

MOSAIC CO
Form 10-Q
March 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 29, 2012

OR

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

Commission file number 001-32327

The Mosaic Company

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

20-1026454
(I.R.S. Employer
Identification No.)

3033 Campus Drive

Suite E490

Plymouth, Minnesota 55441

(800) 918-8270

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

Not Applicable

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 296,701,710 shares of Common Stock and 128,759,772 shares of Class A Common Stock and 0 shares of Class B Common Stock as of March 26, 2012.

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(In millions, except per share amounts)

(Unaudited)

	Three months ended		Nine months ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Net sales	\$ 2,189.5	\$ 2,214.3	\$ 8,287.3	\$ 7,077.4
Cost of goods sold	1,667.7	1,360.7	6,036.1	4,950.8
Gross margin	521.8	853.6	2,251.2	2,126.6
Selling, general and administrative expenses	91.3	83.6	293.0	261.0
Other operating (income) expense	16.8	(0.8)	17.9	26.3
Operating earnings	413.7	770.8	1,940.3	1,839.3
Interest income (expense), net	4.1	(0.2)	13.3	(12.8)
Foreign currency transaction gain (loss)	(44.0)	(31.7)	5.4	(60.6)
Gain on sale of equity investment				685.6
Other (expense)	(19.1)	(16.1)	(19.2)	(17.0)
Earnings from consolidated companies before income taxes	354.7	722.8	1,939.8	2,434.5
Provision for income taxes	87.0	175.9	522.8	566.8
Earnings from consolidated companies	267.7	546.9	1,417.0	1,867.7
Equity in net earnings (loss) of nonconsolidated companies	4.2	(4.3)	6.9	0.6
Net earnings including noncontrolling interests	271.9	542.6	1,423.9	1,868.3
Less: Net earnings (loss) attributable to noncontrolling interests	(1.4)	0.5	1.0	2.9
Net earnings attributable to Mosaic	\$ 273.3	\$ 542.1	\$ 1,422.9	\$ 1,865.4
Basic net earnings per share attributable to Mosaic	\$ 0.64	\$ 1.21	\$ 3.24	\$ 4.18
Diluted net earnings per share attributable to Mosaic	\$ 0.64	\$ 1.21	\$ 3.24	\$ 4.17
Basic weighted average number of shares outstanding	425.4	446.3	438.5	445.8
Diluted weighted average number of shares outstanding	426.7	447.7	439.8	447.3

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)

	February 29, 2012	May 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,201.9	\$ 3,906.4
Receivables, net	656.3	926.0
Inventories	1,327.3	1,266.4
Deferred income taxes	150.0	277.8
Other current assets	594.9	308.3
Total current assets	5,930.4	6,684.9
Property, plant and equipment, net of accumulated depreciation of \$3,200.6 million and \$2,975.8 million, respectively	7,379.5	6,635.9
Investments in nonconsolidated companies	438.4	434.3
Goodwill	1,874.2	1,829.8
Deferred income taxes	94.2	6.5
Other assets	220.0	195.5
Total assets	\$ 15,936.7	\$ 15,786.9
Liabilities and Equity		
Current liabilities:		
Short-term debt	\$ 81.6	\$ 23.6
Current maturities of long-term debt	1.1	48.0
Accounts payable	800.5	941.1
Accrued liabilities	657.9	843.6
Deferred income taxes	73.7	72.2
Total current liabilities	1,614.8	1,928.5
Long-term debt, less current maturities	1,010.6	761.3
Deferred income taxes	611.2	580.1
Other noncurrent liabilities	869.8	855.1
Equity:		
Preferred stock, \$0.01 par value, 15,000,000 shares authorized, none issued and outstanding as of February 29, 2012 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 February 29, 2012 and 57,768,374 issued and outstanding as of May 31, 2011	1.3	0.6
Class B common stock, \$0.01 par value, 87,008,602 shares authorized, none issued and outstanding as of February 29, 2012, 200,000,000 shares authorized 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, 308,719,182 shares issued and 296,680,720 shares outstanding as of February 29, 2012, 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	1,455.0	2,596.3
Retained earnings	9,687.4	8,330.6

