012, respectively. The Company also has recorded approximately $16.3 million as deferred revenue in 2012 in accrued expenses in the consolidated balance sheets and has presented this amount in its operating section of the consolidated statements of cash flows for the nine months ended September 30, 2012. In total, the Company has received $50.0 million of insurance advances since the tornado occurred and recorded approximately $26.3 million of deferred revenue in accrued expenses in its consolidated balance sheets as of September 30, 2012. In addition, the Company has recorded approximately $23.2 million of total insurance advances received as a reduction to salt product costs in the consolidated statements of operations in 2011 and 2012 to offset recognized impairment charges and site clean-up and restoration costs. The actual insurance recoveries related to the replacement cost of property, plant and equipment are expected to exceed the net book value of the damaged property, plant and equipment and the related impairment charges of $4.8 million which was recorded for the year ended December 31, 2011. However, U.S. GAAP limits the recognition of insurance recoveries in the consolidated financial statements to the amount of recognized losses, provided the Company believes the recoveries are probable. Any gains related to the replacement of property, plant and equipment from insurance recoveries will be recorded in product cost in the consolidated statements of operations when all contingencies relating to the insurance claim have been resolved.

The Company also expects to have a substantial business interruption claim to offset lost profits and to offset certain additional expenses incurred related to the ongoing operations. Thus far, the Company has identified approximately $1 million and $18 million for the three and nine months ended September 30, 2012, respectively, of estimated losses that it believes qualify as recoverable business interruption losses for a total of approximately $34 million of identified estimated losses since the tornado occurred. The amount of actual business interruption recoveries may differ materially from the Company's current and future estimates. The Company believes the impact of estimated lost sales, lost production and additional expenses that will be incurred related to the tornado will be substantially covered by the Company's insurance policies. Any insurance recoveries related to business interruption will be recognized as a reduction to product cost in the consolidated statements of operations when the insurance claim has been settled. The Company has not recognized any reduction to product cost from insurance recoveries related to estimated business interruption losses.

3. Inventories:

Inventories consist of the following (in millions):

	September 30, 2012	December 31, 2011
Finished goods	$183.1	$169.4
Raw materials and supplies	44.2	37.8
Total inventories	$227.3	$207.2

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4. Property, Plant and Equipment, Net:

Property, plant and equipment, net consists of the following (in millions):

	September 30, 2012	December 31, 2011
Land, buildings and structures and leasehold improvements	$288.2	$275.9
Machinery and equipment	571.8	541.8
Office furniture and equipment	21.9	21.3
Mineral interests	178.5	174.4
Construction in progress	148.1	68.8
	1,208.5	1,082.2
Less accumulated depreciation and depletion	(568.2)	(508.8)
Property, plant and equipment, net	$640.3	$573.4

5. Goodwill and Intangible Assets, Net:

In January 2011, the Company acquired the stock of Big Quill Resources, Inc. ("Big Quill Resources"), Canada's leading producer of SOP, in an all-cash transaction for $58.1 million. Big Quill Resources produces high-purity SOP through a facility located at Big Quill Lake in Saskatchewan, Canada. The acquisition was accounted for as a business combination in accordance with U.S. GAAP. The Company engaged an independent third-party expert to assist in the valuations utilized for the purchase price allocation. The purchase price in excess of the fair value of tangible assets acquired has been allocated to identifiable intangible assets and goodwill, which are not deductible for tax purposes. In connection with the acquisition, the Company acquired identifiable intangible assets, which consisted principally of a long-term supply agreement which entitles the Company to the rights to purchase potassium chloride ("MOP" or "KCl") as a raw material used in the SOP manufacturing process.

In addition to the Big Quill Resources supply agreement, other intangible assets consist of purchased rights to produce SOP, water rights, a tradename and customer relationships. The supply agreement, SOP production rights and customer relationships are being amortized over 50 years, 25 years and 7-10 years, respectively. The water rights and tradename have indefinite lives and have a value of $5.2 million and $0.7 million, respectively. None of the intangible assets with finite lives has a residual value. Total amortization expense for the Company was $0.5 million during both periods for the three months ended September 30, 2012 and 2011 and $1.5 million during both periods for the nine months ended September 30, 2012 and 2011.

