

COMPASS MINERALS INTERNATIONAL INC

Form 10-Q/A

November 12, 2004

**Table of Contents**

---

---

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q/A**

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

**For the quarterly period ended June 30, 2004**

**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)*

**8300 College Blvd.**

**Overland Park, KS 66210  
(913) 344-9200**

*(Address of principal executive offices and telephone number)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes:  No:

Indicate by check mark whether the registrant is an accelerated filer (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 November 8, 2004 was 30,870,936 shares.

---

---

## COMPASS MINERALS INTERNATIONAL, INC.

## Introductory Note

Compass Minerals International, Inc. (the Company) amended its Annual Report on Form 10-K filed on March 19, 2004 with the Securities and Exchange Commission (SEC), for the years ended December 31, 2003, 2002 and 2001 to restate the combined and consolidated financial statements for each of those three years in order to correct an error in the calculation of the deferred income tax accounts and related valuation allowance dating back to the year ended December 31, 1998. The effect of the timing of future reversals of existing taxable temporary differences (deferred tax liabilities) had not been previously considered as a possible source of future taxable income (see the disclosure under the heading *Restatement* in Note 1 to the combined and consolidated financial statements in the Annual Report on Form 10-K/A filed with the SEC on November 12, 2004).

As a result of restating the consolidated financial statements for the year ended December 31, 2003, the Company determined that its financial statements for the three and six-month periods ended June 30, 2004 and 2003 also needed to be restated in order to reflect the correction discussed above (see the disclosure under the heading *Restatement* in Note 1 to the consolidated financial statements in this Quarterly Report on Form 10-Q/A). In addition, as further discussed under the heading *Restatement* in Note 1, the Company has restated the 2004 consolidated financial statements in this Quarterly Report on Form 10-Q/A to reflect the tax benefit associated with stock option exercises that occurred during 2004. This amendment reflects only the changes discussed above and has no impact on cash flows, operating earnings, income before income taxes, or the Company's ability to realize the benefits from its deferred tax assets.

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003, restated (unaudited)</u>	2
<u>Consolidated Statements of Operations for the three month and six month periods ended June 30, 2004 and 2003, restated (unaudited)</u>	3
<u>Consolidated Statement of Stockholders' Equity (Deficit) for the six month period ended June 30, 2004, restated (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the six month periods ended June 30, 2004 and 2003, restated (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements, restated (unaudited)</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	22
<u>Item 4.</u>	
<u>Controls and Procedures</u>	23
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	24
<u>Item 2.</u>	
<u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	24
<u>Item 3.</u>	
<u>Defaults upon Senior Securities</u>	24
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	24
<u>Item 5.</u>	
<u>Other Information</u>	24
<u>Item 6.</u>	
<u>Exhibits and Reports on Form 8-K</u>	24
<b><u>SIGNATURES</u></b>	26
<u>Certification of President and Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer and Vice President</u>	
<u>Certifications</u>	

Table of Contents

## PART I.

## FINANCIAL INFORMATION

Item 1. *Financial Statements*

## COMPASS MINERALS INTERNATIONAL, INC.

## CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (restated)	December 31, 2003 (restated)
	(Unaudited) (In millions, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 54.9	\$ 2.6
Receivables, less allowance for doubtful accounts of \$1.9 million in 2004 and \$2.1 million in 2003	54.0	117.4
Inventories	82.7	96.7
Other	3.2	3.7
	<hr/>	<hr/>
Total current assets	194.8	220.4
Property, plant and equipment, net	250.3	262.0
Intangible assets mineral interests and other, net	171.3	172.7
Other	30.3	31.4
	<hr/>	<hr/>
Total assets	\$ 646.7	\$ 686.5
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Current portion of long-term debt	\$ 0.6	\$ 0.8
Accounts payable	43.9	72.6
Accrued expenses	11.7	14.4
Accrued interest	12.5	12.7
Accrued salaries and wages	13.2	13.5
Income taxes payable	2.1	
	<hr/>	<hr/>
Total current liabilities	84.0	114.0
Long-term debt, net of current portion	579.9	602.5
Deferred income taxes	59.7	61.7
Other noncurrent liabilities	36.4	36.4
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit):		
Common Stock:		
\$0.01 par value, authorized shares 200,000,000 at June 30, 2004 and December 31, 2003; issued shares 35,367,264 at June 30, 2004 and December 31, 2003	0.3	0.3
Additional paid in capital	4.7	14.6

Edgar Filing: COMPASS MINERALS INTERNATIONAL INC - Form 10-Q/A

Treasury stock at cost 4,606,062 shares at June 30, 2004 and 5,191,237 shares at December 31, 2003	(8.7)	(9.7)
Accumulated deficit	(134.4)	(158.8)
Accumulated other comprehensive income	24.8	25.5
	<u>          </u>	<u>          </u>
Total stockholders' deficit	(113.3)	(128.1)
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' deficit	\$ 646.7	\$ 686.5
	<u>          </u>	<u>          </u>

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

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 (restated)	2004	2003 (restated)
(Unaudited)				
(In millions, except share data)				
Sales	\$ 96.9	\$ 88.7	\$ 347.4	\$ 301.4
Cost of sales shipping and handling	22.7	21.1	97.1	85.2
Cost of sales products	54.1	48.9	158.2	144.4
Gross profit	20.1	18.7	92.1	71.8
Selling, general and administrative expenses	12.6	11.5	27.0	23.1
Other charges	0.4		0.4	
Operating earnings	7.1	7.2	64.7	48.7
Other (income) expense:				
Interest expense	15.1	13.1	30.5	25.0
Other, net	0.2	1.3	0.7	1.0
Income (loss) before income taxes	(8.2)	(7.2)	33.5	22.7
Income tax expense (benefit)	(2.3)	(1.8)	9.1	1.3
Net income (loss)	(5.9)	(5.4)	24.4	21.4
Dividends on preferred stock		0.6		1.2
Gain on redemption of preferred stock		(8.2)		(8.2)
Net income (loss) available for common stock	\$ (5.9)	\$ 2.2	\$ 24.4	\$ 28.4
Net income (loss) per share, basic	\$ (0.19)	\$ 0.07	\$ 0.80	\$ 0.81
Net income (loss) per share, diluted	(0.19)	0.07	0.76	0.79
Cash dividends per share, common	0.25	2.85	0.44	2.85
Basic weighted-average shares outstanding	30,516,370	34,663,944	30,379,016	34,884,018
Diluted weighted-average shares outstanding	30,516,370	35,987,434	32,200,707	36,081,867

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

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT)  
For the Six Months Ended June 30, 2004, restated**

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
				(Unaudited) (In millions)		
Balance, December 31, 2003	\$0.3	\$ 14.6	\$(9.7)	\$(158.8)	\$25.5	\$(128.1)
Dividends on common stock		(13.3)				(13.3)
Stock options exercised		2.9	1.0			3.9
Stock-based compensation		0.5				0.5
Comprehensive income:						
Net income				24.4		24.4
Unrealized gain on cash flow hedges, net of tax					0.6	0.6
Cumulative translation adjustment					(1.3)	(1.3)
Comprehensive income						23.7
Balance, June 30, 2004	<u>\$0.3</u>	<u>\$ 4.7</u>	<u>\$(8.7)</u>	<u>\$(134.4)</u>	<u>\$24.8</u>	<u>\$(113.3)</u>

