MOSAIC CO
Form 10-Q
January 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended November 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-32327

The Mosaic Company

(Exact name of registrant as specified in its charter)

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

3033 Campus Drive

Suite E490

Plymouth, Minnesota 55441

(800) 918-8270

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one): Large accelerated filer x 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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 296,651,703 shares of Common Stock and 128,759,772 shares of Class A Common Stock and 0 shares of Class B Common Stock as of December 29, 2011.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE MOSAIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share amounts)

(Unaudited)

	Three months ended November 30,		Six months ended November 30,	
	2011	2010	2011	2010
Net sales	$ 3,014.5	$ 2,674.8	$ 6,097.8	$ 4,863.1
Cost of goods sold	2,133.3	1,906.5	4,368.4	3,590.1
Gross margin	881.2	768.3	1,729.4	1,273.0
Selling, general and administrative expenses	100.6	89.3	201.7	177.4
Other operating (income) expense	(16.4)	20.8	1.1	27.1
Operating earnings	797.0	658.2	1,526.6	1,068.5
Interest income (expense), net	4.1	(5.6)	9.2	(12.6)
Foreign currency transaction gain (loss)	55.1	(30.9)	49.4	(28.9)
Gain on sale of equity investment		685.6		685.6
Other (expense)	(0.8)	(0.3)	(0.1)	(0.9)
Earnings from consolidated companies before income taxes	855.4	1,307.0	1,585.1	1,711.7
Provision for income taxes	230.7	281.3	435.8	390.9
Earnings from consolidated companies	624.7	1,025.7	1,149.3	1,320.8
Equity in net earnings of nonconsolidated companies	0.9	1.1	2.7	4.9
Net earnings including noncontrolling interests	625.6	1,026.8	1,152.0	1,325.7
Less: Net earnings attributable to noncontrolling interests	2.0	1.2	2.4	2.4
Net earnings attributable to Mosaic	$ 623.6	$ 1,025.6	$ 1,149.6	$ 1,323.3
Basic net earnings per share attributable to Mosaic	$ 1.41	$ 2.30	$ 2.58	$ 2.97
Diluted net earnings per share attributable to Mosaic	$ 1.40	$ 2.29	$ 2.58	$ 2.96
Basic weighted average number of shares outstanding	443.4	445.8	445.0	445.6
Diluted weighted average number of shares outstanding	444.7	447.3	446.3	447.1

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)

(Unaudited)

	November 30, 2011	May 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 3,627.6	$ 3,906.4
Receivables, net	919.2	926.0
Inventories	1,206.7	1,266.4
Deferred income taxes	188.2	277.8
Other current assets	417.7	308.3
Total current assets	6,359.4	6,684.9
Property, plant and equipment, net of accumulated depreciation of $3,150.3 million and $2,975.8 million, respectively	6,975.0	6,635.9
Investments in nonconsolidated companies	439.3	434.3
Goodwill	1,830.1	1,829.8
Deferred income taxes	5.8	6.5
Other assets	192.7	195.5
Total assets	$ 15,802.3	$ 15,786.9
Liabilities and Equity		
Current liabilities:		
Short-term debt	$ 28.3	$ 23.6
Current maturities of long-term debt	513.5	48.0
Accounts payable	853.6	941.1
Accrued liabilities	635.1	843.6
Deferred income taxes	68.2	72.2
Total current liabilities	2,098.7	1,928.5
Long-term debt, less current maturities	1,008.9	761.3
Deferred income taxes	589.4	580.1
Other noncurrent liabilities	785.1	855.1
Equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, none issued and outstanding as of November 30, 2011 and May 31, 2011		
Class A common stock, $0.01 par value, 275,000,000 shares authorized, 170,759,772 shares issued and 128,759,772 shares outstanding as of November 30, 2011 and 57,768,374 issued and outstanding as of May 31, 2011	1.3	0.6
Class B common stock, $0.01 par value, 200,000,000 shares authorized, 112,991,398 shares issued, none outstanding as of November 30, 2011 and 112,991,398 shares issued and outstanding as of May 31, 2011		1.1
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 308,688,617 shares issued and 296,650,155 shares outstanding as of November 30, 2011, 287,851,416 shares issued and 275,812,954 shares outstanding as of May 31, 2011	3.0	2.8
Capital in excess of par value	1,452.2	2,596.3
Retained earnings	9,435.5	8,330.6
Accumulated other comprehensive income	408.1	710.2

Total Mosaic stockholders equity	11,300.1	11,641.6
Noncontrolling interests	20.1	20.3
Total equity	11,320.2	11,661.9
Total liabilities and equity	$ 15,802.3	$ 15,786.9

