

COMPASS MINERALS INTERNATIONAL INC
Form 10-Q
October 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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
(State or other jurisdiction of incorporation or
organization)

36-3972986
(I.R.S. Employer Identification Number)

9900 West 109th Street
Suite 100
Overland Park, KS 66210
(913) 344-9200

(Address of principal executive offices, zip code and telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: R No: F

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: F

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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 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:

The number of shares outstanding of the registrant’s common stock, \$0.01 par value per share, at October 25, 2012 was 33,110,639 shares.

COMPASS MINERALS INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited) September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 116.4	\$ 130.3
Receivables, less allowance for doubtful accounts of \$2.2 in 2012 and \$2.4 in 2011	110.0	158.8
Inventories	227.3	207.2
Deferred income taxes, net	7.0	7.2
Other	10.2	12.3
Total current assets	470.9	515.8
Property, plant and equipment, net	640.3	573.4
Intangible assets, net	60.2	57.5
Other	66.6	58.8
Total assets	\$ 1,238.0	\$ 1,205.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 3.9	\$ 156.0
Accounts payable	62.8	86.8
Accrued expenses	76.4	59.2
Accrued salaries and wages	14.9	17.3
Income taxes payable	0.8	6.6
Accrued interest	3.0	0.9
Total current liabilities	161.8	326.8
Long-term debt, net of current portion	479.3	326.7
Deferred income taxes, net	72.4	70.7
Other noncurrent liabilities	34.9	34.7
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock: \$0.01 par value, 200,000,000 authorized shares; 35,367,264 issued shares	0.4	0.4
Additional paid-in capital	45.1	37.4
Treasury stock, at cost — 2,256,625 shares at September 30, 2012 and 2,344,060 shares at December 31, 2011	(4.3)	(4.5)
Retained earnings	381.6	372.5
Accumulated other comprehensive income	66.8	40.8
Total stockholders' equity	489.6	446.6
Total liabilities and stockholders' equity	\$ 1,238.0	\$ 1,205.5

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales	\$181.0	\$229.1	\$674.8	\$799.6
Shipping and handling cost	40.9	56.1	177.3	214.9
Product cost	103.9	102.0	340.0	361.8
Gross profit	36.2	71.0	157.5	222.9
Selling, general and administrative expenses	22.1	22.4	66.5	67.6
Operating earnings	14.1	48.6	91.0	155.3
Other (income) expense:				
Interest expense	4.2	5.0	13.7	15.9
Other, net	(0.3)	(1.7)	4.4	(1.5)
Earnings before income taxes	10.2	45.3	72.9	140.9
Income tax expense	0.8	10.7	14.1	35.8
Net earnings	\$9.4	\$34.6	\$58.8	\$105.1
Basic net earnings per common share	\$0.28	\$1.04	\$1.76	\$3.14
Diluted net earnings per common share	\$0.28	\$1.03	\$1.75	\$3.14
Weighted-average common shares outstanding (in thousands):				
Basic	33,110	32,906	33,080	32,877
Diluted	33,138	32,931	33,105	32,907
Cash dividends per share	\$0.495	\$0.45	\$1.485	\$1.35

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

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COMPASS MINERALS INTERNATIONAL, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited, in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net earnings	\$9.4	\$34.6	\$58.8	\$105.1
Other comprehensive income (loss):				
Gain from change in pension obligations, net of tax of \$0.1 and \$(0.1) in the three and nine months ended September 30, 2012, respectively, and \$(0.0) and \$(1.3) in the three and nine months ended September 30, 2011, respectively	0.3	1.1	0.6	4.5
Net gain (loss) on cash flow hedges, net of tax of \$(0.7) and \$(1.5) in the three and nine months ended September 30, 2012, respectively, and \$0.1 and \$(1.0) in the three and nine months ended September 30, 2011, respectively	1.2	(0.1)	2.4	1.7
Cumulative translation adjustment	19.8	(26.2)	23.0	(13.9)
Comprehensive income	\$30.7	\$9.4	\$84.8	\$97.4

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

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COMPASS MINERALS INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2012
(Unaudited, in millions)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	\$0.4	\$37.4	\$(4.5)	\$372.5	\$ 40.8	\$446.6
Dividends on common stock				(49.7)		(49.7)
Shares issued for restricted stock units		(0.1)	0.1			-
Stock options exercised		1.5	0.1			1.6
Income tax benefits from equity awards		0.9				0.9
Stock-based compensation		5.4				5.4
Comprehensive income				58.8	26.0	84.8
Balance, September 30, 2012	\$0.4	\$45.1	\$(4.3)	\$381.6	\$ 66.8	\$489.6

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)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$58.8	\$105.1
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	47.2	48.8
Finance fee amortization	1.0	1.1
Early extinguishment and refinancing of long-term debt	2.8	-
Stock-based compensation	5.4	4.8
Deferred income taxes	(2.0)	5.4
Other, net	1.0	4.7
Asset impairment charges, Goderich tornado	-	4.1
Insurance advances for operating purposes, Goderich tornado	16.3	-
Insurance receivable accrued, Goderich tornado	-	(2.2)
Insurance advances for investment purposes, Goderich tornado	-	(4.1)
Changes in operating assets and liabilities, net of acquisition:		
Receivables	52.0	67.0
Inventories	(16.5)	18.3
Other assets	(3.0)	4.3
Accounts payable and accrued expenses	(29.9)	(58.1)
Other liabilities	(0.9)	1.6
Net cash provided by operating activities	132.2	200.8
Cash flows from investing activities:		
Capital expenditures	(98.9)	(66.5)
Insurance advances for investment purposes, Goderich tornado	-	4.1
Acquisition of a business, net	-	(58.1)
Other, net	(1.0)	0.7
Net cash used in investing activities	(99.9)	(119.8)
Cash flows from financing activities:		
Principal payments on long-term debt	(386.7)	(3.2)
Issuance of long-term debt	387.0	-
Fees paid to refinance long-term debt	(1.8)	-
Deferred financing costs	(2.2)	-
Dividends paid	(49.7)	(45.1)
Proceeds received from stock option exercises	1.6	1.9
Excess tax benefits from equity compensation awards	0.9	1.9
Net cash used in financing activities	(50.9)	(44.5)
Effect of exchange rate changes on cash and cash equivalents	4.7	(4.2)
Net change in cash and cash equivalents	(13.9)	32.3
Cash and cash equivalents, beginning of the year	130.3	91.1
Cash and cash equivalents, end of period	\$116.4	\$123.4
Supplemental cash flow information:		
Interest paid, net of amounts capitalized	\$11.4	\$13.1

Income taxes paid, net of refunds	\$30.4	\$42.4
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In connection with the January 2011 acquisition of Big Quill Resources, Inc., the Company assumed liabilities as follows (in millions):

Fair value of assets acquired, net of deferred tax liabilities 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.

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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 U.K. Its principal products are salt, consisting of sodium chloride and magnesium chloride, and sulfate of potash ("SOP"), a specialty fertilizer. The Company provides highway deicing products to customers in North America and the U.K., and specialty fertilizer to growers worldwide. The Company also produces and markets consumer deicing and water conditioning products, 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, 2011 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 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 July 2012, the Financial Accounting Standards Board ("FASB") issued guidance, which allows entities to use a qualitative approach to test indefinite-lived intangibles for impairment. The new guidance permits an entity to perform a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite-lived intangible is less than its carrying value. If the fair value is less than the carrying value, the entity would be required to perform a quantitative impairment test. This guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this standard will not impact the Company's consolidated financial statements.

In December 2011, the FASB issued guidance which requires an entity to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The update is effective for annual reporting periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. The adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

2. Goderich Tornado:

In August 2011, a tornado struck the Company's salt mine and its salt mechanical evaporation plant, both located in Goderich, Ontario. There was no damage to the underground operations at the mine. However, some of the mine's surface structures and the evaporation plant incurred significant damage which temporarily ceased production at both facilities. The Company resumed production and shipping activities, on a reduced basis, at the Goderich mine in early September 2011 and regained full hoisting capability in April 2012. However, the mine still requires significant repairs and reconstruction to fully restore the damaged surface structures and operating assets. The evaporation plant resumed limited activities in late September 2011 and reached full capability by the end of the first quarter of 2012.