6. Income Taxes:

The Company's effective income tax rate differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining taxes, domestic manufacturing deductions, and interest expense recognition differences for book and tax purposes. In addition, the Company settled an income tax audit and recognized a reduction to income tax expense of approximately $3.0 million in the second quarter of 2012.

At September 30, 2012 and December 31, 2011, the Company had approximately $6.2 million and $5.8 million, respectively, of gross federal net operating losses ("NOLs") that expire in various years through 2028. The Company records valuation allowances for portions of its deferred tax assets relating to NOLs that it does not believe are more likely than not to be realized. As of September 30, 2012 and December 31, 2011, the Company's valuation allowance was $1.3 million and $1.5 million, respectively. In the future, if the Company determines, based on the existence of

sufficient evidence, that it should realize more or less of its deferred tax assets, an adjustment to any existing valuation allowance will be made in the period such determination is made.

Canadian provincial tax authorities have issued tax reassessments for years 2002-2007 which are under audit, totaling approximately $67 million, including interest through September 2012, challenging tax positions claimed by one of the Company's Canadian subsidiaries. The Company disputes these reassessments and plans to continue to work with the appropriate authorities in Canada to resolve the dispute. There is a reasonable possibility that the ultimate resolution of this dispute, and any related disputes for other open tax years, may be materially higher or lower than the amounts reserved for such disputes by the Company. In connection with this dispute, local regulations require the Company to post security with the tax authority until the dispute is resolved. The Company and the tax authority have agreed that the Company would post

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collateral of approximately $35 million in a performance bond (including approximately $8 million of the performance bond which will be cancelled and paid in cash) and make cash payments of approximately $40 million (including approximately $8 million of cash to be paid when a portion of the performance bond is cancelled). Of these cash payments, the Company has paid approximately $20 million and it has agreed to pay an additional approximately $1 million during the remainder of 2012 with the remaining balance to be paid after 2012. The Company will be required by the same local regulations to provide security for additional interest on the above disputed amounts and for any future reassessments issued by the Canadian tax authorities in the form of cash, letters of credit, performance bonds, asset liens or other arrangements agreeable with the tax authorities until the dispute is resolved.

In addition, the Canadian federal taxing authority has reassessed the Company for years 2004-2006 which have already been settled by agreement among the Company, the Canadian federal taxing authority and the U.S. federal taxing authority. The total amount of the reassessments, including penalties, related to this matter totals approximately $101 million. The Company is currently in discussion with the Canadian federal taxing authority regarding the required approximately $62 million of collateral necessary to proceed with future appeals or litigation. The Company has fully complied with the agreement since entering into it and the Company believes this action is highly unusual. The Company is seeking to enforce the contract which provided the basis upon which the Company's tax returns were previously filed and settled. The Company expects the ultimate outcome of this matter will not have a material impact on the Company's results of operations or financial condition, however the Company can provide no assurance as to the ultimate outcome of this matter.

Additionally, the Company has other assessments and disputed positions with taxing authorities in its various jurisdictions.

7. Long-term Debt:

Long-term debt consists of the following (in millions):

	September 30, 2012	December 31, 2011
Term Loan due December 2012	$-	$98.3
Incremental Term Loan due December 2012	-	55.3
Extended Term Loan due January 2016	-	231.1
Term Loan due May 2017	385.1	-
Revolving Credit Facility due October 2015	-	-
8% Senior Notes due June 2019	98.1	98.0
	483.2	482.7
Less current portion	(3.9)	(156.0)
Long-term debt	$479.3	$326.7

In May 2012, we amended and restated our senior secured credit facility and refinanced our term loans into a single term loan. The new term loan carries an interest rate of 1.75 percent over LIBOR. In connection with the refinancing of our term loans, the Company recorded a $2.8 million charge in the second quarter of 2012 which is included in other expense in its consolidated statements of operations for the nine months ended September 30, 2012, comprised of refinancing fees of $1.8 million and the write-off of existing deferred financing fees of $1.0 million. The new term loan is secured by substantially all existing and future assets of the Company's subsidiaries.