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

Table of Contents

## COMPASS MINERALS INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2004	2003
		(restated)
		(Unaudited)
		(In millions)
Cash flows from operating activities:		
Net income	\$ 24.4	\$ 21.4
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	20.3	19.4
Finance fee amortization	1.2	0.8
Gain on early extinguishment of long-term debt		(1.9)
Accreted interest on discount notes	11.6	5.5
Deferred income taxes	(1.7)	1.2
Tax benefit from exercise of stock options	3.1	
Loss on disposal of property, plant & equipment	0.1	
Other	0.5	
Changes in operating assets and liabilities:		
Receivables	62.4	50.7
Inventories	13.6	21.0
Other assets	0.8	(2.1)
Accounts payable and accrued expenses	(27.6)	(32.9)
Other noncurrent liabilities	(0.3)	(0.2)
	<u>108.4</u>	<u>82.9</u>
Cash flows from investing activities:		
Capital expenditures	(8.6)	(5.4)
Acquisition of intangible assets		(21.0)
Other	0.2	
	<u>(8.4)</u>	<u>(26.4)</u>
Cash flows from financing activities:		
Issuance of long-term debt		100.0
Principal payments on long-term debt	(20.4)	(30.7)
Revolver activity	(14.0)	
Payments of notes due to related parties		(1.5)
Dividends paid	(13.3)	(103.7)
Repurchase of Preferred Stock		(6.6)
Payments to acquire treasury stock		(9.8)
Proceeds from the exercise of stock options	0.8	0.1
Deferred financing costs	(0.1)	(3.9)
	<u>(47.0)</u>	<u>(56.1)</u>
Net cash used in financing activities		
Effect of exchange rate changes on cash and cash equivalents	(0.7)	1.4



Edgar Filing: COMPASS MINERALS INTERNATIONAL INC - Form 10-Q/A

Net increase in cash and cash equivalents	52.3	1.8
Cash and cash equivalents, beginning of period	2.6	11.9
Cash and cash equivalents, end of period	\$ 54.9	\$ 13.7
Supplemental cash flow information:		
Interest paid	\$ 18.0	\$ 18.3
Income taxes paid, net of refunds	4.2	4.8

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

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Organization, Formation and Basis of Presentation:**

Compass Minerals International, Inc. ( CMI or the Company ), is a producer and marketer of inorganic mineral products with manufacturing sites in North America and Europe. Its principal products are salt and sulfate of potash ( SOP ). CMI serves a variety of markets, including agriculture, food processing, chemical processing, water conditioning and highway deicing. The consolidated financial statements include the accounts of CMI and its wholly owned subsidiary, Compass Minerals Group, Inc. ( CMG ), and the consolidated results of CMG 's wholly owned subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation, have been included. Operating results for the three-month and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto for the year ended December 31, 2003 included in CMI 's Form 10-K/A filed with the Securities and Exchange Commission (the SEC ) on November 12, 2004.

**Restatement:** Prior to the quarter ended September 30, 2004, the Company recorded full valuation allowances against certain U.S. deferred tax assets. The Company, after discussions with its independent registered public accounting firms, has subsequently determined that future reversals of existing taxable temporary differences (deferred tax liabilities) should have been considered as a possible source of taxable income when evaluating the need for a valuation allowance against deferred tax assets. Upon consideration of the reversal of these existing taxable temporary differences, the Company has now determined that it had overstated its deferred tax asset valuation allowance and, thereby, understated its deferred tax assets.

As a result, the Company has recalculated its deferred income tax accounts and related valuation allowance at the end of each year from December 31, 1998 through December 31, 2003 and the three and six-month periods ended June 30, 2004 and 2003. Based on the recalculation, the Company restated the consolidated financial statements and the accompanying notes to the consolidated financial statements, as applicable, for the three and six-month periods ended June 30, 2003 to reflect the adjustments in the deferred income tax accounts and related valuation allowance. Based on the recalculation, the three and six-month periods ended June 30, 2004 only required restatement for the cumulative decrease to deferred income tax liability and accumulated deficit for amounts restated in prior periods. These adjustments during the previous reporting periods had no impact on cash flows, operating earnings, income before income taxes or the Company 's ability to realize the benefits from its deferred tax assets.

The following is a summary of the effects of these non-cash adjustments (in millions):

Cumulative decrease to deferred income tax liability and decrease to accumulated deficit at January 1, 2003	\$10.9
Decrease in income tax expense and increase in net income and net income available for common stock for the three months ended June 30, 2003 (Net income per share, \$0.04 basic and diluted)	1.2
Decrease in income tax expense and increase in net income and net income available for common stock for the six months ended June 30, 2003 (Net income per share, \$0.07 basic and diluted)	2.5
Cumulative decrease to deferred income tax liability and decrease to accumulated deficit at January 1, 2004	16.0



**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, prior to the quarter ended September 30, 2004, the Company did not recognize the tax benefit associated with the exercise of stock options. The Company has determined that it needs to restate the 2004 deferred income tax liability and stockholders' equity accounts to properly reflect the impact of the tax benefit from stock option exercises.

The following tables present (in millions, except share data) the impact of the restatement on the consolidated statements of operations, the consolidated balance sheets, and consolidated statements of cash flows. The amounts previously reported are derived from the Company's historical filings with the SEC.

	For the Three Months Ended June 30, 2003		For the Six Months Ended June 30, 2003	
	Amounts Previously Reported	As Restated	Amounts Previously Reported	As Restated
Consolidated statement of operations:				
Income (loss) before income taxes	\$ (7.2)	\$ (7.2)	\$ 22.7	\$ 22.7
Income tax expense (benefit)	(0.6)	(1.8)	3.8	1.3
Net income (loss)	(6.6)	(5.4)	18.9	21.4
Net income available for common stock	1.0	2.2	25.9	28.4
Net income per share, basic	\$ 0.03	\$ 0.07	\$ 0.74	\$ 0.81
Net income per share, diluted	0.03	0.07	0.72	0.79

	June 30, 2004		December 31, 2003	
	Amounts Previously Reported	As Restated	Amounts Previously Reported	As Restated
Consolidated balance sheet:				
Deferred income taxes	\$ 78.8	\$ 59.7	\$ 77.7	\$ 61.7
Additional paid in capital	1.6	4.7	14.6	14.6
Accumulated deficit	(150.4)	(134.4)	(174.8)	(158.8)
Total stockholders' equity (deficit)	(132.4)	(113.3)	(144.1)	(128.1)

	For the Six Months Ended June 30, 2004		For the Six Months Ended June 30, 2003	
	Amounts Previously Reported	As Restated	Amounts Previously Reported	As Restated
Consolidated statement of cash flows:				
Net income	\$ 24.4	\$ 24.4	\$ 18.9	\$ 21.4
Deferred income taxes	1.4	(1.7)	3.7	1.2
Tax benefit from exercise of stock options		3.1		
Net cash provided by operating activities	108.4	108.4	82.9	82.9

**2. Recent Accounting Pronouncements:**

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ( FIN 46 ). FIN 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. FIN 46 applies to any business enterprise, public or private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. In December 2003, the FASB issued Interpretation No. 46(R) ( FIN 46(R) ) which

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

supercedes FIN 46. FIN 46(R) is effective for all Special Purpose Entities ( SPEs ) created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after December 15, 2003. FIN 46(R) is applicable to all non-SPEs created prior to February 1, 2003 by public entities at the end of the first interim or annual reporting period ending after March 15, 2004. The Company has determined that it has no SPEs. The Company reviewed the applicability of FIN 46(R) to entities other than SPEs and has determined that the adoption of FIN 46(R) did not have a material effect on its consolidated financial statements.