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 and to our business related to the tornado. The Company made an estimate of the impairment of its property, plant and equipment pertaining to the impacted 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 incurred clean-up

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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, net of the Company's deductible. The impairment and clean-up and restoration costs incurred and insurance recoveries recognized in the consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011 are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Product cost:				
Property, plant and equipment impairment charges	\$-	\$4.1	\$-	\$4.1
Site clean-up and restoration costs	1.7	5.3	8.7	5.3
Estimated insurance recoveries recognized	(1.7)	(9.4)	(8.7)	(9.4)
Net impact on product cost excluding business interruption	\$-	\$-	\$-	\$-

The Company received approximately \$25.0 million of insurance advances in the first quarter of 2012. The Company recorded approximately \$1.7 million and \$8.7 million of insurance advances as a reduction to salt product cost in the consolidated statements of operations for the three months and nine months ended September 30, 2012, respectively. The Company also has recorded approximately \$16.3 million as deferred revenue in 2012 in accrued expenses in the consolidated balance sheets and has presented this amount in its operating section of the consolidated statements of cash flows for the nine months ended September 30, 2012. In total, the Company has received \$50.0 million of insurance advances since the tornado occurred and recorded approximately \$26.3 million of deferred revenue in accrued expenses in its consolidated balance sheets as of September 30, 2012. In addition, the Company has recorded approximately \$23.2 million of total insurance advances received as a reduction to salt product costs in the consolidated statements of operations in 2011 and 2012 to offset recognized impairment charges and site clean-up and restoration costs. 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 \$4.8 million which was recorded for the year ended December 31, 2011. However, U.S. GAAP limits the recognition of insurance recoveries in the consolidated financial statements to the amount of recognized losses, provided the Company believes the recoveries are probable. Any gains related to the replacement of property, plant and equipment from insurance recoveries will be recorded in product cost in the consolidated statements of operations when all contingencies relating to the insurance claim have been resolved.

The Company also expects to have a substantial business interruption claim to offset lost profits and to offset certain additional expenses incurred related to the ongoing operations. Thus far, the Company has identified approximately \$1 million and \$18 million for the three and nine months ended September 30, 2012, respectively, of estimated losses that it believes qualify as recoverable business interruption losses for a total of approximately \$34 million of identified estimated losses since the tornado occurred. The amount of actual business interruption recoveries may differ materially from the Company's current and future estimates. The Company believes the impact of estimated lost sales, 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 as a reduction to product cost in the consolidated statements of operations when the insurance claim has been settled. The Company has not recognized any reduction to product cost from insurance recoveries related to estimated business interruption losses.

3. Inventories:

Inventories consist of the following (in millions):

	September 30, 2012	December 31, 2011
Finished goods	\$183.1	\$169.4
Raw materials and supplies	44.2	37.8
Total inventories	\$227.3	\$207.2

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4. Property, Plant and Equipment, Net:

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

	September 30, 2012	December 31, 2011
Land, buildings and structures and leasehold improvements	\$288.2	\$275.9
Machinery and equipment	571.8	541.8
Office furniture and equipment	21.9	21.3
Mineral interests	178.5	174.4
Construction in progress	148.1	68.8
	1,208.5	1,082.2
Less accumulated depreciation and depletion	(568.2)	(508.8)
Property, plant and equipment, net	\$640.3	\$573.4

5. Goodwill and Intangible Assets, Net:

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 at Big Quill Lake in Saskatchewan, Canada. The acquisition was accounted for as a business combination in accordance with U.S. GAAP. The Company engaged an independent third-party expert to assist in the valuations utilized for the purchase price allocation. 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 long-term supply agreement which entitles the Company to the rights to purchase potassium chloride (“MOP” or “KCl”) as a raw material used in the SOP manufacturing process.

In addition to the Big Quill Resources supply agreement, other intangible assets consist of purchased rights to produce SOP, water rights, a tradename and customer relationships. The supply agreement, SOP production rights and customer relationships are being amortized over 50 years, 25 years and 7-10 years, respectively. The water rights and tradename have indefinite lives and have a value of \$5.2 million and \$0.7 million, respectively. None of the intangible assets with finite lives has a residual value. Total amortization expense for the Company was \$0.5 million during both periods for the three months ended September 30, 2012 and 2011 and \$1.5 million during both periods for the nine months ended September 30, 2012 and 2011.

6. Income Taxes:

The Company’s effective income tax rate differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining taxes, domestic manufacturing deductions, and interest expense recognition differences for book and tax purposes. In addition, the Company settled an income tax audit and recognized a reduction to income tax expense of approximately \$3.0 million in the second quarter of 2012.

At September 30, 2012 and December 31, 2011, the Company had approximately \$6.2 million and \$5.8 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, 2012 and December 31, 2011, the Company’s valuation allowance was \$1.3 million and \$1.5 million, respectively. In the future, if the Company determines, based on the existence of

sufficient evidence, that it should realize more or less of its deferred tax assets, an adjustment to any existing valuation allowance will be made in the period such determination is made.

Canadian provincial tax authorities have issued tax reassessments for years 2002-2007 which are under audit, totaling approximately \$67 million, including interest through September 2012, challenging tax positions claimed by one of the Company's Canadian subsidiaries. The Company disputes these reassessments and plans to continue to work with the appropriate authorities in Canada to resolve the dispute. There is a reasonable possibility that the ultimate resolution of this dispute, and any related disputes for other open tax years, may be materially higher or lower than the amounts reserved for such disputes by the Company. In connection with this dispute, local regulations require the Company to post security with the tax authority until the dispute is resolved. The Company and the tax authority have agreed that the Company would post

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collateral of approximately \$35 million in a performance bond (including approximately \$8 million of the performance bond which will be cancelled and paid in cash) and make cash payments of approximately \$40 million (including approximately \$8 million of cash to be paid when a portion of the performance bond is cancelled). Of these cash payments, the Company has paid approximately \$20 million and it has agreed to pay an additional approximately \$1 million during the remainder of 2012 with the remaining balance to be paid after 2012. The Company will be required by the same local regulations to provide security for additional interest on the above 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 resolved.

In addition, the Canadian federal taxing authority has reassessed the Company for years 2004-2006 which have already been settled by agreement among the Company, the Canadian federal taxing authority and the U.S. federal taxing authority. The total amount of the reassessments, including penalties, related to this matter totals approximately \$101 million. The Company is currently in discussion with the Canadian federal taxing authority regarding the required approximately \$62 million of collateral necessary to proceed with future appeals or litigation. The Company has fully complied with the agreement since entering into it and the Company believes this action is highly unusual. The Company is seeking to enforce the contract which provided the basis upon which the Company's tax returns were previously filed and settled. The Company expects the ultimate outcome of this matter will not have a material impact on the Company's results of operations or financial condition, however the Company can provide no assurance as to the ultimate outcome of this matter.

Additionally, the Company has other assessments and disputed positions with taxing authorities in its various jurisdictions.

7. Long-term Debt:

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

	September 30, 2012	December 31, 2011
Term Loan due December 2012	\$-	\$98.3
Incremental Term Loan due December 2012	-	55.3
Extended Term Loan due January 2016	-	231.1
Term Loan due May 2017	385.1	-
Revolving Credit Facility due October 2015	-	-
8% Senior Notes due June 2019	98.1	98.0
	483.2	482.7
Less current portion	(3.9)	(156.0)
Long-term debt	\$479.3	\$326.7

In May 2012, we amended and restated our senior secured credit facility and refinanced our term loans into a single term loan. The new term loan carries an interest rate of 1.75 percent over LIBOR. In connection with the refinancing of our term loans, the Company recorded a \$2.8 million charge in the second quarter of 2012 which is included in other expense in its consolidated statements of operations for the nine months ended September 30, 2012, comprised of refinancing fees of \$1.8 million and the write-off of existing deferred financing fees of \$1.0 million. The new term loan is secured by substantially all existing and future assets of the Company's subsidiaries.

8. U.K. Pension Plan:

The components of net periodic benefit cost for the three and nine months ended September 30, 2012 and 2011 are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest cost on projected benefit obligation	\$0.7	\$1.0	\$2.1	\$2.9
Expected return on plan assets	(0.7)	(0.9)	(2.1)	(2.7)
Net amortization	0.2	0.5	0.7	1.5
Net pension expense	\$0.2	\$0.6	\$0.7	\$1.7

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During the nine months ended September 30, 2012, the Company made \$1.5 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.

9. 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.

10. Operating Segments:

Segment information is as follows (in millions):

	Three Months Ended September 30, 2012			
	Salt	Fertilizer	Specialty Corporate and Other (a)	Total
Sales to external customers	\$122.5	\$54.9	\$3.6	\$181.0
Intersegment sales	0.2	1.1	(1.3)	-
Shipping and handling cost	34.9	6.0	-	40.9
Operating earnings (loss)	12.8	13.1	(11.8)	14.1
Depreciation, depletion and amortization	9.4	5.2	1.1	15.7
Total assets (as of end of period)	749.7	403.6	84.7	1,238.0

	Three Months Ended September 30, 2011			
	Salt	Fertilizer	Specialty Corporate and Other (a)	Total

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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

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	Nine Months Ended September 30, 2012			
	Salt	Specialty Fertilizer	Corporate and Other (a)	Total
Sales to external customers	\$496.7	\$169.6	\$8.5	\$674.8
Intersegment sales	0.6	4.2	(4.8)	-
Shipping and handling cost	157.7	19.6	-	177.3
Operating earnings (loss)	78.1	47.7	(34.8)	91.0
Depreciation, depletion and amortization	28.7	15.6	2.9	47.2

	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

(a) “Corporate and Other” includes corporate entities, the records management business, other incidental business operations 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.

11. Stockholders’ Equity and Equity Instruments:

In 2012, the Company has granted 92,472 stock options, 40,889 restricted stock units (“RSUs”) and 24,534 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.

