COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
October 28, 2011

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, 2011

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 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: 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 26, 2011 was 32,915,041 shares.

Table of Contents

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) September 30, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 123.4 | $ 91.1 |
| Receivables, less allowance for doubtful accounts of $2.3 in 2011 and $2.8 in 2010 | 136.4 | 197.2 |
| Inventories | 185.8 | 205.0 |
| Deferred income taxes, net | 7.7 | 13.8 |
| Other | 5.1 | 14.3 |
| Total current assets | 458.4 | 521.4 |
| Property, plant and equipment, net | 551.3 | 533.8 |
| Intangible assets, net | 58.0 | 18.4 |
| Other | 57.4 | 40.7 |
| Total assets | $ 1,125.1 | $ 1,114.3 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 4.2 | $ 4.2 |
| Accounts payable | 60.5 | 92.5 |
| Accrued expenses | 42.0 | 54.3 |
| Accrued salaries and wages | 14.8 | 16.3 |
| Income taxes payable | 2.4 | 14.4 |
| Accrued interest | 2.9 | 0.9 |
| Total current liabilities | 126.8 | 182.6 |
| Long-term debt, net of current portion | 479.5 | 482.5 |
| Deferred income taxes, net | 70.7 | 59.8 |
| Other noncurrent liabilities | 39.4 | 41.6 |
| Commitments and contingencies (Note 10) | | |
| 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 | 31.1 | 22.7 |
| Treasury stock, at cost — 2,452,923 shares at September 30, 2011 and 2,558,009 shares at December 31, 2010 | (4.7) | (4.9) |
| Retained earnings | 343.6 | 283.6 |
| Accumulated other comprehensive income | 38.3 | 46.0 |
| Total stockholders' equity | 408.7 | 347.8 |
| Total liabilities and stockholders' equity | $ 1,125.1 | $ 1,114.3 |

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

2

Table of Contents

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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | $229.1 | $176.0 | $799.6 | $712.6 |
| Shipping and handling cost | 56.1 | 38.8 | 214.9 | 177.7 |
| Product cost | 102.0 | 83.8 | 361.8 | 327.0 |
| Gross profit | 71.0 | 53.4 | 222.9 | 207.9 |
| Selling, general and administrative expenses | 22.4 | 20.7 | 67.6 | 64.1 |
| Operating earnings | 48.6 | 32.7 | 155.3 | 143.8 |
| Other (income) expense: | | | | |
| Interest expense | 5.0 | 5.3 | 15.9 | 16.5 |
| Other, net | (1.7) | 1.3 | (1.5) | 3.1 |
| Earnings before income taxes | 45.3 | 26.1 | 140.9 | 124.2 |
| Income tax expense | 10.7 | 6.8 | 35.8 | 34.7 |
| Net earnings | $34.6 | $19.3 | $105.1 | $89.5 |
| Basic net earnings per common share | $1.04 | $0.58 | $3.14 | $2.68 |
| Diluted net earnings per common share | $1.03 | $0.58 | $3.14 | $2.68 |
| Weighted-average common shares outstanding (in thousands): | | | | |
| Basic | 32,906 | 32,774 | 32,877 | 32,727 |
| Diluted | 32,931 | 32,785 | 32,907 | 32,740 |
| Cash dividends per share | $0.45 | $0.39 | $1.35 | $1.17 |

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

Table of Contents

COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2011
(Unaudited, in millions)

| | Common Stock | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2010 | $ 0.4 | $ 22.7 | $ (4.9 ) | $ 283.6 | $ 46.0 | $ 347.8 |
| Dividends on common stock | | | | (45.1 ) | | (45.1 ) |
| Shares issued for restricted stock units | | (0.1 ) | 0.1 | | | - |
| Stock options exercised | | 1.8 | 0.1 | | | 1.9 |
| Income tax benefits from equity awards | | 1.9 | | | | 1.9 |
| Stock-based compensation | | 4.8 | | | | 4.8 |
| Comprehensive income: | | | | | | |
| Net earnings | | | | 105.1 | | 105.1 |
| Change in unrealized pension costs, net of tax of $(1.3) | | | | | 4.5 | 4.5 |
| Unrealized gain on cash flow hedges, net of tax of $(1.0) | | | | | 1.7 | 1.7 |
| Foreign currency translation adjustments | | | | | (13.9 ) | (13.9 ) |
| Total comprehensive income | | | | | | 97.4 |
| Balance, September 30, 2011 | $ 0.4 | $ 31.1 | $ (4.7 ) | $ 343.6 | $ 38.3 | $ 408.7 |

