COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
May 01, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2007

or

o **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 600
Overland Park, KS 66210
(913) 344-9200
(Address of principal executive offices and telephone number)

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: þ No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of the registrant s common stock, $0.01 par value per share, at April 23, 2007 was 32,165,972 shares.

COMPASS MINERALS INTERNATIONAL, INC.
TABLE OF CONTENTS

1

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	(Unaudited) March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35.4	$ 7.4
Receivables, less allowance for doubtful accounts of $1.9 in 2007 and $1.6 in 2006	116.9	114.0
Inventories	92.8	146.1
Deferred income taxes, net	10.4	8.5
Other	5.8	7.8
Total current assets	261.3	283.8
Property, plant and equipment, net	376.8	374.6
Intangible assets, net	21.2	21.5
Other	31.9	26.4
Total assets	$691.2	$ 706.3
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 3.0	$ 3.1
Accounts payable	56.6	73.0
Accrued expenses	17.8	23.0
Accrued salaries and wages	13.0	12.3
Income taxes payable	9.0	2.9
Accrued interest	4.6	4.7
Total current liabilities	104.0	119.0
Long-term debt, net of current portion	564.2	582.4
Deferred income taxes, net	9.5	11.1
Other noncurrent liabilities	59.0	58.9
Commitments and contingencies (Note 8)		
Stockholders equity (deficit):		
Common stock: $0.01 par value, 200,000,000 authorized shares; 35,367,264 issued shares	0.4	0.4
Additional paid-in capital	1.0	0.3
Treasury stock, at cost 3,201,292 shares at March 31, 2007 and 3,270,141 shares at December 31, 2006	(6.1)	(6.2)
Accumulated deficit	(79.3)	(95.4)

Accumulated other comprehensive income	38.5	35.8
Total stockholders equity (deficit)	(45.5)	(65.1)
Total liabilities and stockholders equity (deficit)	$691.2	$ 706.3

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

Table of Contents

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Sales	$ 264.2	$ 217.9
Shipping and handling cost	87.9	76.3
Product cost	111.7	76.6
Gross profit	64.6	65.0
Selling, general and administrative expenses	15.6	14.2
Operating earnings	49.0	50.8
Other (income) expense:		
Interest expense	13.9	13.5
Other, net		(0.4)
Earnings before income taxes	35.1	37.7
Income tax expense	9.0	9.1
Net earnings	$ 26.1	$ 28.6
Basic net earnings per share	$ 0.80	$ 0.89
Diluted net earnings per share	$ 0.80	$ 0.88
Cash dividends per share	$ 0.32	$ 0.305
Basic weighted-average shares outstanding	32,578,962	32,121,621
Diluted weighted-average shares outstanding	32,767,941	32,375,610

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

Table of Contents

COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT)
For the three months ended March 31, 2007
(Unaudited, in millions)

	Common Stock	Additional Paid In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2006	$ 0.4	$ 0.3	$ (6.2)	$ (95.4)	$ 35.8	$ (65.1)
Dividends on common stock		(0.4)		(10.0)		(10.4)
Stock options exercised		0.7	0.1			0.8
Stock-based compensation		0.4				0.4
Comprehensive income:						
Net earnings				26.1		26.1
Realization of pension costs					0.1	0.1
Unrealized gain on cash flow hedges					1.8	1.8
Foreign currency translation adjustments					0.8	0.8
Total comprehensive income						28.8
Balance, March 31, 2007	$ 0.4	$ 1.0	$ (6.1)	$ (79.3)	$ 38.5	$ (45.5)