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Accumulated other comprehensive income	664.2	710.2
Total Mosaic stockholders' equity	11,810.9	11,641.6
Noncontrolling interests	19.4	20.3
Total equity	11,830.3	11,661.9
Total liabilities and equity	\$ 15,936.7	\$ 15,786.9

See Notes to Condensed Consolidated Financial Statements

Table of Contents**THE MOSAIC COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	Nine months ended	
	February 29, 2012	February 28, 2011
Cash Flows from Operating Activities:		
Net earnings including noncontrolling interests	\$ 1,423.9	\$ 1,868.3
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization	368.4	324.5
Deferred income taxes	81.8	58.3
Equity in loss of nonconsolidated companies, net of dividends	2.7	2.6
Accretion expense for asset retirement obligations	21.2	24.0
Share-based compensation expense	20.1	18.7
Unrealized loss (gain) on derivatives	32.7	(23.6)
Gain on sale of equity investment		(685.6)
Other	7.8	2.5
Changes in assets and liabilities:		
Receivables, net	239.4	(183.9)
Inventories	(66.2)	(129.5)
Other current and noncurrent assets	(290.9)	39.5
Accounts payable	(152.1)	94.3
Accrued liabilities and income taxes	(215.2)	97.9
Other noncurrent liabilities	2.9	(54.2)
Net cash provided by operating activities	1,476.5	1,453.8
Cash Flows from Investing Activities:		
Capital expenditures	(1,190.3)	(897.3)
Proceeds from sale of equity investment		1,030.0
Proceeds from sale of business		50.0
Restricted cash	2.3	(13.7)
Investments in nonconsolidated companies		(385.3)
Other	6.2	3.1
Net cash used in investing activities	(1,181.8)	(213.2)
Cash Flows from Financing Activities:		
Payments of short-term debt	(89.7)	(293.5)
Proceeds from issuance of short-term debt	147.7	284.6
Payments of long-term debt	(542.7)	(467.1)
Proceeds from issuance of long-term debt	748.2	17.6
Payment of tender premium on debt		(16.1)
Proceeds from stock options exercised	2.5	18.7
Repurchase of Class A common stock	(1,162.5)	
Cash dividends paid	(66.1)	(67.0)
Other	(6.5)	7.2
Net cash used in financing activities	(969.1)	(515.6)
Effect of exchange rate changes on cash	(30.1)	104.1

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Net change in cash and cash equivalents	(704.5)	829.1
Cash and cash equivalents beginning of period	3,906.4	2,523.0
Cash and cash equivalents end of period	\$ 3,201.9	\$ 3,352.1

Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:

Interest (net of amount capitalized of \$46.2 million and \$27.6 million as of February 29, 2012 and February 28, 2011, respectively)	\$ 12.0	\$ 56.1
Income taxes (net of refunds)	455.4	434.5

See Notes to Condensed Consolidated Financial Statements

Table of Contents**THE MOSAIC COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

(In millions, except per share amounts)

(Unaudited)

	Shares		Mosaic Shareholders		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				1,422.9		1.0	1,423.9
Foreign currency translation, net of tax of \$0					(56.9)	(1.3)	(58.2)
Net actuarial gain and prior service cost, net of tax of \$0					8.2		8.2
Comprehensive income						(0.3)	1,373.9
Stock option exercises	0.1		2.5				2.5
Amortization of share based compensation			20.1				20.1
Repurchase of Class A common stock	(21.3)	(0.2)	(1,162.3)				(1,162.5)
Realized gain on interest rate swap					2.7		2.7
Dividends (\$0.15 per share)				(66.1)			(66.1)
Dividends for noncontrolling interests						(0.6)	(0.6)
Tax shortfall related to share based compensation			(1.6)				(1.6)
Balance as of February 29, 2012	425.4	\$ 4.3	\$ 1,455.0	\$ 9,687.4	\$ 664.2	\$ 19.4	\$ 11,830.3

See Notes to Condensed Consolidated Financial Statements

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Organization and Nature of Business

The Mosaic Company (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 then 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*) and Note 5 of our Condensed Consolidated Financial Statements.

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 81% for the nine months ended February 29, 2012.

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 adjustments) necessary for fair presentation of our financial position as of February 29, 2012, and our results of

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THE MOSAIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operations and cash flows for the nine months ended February 29, 2012 and February 28, 2011. 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, 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 results of operations or financial position.

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 results of operations or financial position.