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six months ended November 30, 2011	Six months ended November 30, 2010
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	$ 1,152.0	$ 1,325.7
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization	240.5	210.4
Deferred income taxes	129.4	6.1
Equity in loss (earnings) of nonconsolidated companies, net of dividends	0.9	(1.8)
Accretion expense for asset retirement obligations	14.1	14.3
Share-based compensation expense	17.0	16.1
Unrealized loss (gain) on derivatives	41.4	(6.6)
Gain on sale of equity investment		(685.6)
Other	(1.9)	(6.9)
Changes in assets and liabilities:		
Receivables, net	(13.8)	(46.3)
Inventories, net	57.2	185.4
Other current and noncurrent assets	(99.6)	77.4
Accounts payable	(148.7)	(1.0)
Accrued liabilities and income taxes	(245.1)	48.2
Other noncurrent liabilities	(71.4)	(47.5)
Net cash provided by operating activities	1,072.0	1,087.9
Cash Flows from Investing Activities:		
Capital expenditures	(778.5)	(585.7)
Proceeds from sale of equity investment		1,030.0
Investments in nonconsolidated companies		(385.3)
Restricted cash	1.1	(2.0)
Other	0.3	1.4
Net cash (used in) provided by investing activities	(777.1)	58.4
Cash Flows from Financing Activities:		
Payments of short-term debt	(72.2)	(224.9)
Proceeds from issuance of short-term debt	76.9	196.3
Payments of long-term debt	(30.2)	(7.5)
Proceeds from issuance of long-term debt	746.7	0.7
Proceeds from stock options exercised	2.3	10.7
Repurchase of Class A common stock	(1,162.5)	
Cash dividends paid	(44.7)	(44.6)
Other	(5.5)	6.1
Net cash used in financing activities	(489.2)	(63.2)
Effect of exchange rate changes on cash	(84.5)	53.3
Net change in cash and cash equivalents	(278.8)	1,136.4

Cash and cash equivalents beginning of period	3,906.4	2,523.0
Cash and cash equivalents end of period	$ 3,627.6	$ 3,659.4
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized of $32.6 million and $26.4 million as of November 30, 2011 and 2010, respectively)	$	$ 21.7
Income taxes (net of refunds)	335.5	306.5

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions, except per share amounts)

(Unaudited)

	Mosaic Shareholders						
	Shares	Dollars					
	Common Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of May 31, 2010	445.4	$ 4.5	$ 2,523.0	$ 5,905.3	$ 289.4	$ 26.2	$ 8,748.4
Net earnings including noncontrolling interest				2,514.6		(1.1)	2,513.5
Foreign currency translation net of tax of $2.9 million					384.8	2.6	387.4
Net actuarial gain and prior service cost, net of tax expense of $21.7 million					36.0		36.0
Comprehensive income						1.5	2,936.9
Stock option exercises	1.2		20.3				20.3
Amortization of share based compensation			21.1				21.1
Contributions from Cargill, Inc.			18.5				18.5
Dividends ($0.20 per share)				(89.3)			(89.3)
Dividends for noncontrolling interests						(4.8)	(4.8)
Acquisition of noncontrolling interest						(2.6)	(2.6)
Tax benefits related to share based compensation			13.4				13.4
Balance as of May 31, 2011	446.6	4.5	2,596.3	8,330.6	710.2	20.3	11,661.9
Net earnings including noncontrolling interest				1,149.6		2.4	1,152.0
Foreign currency translation, net of tax of $0					(310.3)	(2.4)	(312.7)
Net actuarial gain and prior service cost, net of tax of $0					5.4		5.4
Comprehensive income							844.7
Stock option exercises	0.1		2.3				2.3
Amortization of share based compensation			17.0				17.0
Repurchase of Class A common stock	(21.3)	(0.2)	(1,162.3)				(1,162.5)
Realized gain on interest rate swap					2.8		2.8
Dividends ($0.10 per share)				(44.7)			(44.7)
Dividends for noncontrolling interests						(0.2)	(0.2)
Tax shortfall related to share based compensation			(1.1)				(1.1)
Balance as of November 30, 2011	425.4	$ 4.3	$ 1,452.2	$ 9,435.5	$ 408.1	$ 20.1	$ 11,320.2

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tables in millions, except per share amounts and as otherwise designated)

(Unaudited)

1. Organization and Nature of Business

The Mosaic Company (before or after the Cargill Transaction, as defined below, ***Mosaic*** , and, with its consolidated subsidiaries, ***we*** , ***us*** , ***our*** , the ***Company***) is the parent company of the business that was formed through the business combination of IMC Global Inc. and the Cargill Crop Nutrition fertilizer businesses of Cargill, Incorporated and its subsidiaries (collectively, ***Cargill***) on October 22, 2004. On May 25, 2011, we consummated the first in a series of transactions (collectively, the ***Cargill Transaction***) intended to result in the split-off and orderly distribution of Cargill s approximately 64% ownership in us through a series of public offerings. Further information regarding this transaction is included in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011 (the ***10-K Report***).