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

Table of Contents

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

	Three Months Ended March 31,	
	2007	**2006**
Cash flows from operating activities:		
Net earnings	$ 26.1	$ 28.6
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	9.9	10.1
Finance fee amortization	0.3	0.3
Accreted interest	8.0	7.1
Deferred income taxes	(2.8)	(3.5)
Changes in operating assets and liabilities:		
Receivables	(2.1)	97.3
Inventories	53.2	2.3
Other assets	(0.2)	1.8
Accounts payable and accrued expenses	(12.6)	(28.8)
Other noncurrent liabilities		(2.9)
Other, net	0.6	0.3
Net cash provided by operating activities	80.4	112.6
Cash flows from investing activities:		
Capital expenditures	(8.9)	(9.3)
Purchase of a business	(7.6)	
Other, net		(1.0)
Net cash used in investing activities	(16.5)	(10.3)
Cash flows from financing activities:		
Principal payments on long-term debt	(10.0)	(10.9)
Revolver activity	(16.2)	(31.0)
Dividends paid	(10.4)	(9.8)
Proceeds received from stock option exercises	0.1	0.2
Excess tax benefits from stock option exercises	0.7	1.2
Other, net		(0.1)
Net cash used in financing activities	(35.8)	(50.4)

Effect of exchange rate changes on cash and cash equivalents	(0.1)	1.8
Net change in cash and cash equivalents	28.0	53.7
Cash and cash equivalents, beginning of the year	7.4	47.1
Cash and cash equivalents, end of period	$ 35.4	$ 100.8
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$ 5.8	$ 6.3
Income taxes paid, net of refunds	6.9	6.7

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

5

COMPASS MINERALS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies and Basis of Presentation:

Compass Minerals International, Inc., through its subsidiaries (CMP , Compass Minerals , or the Company), is a producer and marketer of inorganic mineral products with manufacturing sites in North America and Europe. Its principal products are salt, which includes sodium chloride and magnesium chloride, and sulfate of potash (SOP), a specialty fertilizer. CMP serves a variety of markets, including highway and consumer deicing, dust control, agriculture, food processing, chemical processing, and water conditioning. 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 subsidiary, Compass Minerals Group, Inc. (CMG), and CMG s 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, 2006 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 sales. 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 products are seasonal as they vary based on the severity of the winter conditions in areas where the product is used. Following industry practice in North America, we stockpile sufficient quantities of deicing salt in the second, third and fourth quarters to meet the estimated requirements for the 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.

New Accounting Pronouncements Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation provides guidance with regard to the recognition and measurement of uncertain tax positions, the accrual of interest and penalties, and increased disclosure requirements. In particular, uncertain tax positions can only be recognized if they are more likely than not to be upheld based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more likely than not (determined on a cumulative probability basis) to be realized upon settlement. Compass Minerals has historically used the more-likely-than-not threshold for recognizing uncertain tax positions. The adoption of this interpretation had no effect on the Company s financial condition or results of operations.

The FASB also issued FASB Statement No. 157 Fair Value Measurements during 2006. This statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It provides a frame-work for measuring fair value and requires additional disclosures about fair value measurements. This statement applies only to fair value measurements already required or permitted by other statements; it does not impose additional fair value measurements. This statement is effective for fair value measurements in fiscal years beginning after November 15, 2007. Management does not currently expect this statement to have a material impact on the Company s financial condition or results of operations.

During the first quarter of 2007, the FASB issued FASB Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities. This statement allows entities to choose, at specified dates, to measure certain financial instruments and firm commitments at fair value if fair value measurement was not already required by other guidance. Subsequent unrealized gains and losses due to changes to fair value would be recognized in earnings. Additionally, this statement establishes presentation and disclosure requirements to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective at the beginning of fiscal years beginning after November 15, 2007. Management is currently evaluating its alternatives with respect to eligible items.