In April 2004, the FASB issued FASB staff position ( FSP ) FAS 141-1 and FAS 142-1, Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and Emerging Issues Task Force ( EITF ) Issue No. 04-2, Whether Mineral Rights Are Tangible or Intangible Assets. This FSP amends SFAS Nos. 141 and 142, and requires mineral rights to be accounted for as tangible assets based on the consensus reached in EITF 04-2. The Company will adopt the guidance in the FSP on July 1, 2004, and this will result in the balance sheet reclassification of approximately \$147.2 million of net mineral rights from intangible assets to property, plant and equipment. Prior period amounts will be similarly reclassified. This FSP will have no impact on the Company's consolidated statements of operations or cash flows.

**3. Inventories:**

Inventories consist of the following at (in millions):

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Finished goods	\$71.6	\$84.1
Raw materials and supplies	11.1	12.6
	<u>          </u>	<u>          </u>
	<b>\$82.7</b>	<b>\$96.7</b>
	<u>          </u>	<u>          </u>

**4. Property, Plant and Equipment:**

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

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Land and buildings	\$137.3	\$135.9
Machinery and equipment	403.2	408.3
Furniture and fixtures	9.5	9.6
Mineral properties and rights	20.5	20.3
Construction in progress	13.1	6.5
	<u>          </u>	<u>          </u>
	583.6	580.6
Less accumulated depreciation	333.3	318.6
	<u>          </u>	<u>          </u>
	<b>\$250.3</b>	<b>\$262.0</b>
	<u>          </u>	<u>          </u>

**5. Intangible Assets Mineral Interests and Other:**

Mineral interests include probable mineral reserves. The Company leases mineral reserves at several of its extraction facilities. These leases have varying terms, and many provide for a royalty payment to the lessor based on a specific amount per ton of mineral extracted or as a percentage of revenue. The Company's mineral interests are amortized on a units-of-production basis. The Company acquired other intangible assets related

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to its SOP segment during 2003. These assets are being amortized on a straight-line basis over their estimated useful lives.

The aggregate amortization of mineral interests and other intangible assets for the three months ended June 30, 2004 and 2003 was \$0.7 million and \$0.4 million, respectively, and six months ended June 30, 2004 and 2003 was \$1.4 million and \$0.7, respectively. The estimated amortization expense from fiscal 2004 to fiscal 2008 is approximately \$2.9 million annually.

Mineral interests and other intangible assets consist of the following (in millions):

	June 30, 2004			December 31, 2003		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Probable mineral reserves	\$ 158.6	\$ 11.4	\$ 147.2	\$ 158.6	\$ 10.6	\$ 148.0
SOP long-term customer contract	0.5		0.5	0.5		0.5
Other SOP intangible asset	24.3	0.7	23.6	24.3	0.1	24.2
	<u>\$ 183.4</u>	<u>\$ 12.1</u>	<u>\$ 171.3</u>	<u>\$ 183.4</u>	<u>\$ 10.7</u>	<u>\$ 172.7</u>

**6. Income Taxes:**

Income tax benefit for the three months ended June 30, 2004 and 2003 was \$2.3 million and \$1.8 million, respectively. Income tax expense for the six months ended June 30, 2004 and 2003 was \$9.1 million and \$1.3 million, respectively. Our income tax provision differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining income taxes, non-deductible interest expense and changes in the valuation allowance for deferred tax assets.

At June 30, 2004, we had approximately \$86.7 million of net operating loss carryforwards ( NOLs ) that expire between 2007 and 2022. The Company has recorded a valuation allowance for a portion of its deferred tax assets relating to NOLs that it does not believe will, more likely than not, be realized.

For the three and six-month periods ended June 30, 2004, no adjustment to the valuation allowance against deferred tax assets was necessary. As part of the restatement to the consolidated financial statements in the Annual Report on Form 10-K/ A filed with the SEC on November 12, 2004, the Company determined that a valuation allowance against deferred tax assets for the three and six-month periods ended June 30, 2003, in the amount of \$1.2 million and \$2.5 million, respectively, was not necessary based on the timing of future reversals of existing taxable temporary differences. The Company reduced its valuation allowance against deferred tax assets by these amounts resulting in a decrease in income tax expense, an increase in net income and net income available for common stock for the three and six-month periods ended June 30, 2003. As of June 30, 2004 and December 31, 2003, the Company's valuation allowance was \$24.8 million. If sufficient evidence exists in the future that more or less of the Company's deferred tax assets should be realized, an adjustment to the valuation allowance will be made at that time.



**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Long-term Debt:**

Third-party long-term debt consists of the following (in millions):

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Senior Subordinated Notes	\$ 325.0	\$ 325.0
Senior Discount Notes	80.7	75.7
Subordinated Discount Notes	114.0	107.4
Term Loan	58.0	78.3
Revolving Credit Facility		14.0
	<u>577.7</u>	<u>600.4</u>
Premium on Senior Subordinated Notes, net	2.8	2.9
Less: current portion	(0.6)	(0.8)
	<u>\$ 579.9</u>	<u>\$ 602.5</u>

**8. Pension Plans:**

The components of net periodic benefit cost for the three-month and six-month periods ended June 30, are as follows (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Service cost for benefits earned during the year	\$ 0.3	\$ 0.4	\$ 0.6	\$ 0.7
Interest cost on projected benefit obligation	0.8	0.7	1.6	1.4
Return on plan assets	(0.7)	(0.6)	(1.4)	(1.1)
Net amortization and deferral	0.1	0.3	0.3	0.6
	<u>\$ 0.5</u>	<u>\$ 0.8</u>	<u>\$ 1.1</u>	<u>\$ 1.6</u>

The Company's funding policy is to make the minimum annual contributions required by applicable regulations. For the six months ending June 30, 2004, \$0.8 million of contributions have been made. The Company presently anticipates contributing an additional \$0.8 million to fund its defined benefit pension plans for the remainder of 2004 for a total of \$1.6 million.

**9. Commitments and Contingencies:**

The Company is involved in legal and administrative proceedings and claims of various types from normal Company activities.

## Edgar Filing: COMPASS MINERALS INTERNATIONAL INC - Form 10-Q/A

The Company has become 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 in 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.

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 or financial position.