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)

| | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $105.1 | $89.5 |
| Adjustments to reconcile net earnings to net cash flows provided by operating activities: | | |
| Depreciation, depletion and amortization | 48.8 | 36.3 |
| Finance fee amortization | 1.1 | 0.9 |
| Stock-based compensation | 4.8 | 4.1 |
| Deferred income taxes | 5.4 | 4.2 |
| Asset impairment charges, Goderich tornado | 4.1 | - |
| Insurance receivable accrued, Goderich tornado | (2.2) | - |
| Insurance advances for investment purposes, Goderich tornado | (4.1) | - |
| Other, net | 4.7 | 1.7 |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Receivables | 67.0 | 69.6 |
| Inventories | 18.3 | 31.3 |
| Other assets | 4.3 | (0.8) |
| Accounts payable and accrued expenses | (58.1) | (64.4) |
| Other liabilities | 1.6 | (4.3) |
| Net cash provided by operating activities | 200.8 | 168.1 |
| Cash flows from investing activities: | | |
| Capital expenditures | (66.5) | (77.1) |
| Insurance advances for investment purposes, Goderich tornado | 4.1 | - |
| Acquisition of a business, net | (58.1) | - |
| Other, net | 0.7 | (1.0) |
| Net cash used in investing activities | (119.8) | (78.1) |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (3.2) | (2.9) |
| Dividends paid | (45.1) | (39.0) |
| Proceeds received from stock option exercises | 1.9 | 3.0 |
| Excess tax benefits from equity compensation awards | 1.9 | 2.6 |
| Net cash used in financing activities | (44.5) | (36.3) |
| Effect of exchange rate changes on cash and cash equivalents | (4.2) | 1.7 |
| Net change in cash and cash equivalents | 32.3 | 55.4 |
| Cash and cash equivalents, beginning of the year | 91.1 | 13.5 |
| Cash and cash equivalents, end of period | $123.4 | $68.9 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid, net of amounts capitalized | $13.1 | $14.4 |
| Income taxes paid, net of refunds | $42.4 | $53.1 |
| | | |
| In connection with the 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.

Table of Contents

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 United Kingdom. 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 United Kingdom, 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, 2010 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 during the first quarter 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 September 2011, the FASB issued guidance which allows entities to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the fair value is less than the carrying value, the entity would be required to perform the two-step goodwill impairment test currently required. This guidance will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard will not materially impact the Company's consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income in the financial statements. The new accounting guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Under the new guidance, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of this standard will not have an impact on the Company's consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

In May 2011, the FASB issued guidance related to fair value measurements and disclosures in the financial statements. This guidance conforms the wording which describes many of the requirements in U.S. GAAP to International Financial Reporting Standards to ensure the related standards are consistently applied. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is effective during interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this standard will not materially expand the Company's consolidated financial statement footnote disclosures.

Table of Contents

2. Goderich Tornado:

On August 21, 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 and resumed limited activities at the evaporation plant in late September. The Company has been unable to complete a full assessment of the damages at limited portions of 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 and will occur at these facilities related to the tornado. The Company has made an initial estimate of the impairment of its property, plant and equipment pertaining to the accessible 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 has incurred clean-up 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.

For the three and nine months ended September 30, 2011, the costs incurred and insurance recoveries recognized in the consolidated statements of operations are as follows (in millions):

| | Three and Nine Months Ended September 30, 2011 | |
|---|---|---|
| Product cost: | | |
| Property, plant and equipment impairment charges | $ | 4.1 |
| Site clean-up costs | | 5.3 |
| Estimated insurance recoveries recognized | | (9.4 ) |
| Net product cost | $ | - |

The Company has received approximately $7.2 million of insurance advances which have been recorded as a reduction to salt product cost in the consolidated statements of operations. In addition, the Company expects to receive an additional $2.2 million related to the replacement and repair costs of our property, plant and equipment and clean-up costs incurred as of September 30, 2011 and has recorded this amount as a receivable in its consolidated balance sheets. 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 $4.1 million. However, U.S. GAAP limits the recognition of insurance recoveries in the 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 statements of operations when all contingencies relating to the insurance claim have been resolved.

The Company expects to have a substantial business interruption claim to offset lost profits and to offset certain additional expenses incurred related to the ongoing operations. For the three and nine months ended September 30, 2011, the Company has determined that there were not yet significant net losses recognized in its consolidated statements of operations related to business interruption. In addition, the amount of actual business interruption recoveries may differ materially from the Company's current and future estimates. The Company believes the impact of 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 in product cost in the statements of operations when the insurance claim has been settled. The Company has not recognized any net gains from insurance recoveries for the three and nine months ended September 30, 2011.

3. Acquisition:

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 on Big Quill Lake in Saskatchewan, Canada. The acquisition has broadened and strengthened the Company's specialty fertilizer segment by adding unique production capabilities, high-value applications and an additional 40,000 tons to its SOP production capacity.

