MOSAIC CO
Form 10-Q
November 06, 2018

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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 September 30, 2018
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 001-32327

The Mosaic Company
(Exact name of registrant as specified in its charter)

Delaware	20-1026454
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3033 Campus Drive
Suite E490
Plymouth, Minnesota 55441
(800) 918-8270
(Address and zip code of principal executive offices and registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 385,470,085 shares of Common Stock as of November 2, 2018.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
THE MOSAIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net sales	$2,928.1	$1,984.8	$7,066.8	$5,317.5
Cost of goods sold	2,432.6	1,744.0	6,034.6	4,754.8
Gross margin	495.5	240.8	1,032.2	562.7
Selling, general and administrative expenses	78.5	66.1	251.4	218.2
Other operating expense (income)	23.7	(39.2)	110.5	5.9
Operating earnings	393.3	213.9	670.3	338.6
Interest expense, net	(40.9)	(36.2)	(135.4)	(98.4)
Foreign currency transaction (loss) gain	(2.2)	58.6	(113.1)	76.6
Other (expense) income	(7.6)	1.1	(15.6)	(2.0)
Earnings from consolidated companies before income taxes	342.6	237.4	406.2	314.8
Provision for income taxes	90.6	17.6	44.4	4.7
Earnings from consolidated companies	252.0	219.8	361.8	310.1
Equity in net (loss) earnings of nonconsolidated companies	(2.3)	9.8	(3.9)	15.5
Net earnings including noncontrolling interests	249.7	229.6	357.9	325.6
Less: Net income attributable to noncontrolling interests	2.2	2.1	0.2	1.7
Net earnings attributable to Mosaic	$247.5	$227.5	$357.7	$323.9
Basic net earnings per share attributable to Mosaic	$0.64	$0.65	$0.93	$0.92
Basic weighted average number of shares outstanding	385.5	351.1	384.5	350.9
Diluted net earnings per share attributable to Mosaic	$0.64	$0.65	$0.93	$0.92
Diluted weighted average number of shares outstanding	387.5	352.2	386.1	351.9

See Notes to Condensed Consolidated Financial Statements
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THE MOSAIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net earnings including noncontrolling interest	$249.7	$229.6	$357.9	$325.6
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss), net of tax	0.5	177.0	(467.6)	293.0
Net actuarial gain and prior service cost, net of tax	3.4	1.3	7.4	5.2
Amortization of gain on interest rate swap, net of tax	0.6	0.6	1.7	1.8
Net gain (loss) on marketable securities held in trust fund, net of tax	1.6	0.1	(3.6)	3.8
Other comprehensive income (loss)	6.1	179.0	(462.1)	303.8
Comprehensive income (loss)	255.8	408.6	(104.2)	629.4
Less: Comprehensive income (loss) attributable to noncontrolling interest	2.8	2.9	(5.8)	2.2
Comprehensive income (loss) attributable to Mosaic	$253.0	$405.7	$(98.4)	$627.2

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THE MOSAIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,029.9	$ 2,153.5
Receivables, net	834.9	642.6
Inventories	1,957.1	1,547.2
Other current assets	356.1	273.2
Total current assets	4,178.0	4,616.5
Property, plant and equipment, net of accumulated depreciation of $6,794.4 million and $6,274.1 million, respectively	11,891.6	9,711.7
Investments in nonconsolidated companies	828.5	1,089.5
Goodwill	1,753.0	1,693.6
Deferred income taxes	307.7	254.6
Other assets	1,455.9	1,267.5
Total assets	$ 20,414.7	$ 18,633.4
Liabilities and Equity		
Current liabilities:		
Short-term debt	$ 25.7	$ 6.1
Current maturities of long-term debt	61.2	343.5
Structured accounts payable arrangements	504.1	386.2
Accounts payable	839.3	540.9
Accrued liabilities	1,072.1	754.4
Total current liabilities	2,502.4	2,031.1
Long-term debt, less current maturities	4,523.1	4,878.1
Deferred income taxes	1,195.3	1,117.3
Other noncurrent liabilities	1,540.6	967.8
Equity:		
Preferred Stock, $0.01 par value, 15,000,000 shares authorized, none issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Common Stock, $0.01 par value, 1,000,000,000 shares authorized, 389,242,360 shares issued and 385,470,085 shares outstanding as of September 30, 2018, 388,998,498 shares issued and 351,049,649 shares outstanding as of December 31, 2017	3.8	3.5
Capital in excess of par value	983.8	44.5
Retained earnings	10,971.7	10,631.1
Accumulated other comprehensive loss	(1,517.7)	(1,061.6)
Total Mosaic stockholders' equity	10,441.6	9,617.5
Noncontrolling interests	211.7	21.6
Total equity	10,653.3	9,639.1
Total liabilities and equity	$ 20,414.7	$ 18,633.4