8. U.K. Pension Plan:

The components of net periodic benefit cost for the three and nine months ended September 30, 2012 and 2011 are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest cost on projected benefit obligation	$0.7	$1.0	$2.1	$2.9
Expected return on plan assets	(0.7)	(0.9)	(2.1)	(2.7)
Net amortization	0.2	0.5	0.7	1.5
Net pension expense	$0.2	$0.6	$0.7	$1.7

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During the nine months ended September 30, 2012, the Company made $1.5 million of contributions to its pension plan.

In the second quarter of 2011, the Company offered all non-retired members of the U.K. Pension (the “Plan”) the opportunity to transfer their accrued benefits out of the Plan in return for an enhancement to their transfer value. The transfer extinguishes the Plan’s liabilities to those members who elected this option. As of September 30, 2011, the Company made transfers for 14 members of the Plan. In connection with this transfer, the Company has recognized in its consolidated statements of operations approximately $1.2 million and $2.3 million of expense for the three and nine months ended, September 30, 2011, respectively. In addition, the Company amended the Plan to allow retired members an additional option in the calculation of their annual benefit payments.

9. Commitments and Contingencies:

The Company is involved in legal and administrative proceedings and claims of various types from normal Company activities.

The Company is aware of an aboriginal land claim filed by The Chippewas of Nawash and The Chippewas of Saugeen (the “Chippewas”) in the Ontario Superior Court against The Attorney General of Canada and Her Majesty The Queen In Right of Ontario. The Chippewas claim that a large part of the land under Lake Huron was never conveyed by treaty and therefore belongs to the Chippewas. The land claimed includes land under which the Company’s Goderich mine operates and has mining rights granted to it by the government of Ontario. The Company is not a party to this court action. Similar claims are pending with respect to other parts of the Great Lakes by other aboriginal claimants. The Company has been informed by the Ministry of the Attorney General of Ontario that “Canada takes the position that the common law does not recognize aboriginal title to the Great Lakes and its connecting waterways.”

The Company does not believe that this action will result in a material adverse financial effect on the Company. Furthermore, while any litigation contains an element of uncertainty, management presently believes that the outcome of each such proceeding or claim which is pending or known to be threatened, or all of them combined, will not have a material adverse effect on the Company’s results of operations, cash flows or financial position.

10. Operating Segments:

Segment information is as follows (in millions):

	Three Months Ended September 30, 2012			
	Salt	Specialty Fertilizer	Corporate and Other (a)	Total
Sales to external customers	$122.5	$54.9	$3.6	$181.0
Intersegment sales	0.2	1.1	(1.3)	-
Shipping and handling cost	34.9	6.0	-	40.9
Operating earnings (loss)	12.8	13.1	(11.8)	14.1
Depreciation, depletion and amortization	9.4	5.2	1.1	15.7
Total assets (as of end of period)	749.7	403.6	84.7	1,238.0

	Three Months Ended September 30, 2011			
	Salt	Specialty Fertilizer	Corporate and Other (a)	Total

Sales to external customers	$175.5	$51.1	$2.5	$229.1
Intersegment sales	0.2	1.2	(1.4)	-
Shipping and handling cost	50.6	5.5	-	56.1
Operating earnings (loss)	40.5	19.4	(11.3)	48.6
Depreciation, depletion and amortization	10.0	5.0	1.0	16.0
Total assets (as of end of period)	688.6	369.9	66.6	1,125.1