We produce and market concentrated phosphate and potash crop nutrients. We conduct our business through wholly and majority owned subsidiaries as well as businesses in which we own less than a majority or a noncontrolling interest, including consolidated variable interest entities and investments accounted for by the equity method. We are organized into the following business segments:

Our **Phosphates** business segment owns and operates mines and production facilities in Florida which produce concentrated phosphate crop nutrients and phosphate-based animal feed ingredients, and processing plants in Louisiana which produce concentrated phosphate crop nutrients. In fiscal 2011, the Phosphates segment acquired a 35% economic interest in a joint venture that owns a phosphate rock mine (the ***Miski Mayo Mine***) in Peru. Our Phosphates segment s results also include our North American phosphate distribution activities and all of our international distribution activities as well as the results of Phosphate Chemicals Export Association, Inc. (***PhosChem***), a U.S. Webb-Pomerene Act association of phosphate producers that exports concentrated phosphate crop nutrient products around the world for us and PhosChem s other member. Our share of PhosChem s sales of dry phosphate crop nutrient products was approximately 82% for the six months ended November 30, 2011.

Our **Potash** business segment owns and operates potash mines and production facilities in Canada and the U.S. which produce potash-based crop nutrients, animal feed ingredients and industrial products. Potash sales include domestic and international sales. We are a member of Canpotex, Limited (***Canpotex***), an export association of Canadian potash producers through which we sell our Canadian potash outside the U.S. and Canada.

Intersegment sales are eliminated within Corporate, Eliminations and Other. See Note 16 to our Condensed Consolidated Financial Statements for segment results.

2. Summary of Significant Accounting Policies

Statement Presentation and Basis of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements of Mosaic have been prepared on the accrual basis of accounting and in accordance with the requirements of the Securities and Exchange Commission (***SEC***) for interim financial reporting. As permitted under these rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States (***U.S. GAAP***) can be condensed or omitted. The Condensed Consolidated Financial Statements included in this document reflect, in the opinion of our management, all adjustments (consisting of only normal recurring

THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjustments) necessary for fair presentation of our financial position as of November 30, 2011, and our results of operations and cash flows for the six months ended November 30, 2011 and 2010. The following notes should be read in conjunction with the accounting policies and other disclosures in the Notes to the Consolidated Financial Statements incorporated by reference in our 10-K Report. Sales, expenses, cash flows, assets and liabilities can and do vary during the year as a result of seasonality and other factors. Therefore, interim results are not necessarily indicative of the results to be expected for the full fiscal year.

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

Accounting Estimates

Preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. The more significant estimates made by management relate to the recoverability of non-current assets, the useful lives of long-lived assets, derivative financial instruments, environmental and reclamation liabilities, the costs of our employee benefit obligations for pension plans and postretirement benefits, income tax-related accounts, including the valuation allowance against deferred income tax assets, Canadian resource tax and royalties, inventory valuation and accruals for pending legal matters. Actual results could differ from these estimates.

3. Recently Issued Accounting Guidance

Recently Adopted Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (***FASB***) issued Accounting Standards Update (***ASU***) No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a Consensus of the Emerging Issues Task Force,* that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. These amendments require companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company itself or other vendors. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. This standard became effective for us on June 1, 2011, adoption of which did not have a material impact on our Condensed Consolidated Financial Statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements,* that requires entities to disclose separately significant transfers of assets and liabilities measured at fair value between Levels 1 and 2 of the fair value hierarchy, transfers into and out of Level 3, and the reasons for those transfers. This ASU also amends the reconciliation of the beginning and ending balances of Level 3 measurements to present information about purchases, sales, issuances and settlements on a gross basis. This standard became effective for Mosaic for the fiscal year ending May 31, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which became effective for us on June 1, 2011, adoption of which did not have a material impact on our Condensed Consolidated Financial Statements.

