COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
July 31, 2006

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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 June 30, 2006

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: R No: £

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 R Accelerated filer £ Non-accelerated filer £

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 July 24, 2006 was 32,019,534 shares.

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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) June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58.1	$ 47.1
Receivables, less allowance for doubtful accounts of $1.6 in 2006 and $1.7 in 2005	57.6	183.0
Inventories	106.2	81.5
Deferred income taxes, net	12.7	12.7
Other	7.1	10.1
Total current assets	241.7	334.4
Property, plant and equipment, net	367.2	366.1
Intangible assets, net	22.0	22.5
Other	33.1	27.3
Total assets	$ 664.0	$ 750.3
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 3.3	$ 3.5
Accounts payable	48.7	88.3
Accrued expenses	8.4	17.5
Accrued salaries and wages	12.4	21.4
Income taxes payable	7.7	7.8
Accrued interest	0.3	0.9
Total current liabilities	80.8	139.4
Long-term debt, net of current portion	574.3	612.4
Deferred income taxes, net	30.2	43.7
Other noncurrent liabilities	41.7	33.9
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	0.4	1.0
Treasury stock, at cost - 3,347,730 shares at June 30, 2006 and 3,532,940 shares at December 31, 2005	(6.4)	(6.7)
Accumulated deficit	(106.0)	(115.5)

Accumulated other comprehensive income	48.6	41.7
Total stockholders equity (deficit)	(63.0)	(79.1)
Total liabilities and stockholders equity (deficit)	$ 664.0	$ 750.3

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 data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Sales	$ 108.1	$ 97.7	$ 326.0	$ 351.7
Shipping and handling cost	31.2	25.5	107.5	108.5
Product cost	56.9	51.1	133.5	150.6
Gross profit	20.0	21.1	85.0	92.6
Selling, general and administrative expenses	12.8	12.5	27.0	27.5
Operating earnings	7.2	8.6	58.0	65.1
Other (income) expense:				
Interest expense	13.1	15.3	26.6	30.3
Other, net	(1.6)	0.8	(2.0)	1.0
Earnings (loss) from continuing operations before income taxes	(4.3)	(7.5)	33.4	33.8
Income tax expense (benefit)	(2.2)	(7.3)	6.9	11.5
Net earnings (loss) from continuing operations	(2.1)	(0.2)	26.5	22.3
Net loss from discontinued operations, net of tax benefit of $0.3 and $0.3 in 2005		(0.5)		(0.4)
Net earnings (loss)	$ (2.1)	$ (0.7)	$ 26.5	$ 21.9
Basic net earnings (loss) per share:				
Continuing operations	$ (0.07)	$ (0.01)	$ 0.82	$ 0.71
Discontinued operations		(0.02)		(0.01)
Basic net earnings (loss) per share	$ (0.07)	$ (0.03)	$ 0.82	$ 0.70

Basic weighted-average shares outstanding	32,011,226	31,430,900	32,225,501	31,285,807
Diluted net earnings (loss) per share:				
Continuing operations	$ (0.07)	$ (0.01)	$ 0.82	$ 0.69
Discontinued operations		(0.02)		(0.01)
Diluted net earnings (loss) per share	$ (0.07)	$ (0.03)	$ 0.82	$ 0.68
Diluted weighted-average shares outstanding	32,011,226	31,430,900	32,499,975	31,966,910
Cash dividends per share	$ 0.305	$ 0.275	$ 0.61	$ 0.55

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 (DEFICIT)
For the six months ended June 30, 2006
(Unaudited, in millions)

	Common Stock	Additional Paid In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2005	$ 0.4	$ 1.0	$ (6.7)	$ (115.5)	$ 41.7	$ (79.1)
Dividends on common stock		(2.7)		(17.0)		(19.7)
Stock options exercised		1.6	0.3			1.9
Stock-based compensation		0.5				0.5
Comprehensive income:						
Net earnings				26.5		26.5
Unrealized loss on cash flow hedges					(1.0)	(1.0)
Foreign currency translation adjustments					7.9	7.9
Total comprehensive income						33.4
Balance, June 30, 2006	$ 0.4	$ 0.4	$ (6.4)	$ (106.0)	$ 48.6	$ (63.0)