See Notes to Condensed Consolidated Financial Statements

THE MOSAIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine months ended	
	September 30, 2018	September 30, 2017
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	$357.9	$ 325.6
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization	648.8	493.5
Amortization of acquired inventory	(47.4)	—
Deferred and other income taxes	(12.3)	53.9
Equity in net loss (earnings) of nonconsolidated companies, net of dividends	11.0	(15.5)
Accretion expense for asset retirement obligations	37.2	19.6
Share-based compensation expense	25.7	24.5
Unrealized loss (gain) on derivatives	14.3	(5.7)
Other	21.2	(38.3)
Changes in assets and liabilities, excluding effects of acquisition:		
Receivables, net	(31.6)	(6.8)
Inventories	(198.1)	(254.6)
Other current and noncurrent assets	(75.9)	(42.7)
Accounts payable and accrued liabilities	466.5	(38.4)
Other noncurrent liabilities	42.5	9.2
Net cash provided by operating activities	1,259.8	524.3
Cash Flows from Investing Activities:		
Capital expenditures	(665.4)	(589.9)
Purchases of available-for-sale securities - restricted	(486.1)	(1,546.3)
Proceeds from sale of available-for-sale securities - restricted	470.5	1,533.7
Investments in nonconsolidated companies	—	(62.5)
Investments in consolidated affiliate	(3.6)	(47.7)
Proceeds from sale of fixed assets	9.3	69.1
Acquisition, net of cash acquired	(985.3)	—
Other	(0.3)	0.3
Net cash used in investing activities	(1,660.9)	(643.3)
Cash Flows from Financing Activities:		
Payments of short-term debt	(120.1)	(523.2)
Proceeds from issuance of short-term debt	145.2	608.1
Payments of structured accounts payable arrangements	(582.4)	(238.8)
Proceeds from structured accounts payable arrangements	590.2	473.8
Payments of long-term debt	(722.4)	(6.2)
Proceeds from issuance of long-term debt	39.3	1.5
Cash dividends paid	(28.9)	(201.8)
Other	(0.5)	(2.2)
Net cash (used in) provided by financing activities	(679.6)	111.2
Effect of exchange rate changes on cash	(62.8)	22.8

Net change in cash, cash equivalents and restricted cash	(1,143.5)	15.0
Cash, cash equivalents and restricted cash - December 31	2,194.4	711.4
Cash, cash equivalents and restricted cash - September 30	$1,050.9	$ 726.4

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In millions)
(Unaudited)

	Nine months ended	
	September 30, 2018	September 30, 2017
Reconciliation of cash, cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets to the unaudited condensed consolidated statements of cash flows:		
Cash and cash equivalents	$1,029.9	$ 685.7
Restricted cash in other current assets	8.2	7.5
Restricted cash in other assets	12.8	33.2
Total cash, cash equivalents and restricted cash shown in the unaudited condensed consolidated statement of cash flows	$1,050.9	$ 726.4

Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized of $17.0 and $19.1 for the nine months ended September 30, 2018 and 2017, respectively)	$97.6	$ 98.4
Income taxes (net of refunds)	13.2	(16.7)

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THE MOSAIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In millions, except per share amounts)
(Unaudited)

	Mosaic Shareholders						
	Shares	Dollars					
	Common Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	350.2	$3.5	$29.9	$10,863.4	$ (1,312.2)	$ 37.9	$9,622.5
Total comprehensive income (loss)	—	—	—	(107.2)	250.6	2.6	146.0
Vesting of restricted stock units	0.8	—	(12.8)	—	—	—	(12.8)
Stock based compensation	—	—	27.4	—	—	—	27.4
Dividends ($0.35 per share)	—	—	—	(125.1)	—	—	(125.1)
Dividends for noncontrolling interests	—	—	—	—	—	(0.7)	(0.7)
Distribution to noncontrolling interests	—	—	—	—	—	(18.2)	(18.2)
Balance as of December 31, 2017	351.0	3.5	44.5	10,631.1	(1,061.6)	21.6	9,639.1
Adoption of ASC Topic 606	—	—	—	2.7	—	—	2.7
Total comprehensive income (loss)	—	—	—	357.7	(456.1)	(5.8)	(104.2)
Vesting of restricted stock units	0.3	—	(3.4)	—	—	—	(3.4)
Stock based compensation	—	—	23.0	—	—	—	23.0
Acquisition of Vale Fertilizantes	34.2	0.3	919.7	—	—	—	920.0
Dividends ($0.05 per share)	—	—	—	(19.8)	—	—	(19.8)
Dividends for noncontrolling interests	—	—	—	—	—	(0.5)	(0.5)
Equity from noncontrolling interests	—	—	—	—	—	196.4	196.4
Balance as of September 30, 2018	385.5	$3.8	$983.8	$10,971.7	$ (1,517.7)	$ 211.7	$10,653.3

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tables in millions, except per share amounts and as otherwise designated)
(Unaudited)

1. Organization and Nature of Business

The Mosaic Company ("Mosaic", and, with its consolidated subsidiaries, "we", "us", "our", or the "Company") produces and markets concentrated phosphate and potash crop nutrients. We conduct our business through wholly and majority owned subsidiaries as well as businesses in which we own less than a majority or a noncontrolling interest, including consolidated variable interest entities and investments accounted for by the equity method.

On January 8, 2018, we completed our acquisition (the "Acquisition") of Vale Fertilizantes S.A. (now known as Mosaic Fertilizantes P&K S.A. or the "Acquired Business"). Upon completion of the Acquisition, we became the leading fertilizer producer and distributor in Brazil. To reflect the fact that our Brazilian business is no longer strictly a distribution business as well as the significance of our investment in Brazil, we realigned our business segments (the "Realignment"). Beginning in the first quarter of 2018, we report the results of the Mosaic Fertilizantes business as a new segment, along with the other reportable segments of Phosphates and Potash.

After the Realignment, we are organized into the following business segments:

- Our Phosphates business segment owns and operates mines and production facilities in Florida which produce concentrated phosphate crop nutrients and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce concentrated phosphate crop nutrients. As part of the Acquisition, we acquired an additional 40% economic interest in the Miski Mayo Phosphate Mine in Peru, which increased our aggregate interest to 75%. These results are now consolidated in the Phosphates segment. The Phosphates segment also includes our 25% interest in the Ma'aden Wa'ad Al Shamal Phosphate Company (the "MWSPC"), a joint venture to develop, own and operate integrated phosphate production facilities in the Kingdom of Saudi Arabia. We market approximately 25% of the MWSPC phosphate production. We recognize our equity in the net earnings or losses relating to MWSPC on a one-quarter reporting lag in our Condensed Consolidated Statements of Earnings.
- Our Potash business segment owns and operates potash mines and production facilities in Canada and the U.S. which produce potash-based crop nutrients, animal feed ingredients and industrial products. Potash sales include domestic and international sales. We are a member of Canpotex, Limited ("Canpotex"), an export association of Canadian potash producers through which we sell our Canadian potash outside the U.S. and Canada.
- Our Mosaic Fertilizantes business segment consists of the assets in Brazil that we acquired in the Acquisition, which includes five Brazilian phosphate rock mines; four phosphate chemical plants and a potash mine in Brazil. The segment also includes our legacy distribution business in South America which consists of sales offices, crop nutrient blending and bagging facilities, port terminals and warehouses in Brazil and Paraguay. We also have a majority interest in Fospar S.A. which owns and operates a single superphosphate granulation plant and a deep-water crop nutrition port and throughput warehouse terminal facility in Brazil.