**10. Operating Segments:**

Segment information is as follows (in millions):

Three Months Ended June 30, 2004	Salt	Potash	Other(a)	Total
Sales to external customers	\$ 74.3	\$ 22.6	\$	\$ 96.9
Intersegment sales		2.5	(2.5)	
Cost of sales shipping and handling costs	19.2	3.5		22.7
Operating earnings (loss)	6.3	6.2	(5.4)	7.1
Depreciation, depletion and amortization	7.8	2.0		9.8
Total assets	492.8	133.0	20.9	646.7

Three Months Ended June 30, 2003	Salt	Potash	Other(a)	Total
Sales to external customers	\$ 74.4	\$ 14.3	\$	\$ 88.7
Intersegment sales		2.1	(2.1)	
Cost of sales shipping and handling costs	18.9	2.2		21.1
Operating earnings (loss)	8.8	2.5	(4.1)	7.2
Depreciation, depletion and amortization	7.7	1.9		9.6
Total assets	445.0	139.1	21.2	605.3

Six Months Ended June 30, 2004	Salt	Potash	Other(a)	Total
Sales to external customers	\$ 303.0	\$ 44.4	\$	\$ 347.4
Intersegment sales		4.8	(4.8)	
Cost of sales shipping and handling costs	89.9	7.2		97.1
Operating earnings (loss)	66.5	9.2	(11.0)	64.7
Depreciation, depletion and amortization	16.3	4.0		20.3

Six Months Ended June 30, 2003	Salt	Potash	Other(a)	Total
Sales to external customers	\$ 274.8	\$ 26.6	\$	\$ 301.4
Intersegment sales		3.9	(3.9)	
Cost of sales shipping and handling costs	80.9	4.3		85.2
Operating earnings (loss)	54.2	2.8	(8.3)	48.7
Depreciation, depletion and amortization	15.5	3.9		19.4

(a) Other includes corporate entities and eliminations.

**11. Stockholders' Equity and Stock Options:**

Edgar Filing: COMPASS MINERALS INTERNATIONAL INC - Form 10-Q/A

On February 9, 2004, the board declared a quarterly cash dividend of \$0.1875 per share, or approximately \$5.7 million, on its outstanding common stock. The dividend was paid on March 15, 2004 to stockholders of record as of the close of business on March 1, 2004.

**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On April 29, 2004, the board declared a quarterly cash dividend of \$0.25 per share, or approximately \$7.6 million, on its outstanding common stock. The dividend was paid on June 15, 2004 to stockholders of record as of the close of business on June 1, 2004.

During the six months ended June 30, 2004, the Company reissued 585,175 shares of treasury stock, all of which were issued upon the exercise of stock options. The Company recorded a tax benefit of \$3.1 million from the exercise of stock options that was recorded as additional paid in capital.

**12. Earnings per Share:**

The following table sets forth the computation of basic and diluted earnings (loss) per common share (in millions, except for share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 (restated)	2004	2003 (restated)
<b>Numerator:</b>				
Net income (loss)	\$ (5.9)	\$ (5.4)	\$ 24.4	\$ 21.4
Dividends on redeemable preferred stock		0.6		1.2
Gain on redemption of preferred stock		(8.2)		(8.2)
Net income (loss) available for common stock	\$ (5.9)	\$ 2.2	\$ 24.4	\$ 28.4
<b>Denominator:</b>				
Average common shares outstanding	30,516,370	34,663,944	30,379,016	34,884,018
Shares for basic earnings per share	30,516,370	34,663,944	30,379,016	34,884,018
Stock options		1,323,490	1,821,691	1,197,849
Shares for diluted earnings per share	30,516,370	35,987,434	32,200,707	36,081,867
Net income (loss) per share, basic	\$ (0.19)	\$ 0.07	\$ 0.80	\$ 0.81
Net income (loss) per share, diluted	\$ (0.19)	\$ 0.07	\$ 0.76	\$ 0.79

Options to purchase 1,669,156 shares of our common stock were outstanding at June 30, 2004, but were not included in the computation of diluted earnings (loss) per share for the quarter ended June 30, 2004 because the options were anti-dilutive.

**13. Other Comprehensive Income (loss):**

The Company's comprehensive income (loss) is comprised of net income (loss), the change in the unrealized gain (loss) on cash flow hedges related to the Company's gas hedging activities and foreign



**Table of Contents****COMPASS MINERALS INTERNATIONAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

currency translation adjustments. The components of comprehensive income (loss) for the three-month and six-month periods ended June 30, are (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 (restated)	2004	2003 (restated)
Net income (loss)	\$ (5.9)	\$ (5.4)	\$ 24.4	\$ 21.4
Unrealized gain (loss) on cash flow hedges, net of tax	0.3	0.4	0.6	(0.2)
Cumulative translation adjustment	(2.8)	8.7	(1.3)	10.9
Comprehensive income (loss)	\$ (8.4)	\$ 3.7	\$ 23.7	\$ 32.1

The following tables provide additional detail related to amounts recorded in Other Comprehensive Income during the six-month period ended June 30, 2004 (in millions):

	Minimum Pension Liability	Unrealized Gain on Cash Flow Hedges	Foreign Currency Adjustments	Accumulated Other Comprehensive Income
Balance at December 31, 2003	\$ (7.0)	\$ 0.8	\$ 31.7	\$ 25.5
2004 changes	—	0.6	(1.3)	(0.7)
Balance at June 30, 2004	\$ (7.0)	\$ 1.4	\$ 30.4	\$ 24.8

For the Six-Months Ended June 30, 2004:	Before Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on cash flow hedges	\$ 0.8	\$ (0.2)	\$ 0.6
Foreign currency translation adjustment	(1.3)	—	(1.3)
Other comprehensive income (loss)	\$ (0.5)	\$ (0.2)	\$ (0.7)

**14. Subsequent Event:**

In July 2004, the Company completed a secondary offering of 8,327,244 shares of common stock which were sold by Apollo Management V, L.P. and related subsidiaries ( Apollo ), IMC Global, Inc. ( IMC Global ) and members of management. The Company did not receive any of the proceeds from the sale. The sale reduced the ownership, on a fully-diluted basis, of Apollo, IMC Global and management to approximately 12%, 1% and 11%, respectively. The Company incurred \$0.4 million of related costs in June 2004 that were recorded as other charges in the consolidated statement of operations. The Company expects to record approximately \$0.3 million additional costs in the third quarter of 2004.





## **Table of Contents**

### **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: general business and economic conditions; governmental policies affecting the agricultural 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; capacity constraints limiting the production of certain products; difficulties or delays in the development, production, testing and marketing of products; difficulties or delays in receiving required governmental and regulatory approvals; market acceptance issues, including the failure of products to generate anticipated sales levels; difficulties in integrating acquired businesses and in realizing related cost savings and other benefits; the effects of and changes in trade, monetary, environmental and fiscal policies, laws and regulations; foreign exchange rates and fluctuations in those rates; the costs and effects of legal proceedings including environmental and administrative proceedings involving the Company; and other risk factors reported from time to time in the Company's SEC reports.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continue, or the negative of these terms or other 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 are under 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, CMI, we, us or our refer to Compass Minerals International, Inc. and its consolidated subsidiaries.

### **Critical Accounting Estimates**

Preparation of our consolidated financial statements 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 judgements, because of their significance to our consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and Note 2 to the Consolidated Financial Statements in our Annual Report on Form 10-K/A filed with the SEC on November 12, 2004, 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. There have been no significant changes in our critical accounting estimates during the first six months of 2004 other than those described in Note 6 to the consolidated financial statements in this Quarterly Report on Form 10-Q/A.