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 2012 grant is calculated based upon a one-year performance period beginning in 2012 and ending in 2014, 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 granted 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 2012 is included in the table below. The weighted-average grant date fair value of these options was \$22.99.

	Range
Fair value of options granted	21.85 - \$24.84
Exercise price	71.69 - \$76.81
Expected term (years)	3 - 6
Expected volatility	44.4% - 47.9 %
Dividend yield	2.5 %
Risk-free rate of return	0.7% - 1.1%

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

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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 as discussed above. The estimated fair value of the PSUs granted in 2012 is \$74.87 per unit.

During the nine months ended September 30, 2012, the Company reissued 44,137 shares of treasury stock related to the exercise of stock options, 42,439 shares related to the release of RSUs which vested and 859 shares related to a stock payment. The Company recorded additional tax benefits of \$0.9 million from its equity compensation awards as additional paid-in capital during the first nine months of 2012. During the nine months ended September 30, 2012 and 2011, the Company recorded \$5.4 million and \$4.8 million, respectively, of compensation expense in each period 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, 2012.

	Stock Options		RSUs		PSUs(a)	
	Number	Weighted-average exercise price	Number	Weighted-average fair value	Number	Weighted-average fair value
Outstanding at December 31, 2011	520,530	\$ 57.94	109,264	\$ 73.35	25,398	\$ 91.99
Granted	92,472	71.87	40,889	71.87	24,534	74.87
Exercised (b)	(44,137)	34.97	-	-	-	-
Released(b)	(289)	77.11	(42,439)	58.99	-	-
Cancelled/Expired	-	-	(102)	78.36	-	-
Outstanding at September 30, 2012	568,576	\$ 61.98	107,612	\$ 78.45	49,932	\$ 83.58

(a) PSUs are initially included in the table at the 100% attainment level at their grant date and at that level represent one share per unit. The number of shares that will be ultimately issued are based upon the PSUs earned. The 2010 PSU grant has earned 103% of its target through the first two performance periods. The 2011 PSU grant earned 0% in its first performance period. PSUs may earn between 0% and 150% in each performance period.

(b) Common stock issued for exercised options and RSUs released were reissued from treasury stock.

Other Comprehensive Income

The Company's comprehensive income is comprised of net earnings, amortization of the unrealized net pension costs, the change in the unrealized loss on natural gas cash flow hedges and foreign currency translation adjustments. The components of and changes in accumulated other comprehensive income as of and for the nine months ended September 30, 2012 are as follows (in millions):

	Balance December 31, 2011	2012 Change	Balance September 30, 2012
Unrealized gain (loss) on net pension obligations	\$(5.3)	\$0.6	\$(4.7)
Unrealized gain (loss) on cash flow hedges	(3.4)	2.4	(1.0)
Cumulative foreign currency translation adjustment	49.5	23.0	72.5
Accumulated other comprehensive income	\$40.8	\$26.0	\$66.8

With the exception of the cumulative foreign currency translation adjustment, for which no tax effect is recorded, the changes in the components of accumulated other comprehensive income are reflected net of applicable income taxes.

12.

Derivative Financial Instruments:

The Company is subject to various types of market risks including interest rate risk, foreign currency exchange rate transaction and translation risk, and commodity pricing risk. Management may take actions to mitigate the exposure to these types of risks including entering into forward purchase contracts and other financial instruments. Currently, the Company manages a portion of its commodity pricing risk by using derivative instruments. The Company does not seek to engage in trading activities or take speculative positions with any financial instrument arrangements. The Company has entered into natural gas derivative instruments and interest rate swap agreements with counterparties it views as creditworthy. However, management does attempt to mitigate its counterparty credit risk exposures by entering into master netting agreements with these counterparties.

Cash Flow Hedges

As of September 30, 2012, the Company has entered into natural gas derivative instruments. The Company records derivative financial instruments as either assets or liabilities at fair value in the statement of financial position. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the

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related change in value of the underlying hedged item. Depending on the exposure being hedged, the Company must designate the hedging instrument as a fair value hedge, a cash flow hedge or a net investment in foreign operations hedge. All derivative instruments held by the Company as of September 30, 2012 and December 31, 2011 qualified as cash flow hedges. For these qualifying hedges, the effective portion of the change in fair value is recognized through earnings when the underlying transaction being hedged affects earnings, allowing a derivative's gains and losses to offset related results from the hedged item on the income statement. For derivative instruments that are not accounted for as hedges, or for the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. The Company formally documents, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an ongoing basis. Any ineffectiveness related to these hedges was not material for any of the periods presented.

Natural gas is used at several of the Company's production facilities and a change in natural gas prices impacts the Company's operating margin. As of September 30, 2012, the Company had entered into natural gas derivative instruments to hedge a portion of its natural gas purchase requirements through September 2014. The Company's objective is to reduce the earnings and cash flow impacts of changes in market prices of natural gas by fixing the purchase price of up to 90% of its forecasted natural gas usage. It is the Company's policy to hedge portions of its natural gas usage up to 36 months in advance of the forecasted purchase. As of September 30, 2012 and December 31, 2011, the Company had agreements in place to hedge forecasted natural gas purchases of 2.0 and 2.9 million MMBtus, respectively.

As of September 30, 2012, the Company expects to reclassify from accumulated other comprehensive income to earnings during the next twelve months approximately \$1.3 million of net losses on derivative instruments related to its natural gas hedges.

The following table presents the fair value of the Company's hedged items as of September 30, 2012 and December 31, 2011 (in millions):

Derivatives designated as hedging instruments(a):	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	September 30, 2012	Balance Sheet Location	September 30, 2012
Commodity contracts(b)	Other current assets	\$ 0.5	Accrued expenses	\$ 1.8
Commodity contracts	Other assets	-	Other noncurrent liabilities	0.2
Total derivatives designated as hedging instruments		\$ 0.5		\$ 2.0

(a) As of September 30, 2012, the Company has commodity hedge agreements with three counterparties. All of the amounts recorded as liabilities for the Company's commodity contracts are almost entirely payable to one counterparty. The amount recorded as an asset is due from one counterparty.

(b) The Company has master netting agreements with its counterparties and accordingly has netted approximately \$0.1 million of its commodity contracts that are in a receivable position against its contracts in payable positions.

Derivatives designated as hedging instruments(a):	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	December 31, 2011	Balance Sheet Location	December 31, 2011
Commodity contracts(b)		\$ 0.3	Accrued expenses	\$ 5.0

	Other current assets		Other noncurrent liabilities	
Commodity contracts	Other assets	-		0.9
Total derivatives designated as hedging instruments		\$ 0.3		\$ 5.9

(a) The Company has commodity hedge agreements with three counterparties. All of the amounts recorded as liabilities for the Company's commodity contracts are payable almost entirely to one counterparty. The amount recorded as an asset is due from two counterparties.

(b) The Company has master netting agreements with its counterparties and accordingly has netted in its consolidated balance sheets approximately \$0.3 million of its commodity contracts that are in a receivable position against its contracts in payable positions.

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The following table presents activity related to the Company's other comprehensive income ("OCI") for the three and nine months ended September 30, 2012 and 2011 (in millions):

	Location of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
		Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)
Derivatives in Cash Flow Hedging Relationships					
Commodity contracts	Product cost	\$ (0.6)	\$ (1.3)	\$ 1.0	\$ (4.9)
Total		\$ (0.6)	\$ (1.3)	\$ 1.0	\$ (4.9)

	Location of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
		Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) Loss Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)
Derivatives in Cash Flow Hedging Relationships					
Interest rate contracts	Interest expense	\$ -	\$ -	\$ -	\$ (0.6)
Commodity contracts	Product cost	2.0	(1.9)	2.0	(4.1)
Total		\$ 2.0	\$ (1.9)	\$ 2.0	\$ (4.7)

Risks not Hedged

In addition to the United States, the Company conducts its business in Canada and the U.K. The Company's operations may, therefore, be subject to volatility as a result of currency fluctuations, inflation changes and changes in political and economic conditions in these countries. Sales and expenses are frequently denominated in local currencies and the results of operations may be affected adversely as currency fluctuations affect the Company's product prices and operating costs. The Company's historical results do not reflect any material foreign currency exchange hedging activity. However, the Company may engage in hedging activities in the future to reduce the exposure of its net cash flows to fluctuations in foreign currency exchange rates.

The Company is subject to increases and decreases in the cost of transporting its products, due in part, to variations in contracted carriers' cost of fuel, which is typically diesel fuel. The Company's historical results do not include hedging activity related to fuel costs. However, the Company may engage in hedging activities in the future, including forward

contracts, to reduce its exposure to changes in transportation costs due to changes in the cost of fuel.

13. Fair Value Measurements:

As required, the Company's financial instruments are measured and reported at their estimated fair value on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. When available, the Company uses quoted prices in active markets to determine the fair values for its financial instruments (level one inputs), or absent quoted market prices, observable market-corroborated inputs over the term of the financial instruments (level two inputs). The Company does not have any unobservable inputs that are not corroborated by market inputs (level three inputs).