Intersegment eliminations, unrealized mark-to-market gains/losses on derivatives, debt expenses, Streamsong Resort® results of operations and the results of the China and India distribution businesses are included within Corporate, Eliminations and Other. See Note 17 of the Condensed Consolidated Financial Statements in this report for segment results.

2. Summary of Significant Accounting Policies

Statement Presentation and Basis of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements of Mosaic have been prepared on the accrual basis of accounting and in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim financial reporting. As permitted under these rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States ("GAAP") can be condensed or omitted. The Condensed Consolidated Financial Statements included in this document reflect, in the opinion of our management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The following notes should be read in conjunction with the accounting policies and other disclosures in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed with

THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (Continued)

the SEC for the year ended December 31, 2017 (the “10-K Report”). Sales, expenses, cash flows, assets and liabilities can and do vary during the year as a result of seasonality and other factors. Therefore, interim results are not necessarily indicative of the results to be expected for the full fiscal year.

The accompanying Condensed Consolidated Financial Statements include the accounts of Mosaic, its majority owned subsidiaries, and certain variable interest entities in which Mosaic is the primary beneficiary. Certain investments in companies where we do not have control but have the ability to exercise significant influence are accounted for by the equity method.

Accounting Estimates

Preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. The most significant estimates made by management relate to the estimates of fair value of acquired assets and liabilities, the recoverability of goodwill, the useful lives and net realizable values of long-lived assets, environmental and reclamation liabilities including asset retirement obligations (“ARO”), and income tax-related accounts, including the valuation allowance against deferred income tax assets. Actual results could differ from these estimates.

3. Recently Issued Accounting Guidance

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted ASC Topic 606, “Revenue from Contracts with Customers” and related amendments (“new revenue standard”) using the modified retrospective method applied to those revenue contracts which were not completed as of January 1, 2018. See Note 4 of our Notes to Condensed Consolidated Financial Statements for additional information regarding the impacts of the new revenue standard.

In January 2016, the Financial Accounting Standards Board ("FASB") issued guidance which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This guidance was effective for us beginning January 1, 2018, and did not have a material effect on our consolidated financial statements.

Pronouncements Issued But Not Yet Adopted

In February 2016, the FASB issued guidance which requires recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance, including subsequent amendments, is effective for us beginning January 1, 2019, with early adoption permitted. The provisions of this guidance are to be applied using a modified retrospective approach at either the adoption date or the beginning of the earliest comparative period presented in the financial statements. We have determined that we will not early adopt this guidance, and that we will utilize initial calculational guidance for existing leases provided in the standard for use in the modified retrospective approach. We also plan to apply this guidance as of the adoption date. We are finalizing the process of gathering information about our lease arrangements, and evaluating provisions of our leases against the recognition requirements of the new guidance. Additionally, we are in the process of implementing an information system solution and changes to internal procedures necessary to meet the requirements of the new guidance. We continue to integrate technological and process solutions and continue to work to determine the impact this guidance will have on our consolidated financial statements.

