COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
April 29, 2014

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 March 31, 2014

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 April 25, 2014 was 33,533,232 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) March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 283.4	$ 159.6
Receivables, less allowance for doubtful accounts of $1.3 in 2014 and $1.6 in 2013	158.4	211.9
Inventories	94.1	180.7
Deferred income taxes, net	6.6	7.9
Other	13.7	17.3
Total current assets	556.2	577.4
Property, plant and equipment, net	676.2	677.3
Intangible assets, net	70.7	72.5
Other	76.1	77.6
Total assets	$ 1,379.2	$ 1,404.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 3.9	$ 3.9
Accounts payable	69.5	109.4
Accrued expenses	49.7	54.3
Deferred revenue	68.0	56.5
Accrued salaries and wages	17.7	21.6
Income taxes payable	6.4	11.0
Accrued interest	3.0	0.9
Total current liabilities	218.2	257.6
Long-term debt, net of current portion	473.8	474.7
Deferred income taxes, net	77.8	78.4
Other noncurrent liabilities	37.1	39.9
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	73.4	70.4
Treasury stock, at cost — 1,834,588 shares at March 31, 2014 and 1,890,367 shares at December 31, 2013	(3.5)	(3.6)
Retained earnings	482.5	452.5
Accumulated other comprehensive income	19.5	34.5
Total stockholders' equity	572.3	554.2
Total liabilities and stockholders' equity	$ 1,379.2	$ 1,404.8

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 March 31,	
	2014	2013
Sales	$422.0	$383.7
Shipping and handling cost	130.7	115.3
Product cost	199.0	177.1
Gross profit	92.3	91.3
Selling, general and administrative expenses	25.3	23.8
Operating earnings	67.0	67.5
Other (income) expense:		
Interest expense	4.4	4.4
Other, net	(3.1)	(0.4)
Earnings before income taxes	65.7	63.5
Income tax expense	15.5	17.1
Net earnings	$50.2	$46.4
Basic net earnings per common share	$1.49	$1.38
Diluted net earnings per common share	$1.49	$1.38
Weighted-average common shares outstanding (in thousands):		
Basic	33,502	33,282
Diluted	33,520	33,309
Cash dividends per share	$0.60	$0.545

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 March 31,	
	2014	2013
Net earnings	$50.2	$46.4
Other comprehensive income (loss):		
Unrealized gain from change in pension obligation, net of tax of $(0.1) in 2014 and 2013	0.3	0.3
Unrealized gain on cash flow hedges, net of tax of $(0.2) and $(0.4) in 2014 and 2013	0.2	0.7
Cumulative translation adjustment	(15.5)	(13.4)
Comprehensive income	$35.2	$34.0

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 three months ended March 31, 2014
(Unaudited, in millions)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	$ 0.4	$ 70.4	$ (3.6)	$ 452.5	$ 34.5	$ 554.2
Dividends on common stock				(20.2)		(20.2)
Stock options exercised		2.0	0.1			2.1
Income tax deficiency from equity awards		(0.2)				(0.2)
Stock-based compensation		1.2				1.2
Comprehensive income (loss)				50.2	(15.0)	35.2
Balance, March 31, 2014	$ 0.4	$ 73.4	$ (3.5)	$ 482.5	$ 19.5	$ 572.3

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)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net earnings	$50.2	$46.4
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	18.4	17.3
Finance fee amortization	0.3	0.3
Stock-based compensation	1.2	1.5
Deferred income taxes	3.0	0.6
Other, net	(1.6)	0.5
Insurance advances for operating purposes, Goderich tornado	5.0	2.4
Changes in operating assets and liabilities:		
Receivables	47.2	(8.2)
Inventories	85.0	93.0
Other assets	3.3	5.8
Accounts payable and accrued expenses	(51.0)	(31.3)
Other liabilities	(0.3)	0.5
Net cash provided by operating activities	160.7	128.8
Cash flows from investing activities:		
Capital expenditures	(25.0)	(36.5)
Insurance advances for investment purposes, Goderich tornado	8.7	4.3
Other, net	2.9	0.8
Net cash used in investing activities	(13.4)	(31.4)
Cash flows from financing activities:		
Principal payments on long-term debt	(0.9)	(1.0)
Dividends paid	(20.2)	(18.3)
Proceeds received from stock option exercises	2.1	0.3
Excess tax benefit (deficiency) from equity compensation awards	(0.2)	0.1
Net cash used in financing activities	(19.2)	(18.9)
Effect of exchange rate changes on cash and cash equivalents	(4.3)	(3.1)
Net change in cash and cash equivalents	123.8	75.4
Cash and cash equivalents, beginning of the year	159.6	100.1
Cash and cash equivalents, end of period	$283.4	$175.5
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$2.0	$2.3
Income taxes paid, net of refunds	$12.5	$6.7

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

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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, salt ingredients used in consumer and commercial food preparation, and other mineral-based products for consumer, agricultural and industrial applications. CMP also provides records management services to businesses located in the U.K.