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The Company holds marketable securities associated with its non-qualified savings plan, which are valued based on readily available quoted market prices on a recurring basis. The Company has utilized derivative instruments to manage its risk of changes in natural gas prices. The fair value of the natural gas derivative instruments are determined using market data of forward prices for all of the Company's contracts. The estimated fair values for each type of instrument which are measured on a recurring basis are presented below (in millions).

	September 30, 2012	Level One	Level Two	Level Three
Asset Class:				
Mutual fund investments in a non-qualified savings plan(a)	\$7.2	\$7.2	\$-	\$-
Derivatives - natural gas instruments	0.4	-	0.4	-
Total Assets	\$7.6	\$7.2	\$0.4	\$-
Liability Class:				
Liabilities related to non-qualified savings plan	\$(7.2)	\$(7.2)	\$-	\$-
Derivatives – natural gas instruments	(1.9)	-	(1.9)	-
Total Liabilities	\$(9.1)	\$(7.2)	\$(1.9)	\$-

(a) Includes mutual fund investments of approximately 25% in the common stock of large-cap U.S. companies, approximately 5% in the common stock of small-cap U.S. companies, approximately 5% in the common stock of international companies, approximately 15% in debt securities of U.S. companies, approximately 20% in short-term investments and approximately 30% in blended funds.

	December 31, 2011	Level One	Level Two	Level Three
Asset Class:				
Mutual fund investments in a non-qualified savings plan(a)	\$6.3	\$6.3	\$-	\$-
Total Assets	\$6.3	\$6.3	\$-	\$-
Liability Class:				
Liabilities related to non-qualified savings plan	\$(6.3)	\$(6.3)	\$-	\$-
Derivatives – natural gas instruments	(5.5)	-	(5.5)	-
Total Liabilities	\$(11.8)	\$(6.3)	\$(5.5)	\$-

(a) Includes mutual fund investments of approximately 25% in the common stock of large-cap U.S. companies, approximately 5% in the common stock of small-cap U.S. companies, approximately 5% in the common stock of international companies, approximately 15% in debt securities of U.S. companies, approximately 20% in short-term investments and approximately 30% in blended funds.

Cash and cash equivalents, accounts receivable (net of allowance for bad debts) and payables are carried at cost, which approximates fair value due to their liquid and short-term nature. The Company's investments related to its nonqualified retirement plan of \$7.2 million and \$6.3 million as of September 30, 2012 and December 31, 2011, respectively, are stated at fair value based on quoted market prices. As of September 30, 2012, the estimated fair value of the fixed-rate 8% Senior Notes, based on available trading information, totaled \$108.0 million (level 2) compared with the aggregate principal amount at maturity of \$100 million. The fair value at September 30, 2012 of amounts outstanding under the Credit Agreement, based upon available bid information received from the Company's lender, totaled approximately \$385.1 million (level 2) which is the aggregate principal amount at maturity.

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14. Earnings per Share:

The Company calculates earnings per share using the two-class method. The two-class method requires allocating the Company's net earnings to both common shares and participating securities. The following table sets forth the computation of basic and diluted earnings per common share (in millions, except for share and per-share data):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net earnings	\$9.4	\$34.6	\$58.8	\$105.1
Less: net earnings allocated to participating securities (a)	(0.1)	(0.5)	(0.7)	(1.7)
Net earnings available to common shareholders	\$9.3	\$34.1	\$58.1	\$103.4
Denominator (in thousands):				
Weighted-average common shares outstanding, shares for basic earnings per share	33,110	32,906	33,080	32,877
Weighted-average stock options outstanding (b)	28	25	25	30
Shares for diluted earnings per share	33,138	32,931	33,105	32,907
Net earnings per common share, basic	\$0.28	\$1.04	\$1.76	\$3.14
Net earnings per common share, diluted	\$0.28	\$1.03	\$1.75	\$3.14

(a) Participating securities include options, PSUs and RSUs that receive non-forfeitable dividends. Net earnings were allocated to 419,000 and 426,000 participating securities for the three and nine months ended September 30, 2012, respectively, and 532,000 and 545,000 participating securities for the three and nine months ended September 30, 2011.

(b) For the calculation of diluted earnings per share, the Company uses the more dilutive of either the treasury stock method or the two-class method, to determine the weighted average number of outstanding common shares. In addition, the Company had 707,000 and 697,000 weighted options and performance stock units for the three and nine months ended September 30, 2012, respectively, and 741,000 and 733,000 weighted options outstanding for the three and nine months ended September 30, 2011, respectively, which were anti-dilutive and therefore not included in the diluted earnings per share calculation.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

All statements, other than statements of historical fact, contained herein constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following: domestic and international general business and economic conditions; uninsured risks and hazards associated with underground mining operations; losses for acts of nature which may not be fully reimbursable through our insurance carriers; the timing of any insurance reimbursements may not correspond to the period in which the loss was incurred; governmental policies affecting the agricultural industry, consumer and industrial industry or highway maintenance programs in localities where the Company or its customers operate; weather conditions; the impact of competitive products; pressure on prices realized by the Company for its products; constraints on supplies of raw materials used in manufacturing certain of the Company’s products and the availability of transportation services; capacity constraints limiting the production of certain products; the ability to attract and retain skilled personnel as well as labor relations including without limitation, the impact of work rules, strikes or other disruptions, wage and benefit requirements; difficulties or delays in the development, production, testing and marketing of products; difficulties or delays in receiving and renewing required governmental and regulatory approvals; the impact of new technology on the demand for our products; market acceptance issues, including the failure of products to generate anticipated sales levels; the effects of and changes in trade, monetary, environmental and fiscal policies, laws and regulations; the impact of the Company’s indebtedness and interest rates changes; foreign exchange rates and fluctuations in those rates; the costs and effects of legal proceedings including environmental and administrative proceedings involving the Company; customer expectations about future potash market prices and availability and agricultural economics; the impact of credit and capital markets, including the risk of customer and counterparty defaults and declining credit availability; changes in tax laws or estimates; and other risk factors reported in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) as updated quarterly on Form 10-Q.

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” or the negative of these terms or comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no duty to update any of the forward-looking statements after the date hereof or to reflect the occurrence of unanticipated events.

Unless the context requires otherwise, references in this quarterly report to the “Company,” “Compass,” “Compass Minerals,” “CMP,” “we,” “us” and “our” refer to Compass Minerals International, Inc. (“CMI”, the parent holding company) its consolidated subsidiaries.

Critical Accounting Estimates

Preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments result primarily from the need to make estimates about matters that are inherently uncertain. Management’s Discussion and Analysis and Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC on

February 22, 2012, describe the significant accounting estimates and policies used in preparation of our consolidated financial statements. Actual results in these areas could differ from management's estimates.

Results of Operations

Deicing products, consisting of deicing salt and magnesium chloride used by highway deicing and consumer and industrial customers, constitute a significant portion of the Company's salt segment sales. Our deicing sales are seasonal and can fluctuate from year to year depending on the severity of the winter season weather in the regions we serve. Inventory management practices are employed to respond to the varying level of demand which impacts our production volumes, the resulting per ton cost of inventory and ultimately profit margins, particularly during the second and third quarters when we build our inventory levels for the upcoming winter and earnings are typically lower than the first and fourth quarters. In the first quarter of 2012, winter weather was significantly milder than average and unfavorably impacted our sales and operating earnings. As a result, we expect to have lower rock salt production at our mines in 2012, when compared to production following an average winter. The lower rock salt production is also expected to result in increased per-unit costs through the 2012-2013 winter season. Additionally, since the winter was abnormally mild, customer inventory levels were unusually high exiting the 2011-2012 winter. This higher than typical customer inventory has resulted in lower early fill sales in the third quarter of 2012. In the first quarter of 2011, the frequency of winter weather events was higher than long-term averages, yet inventory constraints limited our ability to capitalize on more-severe-than-average weather in some of the regions we serve.

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As a result, we estimated that there was no significant impact on our sales or operating earnings in the first quarter of 2011 from winter weather.

In August 2011, a tornado struck the Company's salt mine and its salt mechanical evaporation plant, both located in Goderich, Ontario. There was no damage to the underground operations at the mine. However, some of the mine's surface structures and the evaporation plant incurred significant damage which temporarily ceased production at both facilities. The Company resumed production and shipping activities, on a reduced basis, at the Goderich mine in early September 2011 and regained full hoisting capability in April 2012. However, the mine still requires significant repairs and reconstruction to fully restore the damaged surface structures and operating assets. The evaporation plant resumed limited activities in late September 2011 and reached full capacity by the end of the first quarter of 2012. We recorded approximately \$4.1 million and \$0.7 million in the third and fourth quarters of 2011, respectively, for the impairment of our property, plant and equipment at the facilities. However, we may need to record additional impairment charges as more information becomes available. In addition, we have incurred clean-up and restoration costs related to the tornado. We expect to be fully reimbursed by our insurers for the replacement and repair costs for our property, plant and equipment and associated clean-up costs incurred, net of our deductible. In the third quarter of 2011, we recognized in the consolidated statements of operations asset impairment charges and clean-up and restoration costs incurred of \$9.4 million fully offset by the expected insurance recoveries of \$9.4 million. In 2012, we recorded \$1.7 million and \$8.7 million of clean-up and restoration costs in the consolidated statements of operations for the three and nine months ended September 30, 2012, respectively, which were fully offset in each period by the expected insurance recoveries.