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	Nine Months Ended September 30, 2012			
	Salt	Specialty Fertilizer	Corporate and Other (a)	Total
Sales to external customers	$496.7	$169.6	$8.5	$674.8
Intersegment sales	0.6	4.2	(4.8)	-
Shipping and handling cost	157.7	19.6	-	177.3
Operating earnings (loss)	78.1	47.7	(34.8)	91.0
Depreciation, depletion and amortization	28.7	15.6	2.9	47.2

	Nine Months Ended September 30, 2011			
	Salt	Specialty Fertilizer	Corporate and Other (a)	Total
Sales to external customers	$635.2	$156.0	$8.4	$799.6
Intersegment sales	0.7	3.8	(4.5)	-
Shipping and handling cost	195.5	19.4	-	214.9
Operating earnings (loss)	131.3	57.4	(33.4)	155.3
Depreciation, depletion and amortization	30.4	15.0	3.4	48.8

(a) "Corporate and Other" includes corporate entities, the records management business, other incidental business operations and eliminations. Corporate assets include deferred tax assets, deferred financing fees, investments related to the non-qualified retirement plan, and other assets not allocated to the operating segments.

11. Stockholders' Equity and Equity Instruments:

In 2012, the Company has granted 92,472 stock options, 40,889 restricted stock units ("RSUs") and 24,534 performance stock units ("PSUs") to certain employees under its 2005 Incentive Award Plan. The Company's closing stock price on the grant date was used to set the exercise price for the options and the fair value of the RSUs. The options vest ratably on each anniversary date over a four-year service period. Unexercised options expire after seven years. The RSUs vest on the third anniversary following the grant date. None of the awards granted have voting rights. The RSUs granted entitle the holders to receive non-forfeitable dividends or other distributions equal to those declared on the Company's common stock for RSUs earned.

The PSUs are divided into three approximately equal tranches. Each tranche must satisfy an annual performance criterion based upon total shareholder return for the PSUs to be earned. Each tranche for the 2012 grant is calculated based upon a one-year performance period beginning in 2012 and ending in 2014, with each annual tranche earning between 0% and 150% based upon the Company's total shareholder return, compared to the total shareholder return for the companies comprising the Russell 3000 Index. The performance units will vest three years after the grant date. The PSUs granted entitle the holders to receive non-forfeitable dividends or other distributions equal to those declared on the Company's common stock for PSUs earned.

To estimate the fair value of options on the grant date, the Company uses the Black-Scholes option valuation model. Award recipients are grouped according to expected exercise behavior. Unless better information is available to estimate the expected term of the options, the estimate is based on historical exercise experience. The risk-free rate, using U.S. Treasury yield curves in effect at the time of grant, is selected based on the expected term of each group. The Company's historical stock price is used to estimate expected volatility. The range of estimates and calculated fair values for options granted during 2012 is included in the table below. The weighted-average grant date fair value of these options was $22.99.

	Range
Fair value of options granted	$21.85 - $24.84
Exercise price	$71.69 - $76.81
Expected term (years)	3 - 6
Expected volatility	44.4% - 47.9%
Dividend yield	2.5%
Risk-free rate of return	0.7% - 1.1%

To estimate the fair value of the PSUs on the grant date, the Company uses a Monte-Carlo simulation model, which simulates future stock prices of the Company as well as the companies comprising the Russell 3000 Index. This model uses historical

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stock prices to estimate expected volatility and the Company's correlation to the Russell 3000 Index. The risk free rate was determined using the same methodology as the option valuations as discussed above. The estimated fair value of the PSUs granted in 2012 is $74.87 per unit.

During the nine months ended September 30, 2012, the Company reissued 44,137 shares of treasury stock related to the exercise of stock options, 42,439 shares related to the release of RSUs which vested and 859 shares related to a stock payment. The Company recorded additional tax benefits of $0.9 million from its equity compensation awards as additional paid-in capital during the first nine months of 2012. During the nine months ended September 30, 2012 and 2011, the Company recorded $5.4 million and $4.8 million, respectively, of compensation expense in each period pursuant to its stock-based compensation plans. No amounts have been capitalized. The following table summarizes stock-based compensation activity during the nine months ended September 30, 2012.