**Table of Contents****Results of Operations**

The consolidated financial statements have been prepared to present the historical financial condition and results of operations and cash flows for the Company. The following tables and discussion should be read in conjunction with the information contained in our consolidated financial statements and the notes thereto included elsewhere in this quarterly report.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003 (restated)	2004	2003 (restated)
(Dollars in millions, except per ton data)				
Sales	\$ 96.9	\$ 88.7	\$ 347.4	\$ 301.4
Cost of sales shipping and handling	22.7	21.1	97.1	85.2
Cost of sales products	54.1	48.9	158.2	144.4
Gross profit	20.1	18.7	92.1	71.8
Selling, general and administrative expenses	12.6	11.5	27.0	23.1
Other charges	0.4		0.4	
Operating income	7.1	7.2	64.7	48.7
Interest expense	15.1	13.1	30.5	25.0
Other expense/ (income)	0.2	1.3	0.7	1.0
Income (loss) before income taxes	(8.2)	(7.2)	33.5	22.7
Income tax expense (benefit)	(2.3)	(1.8)	9.1	1.3
Net income (loss)	(5.9)	(5.4)	24.4	21.4
Dividends on preferred stock		0.6		1.2
Gain on redemption of preferred stock		(8.2)		(8.2)
Net income (loss) available for common stock	\$ (5.9)	\$ 2.2	\$ 24.4	\$ 28.4
<b>Sales by Segment:</b>				
Salt	\$ 74.3	\$ 74.4	\$ 303.0	\$ 274.8
Specialty potash fertilizers	22.6	14.3	44.4	26.6
Total	\$ 96.9	\$ 88.7	\$ 347.4	\$ 301.4
<b>Sales Volumes (in thousands of tons):</b>				
Highway deicing	846	909	5,525	5,287
General trade	630	632	1,415	1,364
Specialty potash	99	66	200	124
<b>Average Sales Price (per ton):</b>				
Highway deicing	\$ 21.92	\$ 23.74	\$ 30.88	\$ 29.47
General trade	88.50	83.61	93.58	87.18
Specialty potash	228.41	215.95	219.64	216.20

**Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003***Sales*

## Edgar Filing: COMPASS MINERALS INTERNATIONAL INC - Form 10-Q/A

Sales for the second quarter of 2004 of \$96.9 million increased \$8.2 million, or 9% compared to \$88.7 million for the second quarter of 2003. Sales include revenues from the sale of our products, or Product Sales, as well as pass-through shipping and handling fees charged to customers to reimburse us for shipping and handling costs incurred in delivering salt and sulfate of potash ( SOP ) product to the customer. Such shipping and handling fees were \$22.7 million during the second quarter of 2004, an increase of \$1.6 million

**Table of Contents**

compared to the second quarter of 2003 shipping and handling fees of \$21.1 million. The increase in shipping and handling related fees for the second quarter of 2004 is due to increased sales and the change in the mix of products sold as compared to 2003.

Product Sales for the second quarter of 2004 of \$74.2 million increased \$6.6 million, or 10% compared to \$67.6 million for the same period in 2003. Salt Product Sales for the second quarter of 2004 of \$55.1 million remained consistent as compared to \$55.5 million for the same period in 2003. Decreased sales volumes in our North American highway deicing product line (\$3.0 million) were slightly offset by increased sales volumes in our United Kingdom ( U.K. ) highway deicing product line (\$0.5 million). The decreased sales volumes in our North American highway deicing product line of approximately 83,000 tons for the second quarter was primarily due to unusual late winter season snowfall experienced in the prior year period. Sales volumes in our general trade product line for the second quarter of 2004 remained consistent as compared to the same period in 2003.

Salt Product Sales were also favorably impacted by approximately \$2.5 million from the effect of a stronger Canadian dollar and British pound against the U.S. dollar. Average prices, net of foreign exchange effects, were higher by approximately \$0.7 million.

Specialty potash fertilizer Product Sales for the second quarter of 2004 of \$19.1 million increased \$7.0 million, or 58% compared to \$12.1 million for the same period in 2003 primarily due to increased sales volumes of approximately 33,000 tons (\$6.1 million), reflecting increases in both domestic and international market share primarily due to the purchase and successful integration of IMC Global, Inc. s ( IMC ) former SOP marketing business. Average prices were also higher by approximately \$1.1 million.

***Gross Profit***

Gross profit for the second quarter of 2004 of \$20.1 million increased \$1.4 million, or 7% compared to \$18.7 million for the same period in 2003. The increase in gross profit primarily reflects the impact of improved specialty potash fertilizer sales volumes (\$2.6 million) combined with improved pricing (\$1.8 million) partially offset by decreased salt sales volumes (\$2.7 million).

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the second quarter of 2004 of \$12.6 million increased \$1.1 million, or 10% compared to \$11.5 million for the same period in 2003. The increase primarily reflects additional variable compensation and benefit costs of approximately \$0.4 million due to improved financial results and the impact of changes in foreign exchange rates of approximately \$0.4 million.

***Other Charges***

Other charges are costs that are non-recurring in nature and include legal and accounting charges incurred for the secondary offering completed in July 2004.

***Interest Expense***

Interest expense for the second quarter of 2004 of \$15.1 million increased \$2.0 million compared to \$13.1 million for the same period in 2003. This increase is primarily the result of interest from the senior subordinated discount notes issued in May 2003.

***Other Expense/(Income)***

Other expense for the second quarter of 2004 of \$0.2 million decreased \$1.1 million compared to \$1.3 million for the same period in 2003. In the second quarter of 2003, we recorded \$1.1 million of costs related to amending the Senior Credit Facility and \$1.9 million gain related to the early extinguishment of debt. Additionally, we recorded foreign exchange losses of \$0.3 million and \$2.2 million in the second quarter of 2004 and 2003, respectively.

**Table of Contents**

***Income Tax Expense (Benefit)***

Income tax benefit for the second quarter of 2004 of \$2.3 million increased \$0.5 million compared to income tax benefit of \$1.8 million for the same period in 2003. Our income tax provision differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining income taxes, non-deductible interest expense and changes in the valuation allowances for deferred tax assets.

***Dividends on Preferred Stock***

We repurchased and redeemed all of our redeemable preferred stock in December 2003. As a result, there were no dividends on redeemable preferred stock for the three months ended June 30, 2004.

**Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003**

***Sales***

Sales for the six months ended June 30, 2004 of \$347.4 million increased \$46.0 million, or 15% compared to \$301.4 million for the six months ended June 30, 2003. Sales include revenues from the sale of our products, or Product Sales, as well as pass-through shipping and handling fees charged to customers to reimburse us for shipping and handling costs incurred in delivering salt and sulfate of potash ( SOP ) product to the customer. Such shipping and handling fees were \$97.1 million during the six months ended June 30, 2004, an increase of \$11.9 million compared to the six months ended June 30, 2003 shipping and handling fees of \$85.2 million. The increase in shipping and handling related fees for the six months ended June 30, 2004 is due to the increased volume of products sold as compared to 2003.