We incurred approximately \$31 million of capital expenditures during the first nine months of 2012 to replace and, in some instances, improve property, plant and equipment damaged or destroyed from the tornado bringing total capital expenditures for replacement and improvements to the property, plant and equipment to \$48 million. Improvements to the property, plant and equipment will not be reimbursed under our insurance policies. We estimate we will spend another approximately \$10 million during the next two quarters to complete the replacement of all property, plant and equipment impacted by the tornado. Capital expenditures to replace damaged property, plant and equipment will result in an increase in depreciation expense in future years. We also expect to have a substantial business interruption claim to offset the lost profits and to offset certain additional expenses incurred related to the ongoing operations. Since the tornado occurred, we have identified to date approximately \$34 million (\$16 million in the fourth quarter of 2011, and \$18 million in the first nine months of 2012) of estimated losses that we believe qualify as recoverable business interruption losses. However, we may not have been able to estimate the full amount of losses incurred since the tornado occurred. The amount of actual business interruption recoveries may differ materially from the Company's current and future estimates. We still expect to incur additional costs and other losses associated with the tornado (which we intend to seek recovery from a business interruption insurance claim) through at least the fourth quarter of 2012. These costs and losses are largely related to higher per-unit costs to produce inventory and to purchase finished goods inventories and will continue into the 2012-2013 winter season when the inventories are likely sold to serve contracted business. We also experienced other incremental losses and costs due to the tornado related to our ongoing business. We believe the impact from lost sales, lost production and additional expenses we will incur will be substantially covered by our insurance policies. Any business interruption insurance recoveries will be recognized as a reduction to "product cost" in the consolidated statements of operations when the insurance claim has been settled.

Our sulfate of potash ("SOP") product is used principally in the production of specialty fertilizers for high-value crops and turf. Our domestic sales of SOP are concentrated in the Western and Southeastern U.S. where the crops and soil conditions favor the use of low-chloride potassium nutrients, such as SOP. Consequently, weather patterns and field conditions in these locations can impact the amount of specialty fertilizer sales volumes. Since our production process relies on solar evaporation during the summer to produce SOP at our Ogden facility, the intensity of heat and relative dryness of the weather conditions during that time impact the amount of solar evaporation which occurs and

correspondingly, the amount of raw SOP feedstock available to convert to finished product. During the summer of 2011, localized rains and cooler weather, especially early in the summer, slowed the summer solar evaporation process at this operation, when compared to more-typical summer weather, reducing the amount of precipitated minerals over the solar season, which are the raw materials utilized to produce SOP. The reduced minerals precipitated has decreased SOP finished goods production volumes from our solar ponds in 2012, and increased per-unit production costs accordingly. We have also purchased and consumed some higher-cost mineral feedstock for SOP production in 2012. We expect the higher per-unit production costs for the inventory produced in 2012 to continue to impact our margins until early 2013 when we expect the remaining inventory produced in 2012 will be sold. In the 2012 solar evaporation season, the weather has been more typical than the 2011 season. Therefore, we expect a better-than-normal deposit of raw materials from which we produce our finished SOP, and significantly more than the same period of 2011's solar season. These raw materials will be utilized to produce SOP primarily in 2013.

Additionally, the demand for and market price of SOP is affected by the broader potash market. The potash market is influenced by many factors such as world grain and food supply, changes in consumer diets, general levels of economic activity, governmental food programs, and governmental agriculture and energy policies around the world. Economic factors may impact the amount or type of crop grown in certain locations, or the type of fertilizer product used. High-value or chloride-sensitive crop yields and/or quality are generally lower when potassium chloride ("MOP" or "KCl") is used as a potassium nutrient, rather than SOP. Market prices for MOP are well above historical levels though below the historic-high prices seen at the end of 2008. These same factors have similarly influenced SOP market pricing, which has historically been sold at prices

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above MOP market pricing, and the resulting average price of our SOP has fluctuated dramatically in recent years. We expect SOP pricing to retain a premium to MOP although as MOP pricing increases, the amount and percentage of the premium tends to decrease.

Our North American salt mines and SOP production facilities are near either water or rail transport systems, which reduces our shipping and handling costs when compared to alternative methods of distribution, although shipping and handling costs still account for a relatively large portion of the total delivered cost of our products. Shipping and handling costs on a per-ton basis for the nine months ended September 30, 2012 have increased when compared to those experienced in the first nine months of 2011 partially as a result of higher oil-based fuel costs. Future period per-unit costs will continue to be influenced by oil-based fuel costs.

Manpower costs, energy costs, packaging, and certain raw material costs, particularly KCl, which can be used to make a portion of our deicing and water conditioning products, are also significant. The Company's production workforce is typically represented by labor unions with multi-year collective bargaining agreements. Miners at our Goderich, Ontario mine took part in a strike from August 20 to September 30, 2012. The strike resulted in additional incremental costs of approximately \$1 million in the third quarter of 2012, which includes the effects of lower salt production during the strike. Additionally, unscheduled maintenance at our Cote Blanche mine increased per-unit costs in the third quarter of 2012. We expect to incur additional costs and other losses associated with the Goderich tornado. These costs and losses related to the tornado are expected to continue into the 2012-2013 winter season when the remaining tornado-impacted finished goods inventories are likely sold and other losses and costs associated with the tornado will cease to be incurred. (See discussion above for historical and expected trends in costs and losses due to the effects of the Goderich tornado and our expectations of recovering these costs and losses.)

Our energy costs result from the consumption of electricity with relatively stable, rate-regulated pricing, and natural gas, which can have significant pricing volatility. We manage the pricing volatility of our natural gas purchases with natural gas forward swap contracts up to 36 months in advance of purchases, helping to reduce the impact of short-term spot market price volatility. We have purchased KCl for certain water conditioning and consumer deicing applications at higher prices than the prior year, which has increased input costs, although the impact on the Company's gross margin is not expected to be significant. The Company's SOP production in Canada purchases KCl under a very long-term supply agreement. Our production methods at that site use the purchased KCl to create high-purity SOP.

The consolidated financial statements have been prepared to present the historical financial condition and results of operations and cash flows for the Company which include our salt segment, specialty fertilizer segment, our records management business and unallocated corporate activities. The results of operations of the records management business include sales of \$2.5 million for both the three months ended September 30, 2012 and 2011, respectively, and \$7.4 million and \$8.4 million for the nine months ended September 30, 2012 and 2011, respectively, and other incidental revenues of \$1.1 million for the three and nine months ended September 30, 2012. These revenues are not material to our consolidated financial statements and consequently, are not included in the table below. The following tables and discussion should be read in conjunction with the information contained in our consolidated financial statements and the accompanying notes included elsewhere in this quarterly report.

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Salt Sales (in millions)				
Salt sales	\$122.5	\$175.5	\$496.7	\$635.2
Less: salt shipping and handling	34.9	50.6	157.7	195.5
Salt product sales	\$87.6	\$124.9	\$339.0	\$439.7
Salt Sales Volumes (thousands of tons)				
Highway deicing	1,070	1,937	5,275	7,511
Consumer and industrial	511	543	1,510	1,610
Total tons sold	1,581	2,480	6,785	9,121
Average Salt Sales Price (per ton)				
Highway deicing	\$47.12	\$48.32	\$53.35	\$52.10
Consumer and industrial	141.01	150.80	142.52	151.50
Combined	77.45	70.76	73.19	69.64
Specialty Fertilizer ("SOP") Sales (in millions)				
SOP sales	\$54.9	\$51.1	\$169.6	\$156.0
Less: SOP shipping and handling	6.0	5.5	19.6	19.4
SOP product sales	\$48.9	\$45.6	\$150.0	\$136.6
SOP Sales Volumes (thousands of tons)	90	81	277	259
SOP Average Price (per ton)	\$615	\$631	\$613	\$603

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Sales

Sales for the third quarter of 2012 of \$181.0 million decreased \$48.1 million, or 21% compared to \$229.1 million for the same quarter of 2011. Sales primarily include revenues from the sale of our salt and specialty fertilizer products, or "product sales," revenues from our records management business, and shipping and handling costs incurred to deliver salt and specialty fertilizer products to our customers. Shipping and handling costs decreased \$15.2 million from \$56.1 million in the third quarter of 2011 to \$40.9 million in the third quarter of 2012 due primarily to lower salt sales volumes in the third quarter of 2012 when compared to same period of 2011.

Product sales for the third quarter of 2012 of \$136.5 million decreased \$34.0 million compared to \$170.5 million for the same period in 2011 principally reflecting lower salt segment product sales partially offset by higher specialty fertilizer segment product sales.