	Stock Options		RSUs		PSUs(a)	
	Number	Weighted-average exercise price	Number	Weighted-average fair value	Number	Weighted-average fair value
Outstanding at December 31, 2011	520,530	$ 57.94	109,264	$ 73.35	25,398	$ 91.99
Granted	92,472	71.87	40,889	71.87	24,534	74.87
Exercised (b)	(44,137)	34.97	-	-	-	-
Released(b)	(289)	77.11	(42,439)	58.99	-	-
Cancelled/Expired	-	-	(102)	78.36	-	-
Outstanding at September 30, 2012	568,576	$ 61.98	107,612	$ 78.45	49,932	$ 83.58

(a) PSUs are initially included in the table at the 100% attainment level at their grant date and at that level represent one share per unit. The number of shares that will be ultimately issued are based upon the PSUs earned. The 2010 PSU grant has earned 103% of its target through the first two performance periods. The 2011 PSU grant earned 0% in its first performance period. PSUs may earn between 0% and 150% in each performance period.
(b) Common stock issued for exercised options and RSUs released were reissued from treasury stock.

Other Comprehensive Income

The Company's comprehensive income is comprised of net earnings, amortization of the unrealized net pension costs, the change in the unrealized loss on natural gas cash flow hedges and foreign currency translation adjustments. The components of and changes in accumulated other comprehensive income as of and for the nine months ended September 30, 2012 are as follows (in millions):

	Balance December 31, 2011	2012 Change	Balance September 30, 2012
Unrealized gain (loss) on net pension obligations	$(5.3)	$0.6	$(4.7)
Unrealized gain (loss) on cash flow hedges	(3.4)	2.4	(1.0)
Cumulative foreign currency translation adjustment	49.5	23.0	72.5
Accumulated other comprehensive income	$40.8	$26.0	$66.8

With the exception of the cumulative foreign currency translation adjustment, for which no tax effect is recorded, the changes in the components of accumulated other comprehensive income are reflected net of applicable income taxes.

12. Derivative Financial Instruments:

The Company is subject to various types of market risks including interest rate risk, foreign currency exchange rate transaction and translation risk, and commodity pricing risk. Management may take actions to mitigate the exposure to these types of risks including entering into forward purchase contracts and other financial instruments. Currently, the Company manages a portion of its commodity pricing risk by using derivative instruments. The Company does not seek to engage in trading activities or take speculative positions with any financial instrument arrangements. The Company has entered into natural gas derivative instruments and interest rate swap agreements with counterparties it views as creditworthy. However, management does attempt to mitigate its counterparty credit risk exposures by entering into master netting agreements with these counterparties.

Cash Flow Hedges

As of September 30, 2012, the Company has entered into natural gas derivative instruments. The Company records derivative financial instruments as either assets or liabilities at fair value in the statement of financial position. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the

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related change in value of the underlying hedged item. Depending on the exposure being hedged, the Company must designate the hedging instrument as a fair value hedge, a cash flow hedge or a net investment in foreign operations hedge. All derivative instruments held by the Company as of September 30, 2012 and December 31, 2011 qualified as cash flow hedges. For these qualifying hedges, the effective portion of the change in fair value is recognized through earnings when the underlying transaction being hedged affects earnings, allowing a derivative's gains and losses to offset related results from the hedged item on the income statement. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. The Company formally documents, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an ongoing basis. Any ineffectiveness related to these hedges was not material for any of the periods presented.

Natural gas is used at several of the Company's production facilities and a change in natural gas prices impacts the Company's operating margin. As of September 30, 2012, the Company had entered into natural gas derivative instruments to hedge a portion of its natural gas purchase requirements through September 2014. The Company's objective is to reduce the earnings and cash flow impacts of changes in market prices of natural gas by fixing the purchase price of up to 90% of its forecasted natural gas usage. It is the Company's policy to hedge portions of its natural gas usage up to 36 months in advance of the forecasted purchase. As of September 30, 2012 and December 31, 2011, the Company had agreements in place to hedge forecasted natural gas purchases of 2.0 and 2.9 million MMBtus, respectively.