Table of Contents

2. Inventories:
Inventories consist of the following (in millions):

	March 31 2007	December 31, 2006
Finished goods	$78.0	$ 129.9
Raw materials and supplies	14.8	16.2
Total inventories	$92.8	$ 146.1

3. Property, Plant and Equipment, Net:
Property, plant and equipment, net consists of the following (in millions):

	March 31, 2007	December 31, 2006
Land and buildings	$ 143.1	$ 142.8
Machinery and equipment	429.6	424.4
Furniture and fixtures	15.2	15.1
Mineral interests	180.8	180.7
Construction in progress	27.0	20.0
	795.7	783.0
Less accumulated depreciation and depletion	(418.9)	(408.4)
Net property, plant and equipment	$ 376.8	$ 374.6

4. Intangible Assets, Net:
Intangible assets consist of rights to produce SOP and a customer list acquired in connection with the purchase of an SOP marketing business. The accumulated amortization of intangible assets at March 31, 2007 and December 31, 2006 was $3.6 million and $3.3 million, respectively. Amortization expense during the three months ended March 31, 2007 and 2006 was $0.3 and $0.2 million, respectively.

5. Income Taxes:
Effective January 1, 2007, the Company adopted FIN 48 which, among other directives, requires uncertain tax positions to be recognized only if they are more likely than not to be upheld based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more likely than not (determined on a cumulative probability basis) to be realized upon settlement of the matter. The adoption of this interpretation had no effect on the Company s financial condition or results of operations.

The Company files U.S., Canadian and U.K. tax returns at the federal and local taxing jurisdictional levels. The Company s U.S. federal tax returns for tax years 2003 forward remain open and subject to examination. Generally, the Company s state, local and foreign tax returns for years 2002 forward remain open and subject to examination, depending on the jurisdiction.

Upon adoption of FIN 48, the Company s unrecognized tax benefits totaled approximately $27.7 million primarily due to transactions and deductions related to U.S. and Canadian operations. If favorably resolved, these unrecognized tax benefits would decrease the Company s effective tax rate. The Company also accrues potential interest and penalties on its uncertain tax positions within its tax provision. As of January 1, 2007, accrued interest and penalties totaled

$8.4 million. The Company expects its uncertain tax positions will change by less than $5 million during the next twelve months.

Income tax expense for the three months ended March 31, 2007 and 2006 was $9.0 million and $9.1 million, respectively. The Company s income tax provision 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, accrued interest and penalties on uncertain tax positions, and interest expense recognition differences for book and tax purposes.

At March 31, 2007, the Company had approximately $41.7 million of NOLs that expire between 2010 and 2022. 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 March 31, 2007 and December 31, 2006, the Company s valuation allowance was $2.9 million. 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.

Table of Contents

6. Long-term Debt:

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

	March 31, 2007	December 31, 2006
12 3/4% Senior Discount Notes due 2012	$113.4	$ 109.9
12% Senior Subordinated Discount Notes due 2013	157.1	152.6
Term Loan due 2012	296.7	306.7
Revolving Credit Facility due 2010		16.3
	567.2	585.5
Less current portion	(3.0)	(3.1)
Long-term debt, net of current portion	$564.2	$ 582.4

7. Pension Plans:

The components of net periodic benefit cost for the three-months ended March 31, 2007 and 2006 are as follows (in millions):

	Three Months Ended March 31, 2007	2006
Service cost for benefits earned during the year	$ 0.2	$ 0.2
Interest cost on projected benefit obligation	1.1	0.9
Return on plan assets	(1.2)	(1.0)
Net amortization	0.1	
Net pension expense	$ 0.2	$ 0.1

During the first quarter of 2007, the Company made $0.3 million of contributions to its pension plans.

8. 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.

Table of Contents

9. Operating Segments:
Segment information is as follows (in millions):

	Three Months Ended March 31, 2007			
	Salt	Potash	Corporate and Other [(a)]	Total
Sales to external customers	$229.9	$ 32.1	$ 2.2	$264.2
Intersegment sales		3.1	(3.1)	
Shipping and handling cost	83.2	4.7		87.9
Operating earnings (loss)	48.1	7.7	(6.8)	49.0
Depreciation, depletion and amortization	7.3	2.4	0.2	9.9
Total assets	490.7	155.5	45.0	691.2

	Three Months Ended March 31, 2006			
	Salt	Potash	Corporate and Other [(a)]	Total
Sales to external customers	$190.2	$ 27.7	$	$217.9
Intersegment sales		2.5	(2.5)	
Shipping and handling cost	72.1	4.2		76.3
Operating earnings (loss)[(b)]	49.3	7.9	(6.4)	50.8
Depreciation, depletion and amortization	8.0	2.1		10.1
Total assets	526.6	145.4	29.7	701.7

(a) Corporate and Other includes corporate entities, the records management business 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.