Salt product sales for the third quarter of 2012 of \$87.6 million decreased \$37.3 million, or 30% compared to \$124.9 million for the same period in 2011. The decrease in product sales in the third quarter was due to lower salt sales volumes. Salt sales volumes in the quarter decreased by 899,000 tons from 2011 levels due to lower sales of rock salt and other deicing products in our highway and consumer and industrial businesses. We experienced unprecedented preseason demand in 2011, while sales volumes in 2012 were lower from the effects of the significantly milder than average 2011-2012 winter season which left customers with higher inventory levels and therefore, reduced the need for early fill orders in the third quarter of 2012. Additionally, sales of rock salt to non-seasonal chemical producers were lower in the third quarter of 2012 principally due to weakness in the broader economy. Both highway deicing and consumer and industrial average sales prices were negatively impacted by product mix as a larger portion of our sales volumes were due to lower-priced non-seasonal, non-deicing customers in the third quarter of 2012 when compared to the same period in the prior year.

SOP product sales for the third quarter of 2012 of \$48.9 million increased \$3.3 million, or 7% compared to \$45.6 million for the same period in 2011. This increase was due primarily to a 9,000 ton, or 11%, increase in sales volumes in the third quarter of 2012 when compared to the prior year, which contributed approximately \$4 million to the increase in specialty fertilizer product sales. Our average per-ton sales price decreased 3% in the third quarter of 2012 and negatively impacted specialty fertilizer product sales by approximately \$1 million.

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Gross Profit

Gross profit for the third quarter of 2012 of \$36.2 million decreased \$34.8 million or 49% compared to \$71.0 million in the third quarter of 2011. As a percent of total sales, 2012 gross margin decreased by 11 percentage points, from 31% in the third quarter of 2011 to 20% in the third quarter of 2012. The gross profit for the salt segment decreased primarily due to lower highway deicing sales volumes and the impact of higher average per-unit salt product costs in the third quarter of 2012 as a result of the effects of a tornado which struck our salt mine and salt mechanical evaporation plant, both located in Goderich, Ontario in August 2011. Thus far, we have identified approximately \$1 million of estimated losses incurred in the third quarter of 2012 that we believe qualify as recoverable business interruption losses. Any insurance recoveries related to business interruption will be recognized as a reduction to "product cost" in the consolidated statements of operations when the insurance claim has been settled. During the third quarter of 2012, we recorded approximately \$1.7 million of clean-up and restoration costs which were offset by \$1.7 million of expected insurance recoveries. The strike resulted in additional incremental costs of approximately \$1 million in the third quarter of 2012, which includes the effects of lower salt production during the third quarter of 2012. Additionally, unscheduled maintenance at our Cote Blanche mine increased per-unit costs in the current period. The gross margin for the SOP segment decreased primarily due to the impact of higher per-unit production costs relating to the impact on per-unit production costs of localized rains and cooler weather at our Ogden facility experienced in the summer of 2011 and the related higher costs associated with the use of purchased mineral feedstock to supplement the reduction of our pond-based SOP production in the third quarter of 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter of 2012 of \$22.1 million decreased \$0.3 million, or 1% compared to \$22.4 million for the same period of 2011. The decrease in expense is primarily due to lower compensation expenses.

Interest Expense

Interest expense for the third quarter of 2012 of \$4.2 million decreased \$0.8 million compared to \$5.0 million for the same period in 2011. This decrease is primarily due to lower interest rates resulting from the refinancing of our term loans in May 2012.

Other (Income) Expense, Net

Other income was \$0.3 million for the third quarter of 2012 and was \$1.7 million for the third quarter of 2011. Net foreign exchange losses were \$0.3 million in the third quarter of 2012 as compared to foreign exchange gains of \$2.0 million in the third quarter of 2011.

Income Tax Expense

Income tax expense for the third quarter of 2012 was \$0.8 million as compared to \$10.7 million for the third quarter of 2011 primarily reflecting lower pretax income. Our effective tax rate for the three months ended September 30, 2012 decreased due to lower pre-tax income in 2012 and the effects of refinements made in the third quarter related to the expected full-year tax rate. These factors reduced income tax expense by approximately \$1.4 million in the third quarter of 2012. Our 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, and interest expense recognition differences for book and tax purposes.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Sales

Sales for the nine months ended September 30, 2012 of \$674.8 million decreased \$124.8 million, or 16% compared to \$799.6 million for the nine months ended September 30, 2011. Shipping and handling costs were \$177.3 million during the first nine months of 2012, a decrease of \$37.6 million compared to \$214.9 million for the same period in 2011. The decrease in shipping and handling costs is primarily due to lower salt sales volumes in the first nine months of 2012 when compared to same period of 2011. Fuel costs were slightly higher for the nine months ended September 30, 2012 when compared with 2011 and unfavorably impacted shipping and handling costs.

Product sales for the first nine months of 2012 of \$489.0 million decreased \$87.3 million, or 15% compared to \$576.3 million for the same period in 2011 principally reflecting lower product sales in the salt segment offset partially by higher product sales for our specialty fertilizer segment.

Salt product sales of \$339.0 million for the nine months ended September 30, 2012 decreased \$100.7 million or 23% compared to \$439.7 million in 2011. The decrease in the first nine months of 2012 was due primarily to lower salt sales volumes, which contributed approximately \$100 million to the reduced salt product sales. Salt sales volumes in 2012

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decreased by 2,336,000 tons from 2011 levels consisting of lower highway sales volumes principally due to lower sales of rock salt and other deicing products in our highway and consumer and industrial businesses. The decrease in volumes was primarily due to the significantly milder than average weather in the first quarter of 2012 in the markets we serve. Additionally, we experienced unprecedented preseason demand in 2011, while the effects of the significantly milder than average 2011-2012 winter season left customers with higher inventory levels and therefore, reduced the need for early seasonal orders in the third quarter of 2012. In the first quarter of 2011, the impact on our salt sales due to winter weather was estimated by the Company to be near average. In the first nine months of 2012, price improvements for our highway business were partially offset by lower average selling prices for our consumer and industrial business due to product mix. In addition, the strengthening of the U.S. dollar in the nine months of 2012 when compared to the prior year exchange rate for the Canadian dollar, unfavorably impacted product sales by approximately \$3 million.

SOP product sales of \$150.0 million for the nine months ended September 30, 2012 increased \$13.4 million, or 10%, over \$136.6 million during the same period in 2011. This increase was due to an increase in specialty fertilizer sales volumes and an increase in our average sales price to \$613 per ton in the first nine months of 2012 compared to \$603 per ton in the same period in 2011.

Gross Profit

Gross profit for the nine months ended September 30, 2012 of \$157.5 million decreased \$65.4 million, or 29% compared to \$222.9 million for the same period in 2011. As a percent of total sales, 2012 gross margin decreased by five percentage points, from 28% to 23%. The gross profit for the salt segment contributed approximately \$56 million to the decline in gross profit due to lower salt deicing volumes and the impact of higher average per-unit salt product costs in the first nine months of 2012 as a result of the effects of a tornado which struck our salt mine and salt mechanical evaporation plant, both located in Goderich, Ontario in August 2011. The first nine months of 2011 was also unfavorably impacted by higher costs, when inventory with higher-than typical production costs in 2010, was sold in the first quarter of 2011. Thus far, we have identified to date approximately \$18 million of estimated losses incurred in the first nine months of 2012 that we believe qualify as recoverable business interruption losses. Any insurance recoveries related to business interruption will be recognized as a reduction to "product cost" in the consolidated statements of operations when the insurance claim has been settled. During the first nine months of 2012, we recorded \$8.7 million of clean-up and restoration costs which were offset by \$8.7 million of expected insurance recoveries. Additionally, the strike resulted in additional incremental costs of approximately \$1 million in the third quarter of 2012, which includes the effects of lower salt production and unscheduled maintenance at our Cote Blanche mine, increased per-unit costs in the third quarter of 2012. The reduction in gross profit was offset by modestly improved per-unit costs, excluding the estimated effects of the tornado and the strike, due to improved operating efficiencies primarily at our North American salt mining operations. The specialty fertilizer segment gross profit decreased by approximately \$9 million in the first nine months of 2012 principally due to higher per-unit production costs resulting from localized rains and cooler weather experienced in the summer of 2011 at our Ogden facility, which reduced solar pond-based SOP production volumes and resulted in the Company using higher cost purchased mineral feedstock for production in 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first nine months of 2012 of \$66.5 million decreased \$1.1 million, or 2% compared to \$67.6 million for the same period of 2011. The decrease in expense is primarily due to lower variable compensation expense in the first nine months of 2012 partially offset by higher other compensation expenses when compared to the same period in 2011.

Interest Expense

Interest expense for the first nine months of 2012 of \$13.7 million decreased \$2.2 million compared to \$15.9 million for the same period in 2011. This decrease is primarily due to the expiration of our interest rate swap agreements which fixed interest rates in the first quarter of 2011 and lower interest rates due to the refinancing of our term loans in May 2012.