In December 2017, The U.S. Tax Cuts and Jobs Act (“The Act”) was enacted, significantly altering U.S. corporate income tax law. The FASB has issued guidance related to the newly enacted corporate income tax law changes enacted in December 2017. We are currently evaluating the potential impacts of the adoption of this guidance, along with guidance issued by the IRS, on our consolidated financial statements. See Note 7 of our Notes to Condensed Consolidated Financial Statements for additional information regarding the impacts of The Act.

4. Revenue

Adoption of ASC Topic 606, “Revenue with Customers”

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THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (Continued)

On January 1, 2018, we adopted ASC Topic 606, “Revenue from Contracts with Customers” and related amendments (“new revenue standard”) using the modified retrospective method applied to those revenue contracts which were not completed as of January 1, 2018. We recognized the cumulative effect of initially applying the new revenue standard as a net increase to opening retained earnings of $2.7 million, net of tax, as of January 1, 2018, with the impact primarily related to deferred North America revenue at December 31, 2017.
The comparative information for the years ended December 31, 2017 and 2016 has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our results of operations on an ongoing basis. The cumulative effects of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard were as follows (in millions):

	Balance at December 31, 2017	Adjustments upon adoption	Balance at January 1, 2018
Balance Sheet			
Receivables, net	$ 642.6	$ 18.2	$ 660.8
Inventories	1,547.2	(13.3)	1,533.9
Deferred income tax asset	254.6	(1.3)	253.3
Accrued Liabilities	754.4	0.9	755.3
Retained earnings	10,631.1	2.7	10,633.8

Revenue Recognition

We generate revenues primarily by producing and marketing phosphate and potash crop nutrients. Revenue is recognized when control of the product is transferred to the customer, which is generally upon transfer of title to the customer based on the contractual terms of each arrangement. Title is typically transferred to the customer upon shipment of the product. In certain circumstances, which are referred to as final price deferred arrangements, we ship product prior to the establishment of a valid sales contract. In such cases, we retain control of the product and do not recognize revenue until a sales contract has been agreed to with the customer.
Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of our goods. Our products are generally sold based on market prices prevailing at the time the sales contract is signed or through contracts which are priced at the time of shipment based on a formula. Sales incentives are estimated as earned by the customer and recorded as a reduction of revenue. Shipping and handling costs are included as a component of cost of goods sold.
For information regarding sales by product type and by geographic area, see Note 17 of our Notes to Condensed Consolidated Financial Statements.
Under the new revenue standard, the timing of revenue recognition is accelerated for certain sales arrangements due to the emphasis on transfer of control rather than risks and rewards. Certain sales where revenue was previously deferred until risk was fully assumed by the customer will now be recognized when the product is shipped. Additionally, the timing of when we record revenue on sales by Canpotex has been impacted by their adoption of new revenue standards. The total impact of adoption on our Condensed Consolidated Statement of Earnings and Balance Sheet was as follows (in millions):

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THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	For the three months ended September 30, 2018				
	As Reported	Elimination of Revenue Deferral	Canpotex Impact (a)	Balances Without New Revenue Standards	Impact
Income Statement					
Net sales	$2,928.1	$ (38.2)	$ 0.6	$ 2,890.5	$37.6
Cost of goods sold	2,432.6	(28.4)	(8.8)	2,395.4	37.2
Provision for (benefit from) income taxes	90.6	(1.7)	1.1	90.0	0.6
Net earnings (loss) attributable to Mosaic	247.5	(8.1)	8.3	247.7	(0.2)

	For the nine months ended September 30, 2018				
	As Reported	Elimination of Revenue Deferral	Canpotex Impact (b)	Balances Without New Revenue Standards	Impact
Income Statement					
Net sales	$7,066.8	$ (76.5)	$ 101.2	$ 7,091.5	$(24.7)
Cost of goods sold	6,034.6	(54.8)	59.5	6,039.3	(4.7)
Provision for (benefit from) income taxes	44.4	(0.5)	8.4	52.3	(7.9)
Net earnings (loss) attributable to Mosaic	357.7	(21.2)	33.3	369.8	(12.1)
Balance Sheet					
Receivables, net	$834.9	$ (96.1)	$ 101.2	$ 840.0	$(5.1)
Inventories	1,957.1	61.3	(48.7)	1,969.7	(12.6)
Other current assets	356.1	1.5	—	357.6	(1.5)
Deferred income tax asset	307.7	1.8	(8.4)	301.1	6.6
Accrued liabilities	1,072.1	(7.5)	10.8	1,075.4	(3.3)
Retained earnings	10,971.7	(24.0)	33.3	10,981.0	(9.3)