Product Sales for the six months ended June 30, 2004 of \$250.3 million increased \$34.1 million, or 16% compared to \$216.2 million for the same period in 2003. Salt Product Sales for the six months ended June 30, 2004 of \$213.1 million increased \$19.2 million, or 10% compared to \$193.9 million for the same period in 2003 primarily due to increased sales volumes in our highway deicing product lines (\$4.0 million) and increased sales volumes in our general trade product line (\$4.5 million). The increased sales volumes in our highway deicing product line came mainly from the U.K. (approximately 220,000 tons) and was primarily due to more normal winter weather in the U.K. in the March quarter of 2004 compared to an extremely mild March quarter in 2003. The increased sales volumes in our North American general trade product line of approximately 56,000 tons was primarily due to above average winter weather on the East Coast, where our retail deicing products are sold.

Salt Product Sales were also favorably impacted by approximately \$11.3 million from the effect of a weakened U.S. dollar against both the Canadian dollar and the British pound. Average prices, net of foreign exchange effects, remained relatively consistent.

Specialty potash fertilizer Product Sales for the six months ended June 30, 2004 of \$37.2 million increased \$14.9 million, or 67% compared to \$22.3 million for the same period in 2003 primarily due to increased sales volumes of approximately 76,000 tons (\$13.5 million), reflecting increases in both domestic and international market share primarily due to the purchase and successful integration of IMC Global, Inc.'s former SOP marketing business. Average prices were also higher by approximately \$1.5 million.

***Gross Profit***

Gross profit for the six months ended June 30, 2004 of \$92.1 million increased \$20.3 million, or 28% compared to \$71.8 million for the same period in 2003. The increase in gross profit primarily reflects the impact of improved prices and volumes (\$1.2 million and \$6.8 million, respectively) and changes in foreign exchange rates as described above (\$4.8 million). Additionally, a reduction in costs to produce and distribute products increased our gross profit by \$7.3 million.

## **Table of Contents**

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the six months ended June 30, 2004 of \$27.0 million increased \$3.9 million, or 17% compared to \$23.1 million for the same period in 2003. The increase primarily reflects increased costs associated with being a new public company, additional variable compensation and benefit costs of approximately \$1.7 million due to improved financial results, and the impact of changes in foreign exchange rates of approximately \$1.2 million.

### ***Other Charges***

Other charges are costs that are non-recurring in nature and include legal and accounting charges incurred for the secondary offering completed in July 2004.

### ***Interest Expense***

Interest expense for the six months ended June 30, 2004 of \$30.5 million increased \$5.5 million compared to \$25.0 million for the same period in 2003. This increase is primarily the result of interest from the senior subordinated discount notes issued in May 2003.

### ***Other Expense/(Income)***

Other expense for the six months ended June 30, 2004 of \$0.7 million decreased \$0.3 million compared to other expense of \$1.0 million for the same period in 2003. In the second quarter of 2003, we recorded \$1.1 million of costs related to amending the Senior Credit Facility and \$1.9 million gain related to the early extinguishment of debt. Additionally, as part of other expense, we recorded foreign exchange losses of \$0.7 million and \$1.9 million in the six months ended June 30, 2004 and 2003, respectively.

### ***Income Tax Expense***

Income tax expense for the six months ended June 30, 2004 of \$9.1 million increased \$7.8 million compared to income tax expense of \$1.3 million for the same period in 2003. This increase between periods is primarily due to the overall increase in pre-tax income. Also contributing to the increase was the timing of future reversals of existing taxable temporary differences resulting in changes to required valuation allowances against deferred tax assets for NOLs in the six-month period ended June 30, 2003. Additionally, our income tax provision differs from the U.S. statutory federal income tax rate primarily due to U.S. statutory depletion, state income taxes (net of federal tax benefit), foreign income tax rate differentials, foreign mining income taxes, non-deductible interest expense and changes in the valuation allowance for deferred tax assets.

### ***Dividends on Preferred Stock***

We repurchased and redeemed all of our redeemable preferred stock in December 2003. As a result, there are no dividends on redeemable preferred stock for the six months ended June 30, 2004.

## **Liquidity and Capital Resources**

Historically, we have used cash generated from operations to meet our working capital needs and to fund capital expenditures. Our primary sources of liquidity will continue to be cash flow from operations and borrowings under our revolving credit facility. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

On November 28, 2001, Apollo Management V, L.P., through its subsidiary, YBR Holdings LLC, acquired control of CMI from IMC Global, Inc. pursuant to a recapitalization transaction ( Recapitalization ) with assets and liabilities of CMG retaining their historical value. We have incurred substantial indebtedness in connection with the Recapitalization and subsequent financings. As of June 30, 2004, we had \$577.7 million of principal indebtedness, net of issuance premium, consisting of \$325.0 million of senior subordinated notes at CMG, \$80.7 million of senior discount notes with a face value of \$123.5 million, \$114.0 million of senior subordinated discount notes with a face value of \$179.6 million and \$58.0 million of



**Table of Contents**

our term loan. Our senior credit facility provides for a revolving credit facility in an aggregate amount of up to \$135.0 million. As of June 30, 2004, no indebtedness was outstanding under our revolving credit facility and \$8.2 million of letters of credit were outstanding, leaving approximately \$126.8 million available under our revolving credit facility. Future borrowings under our revolving credit facility will be available to fund our working capital requirements, capital expenditures and for other general corporate purposes. We maintained \$54.9 million in cash on hand as of June 30, 2004.

During the six months ended June 30, 2004, cash flows from operations were \$108.4 million. We used a portion of those cash flows to pay down \$14.0 million of our revolving credit facility that was outstanding as of December 31, 2003, to pay \$13.3 million of dividends to the holders of our common stock and to make \$20.0 million in voluntary principal payments on our term loan.

Our significant debt service obligations following the Recapitalization could, under certain circumstances, materially affect our financial condition and prevent us from fulfilling our obligations under the senior subordinated notes of CMG, senior credit facility, senior discount notes and senior subordinated discount notes. As of June 30, 2004, we are in compliance with all conditions and covenants related to the senior credit facility, senior subordinated notes, senior discount notes and senior subordinated discount notes.

Although our operations are conducted through our subsidiaries, none of our subsidiaries are obligated to make funds available to us for payment on our indebtedness or to pay dividends on our capital stock. Accordingly, our ability to make payments on our indebtedness and distribute dividends to our stockholders is dependent on the earnings and the distribution of funds from our subsidiaries. The terms of our senior credit facilities and the indenture governing the senior subordinated notes of Compass Minerals Group significantly restrict our subsidiaries from paying dividends and otherwise transferring assets to us. Furthermore, our subsidiaries will be permitted under the terms of our senior credit facilities and other indebtedness to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by our subsidiaries to us. The terms of our senior credit facilities also restrict our subsidiaries from paying dividends to us in order to fund cash interest on our senior discount notes and subordinated discount notes if we do not maintain an adjusted senior indebtedness leverage ratio of 5.00 or less (as of June 30, 2004) or if a default or event of default has occurred and is continuing under our senior credit facilities. As of June 30, 2004, our adjusted senior indebtedness leverage ratio was 2.06. We cannot assure you that we will maintain this ratio. This ratio is not necessarily comparable to other similarly titled ratios of other companies due to inconsistencies in the method of calculation and we encourage you to read our amended and restated credit agreement, as amended, contained in the exhibits to our Annual Report on Form 10-K/A filed with the SEC on November 12, 2004.