Other (Income) Expense, Net

Other expense of \$4.4 million for the first nine months of 2012 increased \$5.9 million compared to other income of \$1.5 million in the same period of 2011. The second quarter of 2012 included a \$2.8 million charge related to the refinancing of our term loans in May 2012, comprised of refinancing fees of \$1.8 million and the write-off of existing deferred financing fees of \$1.0 million. In addition, net foreign exchange losses were \$2.9 million in the first nine months of 2012 when compared to foreign exchange gains of \$1.3 million in the same period in 2011.

Income Tax Expense

Income tax expense of \$14.1 million for the nine months ended September 30, 2012 decreased \$21.7 million from \$35.8 million for the same period in 2011 partially reflecting the decline in pre-tax income in 2012. In addition, we settled an income tax audit which resulted in a \$3.0 million reduction to income tax expense in the nine months ended September 30, 2012. Our 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, and interest expense recognition differences for book and tax purposes.

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Liquidity and Capital Resources

Historically, we have used cash generated from operations to meet our working capital needs, to fund capital expenditures, to pay dividends and to repay our debt. Principally due to the nature of our deicing business, our cash flows from operations are seasonal, with the majority of our cash flows from operations generated during the first half of the calendar year. When we have not been able to meet our short-term liquidity or capital needs with cash from operations, whether as a result of the seasonality of our business or other causes, we have met those needs with borrowings under our \$125 million Revolving Credit Facility. We expect to meet the ongoing requirements for debt service, any declared dividends and capital expenditures from these sources. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Cash and cash equivalents of \$116.4 million as of September 30, 2012 decreased \$13.9 million over December 31, 2011. We used our operating cash flows of \$132.2 million generated in the first nine months of 2012 principally to fund capital expenditures of \$98.9 million and to pay dividends on our common stock of \$49.7 million.

As of September 30, 2012, we had \$483.2 million of principal indebtedness consisting of \$98.1 million 8% Senior Notes (\$100 million at maturity) due 2019 and \$385.1 million of borrowings outstanding under our Credit Agreement. In May 2012, we amended and restated our senior secured credit facility and refinanced our term loans into a single term loan. The new term loan carries an interest rate of 1.75 percent over LIBOR. No amounts were borrowed under our Revolving Credit Facility as of September 30, 2012. We had \$7.8 million of outstanding letters of credit as of September 30, 2012 which reduced our Revolving Credit Facility borrowing availability to \$117.2 million.

Our debt service obligations could, under certain circumstances, materially affect our financial condition and impair our ability to operate our business or pursue our business strategies. As a holding company, CMI's investments in its operating subsidiaries constitute substantially all of its assets. Consequently, our subsidiaries conduct all of our consolidated operations and own substantially all of our operating assets. The principal source of the cash needed to pay our obligations is the cash generated from our subsidiaries' operations and their borrowings. Our subsidiaries are not obligated to make funds available to CMI. Furthermore, we must remain in compliance with the terms of our Credit Agreement, including the total leverage ratio and interest coverage ratio, in order to make payments on our 8% Senior Notes or pay dividends to our stockholders. We must also comply with the terms of our indenture, which limits the amount of dividends we can pay to our stockholders. Although we are in compliance with our debt covenants as of September 30, 2012, we cannot assure you that we will remain in compliance with these ratios nor can we assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund scheduled interest payments on the 8% Senior Notes, when due. If we consummate an additional acquisition, our debt service requirements could increase. Furthermore, we may need to refinance all or a portion of our indebtedness on or before maturity, however we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We have been able to manage our cash flows generated and used across the Company to permanently reinvest earnings in our foreign jurisdictions or efficiently repatriate those funds to the U.S. The amount of permanently reinvested earnings is influenced by, among other things, the profits generated by our foreign subsidiaries and the amount of investment in those same subsidiaries. The profits generated by our domestic and foreign subsidiaries are, to some extent, impacted by the values charged on the transfer price of our products between them. We calculate values charged on transfers based on guidelines established by the multi-national organization which publishes accepted tax guidelines recognized in all of the jurisdictions in which we operate, and those calculated values are the basis upon which our subsidiary income taxes, profits and cash flows are realized. Some of our calculated values have been approved by taxing authorities for certain periods while the values for those same periods or different periods have been challenged by the same or other taxing authorities. While we believe our calculations are proper and

consistent with the accepted guidelines, we can make no assurance that the final resolution of these matters with all of the relevant taxing authorities will be consistent with our existing tax return calculations and resulting financial statements. Additionally, the timing for settling these challenges may not occur for many years. We currently expect the outcome of these matters will not have a material impact on our results of operations. However, it is possible the resolution could impact the amount of earnings attributable to our domestic and foreign subsidiaries, which could impact the amount of permanently reinvested earnings and the tax-efficient access to consolidated cash on hand in all jurisdictions and future cash flows from operations.

Canadian provincial tax authorities have issued tax reassessments for years 2002-2007 which are under audit, totaling approximately \$67 million, including interest through September 2012, challenging tax positions claimed by one of our Canadian subsidiaries. We dispute these reassessments and plan to continue to work with the appropriate authorities in Canada to resolve the dispute. There is a reasonable possibility that the ultimate resolution of this dispute, and any related disputes for other open tax years, may be materially higher or lower than the amounts we have reserved for such disputes. In connection with this dispute, local regulations require us to post security with the tax authority until the dispute is resolved. We have agreed with the tax authority to post collateral of approximately \$35 million in a performance bond (including approximately \$8 million of the performance bond which will be cancelled and paid in cash) and make cash payments of approximately \$40 million (including approximately \$8 million of cash to be paid when a portion of the performance bond is cancelled). Of these cash payments, we have paid approximately \$20 million and we have agreed to pay an additional

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approximately \$1 million during the remainder of 2012 with the remaining balance to be paid after 2012. We will be required by the same local regulations to provide security for additional interest on the above 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 resolved.

In addition, the Canadian federal taxing authority has reassessed us for years 2004-2006 which have already been settled by agreement among the Company, the Canadian federal taxing authority and the U.S. federal taxing authority. The total amount of the reassessments, including penalties, related to this matter totals approximately \$101 million. We are currently in discussion with the Canadian federal taxing authority regarding the required approximately \$62 million of collateral necessary to proceed with future appeals or litigation. We have fully complied with the agreement since entering into it and we believe this action is highly unusual. We are seeking to enforce the contract which provided the basis upon which our tax returns were previously filed and settled. We expect the ultimate outcome of this matter will not have a material impact on our results of operations or financial condition, however we can provide no assurance as to the ultimate outcome of this matter.

In August 2011, a tornado struck our salt mine and salt mechanical evaporation plant in Goderich, causing extensive damage to our property, plant and equipment; significant clean up costs; and interference with our operations. Losses caused by the tornado have affected our 2011 and 2012 consolidated financial statements and liquidity and will continue to impact our 2012 consolidated financial statements through at least the fourth quarter of 2012. While we expect to be reimbursed for these losses by our insurance carriers, there can be no assurance that all losses will be fully or even substantially reimbursed. We do not believe a final settlement will occur until 2013. In addition, we may not have been able to estimate the full amount of losses caused by the tornado. In 2012, we recorded \$1.7 million and \$8.7 million of clean-up and restoration costs in the consolidated statements of operations for the three and nine months ended September 30, 2012, respectively, which were fully offset in each period by the expected insurance recoveries. Since the tornado occurred, we have identified to date approximately \$34 million (\$16 million in 2011, \$18 million in the first nine months of 2012) of estimated losses that we believe qualify as recoverable business interruption losses. Thus far in 2012, we have had approximately \$31 million of capital expenditures to replace and, in some instances, improve property, plant and equipment damaged or destroyed from the tornado. Business interruption losses and capital expenditures to replace or repair assets reduce cash flows available for other operating needs of our business. The amount of actual business interruption recoveries may differ materially from the Company's current and future estimates and the ultimate collection and timing of any insurance recoveries could materially impact our short-term or long-term financial position and liquidity. We received approximately \$25.0 million of insurance advances in the first quarter of 2012. The Company recorded approximately \$8.7 million of insurance advances as a reduction to salt product cost in the consolidated statements of operations and the remaining balance of approximately \$16.3 million as deferred revenue in accrued expenses in the consolidated balance sheets in the first nine months of 2012. In total, the Company has received \$50.0 million of insurance advances since the tornado and recorded approximately \$26.3 million of deferred revenue in accrued expenses in its consolidated balance sheets as of September 30, 2012. We have also recorded \$23.2 million of total insurance advances received as a reduction to salt product costs in the consolidated statements of operations in 2011 and 2012 to offset recognized impairment charges and site clean-up and restoration costs.

For the Nine Months Ended September 30, 2012 and 2011

Net cash flows provided by operating activities for the nine months ended September 30, 2012 were \$132.2 million, a decrease of \$68.6 million compared to \$200.8 million for the first nine months of 2011. Our net earnings have decreased \$46.3 million. Additionally, we had a reduction in working capital items of \$2.6 million in the first nine months of 2012 compared to a reduction of \$31.5 million in the first nine months of 2011. These changes to working capital provided a portion of our cash flows from operations, and reflect the seasonal nature of our deicing products and will vary largely due to the severity and timing of the winter weather in our regions.