(a) Includes elimination impact from Canpotex's adoption of new revenue standards, resulting in a decrease of 40,000 tonnes deferred compared to the second quarter.

(b) Includes elimination impact from Canpotex's adoption of new revenue standards, resulting in a deferral of approximately 490,000 tonnes as of September 30, 2018.

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

We have elected to recognize the cost for freight and shipping as an expense in cost of sales, when control over the product has passed to the customer.

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THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (Continued)

5. Other Financial Statement Data
The following provides additional information concerning selected balance sheet accounts:

	September 30, 2018	December 31, 2017
Other current assets		
Income and other taxes receivable	$ 202.2	$ 141.3
Prepaid expenses	87.3	69.0
Other	66.6	62.9
	$ 356.1	$ 273.2
Other assets		
Restricted cash	$ 12.8	$ 32.6
MRO inventory	133.3	114.8
Marketable securities held in trust	623.6	628.0
Indemnification asset	147.3	—
Long-term receivable	90.2	—
Other	448.7	492.1
	$ 1,455.9	$ 1,267.5
Accrued liabilities		
Payroll and employee benefits	$ 193.0	$ 159.5
Asset retirement obligations	126.8	98.1
Customer prepayments	299.5	140.4
Other	452.8	356.4
	$ 1,072.1	$ 754.4
Other noncurrent liabilities		
Asset retirement obligations	$ 984.7	$ 761.2
Accrued pension and postretirement benefits	254.9	53.7
Unrecognized tax benefits	35.2	33.5
Other	265.8	119.4
	$ 1,540.6	$ 967.8

6. Earnings Per Share
The numerator for basic and diluted earnings per share (“EPS”) is net earnings attributable to Mosaic. The denominator for basic EPS is the weighted average number of shares outstanding during the period. The denominator for diluted EPS also includes the weighted average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued, unless the shares are anti-dilutive.

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THE MOSAIC COMPANY
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - (Continued)

The following is a reconciliation of the numerator and denominator for the basic and diluted EPS computations:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net earnings attributable to Mosaic	$247.5	$227.5	$357.7	$323.9
Basic weighted average number of shares outstanding	385.5	351.1	384.5	350.9
Dilutive impact of share-based awards	2.0	1.1	1.6	1.0
Diluted weighted average number of shares outstanding	387.5	352.2	386.1	351.9
Basic net earnings per share attributable to Mosaic	$0.64	$0.65	$0.93	$0.92
Diluted net earnings per share attributable to Mosaic	$0.64	$0.65	$0.93	$0.92

A total of 2.0 million and 2.6 million shares of Common Stock subject to issuance upon exercise of stock options for the three and nine months ended September 30, 2018 and 3.4 million and 3.5 million shares and for the three and nine months ended September 30, 2017, respectively, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

7. Income Taxes

During the nine months ended September 30, 2018, gross unrecognized tax benefits increased by $7.2 million to $46.5 million. The increase is primarily related to U.S. tax positions. If recognized, approximately $27.6 million of the $46.5 million in unrecognized tax benefits would affect our effective tax rate and net earnings in future periods.