As of September 30, 2012, the Company expects to reclassify from accumulated other comprehensive income to earnings during the next twelve months approximately $1.3 million of net losses on derivative instruments related to its natural gas hedges.

The following table presents the fair value of the Company's hedged items as of September 30, 2012 and December 31, 2011 (in millions):

	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments(a):	Balance Sheet Location	September 30, 2012	Balance Sheet Location	September 30, 2012
Commodity contracts(b)	Other current assets	$ 0.5	Accrued expenses	$ 1.8
Commodity contracts	Other assets	-	Other noncurrent liabilities	0.2
Total derivatives designated as hedging instruments		$ 0.5		$ 2.0

(a) As of September 30, 2012, the Company has commodity hedge agreements with three counterparties. All of the amounts recorded as liabilities for the Company's commodity contracts are almost entirely payable to one counterparty. The amount recorded as an asset is due from one counterparty.
(b) The Company has master netting agreements with its counterparties and accordingly has netted approximately $0.1 million of its commodity contracts that are in a receivable position against its contracts in payable positions.

	Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments(a):	Balance Sheet Location	December 31, 2011	Balance Sheet Location	December 31, 2011
Commodity contracts(b)		$ 0.3	Accrued expenses	$ 5.0

	Other current assets					
Commodity contracts	Other assets		-	Other noncurrent liabilities		0.9
Total derivatives designated as hedging instruments		$	0.3		$	5.9

(a) The Company has commodity hedge agreements with three counterparties. All of the amounts recorded as liabilities for the Company's commodity contracts are payable almost entirely to one counterparty. The amount recorded as an asset is due from two counterparties.

(b) The Company has master netting agreements with its counterparties and accordingly has netted in its consolidated balance sheets approximately $0.3 million of its commodity contracts that are in a receivable position against its contracts in payable positions.

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The following table presents activity related to the Company's other comprehensive income ("OCI") for the three and nine months ended September 30, 2012 and 2011 (in millions):

		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)
Commodity contracts	Product cost	$ (0.6)	$ (1.3)	$ 1.0	$ (4.9)
Total		$ (0.6)	$ (1.3)	$ 1.0	$ (4.9)

		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Derivatives in Cash Flow Hedging Relationships	Location of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)
Interest rate contracts	Interest expense	$ -	$ -	$ -	$ (0.6)
Commodity contracts	Product cost	2.0	(1.9)	2.0	(4.1)
Total		$ 2.0	$ (1.9)	$ 2.0	$ (4.7)

Risks not Hedged

In addition to the United States, the Company conducts its business in Canada and the U.K. The Company's operations may, therefore, be subject to volatility as a result of currency fluctuations, inflation changes and changes in political and economic conditions in these countries. Sales and expenses are frequently denominated in local currencies and the results of operations may be affected adversely as currency fluctuations affect the Company's product prices and operating costs. The Company's historical results do not reflect any material foreign currency exchange hedging activity. However, the Company may engage in hedging activities in the future to reduce the exposure of its net cash flows to fluctuations in foreign currency exchange rates.

The Company is subject to increases and decreases in the cost of transporting its products, due in part, to variations in contracted carriers' cost of fuel, which is typically diesel fuel. The Company's historical results do not include hedging activity related to fuel costs. However, the Company may engage in hedging activities in the future, including forward

contracts, to reduce its exposure to changes in transportation costs due to changes in the cost of fuel.

13. Fair Value Measurements:

As required, the Company's financial instruments are measured and reported at their estimated fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. When available, the Company uses quoted prices in active markets to determine the fair values for its financial instruments (level one inputs), or absent quoted market prices, observable market-corroborated inputs over the term of the financial instruments (level two inputs). The Company does not have any unobservable inputs that are not corroborated by market inputs (level three inputs).