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)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows from operating activities:		
Net earnings	$ 26.5	$ 21.9
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	20.3	21.5
Finance fee amortization	0.7	1.2
Accreted interest	14.3	12.7
Deferred income taxes	(12.1)	(3.9)
Excess tax benefits from stock option exercises		4.6
Changes in operating assets and liabilities:		
Receivables	127.3	82.2
Inventories	(23.7)	4.2
Other assets	3.3	(0.6)
Accounts payable and accrued expenses	(63.1)	(42.0)
Other noncurrent liabilities	1.2	1.8
Other, net	0.7	(0.2)
Net cash provided by operating activities	95.4	103.4
Cash flows from investing activities:		
Capital expenditures	(15.9)	(9.8)
Other, net	(2.1)	(0.3)
Net cash used in investing activities	(18.0)	(10.1)
Cash flows from financing activities:		
Principal payments on long-term debt	(21.7)	(20.2)
Revolver activity	(31.0)	(11.0)
Dividends paid	(19.7)	(17.2)
Proceeds received from stock option exercises	0.3	0.9
Excess tax benefits from stock option exercises	1.6	
Other, net	(0.1)	
Net cash used in financing activities	(70.6)	(47.5)

Effect of exchange rate changes on cash and cash equivalents	4.2	
Net change in cash and cash equivalents	11.0	45.8
Cash and cash equivalents, beginning of the year	47.1	9.7
Cash and cash equivalents, end of period	$ 58.1	$ 55.5
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	$ 12.0	$ 17.5
Income taxes paid, net of refunds	16.2	16.6

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

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

1. Accounting Policies and Basis of Presentation:

Compass Minerals International, Inc. (CMP 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 and sulfate of potash (SOP). CMP serves a variety of markets, including highway deicing, agriculture, food processing, chemical processing and water conditioning. The consolidated financial statements include the accounts of CMP and its wholly owned subsidiary, Compass Minerals Group, Inc. (CMG), and the consolidated results of 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 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, 2005 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. The result of this seasonality is that 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 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 highway deicing product lines, operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

Discontinued Operations On December 30, 2005, CMP sold its evaporated salt business in the U.K. Accordingly, the results of operations from this business have been reclassified to discontinued operations in the Consolidated Statements of Operations and related notes for the three and six months ended June 30, 2005.

Recent Accounting Pronouncement During the second quarter of 2006 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). This guidance is intended to provide increased consistency in the application of FASB Statement No. 109 Accounting for Income Taxes by providing guidance with regard to the recognition and measurement of tax positions, and provide increased disclosure requirements. In particular, this interpretation requires uncertain tax positions to be recognized only if they are more-likely-than-not to be upheld based on their technical merits. Additionally, the measurement of the tax position will be based on the largest amount that is determined to have greater than a 50% likelihood of realization upon ultimate settlement. Any resulting cumulative effect of applying the provisions of FIN 48 upon adoption would be reported as an adjustment to the beginning balance of retained earnings (deficit) in the period of adoption. Management is in the process of evaluating the effects of this guidance which is effective for fiscal years beginning after December 15, 2006.

2. Inventories:

Inventories consist of the following (in millions):

	June 30, 2006	**December 31, 2005**
Finished goods	$ 89.9	$ 67.7
Raw materials and supplies	16.3	13.8

Total inventories	$106.2	$ 81.5

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3. Property, Plant and Equipment, Net:

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

	June 30, 2006	December 31, 2005
Land and buildings	$ 135.0	$ 137.6
Machinery and equipment	412.2	403.8
Furniture and fixtures	13.4	13.3
Mineral interests	179.5	178.0
Construction in progress	25.2	12.6
	765.3	745.3
Less accumulated depreciation and depletion	(398.1)	(379.2)
Net property, plant and equipment	$ 367.2	$ 366.1

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 June 30, 2006 and December 31, 2005 was $2.8 million and $2.3 million, respectively. Amortization expense during the three and six month periods was $0.3 million and $0.5 million, respectively, for both 2006 and 2005.