We recognize interest and penalties related to unrecognized tax benefits as a component of our income tax provision. We had accrued interest and penalties totaling $4.7 million and $4.1 million as of September 30, 2018 and December 31, 2017, respectively, that were included in other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

Accounting for uncertain tax positions is determined by prescribing the minimum probability threshold that a tax position is more likely than not to be sustained based on the technical merits of the position. Mosaic is continually under audit by various tax authorities in the normal course of business. Such tax authorities may raise issues contrary to positions taken by the Company. If such positions are ultimately not sustained by the Company this could result in material assessments to the Company. The Company believes that any issues raised are properly accounted for.

For the three months ended September 30, 2018, tax expense specific to the period was approximately $30.7 million. This consisted primarily of $29.8 million related to the revised year-to-date accounting for the valuation allowances on foreign tax credits, and $8.3 million as a result of revisions to the provisional estimates related to The Act. This was partially offset by a change in sequestration charge on AMT refunds of $2.7 million, $5.1 million related to the effect on deferred income tax liabilities of a decrease in the statutory tax rate in the U.S as a result of the Act, and other miscellaneous benefits of $0.4 million. In addition to items specific to the period, our income tax rate is impacted by the mix of earnings across the jurisdictions in which we operate, by a benefit associated with depletion, and by the impact of certain entities being taxed in both foreign jurisdictions and the US including foreign tax credits for various taxes incurred.

Generally, for interim periods, income tax is equal to the total of (1) year-to-date pretax income multiplied by our forecasted effective tax rate plus (2) tax expense items specific to the period. In situations where we expect to report losses that we do not expect to receive a tax benefit, we are required to apply separate forecasted effective tax rates to those jurisdictions rather than including in the consolidated effective tax rate. For the nine months ended September 30, 2018, income tax expense was impacted by this set of rules resulting in an additional benefit of $0.5 million compared to what would have been recorded under the general rule on a consolidated basis.

For the three months ended September 30, 2017, tax expense specific to the period was $12.4 million. This consisted primarily of expense of $16.8 million related to the $10.4 million pre-tax charges resulting from the resolution of a royalty matter with the government of Saskatchewan and related royalty impacts (“Royalty Resolution”), partially offset by a benefit of $2.4 million primarily related to non-U.S. audit activity and a benefit of $2.0 million related to changes in estimates related to prior years. In addition to the aforementioned items, tax expense specific to the nine months ended September 30,

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2017 was an expense of $5.1 million, which included the Royalty Resolution item of $16.8 million, an expense of $6.7 million related to the effect on deferred income tax liabilities of an increase in the statutory tax rate for one of our equity method investments, and an expense of $8.3 million primarily related to share-based compensation. These costs were partially offset by a benefit of $21.9 million related to a Canadian income tax rate change and a benefit of $4.8 million related to changes in estimates related to prior years.

2017 Impacts of the Tax Cuts and Jobs Act

On December 22, 2017, The Act was enacted, significantly altering U.S. corporate income tax law. The SEC issued Staff Accounting Bulletin 118, which allows companies to record reasonable estimates of enactment impacts where all of the underlying analysis and calculations are not yet complete ("Provisional Estimates"). The Provisional Estimates must be finalized within a one-year measurement period.

Mosaic recorded its Provisional Estimates relating to The Act in the period ending December 31, 2017. The revisions recorded related to the decrease in the statutory tax rate in the U.S as a result of the Act and other items in this period are still considered Provisional Estimates and may differ, possibly materially, due to, among other things, changes in interpretations and assumptions the Company has made, guidance that may be issued, and actions the Company may take as a result of The Act. The Company expects to complete the accounting for the income tax effects related to The Act and record any necessary adjustments to provisional tax amounts before the end of the measurement period on December 21, 2018. See Note 12-Income Taxes in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

8. Inventories

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Raw materials	$ 118.4	$ 37.8
Work in process	611.3	349.9
Finished goods	1,073.0	1,035.1
Final price deferred[a]	38.1	38.6
Operating materials and supplies	116.3	85.8
	$ 1,957.1	$ 1,547.2

[a] Final price deferred is product that has shipped to customers, but the price has not yet been agreed upon.