Table of Contents

The acquisition has been accounted for as a business combination in accordance with U.S. GAAP and the results of operations have been included from the date of acquisition.  The Company engaged an independent third-party expert to assist in the valuations utilized for the purchase price allocation. The preliminary purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values as follows (in millions):

| | Estimated Fair Value |
|---|---|
| Cash | $ 2.4 |
| Receivables | 2.7 |
| Inventories | 1.4 |
| Other current assets | 1.1 |
| Property, plant and equipment | 14.0 |
| Intangible assets | 37.3 |
| Goodwill | 14.6 |
| Liabilities assumed | (1.9 ) |
| Deferred income taxes | (11.1 ) |
| Total preliminary purchase price | $ 60.5 |

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 supply agreement which entitles the Company to the rights to purchase KCl raw material through a long-term supply agreement.  The supply agreement was valued using an income approach method and was assigned an amortization period of 50 years based upon its estimated life.

4.  Inventories:

Inventories consist of the following (in millions):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Finished goods | $147.5 | $149.4 |
| Raw materials and supplies | 38.3 | 55.6 |
| Total inventories | $185.8 | $205.0 |

5.  Property, Plant and Equipment, Net:

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Land, buildings and structures and leasehold improvements | $254.9 | $254.2 |
| Machinery and equipment | 529.5 | 544.4 |
| Office furniture and equipment | 20.6 | 23.0 |
| Mineral interests | 174.6 | 176.9 |
| Construction in progress | 71.8 | 38.3 |
| | 1,051.4 | 1,036.8 |

| | | |
|---|---|---|
| Less accumulated depreciation and depletion | (500.1) | (503.0) |
| Property, plant and equipment, net | $551.3 | $533.8 |

Table of Contents

6. Intangible Assets, Net:

Other intangible assets consist primarily of a KCl supply agreement, a trade name, purchased rights to produce SOP and customer relationships. The trade name has an indefinite life. The KCl supply agreement, purchased rights to produce SOP and customer relationships are being amortized over 50 years, 25 years and 7 years, respectively. Amortization expense was $0.5 and $0.3 million during the three months ended September 30, 2011 and 2010, respectively, and $1.5 and $0.9 million during the nine months ended September 30, 2011 and 2010, respectively.

7. Income Taxes:

Income tax expense was $10.7 million and $6.8 million for the three months ended September 30, 2011 and 2010, respectively, and $35.8 million and $34.7 million for the nine months ended September 30, 2011 and 2010, respectively. The Company's income tax provision differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, domestic production activities deduction, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining taxes, accrued interest on uncertain tax positions, and interest expense recognition differences for book and tax purposes.

At September 30, 2011 and December 31, 2010, the Company had approximately $10.9 million and $11.1 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, 2011 and December 31, 2010, the Company's valuation allowance was $2.3 million in each period. 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 tax authorities have issued tax reassessment for years 2002-2006 which are under audit, totaling approximately $58 million, including interest through September 2011, challenging tax positions claimed by one of the Company's Canadian subsidiaries. The Company has disputed these reassessments and plans to continue to work through the appropriate authorities in Canada to resolve the dispute. However, there is a reasonable possibility that the ultimate resolution of this dispute and any related disputes for other open tax years will be materially higher or lower than the amounts reserved. In connection with the dispute, customary local regulations have required us to post security in the form of a $27 million performance bond, approximately $21 million of cash ($9.5 million paid in 2010, $3.7 million paid through September 30, 2011 and the remainder to be paid before the end of 2012) and approximately $10 million for which the form of security is yet to be determined. The Company will be required by the same local regulations to provide security for additional interest on the 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 settled.

8. Long-term Debt:

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Term Loan due December 2012 | $98.6 | $99.6 |
| Incremental Term Loan due December 2012 | 55.5 | 55.9 |
| Extended Term Loan due January 2016 | 231.7 | 233.5 |

| | | |
|---|---|---|
| Revolving Credit Facility due October 2015 | - | - |
| 8% Senior Notes due June 2019 | 97.9 | 97.7 |
| | 483.7 | 486.7 |
| Less current portion | (4.2) | (4.2) |
| Long-term debt | $479.5 | $482.5 |

The Term Loan and Incremental Term Loan are secured by all existing and future assets of the Company's subsidiaries.