We cannot 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 and principal payments on our indebtedness when due.

**For the Six Months Ended June 30, 2004 and 2003**

Net cash flow generated by operating activities for the six months ended June 30, 2004 and 2003 was \$108.4 million and \$82.9 million, respectively. Of these amounts, \$48.4 million and \$38.8 million for 2004 and 2003, respectively, were generated by working capital reductions. The primary working capital reductions for 2004 and 2003 were decreases in receivables of \$62.4 million and \$50.7 million, respectively, and decreases in inventories of \$13.6 million and \$21.0 million, respectively. These reductions were partially offset by decreases in accounts payable and accrued expenses of \$27.6 million and \$32.9 million, respectively. These reductions are indicative of the seasonal nature of highway deicing product line sales.

Net cash flow used by investing activities for the six months ended June 30, 2004 and 2003, was \$8.4 million and \$26.4 million, respectively. These cash flows consisted of capital expenditures primarily to maintain our facilities of \$8.6 million and \$5.4 million in 2004 and 2003, respectively, and \$21.0 million in 2003 related to our purchase of certain intangible assets related to IMC's SOP business.



**Table of Contents**

Net cash flow used by financing activities was \$47.0 million for the six months ended June 30, 2004, primarily due to a \$14.0 million pay down of our revolving credit facility, \$20.0 million in voluntary principal repayments that reduced the amount of long-term debt outstanding under our term loan credit facility and \$13.3 million of dividends paid. No gain or loss was recorded upon repayment of debt. Net cash flow used by financing activities was \$56.1 million for the six months ended June 30, 2003, primarily due to \$9.8 million repurchase of common stock (treasury stock), \$30.0 million voluntary principal repayment that reduced the amount of long-term debt outstanding under our term loan credit facility, \$6.6 million related to the redemption of preferred stock and \$3.9 million of deferred financing costs. Additionally, in May 2003, we issued our senior subordinated discount notes and used the proceeds of approximately \$100.0 million to pay a dividend on common stock.

**Contractual Obligations and Commitments**

The Company's contractual obligations and commitments at June 30, 2004 are as follows (in millions):

**Payments Due by Period**

<b>Contractual Cash Obligations</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Long-term debt(a)	\$686.0	\$ 0.6	\$ 1.2	\$28.5	\$655.7
Operating leases(b)	26.0	6.1	7.8	4.0	8.1
Unconditional purchase obligations(c)	60.6	8.8	17.6	17.6	16.6
Management agreement(d)	7.5	1.0	2.0	2.0	2.5
<b>Total contractual cash obligations</b>	<b>\$780.1</b>	<b>\$16.5</b>	<b>\$28.6</b>	<b>\$52.1</b>	<b>\$682.9</b>

**Amount of Commitment Expiration per Period**

<b>Other Commitments</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Amount available under the revolving credit facility	\$126.8	\$	\$	\$126.8	\$
Outstanding letters of credit	8.2	8.2			
Outstanding performance bonds(e)	12.3	12.3			
<b>Total other commitments</b>	<b>\$147.3</b>	<b>\$20.5</b>	<b>\$</b>	<b>\$126.8</b>	<b>\$</b>

- (a) Includes the aggregate principal amounts at maturity for the senior discount notes of \$123.5 million and the senior subordinated discount notes of \$179.6 million.
- (b) We lease property and equipment under non-cancelable operating leases for varying periods.
- (c) We have long-term contracts to purchase certain amounts of electricity and steam.
- (d) Refer to Note 11 to the consolidated financial statements and notes thereto for the year ended December 31, 2003 included in CMI's Form 10-K/A filed with the SEC on November 12, 2004, for additional information.
- (e) Refer to Note 10 to the consolidated financial statements and notes thereto for the year ended December 31, 2003 included in CMI's Form 10-K/A filed with the SEC on November 12, 2004, for additional information related to *Sales Contracts*.

Our ability to make scheduled payments of principal, to pay the interest on, or to refinance our indebtedness or to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, weather, financial, competitive, legislative, regulatory and other factors that are beyond our control.



## **Table of Contents**

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our senior credit facilities, will be adequate to meet our liquidity needs over the next twelve months.

There can be no assurance, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior credit facilities in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If we consummate an acquisition, our debt service requirements could increase. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

### **Effects of Currency Fluctuations and Inflation**

We conduct operations in Canada, the United Kingdom and the United States. 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 combined and consolidated financial statements. Exchange rates between these currencies and U.S. dollars in recent years have fluctuated significantly 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. The weakened U.S. dollar against the pound sterling and Canadian dollar has had a positive impact on our reported consolidated sales. However, significant changes in the value of the Canadian dollar, the euro 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 credit facilities.

### **Seasonality**

We experience a substantial amount of seasonality in salt sales. The result of this seasonality is that sales and operating income are generally higher in the first and fourth quarters and lower during the second and third quarters of each year. In particular, sales of highway and consumer deicing salt products are seasonal as they vary based on the severity of the winter conditions in areas where the product is used. Following industry practice in North America, we stockpile sufficient quantities of deicing salt in the second, third and fourth quarters to meet the estimated requirements for the winter season.

### **Recent Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* ( FIN 46 ). FIN 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. FIN 46 applies to any business enterprise, public or private, that has a controlling interest, contractual relationship or other business relationship with a variable interest entity. In December 2003, the FASB issued Interpretation No. 46(R) ( FIN 46(R) ) which supercedes FIN 46. FIN 46(R) is effective for all Special Purpose Entities ( SPEs ) created prior to February 1, 2003 at the end of the first interim or annual reporting period ending after December 15, 2003. FIN 46(R) is applicable to all non-SPEs created prior to February 1, 2003 by public entities at the end of the first interim or annual reporting period ending after March 15, 2004. The Company has determined that it has no SPEs. The Company reviewed the applicability of FIN 46(R) to entities other than SPEs and has determined that the adoption of FIN 46(R) did not have a material effect on its consolidated financial statements.

In April 2004, the FASB issued FASB staff position ( FSP ) FAS 141-1 and FAS 142-1, *Interaction of FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, and Emerging Issues Task Force ( EITF ) Issue No. 04-2, Whether Mineral Rights Are Tangible or*

## **Table of Contents**

**Intangible Assets.** This FSP amends SFAS Nos. 141 and 142, and requires mineral rights to be accounted for as tangible assets based on the consensus reached in EITF 04-2. We will adopt the guidance in the FSP on July 1, 2004, and this will result in the balance sheet reclassification of approximately \$147.2 million of net mineral rights from intangible assets to property, plant and equipment. Prior period amounts will be similarly reclassified. This FSP will have no impact on our consolidated statements of operations or cash flows.

### **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 translation risk and commodity pricing risk. In the future, management may take actions that would mitigate our exposure to these types of risks including forward purchase contracts and financial instruments. However, there can be no assurance that our hedging operations will eliminate or substantially reduce risks associated with these risks. We will not enter into any financial instrument arrangements for speculative purposes.