9. Goodwill

Mosaic had goodwill of $1.8 billion and $1.7 billion at September 30, 2018 and December 31, 2017, respectively. We review goodwill for impairment annually in October or at any time events or circumstances indicate that the carrying value may not be fully recoverable, which is based on our accounting policy and GAAP. The changes in the carrying amount of goodwill, by reporting unit, are as follows:

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	Phosphates	Potash	Mosaic Fertilizantes	Corporate, Eliminations and Other	Total
Balance as of December 31, 2017	$ 492.4	$1,076.9	$ 124.3	$ —	$1,693.6
Foreign currency translation	—	(25.6)	(7.0)	—	(32.6)
Allocation of goodwill due to Realignment	—	—	(12.1)	12.1	—
Goodwill acquired in the Acquisition	92.0	—	—	—	92.0
Balance as of September 30, 2018	$ 584.4	$1,051.3	$ 105.2	$ 12.1	$1,753.0

In connection with the Realignment and the Acquisition, we performed a review of goodwill in the quarter ended March 31, 2018, and no impairment was identified. However, based on our qualitative evaluation, we determined that our Potash reporting unit had an estimated fair value that was not significantly in excess of its carrying value, at 16.7%, and could be at risk of future impairment. We continue to believe that our long-term financial goals will be achieved. Our other reporting units have substantial fair value in excess of their carrying values. Also, based on the proportionate share of business enterprise value (representative of the fair value) we assigned a portion of goodwill to Corporate and Other at that time.

We are required to perform our next annual goodwill impairment analysis as of October 31, 2018. It is possible that, during the remainder of 2018 or beyond, business conditions could deteriorate from the current state, raw material or product price projections could decline significantly from current estimates, or our common stock price could decline significantly. If assumed net sales and cash flow projections are not achieved or our common stock price significantly declines from current levels, book values of certain operations could exceed their fair values, which may result in goodwill impairment charges in future periods. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

10. Marketable Securities Held in Trusts

In August 2016, Mosaic deposited $630 million into two trust funds (together, the “RCRA Trusts”) created to provide cash financial assurance for the estimated costs (“Gypstack Closure Costs”) of closure and long term care of our Florida and Louisiana phosphogypsum management systems (“Gypstacks”), as described further in Note 11 of our Notes to Condensed Consolidated Financial Statements. Our actual Gypstack Closure Costs are generally expected to be paid by us in the normal course of our Phosphate business; however, funds held in each of the RCRA Trusts can be drawn by the applicable governmental authority in the event we cannot perform our closure and long term care obligations. When our estimated Gypstack Closure Costs with respect to the facilities associated with a RCRA Trust are sufficiently lower than the amount on deposit in that RCRA Trust, we have the right to request that the excess funds be released to us. The same is true for the RCRA Trust balance remaining after the completion of our obligations, which will be performed over a period that may not end until three decades or more after a Gypstack has been closed. The investments held by the RCRA Trusts are managed by independent investment managers with discretion to buy, sell, and invest pursuant to the objectives and standards set forth in the related trust agreements. Amounts reserved to be held or held in the RCRA Trusts (including losses or reinvested earnings) are included in other assets on our Condensed Consolidated Balance Sheets.

The RCRA Trusts hold investments, which are restricted from our general use, in marketable debt securities classified as available-for-sale and are carried at fair value. As a result, unrealized gains and losses are included in other comprehensive income until realized, unless it is determined that the carrying value of an investment is impaired on an other-than-temporary basis. There were no other-than-temporary impairment write-downs on available-for-sale securities during the nine months ended September 30, 2018.

We review the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. We determine the fair market values of our available-for-sale securities and certain other assets based on the fair value hierarchy described below:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

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Level 2: Values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3: Values generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.
The estimated fair value of the investments in the RCRA Trusts as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Level 1				
Cash and cash equivalents	$0.3	$ —	$ —	$ 0.3
Level 2				
Corporate debt securities	183.3			