Table of Contents

9. U.K. Pension Plan:

The components of net periodic benefit cost, excluding the transfer discussed below, for the three and nine months ended September 30, 2011 and 2010 are as follows (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Service cost for benefits earned during the year | $- | $- | $- | $- |
| Interest cost on projected benefit obligation | 1.0 | 1.0 | 2.9 | 2.9 |
| Expected return on plan assets | (0.9) | (0.9) | (2.7) | (2.7) |
| Net amortization | 0.5 | 0.5 | 1.5 | 1.5 |
| Net pension expense | $0.6 | $0.6 | $1.7 | $1.7 |

During the nine months ended September 30, 2011, the Company made $2.7 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.

10. 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 is involved in proceedings alleging unfair labor practices at its Cote Blanche, Louisiana mine. This matter arises out of a labor dispute between the Company and the United Steelworkers Union over the terms of a new contract for certain employees at the mine. These employees initiated a strike that began on April 7, 2010 and ended on June 15, 2010. On August 11, 2011, an Administrative Law Judge issued a decision recommending unfair labor practice findings against the Company in connection with the labor dispute. The Company strongly disagrees with the recommendation and exceptions have been filed with the National Labor Relations Board. The Company would be responsible for back pay to the affected employees as a result of changes made in union work rules and past practices beginning April 1, 2010, as well as to certain affected employees who allegedly were not properly reinstated following the end of the strike if the findings are ultimately upheld. Any requirement for the Company to pay for wages would be offset by the employees' wages earned at other places of employment during this period, if any.

The Company does not believe that the above proceedings will result in a material adverse financial effect on the Company. Furthermore, while any litigation and/or contingencies contain 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

11. Operating Segments:

The results of operations and financial position for Big Quill Resources, acquired in January 2011, have been included in the Company's specialty fertilizer segment from the date of the acquisition. Segment information is as follows (in millions):

| | 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 |

| | Three Months Ended September 30, 2010 | | | |
|---|---|---|---|---|
| | Salt | Specialty Fertilizer | Corporate and Other (a) | Total |
| Sales to external customers | $136.3 | $36.8 | $2.9 | $176.0 |
| Intersegment sales | 0.2 | 0.9 | (1.1) | - |
| Shipping and handling cost | 33.9 | 4.9 | - | 38.8 |
| Operating earnings (loss) | 30.7 | 11.6 | (9.6) | 32.7 |
| Depreciation, depletion and amortization | 8.2 | 2.9 | 1.1 | 12.2 |
| Total assets (as of end of period) | 690.2 | 245.0 | 66.1 | 1,001.3 |

| | 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 |

| | Nine Months Ended September 30, 2010 | | | |
|---|---|---|---|---|
| | Salt | Specialty Fertilizer | Corporate and Other (a) | Total |
| Sales to external customers | $573.4 | $130.9 | $8.3 | $712.6 |
| Intersegment sales | 0.5 | 2.8 | (3.3) | - |
| Shipping and handling cost | 160.8 | 16.9 | - | 177.7 |
| Operating earnings (loss) | 129.7 | 43.5 | (29.4) | 143.8 |
| Depreciation, depletion and amortization | 24.9 | 8.1 | 3.3 | 36.3 |

(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.

12. Stockholders' Equity and Equity Instruments:

During 2011, the Company granted 71,709 stock options, 33,595 restricted stock units ("RSUs") and 19,139 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.

Table of Contents

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 2011 grant is calculated based upon a one-year performance period beginning January 1, 2011 and ending on December 31, 2013, 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 earned 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 2011 is included in the table below. The weighted-average grant date fair value of these options was $29.02.

| | Range |
|---|---|
| Fair value of options granted | $28.17 - $29.35 |
| Exercise price | $86.47 - $86.80 |
| Expected term (years) | 3 - 6 |
| Expected volatility | 42.7% - 51.9% |
| Dividend yield | 2.4% |
| Risk-free rate of return | 1.4% - 2.3% |

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 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 discussed above. The estimated fair value of the PSUs granted in 2011 is $93.82 per unit.

During the nine months ended September 30, 2011, the Company reissued 61,013 shares of treasury stock related to the exercise of stock options, 32,202 shares related to the release of RSUs which vested, 699 shares related to stock payments and 11,172 shares related to the distribution of deferred stock units from the Directors' Deferred Compensation Plan. The Company recorded additional tax benefits of $1.9 million from its equity compensation awards as additional paid-in capital during 2011. During the nine months ended September 30, 2011 and 2010, the Company recorded $4.8 million and $4.1 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 nine months ended September 30, 2011.

| | Stock Options | | RSUs | | PSUs | |
|---|---|---|---|---|---|---|
| | Number | Weighted-average exercise price | Number | Weighted-average fair value | Number | Weighted-average fair value |
| Outstanding at December 31, 2010 | 621,374 | $ 47.19 | 109,751 | $ 64.03 | 6,366 | $ 86.51 |
| Granted | 71,709 | 86.47 | 33,595 | 86.47 | 19,139 | 93.82 |