#### **Interest Rate Risk**

As of June 30, 2004, we had \$58.0 million of debt outstanding under the term loan credit facility and nothing outstanding under our revolving credit facility. Both the term loan credit facility and revolving credit facility are subject to variable rates. Accordingly, our earnings and cash flows are affected by changes in interest rates. Assuming no change in the term loan credit facility borrowings at June 30, 2004, and an average level of borrowings from our revolving credit facility at variable rates, and assuming a one hundred basis point increase in the average interest rate under these borrowings, it is estimated that our interest expense for the six months ended June 30, 2004 would have increased by approximately \$0.3 million. Actual changes will vary from hypothetical changes.

#### **Foreign Currency Risk**

We conduct our business primarily in the United Kingdom and North America and export some products to Europe, Southeast Asia and Latin America. Our operations may, therefore, be subject to volatility because 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 results of operations may be affected adversely as currency fluctuations affect our product prices and operating costs or those of our competitors. We may engage in hedging operations, including forward foreign exchange contracts, to reduce the exposure of our cash flows to fluctuations in foreign currency rates. We will not engage in hedging for speculative investment reasons. Our historical results do not reflect any foreign exchange hedging activity. There can be no assurance that our hedging operations will eliminate or substantially reduce risks associated with fluctuating currencies.

A hypothetical 10% change in the exchange rates compared to the U.S. dollar would have an estimated \$0.1 million impact on earnings for the six months ended June 30, 2004. Actual changes in market prices or rates will differ from hypothetical changes.

#### **Commodity Pricing Risk: Commodity Derivative Instruments and Hedging Activities**

We have reviewed various options to mitigate the impact of fluctuating natural gas prices. During 2003 and 2004, we instituted a hedging policy to mitigate the impact of fluctuations in the price of natural gas. The notional volumes hedged are based on a combination of factors, including estimated natural gas usage, current market prices and historical market prices. Pursuant to our policy, we enter into contractual gas price swaps related to the purchase price of our natural gas requirements up to 36 months in advance of the physical purchase of the natural gas and hedge up to approximately 80% of our expected natural gas usage. We have determined that these financial instruments qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activity, as amended. The notional amount of natural gas swap derivative contracts outstanding at June 30, 2004 that expire in one year or less and expire greater than one year total \$10.3 million and \$5.6 million, respectively.

**Table of Contents**

Excluding gas hedged with derivative instruments, a hypothetical 10% adverse change in our natural gas prices during the six months ended June 30, 2004 would have had an estimated \$0.3 million impact on earnings. Actual results will vary based on actual changes in market prices and rates.

**Item 4. *Controls and Procedures***

Within the 90 days prior to the date of this interim report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures of the Company pursuant to Exchange Act Rule 13a-14.

The Company regularly evaluates the critical estimates and assumptions that it makes in the preparation of its financial statements. As a result of this evaluation process, the Company determined that its deferred income tax accounts and related valuation allowance should be adjusted for periods prior to 2004 to reflect the consideration of future reversals of existing taxable temporary differences as a possible source of taxable income. This non-cash adjustment was the basis for the restatement of the Company's financial statements reflected in the Company's Annual Report on Form 10-K/A filed with the SEC on November 12, 2004. In addition, as a result of this process, the Company determined it had not historically recorded the tax benefit associated with stock option exercises in the balance sheet. The Company has restated the consolidated financial statements included in the March 31, 2004 Form 10-Q/A and this June 30, 2004 Form 10-Q/A to also reflect this adjustment.

The non-cash adjustments to the deferred income tax accounts and related valuation allowance were reflected as non-cash adjustments to income tax expense on the combined and consolidated financial statements. The adjustments had no impact on cash flows, operating earnings, income before income taxes or the Company's ability to realize benefits from its deferred tax assets.

The non-cash adjustments to the Company's deferred income tax accounts and related valuation allowance were the result of the consideration of future reversals of existing taxable temporary differences as a possible source of taxable income, which had not been done previously. In designing and evaluating their disclosure controls and procedures, the Company recognizes that any controls and procedures, regardless of how designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. The Company believes that the errors which led to the restatement were the result of a material weakness in internal control over financial reporting related to the Company's accounting for income taxes. The material weakness was the result of (a) internal control deficiencies relating to the analysis and reconciliation of income tax accounts, (b) resource constraints related to the income tax accounting function and (c) incorrect conclusions reached regarding the accounting for our deferred income tax accounts and related valuation allowance. As a result of the material weakness described above, we concluded that our internal controls and procedures were ineffective as of June 30, 2004. The conclusion of the Chief Executive Officer and Chief Financial Officer from this evaluation was communicated to the Audit Committee.

In order to remediate this matter, the Company has been identifying and implementing actions to improve the effectiveness of its disclosure controls and procedures and internal controls over its income tax accounting. In connection with this effort the Company has (a) added additional resources to the income tax accounting function and (b) adopted more rigorous policies and procedures with respect to the income tax account balance sheet review process. In addition, the Company plans to implement additional procedures effective immediately with respect to its income tax accounting process: (i) greater senior level financial officer review of the income tax balance sheet accounts and the related journal entries; and (ii) engaging an independent consultant to assist the Company's personnel to conduct a comprehensive and detailed review of the Company's tax reporting and accounting, in particular with respect to developing more effective processes for establishing and monitoring deferred income taxes, valuation allowances and the Company's annual effective tax rate. The Company believes that implementation of these steps will remediate this matter by the end of 2004 or beginning of 2005.

There were no other significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

**Table of Contents**

**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 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. In addition, in connection with the Recapitalization, IMC Global, Inc. has agreed to indemnify us against certain legal matters.

We have become 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 in which our Goderich mine operates and has mining rights granted to it by the government of Ontario. We are not a party to this court action. Similar claims are pending with respect to other parts of the Great Lakes by other aboriginal claimants. We have 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. We do not believe that this action will result in a material adverse financial effect on the Company.

**Item 2. *Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities***

None

**Item 3. *Defaults upon Senior Securities***

None

**Item 4. *Submission of Matters to a Vote of Security Holders***

None

**Item 5. *Other Information***

Not Applicable

**Item 6. *Exhibits and Reports on Form 8-K***

(a) *Exhibits*

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
31.1*	Section 302 Certifications of Michael E. Ducey, President and Chief Executive Officer.
31.2*	Section 302 Certifications of Rodney L. Underdown, Chief Financial Officer and Vice President.
32*	Certification Pursuant to 18 U.S.C. § 1350 of Michael E. Ducey, President and Chief Executive Officer and Rodney L. Underdown, Chief Financial Officer and Vice President.

\* Filed herewith

(b) *Reports on Form 8-K*

Form 8-K filed April 8, 2004, Regulation FD Disclosure

Form 8-K filed May 4, 2004, Regulation FD Disclosure

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ MICHAEL E. DUCEY

---

Michael E. Ducey  
*President and Chief Executive Officer*

Date: November 12, 2004

/s/ RODNEY L. UNDERDOWN

---

Rodney L. Underdown  
*Chief Financial Officer and Vice President*

Date: November 12, 2004