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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 results of operations or financial position.

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 results of operations or financial position.

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. We will adopt this guidance for our annual goodwill impairment test for fiscal 2013, which will be conducted in the second quarter. We do not expect this guidance to have a material impact on our results of operations or financial position.

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, but it is not expected to have a material impact on our results of operations or financial position.

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The following provides additional information concerning selected balance sheet accounts:

(in millions)	February 29, 2012	May 31, 2011
Accrued liabilities		
Non-income taxes	\$ 52.7	\$ 132.6
Payroll and employee benefits	116.8	116.3
Asset retirement obligations	79.5	90.6
Customer prepayments	78.1	243.2
Accrued income taxes	77.0	
Other	253.8	260.9
	\$ 657.9	\$ 843.6
Other noncurrent liabilities		
Asset retirement obligations	\$ 483.2	\$ 482.5
Accrued pension and postretirement benefits	98.9	117.1
Other	287.7	255.5
	\$ 869.8	\$ 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. In the quarter ended February 29, 2012, 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. In the quarter ended February 29, 2012, 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.

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

Table of Contents**THE MOSAIC COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

transfer restrictions and are to be released in three equal annual installments beginning on the two and one-half 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 offerings.

Following 180 days after the four-and-one-half year anniversary of the Split-off, the MAC Trusts will 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 conditions.

6. Earnings Per Share

The numerator for basic and diluted earnings per share (*EPS*) is net earnings attributable to Mosaic. The denominator for basic EPS is the weighted average number of shares outstanding during the period. The denominator for diluted EPS also includes the weighted average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The following is a reconciliation of the denominator for the basic and diluted EPS computations:

	Three months ended		Nine months ended	
	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Net earnings attributed to Mosaic	\$ 273.3	\$ 542.1	\$ 1,422.9	\$ 1,865.4
Basic weighted average common shares outstanding	425.4	446.3	438.5	445.8
Common stock issuable upon vesting of restricted stock awards	0.5	0.4	0.4	0.4
Common stock equivalents	0.7	1.0	0.8	1.1
Common stock issuable upon vesting of performance units	0.1		0.1	
Diluted weighted average common shares outstanding	426.7	447.7	439.8	447.3
Net earnings per share attributable to Mosaic basic	\$ 0.64	\$ 1.21	\$ 3.24	\$ 4.18
Net earnings per share attributable to Mosaic diluted	\$ 0.64	\$ 1.21	\$ 3.24	\$ 4.17

A total of 0.6 million shares of common stock subject to issuance upon exercise of stock options, restricted stock unit awards and performance units for the three and nine months ended February 29, 2012, respectively, and 0.2 million and 0.4 million shares of common stock for the three and nine months ended February 28, 2011, have been excluded from the calculation of diluted EPS as the effect would have been anti-dilutive.

7. Income Taxes

We record unrecognized tax benefits in accordance with applicable accounting standards. During the nine months ended February 29, 2012, unrecognized tax benefits increased by \$178.0 million to \$441.5 million. Of the increase, \$71.9 million relates to prior year uncertain positions. If recognized, approximately \$267.9 million of the unrecognized tax benefits would affect our effective tax rate in future periods.

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We recognize interest and penalties related to unrecognized tax benefits as a component of our income tax provision. We had accrued interest and penalties totaling \$50.2 million and \$50.9 million as of February 29, 2012 and May 31, 2011, respectively, that were included in other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

We operate in multiple tax jurisdictions, both within and outside the United States, and face audits from various tax authorities regarding transfer pricing, deductibility of certain expenses, and intercompany transactions, as well as other matters. With few exceptions, we are no longer subject to examination for tax years prior to 2001.

We are currently under audit by the U.S. Internal Revenue Service for the fiscal years 2009 and 2010, and the Canadian Revenue Agency for the fiscal years 2001 to 2008.

Based on the information available as of February 29, 2012, we anticipate that the amount of uncertain tax positions will change in the next twelve months; however, the change cannot reasonably be estimated.