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The Company holds marketable securities associated with its non-qualified savings plan, which are valued based on readily available quoted market prices on a recurring basis. The Company has utilized derivative instruments to manage its risk of changes in natural gas prices. The fair value of the natural gas derivative instruments are determined using market data of forward prices for all of the Company's contracts. The estimated fair values for each type of instrument which are measured on a recurring basis are presented below (in millions).

	September 30, 2012	Level One	Level Two	Level Three
Asset Class:				
Mutual fund investments in a non-qualified savings plan(a)	$7.2	$7.2	$-	$-
Derivatives - natural gas instruments	0.4	-	0.4	-
Total Assets	$7.6	$7.2	$0.4	$-
Liability Class:				
Liabilities related to non-qualified savings plan	$(7.2)	$(7.2)	$-	$-
Derivatives – natural gas instruments	(1.9)	-	(1.9)	-
Total Liabilities	$(9.1)	$(7.2)	$(1.9)	$-

(a) Includes mutual fund investments of approximately 25% in the common stock of large-cap U.S. companies, approximately 5% in the common stock of small-cap U.S. companies, approximately 5% in the common stock of international companies, approximately 15% in debt securities of U.S. companies, approximately 20% in short-term investments and approximately 30% in blended funds.

	December 31, 2011	Level One	Level Two	Level Three
Asset Class:				
Mutual fund investments in a non-qualified savings plan(a)	$6.3	$6.3	$-	$-
Total Assets	$6.3	$6.3	$-	$-
Liability Class:				
Liabilities related to non-qualified savings plan	$(6.3)	$(6.3)	$-	$-
Derivatives – natural gas instruments	(5.5)	-	(5.5)	-
Total Liabilities	$(11.8)	$(6.3)	$(5.5)	$-

(a) Includes mutual fund investments of approximately 25% in the common stock of large-cap U.S. companies, approximately 5% in the common stock of small-cap U.S. companies, approximately 5% in the common stock of international companies, approximately 15% in debt securities of U.S. companies, approximately 20% in short-term investments and approximately 30% in blended funds.

Cash and cash equivalents, accounts receivable (net of allowance for bad debts) and payables are carried at cost, which approximates fair value due to their liquid and short-term nature. The Company's investments related to its nonqualified retirement plan of $7.2 million and $6.3 million as of September 30, 2012 and December 31, 2011, respectively, are stated at fair value based on quoted market prices. As of September 30, 2012, the estimated fair value of the fixed-rate 8% Senior Notes, based on available trading information, totaled $108.0 million (level 2) compared with the aggregate principal amount at maturity of $100 million. The fair value at September 30, 2012 of amounts outstanding under the Credit Agreement, based upon available bid information received from the Company's lender, totaled approximately $385.1 million (level 2) which is the aggregate principal amount at maturity.

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14. Earnings per Share:

The Company calculates earnings per share using the two-class method. The two-class method requires allocating the Company's net earnings to both common shares and participating securities. The following table sets forth the computation of basic and diluted earnings per common share (in millions, except for share and per-share data):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net earnings	$9.4	$34.6	$58.8	$105.1
Less: net earnings allocated to participating securities (a)	(0.1)	(0.5)	(0.7)	(1.7)
Net earnings available to common shareholders	$9.3	$34.1	$58.1	$103.4
Denominator (in thousands):				
Weighted-average common shares outstanding,shares for basic earnings per share	33,110	32,906	33,080	32,877
Weighted-average stock options outstanding (b)	28	25	25	30
Shares for diluted earnings per share	33,138	32,931	33,105	32,907
Net earnings per common share, basic	$0.28	$1.04	$1.76	$3.14
Net earnings per common share, diluted	$0.28	$1.03	$1.75	$3.14

(a) Participating securities include options, PSUs and RSUs that receive non-forfeitable dividends. Net earnings were allocated to 419,000 and 426,000 participating securities for the three and nine months ended September 30, 2012, respectively, and 532,000 and 545,000 participating securities for the three and nine months ended September 30, 2011.