5. Income Taxes:

The Company recorded income tax benefits of $2.2 million and $7.3 million for the three months ended June 30, 2006 and 2005, respectively, and income tax expense of $6.9 million and $11.5 million for the six months ended June 30, 2006 and 2005, respectively. During the second quarter of 2006, the Company filed foreign tax returns and recorded a $0.6 million benefit for a true-up of previous accruals. During the second quarter of 2005, the Internal Revenue Service and Canada Revenue Agency developed a framework to minimize the inconsistent treatment of tax matters involving the two taxing authorities causing management to change certain tax estimates and reverse previously recorded income tax reserves of $5.9 million, partially offset by other tax adjustments of $1.1 million ($0.15 per basic and diluted common share), related to matters previously determined to have an uncertain outcome. For the 2005 six-month period, this benefit was partially offset by $5.4 million of income tax expense resulting from a repatriation of funds. During the first quarter of 2005, the Company s U.K. subsidiary made a one-time repayment of a pound-sterling-denominated loan to a U.S. subsidiary which resulted in a foreign exchange gain for tax purposes only. For financial reporting purposes, the unrealized foreign exchange gain is a component of accumulated other comprehensive income in stockholders equity and had not been recognized in the consolidated statements of operations.

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In addition to the specific tax items discussed above, 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 and interest expense recognition differences for book and tax purposes.

At June 30, 2006, the Company had approximately $70.3 million of NOLs expiring between 2006 and 2022. The Company records valuation allowances for portions of its deferred tax assets relating to NOLs that it does not believe will, more likely than not, be realized. As of June 30, 2006 and December 31, 2005, the Company s valuation allowance was $10.4 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.

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

	June 30, 2006	December 31, 2005
10% Senior Subordinated Notes due 2011	$ 2.0	$ 2.0
12 3/4% Senior Discount Notes due 2012	103.3	97.1
12% Senior Subordinated Discount Notes due 2013	143.9	135.8
Term Loan due 2012	328.4	350.0
Revolving Credit Facility due 2010		31.0
	577.6	615.9
Less current portion	(3.3)	(3.5)
Long-term debt, net of current portion	$574.3	$ 612.4

7. Pension Plans:
The components of net periodic benefit cost for the three and six months ended June 30, 2006 and 2005 are as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Service cost for benefits earned during the year	$ 0.2	$ 0.4	$ 0.4	$ 0.7
Interest cost on projected benefit obligation	0.9	0.9	1.8	1.8
Return on plan assets	(1.1)	(0.9)	(2.1)	(1.8)
Net amortization and deferral	0.2	0.2	0.2	0.4
Net pension expense	$ 0.2	$ 0.6	$ 0.3	$ 1.1

During 2006 the Company made $4.5 million of contributions to its plans including a special contribution of approximately $4.0 million in the first quarter to fund the portion of the U.K. plan for benefits earned and expected to be paid to former employees of the evaporated salt business that was sold in December 2005.

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.

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9. Operating Segments:

Segment information is as follows (in millions):

	Three Months Ended June 30, 2006			
	Salt	Potash	Other [(a)]	Total
Sales to external customers	$ 80.4	$ 27.7	$	$108.1
Intersegment sales		3.1	(3.1)	
Shipping and handling cost	27.5	3.7		31.2
Operating earnings (loss)[(b)]	4.8	8.3	(5.9)	7.2
Depreciation, depletion and amortization	8.1	2.1		10.2
Total assets	479.9	147.5	36.6	664.0

	Three Months Ended June 30, 2005			
	Salt	Potash	Other [(a)]	Total
Sales to external customers	$70.4	$27.3	$	$97.7
Intersegment sales		2.8	(2.8)	
Shipping and handling cost	21.5	4.0		25.5