8. Inventories

Inventories consist of the following:

	February 29, 2012	May 31, 2011
Raw materials	\$ 64.8	\$ 58.6
Work in process	306.3	284.3
Finished goods	882.3	852.9
Operating materials and supplies	73.9	70.6
	\$ 1,327.3	\$ 1,266.4

9. Goodwill

The changes in the carrying amount of goodwill, by reporting unit, for the nine months ended February 29, 2012 are as follows:

	Phosphates	Potash	Total
Balance as of May 31, 2011	\$ 534.7	\$ 1,295.1	\$ 1,829.8
Foreign currency translation		44.4	44.4
Balance as of February 29, 2012	\$ 534.7	\$ 1,339.5	\$ 1,874.2

We review goodwill for impairment annually or at any time events or circumstances indicate that the carrying value may not be fully recoverable. Under our accounting policy, an annual review is performed in the second quarter of each year, or more frequently if indicators of potential impairment exist. We performed our annual review of goodwill in the second quarter and no impairment was identified.

10. Financing Arrangements*Refinance of Senior Notes*

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On October 24, 2011, we completed a \$750 million public offering consisting of \$450 million aggregate principal amount of 3.750% Senior Notes due 2021 and \$300 million aggregate principal amount of 4.875% Senior Notes due 2041 (collectively, the ***New Senior Notes***).

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We received net proceeds from this offering of approximately \$736 million. We used \$505 million of the net proceeds from this offering to redeem the remaining \$469.3 million aggregate principal amount of the 7-5/8% Senior Notes due December 2016 (the *7-5/8% Senior Notes*) of our subsidiary, MOS Holdings Inc., on December 1, 2011, and to pay the call premium and accrued but unpaid interest to the redemption date, and will use the remainder for general corporate purposes. We recorded a pre-tax charge of approximately \$20 million in this third fiscal quarter, primarily related to the call premium for the 7-5/8% Senior Notes.

The New Senior Notes are Mosaic's senior unsecured obligations and rank equally in right of payment with Mosaic's existing and future senior unsecured indebtedness. The indenture governing the New Senior Notes contains restrictive covenants limiting debt secured by liens, sale and leaseback transactions and mergers, consolidations and sales of substantially all assets as well as events of default.

11. Variable Interest Entities

Mosaic is the primary beneficiary of and consolidates two variable interest entities (*VIEs*) within our Phosphates segment: PhosChem and South Fort Meade Partnership, L.P. (*SFMP*). We determine whether we are the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the purpose and design of the VIE, the risks that the VIE were designed to create and pass along to other entities, the activities of the VIE that could be directed and which entity could direct them, and the expected relative impact of those activities on the economic performance of the VIE. We assess our VIE determination with respect to an entity on an ongoing basis. We have not identified any additional VIEs in which we hold a significant interest.

PhosChem is an export association of United States phosphate producers that markets our phosphate products internationally. We, along with the other member, are, subject to certain conditions and exceptions, contractually obligated to reimburse PhosChem for our respective pro rata share of any operating expenses or other liabilities. PhosChem had net sales of \$528.1 million and \$1.8 billion for the three and nine months ended February 29, 2012, respectively, and net sales of \$454.5 million and \$1.6 billion for the three and nine months ended February 28, 2011, respectively which are included in our consolidated net sales. PhosChem currently funds its operations through ongoing sales.

We determined that, because we are PhosChem's exclusive export agent for the marketing, solicitation of orders and freighting of dry phosphatic materials, we have the power to direct the activities that most significantly impact PhosChem's economic performance. Because Mosaic accounts for the majority of sales volume marketed through PhosChem, we have the obligation to absorb losses or right to receive benefits that could be significant to PhosChem.

SFMP owns the mineable acres at our South Fort Meade phosphate mine. We have a long-term mineral lease with SFMP which, in general, expires on the earlier of: (i) December 31, 2025, or (ii) the date that we have completed mining and reclamation obligations associated with the leased property. In addition to lease payments, we pay SFMP a royalty on each tonne mined and shipped from the areas that we lease. SFMP had no external sales for the three and nine months ended February 29, 2012 and February 28, 2011.

We determined that, because we control the day-to-day mining decisions and are responsible for obtaining mining permits, we have the power to direct the activities that most significantly impact SFMP's economic performance. Because of our rental and royalty payments to the partnership, we have the obligation to absorb losses or right to receive benefits that could potentially be significant to SFMP.