(b) The salt segment includes $4.1 million of insurance proceeds as discussed below.

Corporate and Other in the 2007 table above includes the results of operations and assets of our records management business acquired effective November 1, 2006. Additionally, effective January 12, 2007, the Company acquired all of the outstanding common stock of Interactive Records Management Limited (IRM), a records management business located in London, England for approximately $7.6 million in cash, consisting of assets with a fair value of $8.7 million net of liabilities assumed of $1.1 million. The purchase agreement also provides for up to $2 million of contingent consideration depending on the level of revenues achieved over the next two years.

During the first quarter of 2006, the Company received and recorded $4.1 million of business interruption insurance proceeds as a reduction to cost of sales products for the salt segment. The business interruption claim was due to a temporary production interruption at one of the Company s salt mines in late 2004 that resulted in reduced sales during the first quarter of 2005.

10. Stockholders Equity and Equity Instruments:

In 2007 the Company granted 138,375 options and 45,925 restricted stock units to certain key employees under its 2005 Incentive Award Plan. The Company s stock price on the grant date of $33.44 was used to set the exercise price for the options and the fair value of the restricted stock units (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. Both types of instruments entitle the holders to receive non-forfeitable dividends or other distributions equal to and at the same time as those declared on the Company s common stock.

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 fair values for options granted during the first quarter of 2007 is included in the table below. The weighted average grant date fair value of these options was $10.65.

	Range
Fair value of options granted	$7.61 - $11.23
Exercise price	$33.44
Expected term (years)	3 - 6
Expected volatility	24.25%
Dividend yield[(a)]	0%
Risk-free rate of return	4.5% - 4.55%

(a) The assumed dividend yield reflects the non-forfeiting dividend feature.

During the three months ended March 31, 2007, the Company reissued 64,773 shares of treasury stock related to the exercise of stock options and 4,076 shares related to the distribution of deferred stock units from the Directors Deferred Compensation Plan. The Company recorded additional tax benefits of $0.7 million from the exercise of the options as additional paid-in capital. During the three months ended March 31, 2007 and 2006, the Company recorded $0.4 million and $0.2 million of compensation expense, respectively, pursuant to its stock-based compensation plans. No amounts have been capitalized. The following table summarizes stock-based compensation activity during the three months ended March 31, 2007.

	Stock Options		Restricted Stock Units	
	Number of Options Outstanding	Weighted-Average Exercise price	Number of RSUs Outstanding	Weighted-Average Fair Value
Outstanding at December 31, 2006	746,182	$ 15.91	72,900	$25.60
Granted	138,375	33.44	45,925	33.44
Exercised	(64,773)	2.32		
Outstanding at March 31, 2007	819,784	$ 19.95	118,825	$28.63

Other Comprehensive Income

The Company s comprehensive income is comprised of net earnings, amortization of the unrealized net pension costs, and the change in the unrealized gain (loss) on natural gas and interest rate swap cash flow hedges and foreign currency translation adjustments. The components of and changes in accumulated other comprehensive income for the three months ended March 31, 2007 are as follows (in millions):

	Balance December 31, 2006	2007 Change	Balance March 31, 2007

Unrealized net pension costs	$ (9.6)	$0.1	$ (9.5)
Unrealized gain (loss) on cash flow hedges	(3.0)	1.8	(1.2)
Cumulative foreign currency translation adjustment	48.4	0.8	49.2