CMP is a holding company with no operations other than those of its wholly owned subsidiaries. The consolidated financial statements include the accounts of CMP 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, 2013 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 seeks to stockpile 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 April 2014, the Financial Accounting Standards Board (“FASB”) issued guidance which changes the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, disposals that represent a strategic shift that have or will have a major effect on an entity’s operations or financial results should be reported as discontinued operations. The guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company does not expect that the guidance will have a material impact on our consolidated financial statements.

In January 2014, the FASB issued guidance related to service concession arrangements. The guidance states that entities should not account for certain service concession arrangements with public-sector entities as leases and should not recognize any infrastructure as property, plant and equipment. The guidance is effective for fiscal years beginning after December 15, 2014. The Company does not expect that this guidance will have an impact on its 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. Both facilities resumed normal production and shipping activities in 2012. The Company has substantially completed its repairs and reconstruction activities to fully restore the damaged surface structures and operating assets at both facilities.

The Company maintains comprehensive property and casualty insurance, including business interruption, which is expected to provide substantial coverage for the losses that have occurred at these facilities and to the Company's business losses related to the tornado. The Company recorded impairment of its property, plant and equipment during 2011 through 2013 related to the impacted areas at both of the Goderich facilities. In addition, the Company incurred clean-up costs related to the storm. The Company expects to be reimbursed for losses from its insurers for substantially all of the replacement and repair costs for its property, plant and equipment and associated clean-up costs incurred, net of the Company's deductible.

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The Company received $13.7 million and $7.5 million of insurance advances in the first quarters of 2014 and 2013, respectively. The Company recorded $0.8 million of insurance advances as a reduction to salt product cost for the first quarter of 2013 in its consolidated statements of operations to offset recognized impairment charges and site clean-up and restoration costs. The Company has also recorded approximately $13.7 million and $6.7 million of the insurance advances as deferred revenue in the first quarters of 2014 and 2013, respectively, in the consolidated balance sheets and has presented these amounts in its operating and investing section of the consolidated statements of cash flows for their respective period. In total, the Company has received $100.0 million of insurance advances since the tornado occurred and recorded approximately $68.0 million and $56.5 million of deferred revenue in its consolidated balance sheets as of March 31, 2014 and December 31, 2013, respectively. 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. 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 has submitted a substantial business interruption claim to compensate it for lost profits and certain additional expenses incurred related to the ongoing operations. The Company estimates that the effects from the tornado were immaterial in the first quarters of 2014 and 2013. The Company believes its losses, including the impact of estimated lost sales, lost production and additional expenses that have been incurred related to the tornado will be substantially covered by the Company's insurance policies as business interruption losses. The amount of actual business interruption recoveries may differ materially from the Company's estimates. 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):

	March 31, 2014	December 31, 2013
Finished goods	$ 52.2	$ 139.4
Raw materials and supplies	41.9	41.3
Total inventories	$ 94.1	$ 180.7

4. Property, Plant and Equipment, Net:

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

	March 31, 2014	December 31, 2013
Land, buildings and structures and leasehold improvements	$ 344.2	$ 347.1
Machinery and equipment	666.5	668.0
Office furniture and equipment	21.5	21.5
Mineral interests	183.3	180.9
Construction in progress	78.3	69.5
	1,293.8	1,287.0

Less accumulated depreciation and depletion	(617.6)	(609.7)
Property, plant and equipment, net	$ 676.2	$ 677.3

5. Goodwill and Intangible Assets, Net:

Intangible assets consist primarily of a potassium chloride ("KCl") supply agreement, puchased rights to produce SOP, lease rights, water rights, a tradename and customer relationships. The supply agreement, SOP production rights, lease rights and customer relationships are being amortized over 50 years, 25 years, 25 years and 7-10 years, respectively. The Company has water rights of $22.9 million as of March 31, 2014 and December 31, 2013, and a tradename, which has a value of $0.7

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million in each period. The water rights and tradename have indefinite lives. None of the finite-lived intangible assets have a residual value. Aggregate amortization expense was $0.5 million in both the first quarters of 2014 and 2013.

The Company has recorded goodwill of approximately $20.0 million and $20.5 million as of March 31, 2014 and December 31, 2013, in other assets of its consolidated balance sheets. Approximately $13.2 million and $13.8 million of the amounts recorded for goodwill as of March 31, 2014 and December 31, 2013, respectively, were recorded in the Company's specialty fertilizer segment and the remaining amounts in both periods were recorded in corporate and other. The decrease in the balance of goodwill in the first quarter of 2014 was a result of the impact of foreign exchange.

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.

At both March 31, 2014 and December 31, 2013, the Company had approximately $4.1 million of gross foreign federal net operating loss ("NOL") carryforwards that have no expiration date and $0.1 million of tax-effected state NOL carryforwards which expire in 2033. 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 challenged tax positions claimed by one of the Company's Canadian subsidiaries and have issued tax reassessments for years 2002-2008. The reassessments are a result of ongoing audits and total approximately $73 million, including interest through March 2014. 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 the Company has reserved for such disputes. 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 it will post collateral in the form of a $30 million performance bond (including approximately $6 million of the performance bond which will be cancelled pro rata as the outstanding assessment balance falls below the outstanding amount of the performance bond). As pa