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No additional financial or other support has been provided to these VIEs beyond what was previously contractually required during any periods presented. The carrying amounts and classification of assets and liabilities included in our Condensed Consolidated Balance Sheets for these consolidated entities are as follows:

	February 29, 2012	May 31, 2011
Current assets	\$ 107.7	\$ 230.0
Non current assets	49.5	50.7
Total assets	\$ 157.2	\$ 280.7
Current liabilities	\$ 41.0	\$ 63.0
Total liabilities	\$ 41.0	\$ 63.0

12. Contingencies

We have described below judicial and administrative proceedings to which we are subject.

We have contingent environmental liabilities that arise principally from three sources: (i) facilities currently or formerly owned by our subsidiaries or their predecessors; (ii) facilities adjacent to currently or formerly owned facilities; and (iii) third-party Superfund or state equivalent sites. At facilities currently or formerly owned by our subsidiaries or their predecessors, the historical use and handling of regulated chemical substances, crop and animal nutrients and additives and by-product or process tailings have resulted in soil, surface water and/or groundwater contamination. Spills or other releases of regulated substances, subsidence from mining operations and other incidents arising out of operations, including accidents, have occurred previously at these facilities, and potentially could occur in the future, possibly requiring us to undertake or fund cleanup or result in monetary damage awards, fines, penalties, other liabilities, injunctions or other court or administrative rulings. In some instances, pursuant to consent orders or agreements with appropriate governmental agencies, we are undertaking certain remedial actions or investigations to determine whether remedial action may be required to address contamination. At other locations, we have entered into consent orders or agreements with appropriate governmental agencies to perform required remedial activities that will address identified site conditions. Taking into consideration established accruals of approximately \$30.8 million and \$41.7 million as of February 29, 2012 and May 31, 2011, respectively, expenditures for these known conditions currently are not expected, individually or in the aggregate, to have a material effect on our business or financial condition. However, material expenditures could be required in the future to remediate the contamination at known sites or at other current or former sites or as a result of other environmental, health and safety matters. Below is a discussion of the more significant environmental matters.

EPA RCRA Initiative. In 2003, the U.S. Environmental Protection Agency (*EPA*) Office of Enforcement and Compliance Assurance announced that it would be targeting facilities in mineral processing industries, including phosphoric acid producers, for a thorough review under the U.S. Resource Conservation and Recovery Act (*RCRA*) and related state laws. Mining and processing of phosphates generate residual materials that must be managed both during the operation of a facility and upon a facility's closure. Certain solid wastes generated by our phosphate operations may be subject to regulation under RCRA and related state laws. The EPA rules exempt extraction and beneficiation wastes, as well as 20 specified mineral processing wastes, from the hazardous waste management requirements of RCRA. Accordingly, certain of the residual materials which our phosphate operations generate, as well as process wastewater from phosphoric acid production, are exempt from RCRA regulation. However, the generation and management of other solid wastes from phosphate operations may be subject to hazardous waste regulation if the waste is deemed to exhibit a hazardous waste characteristic. As part of its initiative, EPA has inspected all or nearly all facilities in the U.S. phosphoric acid

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production sector to ensure compliance with applicable RCRA regulations and to address any imminent and substantial endangerment found by the EPA under RCRA. We have provided the EPA with substantial amounts of information regarding the process water recycling practices and the hazardous waste handling practices at our phosphate production facilities in Florida and Louisiana, and the EPA has inspected all of our currently operating processing facilities in the U.S. In addition to the EPA's inspections, our Riverview, Bartow and Green Bay, Florida facilities and our Uncle Sam and Faustina, Louisiana facilities have entered into consent orders to perform analyses of existing environmental data, to perform further environmental sampling as may be necessary, and to assess whether the facilities pose a risk of harm to human health or the surrounding environment. We are finalizing similar orders for our New Wales and South Pierce, Florida facilities.