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pronouncements Issued But Not Yet Adopted

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* which is intended to create consistency between U.S. GAAP and International Financial Reporting Standards (***IFRS***). The amendments include clarification on the application of certain existing fair value measurement guidance and expanded disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This standard will be effective for our fiscal quarter beginning March 1, 2012. We are currently evaluating the requirements of this standard, but it is not expected to have a material impact on our Condensed Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* which requires comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income. The amendment does not change what items are reported in other comprehensive income. Additionally, in December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* which indefinitely defers the requirement in ASU No. 2011-05 to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. During the deferral period, the existing requirements in U.S. GAAP for the presentation of reclassification adjustments must continue to be followed. These standards will be effective for our fiscal quarter beginning June 1, 2012 with retrospective application required. As these standards impact presentation requirements only, the adoption of this guidance is not expected to have a material impact on our Condensed Consolidated Financial Statements.

In September 2011, the FASB issued ASU No.2011-08, *Intangibles Goodwill and Other (Topic 350): Testing for Goodwill Impairment* which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We are currently evaluating the requirements of this standard.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* which enhances current disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. Entities are required to provide both net and gross information for these assets and liabilities in order to facilitate comparability between financial statements prepared on the basis of U.S. GAAP and financial statements prepared on the basis of IFRS. This standard will be effective for our fiscal quarter beginning June 1, 2013 with retrospective application required. We are currently evaluating the requirements of this standard.

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Other Financial Statement Data

The following provides additional information concerning selected balance sheet accounts:

(in millions)	November 30, 2011	May 31, 2011
Accrued liabilities		
Non-income taxes	$ 42.9	$ 132.6
Payroll and employee benefits	113.9	116.3
Asset retirement obligations	92.8	90.6
Customer prepayments	102.5	243.2
Other	283.0	260.9
	$ 635.1	$ 843.6
Other noncurrent liabilities		
Asset retirement obligations	$ 473.9	$ 482.5
Accrued pension and postretirement benefits	102.9	117.1
Other	208.3	255.5
	$ 785.1	$ 855.1

5. Changes in Common Stock

On September 29, 2011, 20,700,000 shares of Class A Common Stock, Series A-4 were converted to Common Stock in connection with their sale in an underwritten public secondary offering by the Margaret A. Cargill Foundation established under the Acorn Trust dated January 30, 1995, as amended, and the Anne Ray Charitable Trust dated August 20, 1996, as amended (collectively, the ***MAC Trusts***). The MAC Trusts acquired their shares in the May 25, 2011 transaction (the ***Split-off***) in which Cargill split off its approximately 64% equity interest in us. Subsequent to the quarter ended November 30, 2011, in accordance with our Restated Certificate of Incorporation, each such converted share of Class A Common Stock, Series A-4, was retired and cancelled and may not be reissued, and the number of authorized shares of Class A Common Stock was reduced by a corresponding amount.

On October 6, 2011, our stockholders approved the conversion of each share of Class B Common Stock, 112,991,398 shares in the aggregate, on a one-for-one basis into shares of the corresponding series of Class A Common Stock. Subsequent to the quarter ended November 30, 2011, in accordance with our Restated Certificate of Incorporation, each such converted share of Class B Common Stock was retired and cancelled and may not be reissued, and the number of authorized shares of Class B Common Stock was reduced by a corresponding amount.

On November 17, 2011, we purchased an aggregate 21,300,000 shares of our Class A Common Stock, Series A-4 from the MAC Trusts. The purchase price was $54.58 per share, the closing price for the Company s Common Stock on November 16, 2011, resulting in a total purchase price of approximately $1.2 billion. This repurchase completes the disposition of the 157,000,000 shares designated to be sold by Cargill and the MAC Trusts during the 15-month period following the Split-off. Due to this transaction occurring late in the fiscal quarter, the impact on earnings per share was minimal.

All other shares (approximately 128.8 million shares in the aggregate) of our stock received by Cargill stockholders (the ***Exchanging Cargill Stockholders***) in the Split-off and not sold in the underwritten public secondary offering that occurred on May 25, 2011 immediately following the Split-off are generally subject to transfer restrictions and are to be released in three equal annual installments beginning on the two and one-half

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

year anniversary of the Split-off. We would, at the request of the MAC Trusts or at our own election, register certain of our shares for sale in a secondary offering that could occur each year after the second anniversary of the Split-off, with the first such offering occurring not earlier than twelve months after certain other primary or secondary offerings.

Following 180 days after the four-and-one-half year anniversary of the Split-off, the MAC Trusts would have two rights to request that we file a registration statement under the Securities Act of 1933, pursuant to which the MAC Trusts could sell any remaining shares they received in the Split-off.

Our agreements with Cargill and the Exchanging Cargill Stockholders also contain additional provisions relating to private and market sales under specified c