Net cash flows used by investing activities of \$99.9 million and \$119.8 million for the nine months ended September 30, 2012 and 2011, respectively, resulted primarily from capital expenditures of \$98.9 million and \$66.5 million respectively. Our capital expenditures in 2012 include expenditures to support the SOP evaporation plant expansion and yield improvement projects at our Great Salt Lake operations and capital expenditures of approximately \$31 million (including expenditures for improvements to our existing property, plant and equipment which are not fully reimbursable) for the replacement of property, plant and equipment damaged or destroyed by the tornado. The remaining capital expenditures were primarily for routine replacements. In 2011, we invested \$58.1 million for the acquisition of Big Quill Resources.

Net cash flows used by financing activities for the nine months ended September 30, 2012 were \$50.9 million, resulting from dividend payments of \$49.7 million and fees paid to refinance our debt, which was partially offset by proceeds received from stock option exercises. During the first nine months of 2011, we used \$44.5 million of cash flows, primarily to make \$45.1 million of dividend payments which was partially offset by proceeds received from stock option exercises.

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Sensitivity Analysis Related to EBITDA and Adjusted EBITDA

Management uses a variety of measures to evaluate the performance of CMP. While the consolidated financial statements, taken as a whole, provide an understanding of our overall results of operations, financial condition and cash flows, we analyze components of the consolidated financial statements to identify certain trends and evaluate specific performance areas. In addition to using U.S. generally accepted accounting principles (“GAAP”) financial measures, such as gross profit, net earnings and cash flows generated by operating activities, management uses EBITDA and EBITDA adjusted for items which management believes are not indicative of the Company’s ongoing operating performance (“Adjusted EBITDA”). Both EBITDA and Adjusted EBITDA are non-GAAP financial measures used to evaluate the operating performance of our core business operations due to our resource allocation, financing methods and cost of capital, and income tax positions which are managed at a corporate level, apart from the activities of the operating segments, and the operating facilities are located in different taxing jurisdictions, which can cause considerable variation in net earnings. We also use EBITDA and Adjusted EBITDA to assess our operating performance and return on capital, and to evaluate potential acquisitions or other capital projects. EBITDA and Adjusted EBITDA are not calculated under GAAP and should not be considered in isolation or as a substitute for net earnings, cash flows or other financial data prepared in accordance with GAAP or as a measure of our overall profitability or liquidity. EBITDA and Adjusted EBITDA exclude interest expense, income taxes and depreciation and amortization, each of which are an essential element of our cost structure and cannot be eliminated. Furthermore, Adjusted EBITDA excludes other cash and non-cash items in other (income) expense. Our borrowings are a significant component of our capital structure and interest expense is a continuing cost of debt. We are also required to pay income taxes, a required and ongoing consequence of our operations. We have a significant investment in capital assets and depreciation and amortization reflect the utilization of those assets in order to generate revenues. Consequently, any measure that excludes these elements has material limitations. While EBITDA and Adjusted EBITDA are frequently used as measures of operating performance, these terms are not necessarily comparable to similarly titled measures of other companies due to the potential inconsistencies in the method of calculation. The calculation of EBITDA and Adjusted EBITDA as used by management is set forth in the table below (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net earnings	\$ 9.4	\$ 34.6	\$ 58.8	\$ 105.1
Interest expense	4.2	5.0	13.7	15.9
Income tax expense	0.8	10.7	14.1	35.8
Depreciation, depletion and amortization	15.7	16.0	47.2	48.8
EBITDA	30.1	66.3	133.8	205.6
Other non-operating expenses:				
Other (income) expense, net	(0.3)	(1.7)	4.4	(1.5)
Adjusted EBITDA	\$ 29.8	\$ 64.6	\$ 138.2	\$ 204.1

Our net earnings, EBITDA and Adjusted EBITDA are impacted by other events or transactions that the Company believes to be important in understanding our earnings trends. Those items include the effects of a tornado and the variability of weather. These items have not been adjusted in the amounts presented above. Thus far, we have identified approximately \$1 million and \$18 million of estimated losses in the consolidated statements of operations in the three and nine months ended September 30, 2012, respectively, related to the effects of the 2011 tornado at Goderich. While we expect to be reimbursed for these losses by our insurance carriers, there can be no assurance that all losses will be fully or even substantially reimbursed. Also, our operating earnings were unfavorably impacted in the nine months ended September 30, 2012 by significantly milder than average winter weather in the markets we serve. In the nine months ended September 30, 2011, we estimate that there was no significant impact on our sales or

operating earnings from winter weather.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (“FASB”) issued guidance, which allows entities to use a qualitative approach to test indefinite-lived intangibles for impairment. The new guidance permits an entity to perform a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite-lived intangible is less than its carrying value. If the fair value is less than the carrying value, the entity would be required to perform a quantitative impairment test. This guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this standard will not impact the Company’s consolidated financial statements.

In December 2011, the FASB issued guidance which requires an entity to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The update is effective for annual reporting periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. The

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adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

Effects of Currency Fluctuations

We conduct operations in Canada and the U.K. Therefore, our results of operations are subject to both currency transaction risk and currency translation risk. We incur currency transaction risk whenever we or one of our subsidiaries enter into either a purchase or sales transaction using a currency other than the local currency of the transacting entity. With respect to currency translation risk, our financial condition and results of operations are measured and recorded in the relevant local currency and then translated into U.S. dollars for inclusion in our historical consolidated financial statements. Exchange rates between these currencies and the U.S. dollar have fluctuated significantly from time to time and may do so in the future. The majority of our revenues and costs are denominated in U.S. dollars, with pounds sterling and Canadian dollars also being significant. Significant changes in the value of the Canadian dollar or pound sterling relative to the U.S. dollar could have a material adverse effect on our financial condition and our ability to meet interest and principal payments on U.S. dollar denominated debt, including borrowings under our senior secured credit facilities.

Although inflation has not had a significant impact on the Company's operations, our efforts to recover cost increases due to inflation may be hampered as a result of the competitive industries in which we operate.

Seasonality

We experience a substantial amount of seasonality in our sales, primarily with respect to our deicing products. Consequently, 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, we stockpile sufficient quantities of deicing salt in the second, third and fourth quarters to meet the estimated requirements for the winter season.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our business is subject to various types of market risks that include, but are not limited to, interest rate risk, foreign currency exchange rate risk and commodity pricing risk. Management has taken actions to mitigate our exposure to commodity pricing and interest rate risk by entering into forward derivative instruments and interest rate swap agreements, and may take further actions to mitigate our exposure to changes in the cost of transporting our products due to variations in our contracted carriers' cost of fuel, which is typically diesel fuel (see Note 12). However, there can be no assurance that our hedging activities will eliminate or substantially reduce these risks. We do not enter into any financial instrument arrangements for speculative purposes. The Company's market risk exposure related to these items has not changed materially since December 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures – As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed under the supervision and with the participation of the Company's management, including the CEO and CFO. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012 to ensure that information required to be disclosed in the reports it files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

For this purpose, disclosure controls and procedures include controls and procedures designed to ensure that information that is required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting - There has been no change in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company from time to time is involved in various routine legal proceedings. These primarily involve commercial claims, product liability claims, personal injury claims, and workers' compensation and other labor-related claims. We cannot predict the outcome of these lawsuits, legal proceedings and claims with certainty. Nevertheless, we believe that the outcome of these proceedings, even if determined adversely, would not have a material adverse effect on our business, financial condition and results of operations. There have been no material developments during 2012 with respect to legal proceedings.

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Item 1A. Risk Factors

There have been no material changes to the risk factors previously discussed in Item 1A of the Company's Form 10-K for the year ended December 31, 2011.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this quarterly report.

Item 5. Other Information

There have been no material changes to the procedures by which security holders may recommend nominees to the Company's board of directors since the filing of the Company's most recent proxy statement.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit

No. Description of Exhibit

10.1 Retirement Agreement dated October 1, 2012 (incorporated herein by reference to Exhibit 10.1 to Compass Minerals International, Inc.'s Current Report on Form 8-K dated October 3, 2012)

31.1* Section 302 Certifications of Angelo C. Brisimitzakis, President and Chief Executive Officer

31.2* Section 302 Certifications of Rodney L. Underdown, Vice President and Chief Financial Officer

32* Certification Pursuant to 18 U.S.C. § 1350 of Angelo C. Brisimitzakis, President and Chief Executive Officer, and Rodney L. Underdown, Vice President and Chief Financial Officer

95* Mine Safety Disclosures

101** The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv) consolidated statement of stockholders' equity, (v) consolidated statements of cash flows, and (vi) the notes to the consolidated financial statements

*
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Filed herewith
Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPASS MINERALS INTERNATIONAL,
INC.

Date: October 29, 2012

/s/ ANGELO C. BRISIMITZAKIS
Angelo C. Brisimitzakis
President and Chief Executive Officer

Date: October 29, 2012

/s/ RODNEY L. UNDERDOWN
Rodney L. Underdown
Vice President and Chief Financial Officer