We have received Notices of Violation (*NOVs*) from the EPA related to the handling of hazardous waste at our Riverview (September 2005), New Wales (October 2005), Mulberry (June 2006) and Bartow (September 2006) facilities in Florida. The EPA has issued similar NOVs to our competitors and has referred the NOVs to the U.S. Department of Justice (*DOJ*) for further enforcement. We currently are engaged in discussions with the DOJ and EPA. We believe we have substantial defenses to most of the allegations in the NOVs, including but not limited to previous EPA regulatory interpretations and inspection reports finding that the process water handling practices in question comply with the requirements of the exemption for extraction and beneficiation wastes. In addition to seeking various changes to our operations, the DOJ and EPA have expressed a desire to obtain financial assurances for the closure of phosphogypsum management systems which may be significantly more stringent than current requirements in Florida or Louisiana. We intend to evaluate various alternatives and continue discussions to determine if a negotiated resolution can be reached. If it cannot, we intend to vigorously defend these matters in any enforcement actions that may be pursued. As part of a comprehensive settlement, or should we fail in our defense in any enforcement actions, we could incur substantial capital and operating expenses to modify our facilities and operating practices relating to the handling of process water, we could be required to post significant amounts of cash or other collateral for financial assurance purposes and we could also be required to pay significant civil penalties.

We have established accruals to address the estimated cost of implementing the related consent orders at our Florida and Louisiana facilities and the minimum estimated amount that will be incurred in connection with the NOVs discussed above. We cannot at this stage of the discussions predict whether the costs incurred as a result of the EPA's RCRA initiative, the consent orders, or the NOVs will have a material effect on our business or financial condition.

EPA EPCRA Initiative. In July 2008, the DOJ sent a letter to major U.S. phosphoric acid manufacturers, including us, stating that the EPA's ongoing investigation indicates apparent violations of Section 313 of the Emergency Planning and Community Right-to-Know Act (*EPCRA*) at their phosphoric acid manufacturing facilities. Section 313 of EPCRA requires annual reports to be submitted with respect to the use or presence of certain toxic chemicals. DOJ and EPA also stated that they believe that a number of these facilities have violated Section 304 of EPCRA and Section 103 of the Comprehensive Environmental Response, Compensation and Liability Act (*CERCLA*) by failing to provide required notifications relating to the release of hydrogen fluoride from the facilities. The letter did not identify any specific violations by us or assert a demand for penalties against us. We cannot predict at this time whether the EPA and DOJ will initiate an enforcement action over this matter, what its scope would be, or what the range of outcomes of such a potential enforcement action might be.

Florida Sulfuric Acid Plants. On April 8, 2010, the EPA Region 4 submitted an administrative subpoena to us under Section 114 of the Federal Clean Air Act (the *CAA*) regarding compliance of our Florida sulfuric acid plants with the New Source Review requirements of the CAA. The request received by Mosaic appears to be

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part of a broader EPA national enforcement initiative focusing on sulfuric acid plants. We cannot predict at this time whether the EPA and DOJ will initiate an enforcement action over this matter, what its scope would be, or what the range of outcomes of such a potential enforcement action might be.

Other Environmental Matters. Superfund and equivalent state statutes impose liability without regard to fault or to the legality of a party's conduct on certain categories of persons who are considered to have contributed to the release of hazardous substances into the environment. Under Superfund, or its various state analogues, one party may, under certain circumstances, be required to bear more than its proportionate share of cleanup costs at a site where it has liability if payments cannot be obtained from other responsible parties. Currently, certain of our subsidiaries are involved or concluding involvement at several Superfund or equivalent state sites. Our remedial liability from these sites, alone or in the aggregate, currently is not expected to have a material effect on our business or financial condition. As more information is obtained regarding these sites and the potentially responsible parties involved, this expectation could change.

We believe that, pursuant to several indemnification agreements, our subsidiaries are entitled to at least partial, and in many instances complete, indemnification for the costs that may be expended by us or our subsidiaries to remedy environmental issues at certain facilities. These agreements address issues that resulted from activities occurring prior to our acquisition of facilities or businesses from parties including, but not limited to, ARCO (BP); Beatrice Fund for Environmental Liabilities; Conoco; Conserv; Estech, Inc.; Kaiser Aluminum & Chemical Corporation; Kerr-McGee Inc.; PPG Industries, Inc.; The Williams Companies and certain other private parties. Our subsidiaries have already received and anticipate receiving amounts pursuant to the indemnification agreements for certain of their expenses incurred to date as well as future anticipated expenditures. Potential indemnification is not considered in our established accruals.

Phosphate Mine Permitting in Florida

Denial of the permits sought at any of our mines, issuance of the permits with cost-prohibitive conditions, or substantial delays in issuing the permits, legal actions that prevent us from relying on permits or revocation of permits may create challenges for us to mine the phosphate rock required to operate our Florida and Louisiana phosphate plants at desired levels or increase our costs in the future.