(b) For the calculation of diluted earnings per share, the Company uses the more dilutive of either the treasury stock method or the two-class method, to determine the weighted average number of outstanding common shares. In addition, the Company had 707,000 and 697,000 weighted options and performance stock units for the three and nine months ended September 30, 2012, respectively, and 741,000 and 733,000 weighted options outstanding for the three and nine months ended September 30, 2011, respectively, which were anti-dilutive and therefore not included in the diluted earnings per share calculation.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

All statements, other than statements of historical fact, contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following: domestic and international general business and economic conditions; uninsured risks and hazards associated with underground mining operations; losses for acts of nature which may not be fully reimbursable through our insurance carriers; the timing of any insurance reimbursements may not correspond to the period in which the loss was incurred; governmental policies affecting the agricultural industry, consumer and industrial industry or highway maintenance programs in localities where the Company or its customers operate; weather conditions; the impact of competitive products; pressure on prices realized by the Company for its products; constraints on supplies of raw materials used in manufacturing certain of the Company's products and the availability of transportation services; capacity constraints limiting the production of certain products; the ability to attract and retain skilled personnel as well as labor relations including without limitation, the impact of work rules, strikes or other disruptions, wage and benefit requirements; difficulties or delays in the development, production, testing and marketing of products; difficulties or delays in receiving and renewing required governmental and regulatory approvals; the impact of new technology on the demand for our products; market acceptance issues, including the failure of products to generate anticipated sales levels; the effects of and changes in trade, monetary, environmental and fiscal policies, laws and regulations; the impact of the Company's indebtedness and interest rates changes; foreign exchange rates and fluctuations in those rates; the costs and effects of legal proceedings including environmental and administrative proceedings involving the Company; customer expectations about future potash market prices and availability and agricultural economics; the impact of credit and capital markets, including the risk of customer and counterparty defaults and declining credit availability; changes in tax laws or estimates; and other risk factors reported in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") as updated quarterly on Form 10-Q.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these term comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no duty to update any of the forward-looking statements after the date hereof or to reflect the occurrence of unanticipated events.

Unless the context requires otherwise, references in this quarterly report to the "Company," "Compass," "Compass Minerals," "CMP," "we," "us" and "our" refer to Compass Minerals International, Inc. ("CMI", the parent holding company) its consolidated subsidiaries.

Critical Accounting Estimates

Preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments result primarily from the need to make estimates about matters that are inherently uncertain. Management's Discussion and Analysis and Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC on

February 22, 2012, describe the significant accounting estimates and policies used in preparation of our consolidated financial statements. Actual results in these areas could differ from management's estimates.

Results of Operations

Deicing products, consisting of deicing salt and magnesium chloride used by highway deicing and consumer and industrial customers, constitute a significant portion of the Company's salt segment sales. Our deicing sales are seasonal and can fluctuate from year to year depending on the severity of the winter season weather in the regions we serve. Inventory management practices are employed to respond to the varying level of demand which impacts our production volumes, the resulting per ton cost of inventory and ultimately profit margins, particularly during the second and third quarters when we build our inventory levels for the upcoming winter and earnings are typically lower than the first and fourth quarters. In the first quarter of 2012, winter weather was significantly milder than average and unfavorably impacted our sales and operating earnings. As a result, we expect to have lower rock salt production at our mines in 2012, when compared to production following an average winter. The lower rock salt production is also expected to result in increased per-unit costs through the 2012-2013 winter season. Additionally, since the winter was abnormally mild, customer inventory levels were unusually high exiting the 2011-2012 winter. This higher than typical customer inventory has resulted in lower early fill sales in the third quarter of 2012. In the first quarter of 2011, the frequency of winter weather events was higher than long-term averages, yet inventory constraints limited our ability to capitalize on more-severe-than-average weather in some of the regions we serve.