The Altman Extension of the Four Corners Mine. The Army Corps of Engineers (the **Corps**) issued a federal wetlands permit under the Clean Water Act (the **CWA**) for mining the Altman Extension (the **Altman Extension**) of our Four Corners phosphate rock mine in central Florida in May 2008. The Sierra Club, Inc. (the **Sierra Club**), Manasota-88, Inc. (**Manasota-88**), Gulf Restoration Network, Inc., People for Protecting Peace River, Inc. (**People for Protecting Peace River**) and the Environmental Confederation of Southwest Florida, Inc. sued the Corps in the United States District Court for the Middle District of Florida, Jacksonville Division (the **Jacksonville District Court**), seeking to vacate our permit to mine the Altman Extension. Mining on the Altman Extension has commenced and is continuing. In September 2010, the Jacksonville District Court deferred action on the parties' respective motions for summary judgment, pending the result of our appeal to the Eleventh Circuit Court of Appeals (the **Eleventh Circuit**) of the Jacksonville District Court's First Preliminary Injunction in the litigation described below under *The Hardee County Extension of the South Fort Meade Mine*, stating the Jacksonville District Court's view that the issues in the two cases are related. No action has subsequently been taken by the Jacksonville District Court on the motions for summary judgment. We believe that the permit was issued in accordance with all applicable requirements and that it will ultimately be upheld.

The Hardee County Extension of the South Fort Meade Mine. The mining reserves of our South Fort Meade phosphate rock mine in central Florida straddle the county line between Polk and Hardee Counties. Mining in the Polk County portion of the South Fort Meade mine began in 1995 and is now substantially completed. In 2003,

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we began the permitting process to extend mining into Hardee County (the *Hardee County Extension*) and, by March 2009, had obtained all of the significant permits necessary for mining in the Hardee County Extension from several governmental agencies, other than a federal wetlands permit from the Corps under the CWA (the *Hardee County Extension Permit*). Ongoing delays in receiving the Hardee County Extension Permit impacted the scheduled progression of mining activities for the Hardee County Extension. As a result, we began to idle a portion of our mining equipment at the mine in the latter part of fiscal 2010. On June 14, 2010, the Corps issued the Hardee County Extension Permit.

On June 30, 2010, the Sierra Club, People for Protecting Peace River and Manasota-88 filed a lawsuit against the Corps in the Jacksonville District Court, contesting the Corps' issuance of the Hardee County Extension Permit, alleging that the Corps' actions in issuing the permit violated the substantive and procedural requirements of the CWA, the National Environmental Policy Act (*NEPA*) and the Endangered Species Act (the *ESA*), and was arbitrary, capricious, an abuse of discretion, and otherwise not in accordance with law, in violation of the Administrative Procedure Act (the *APA*). Plaintiffs alleged in their complaint that the permit improperly authorized the destruction of certain wetlands and streams that are associated with the headwaters of certain creeks and rivers that ultimately drain into the Charlotte Harbor, Florida, estuary and that mining for phosphate has an adverse impact on the local environment. Specific violations of NEPA and CWA asserted by plaintiffs included the Corps' alleged (i) failure to find that an Environmental Impact Statement (*EIS*) was required; (ii) failure to conduct an adequate analysis under the CWA of alternatives; (iii) refusal to hold a public hearing; and (iv) failure to fully consider the cumulative effects of our South Fort Meade mine. Relief sought in the complaint included: (i) a declaration that the Corps violated its statutory and regulatory duties under the CWA, NEPA, ESA and APA; (ii) a temporary restraining order (*TRO*); (iii) preliminary and permanent injunctions requiring the Corps to rescind the permit; and (iv) enjoining the Corps from reissuing the permit until the Corps has complied with its statutory and regulatory duties under the CWA, NEPA, ESA and APA.

On July 1, 2010, the Jacksonville District Court issued a TRO prohibiting the Corps and us from conducting activities in jurisdictional waters of the United States in reliance on the Hardee County Extension Permit. The TRO remained in effect through July 30, 2010.

On July 30, 2010, the Jacksonville District Court entered a preliminary injunction (the *First Preliminary Injunction*) enjoining disturbance of jurisdictional waters of the United States in reliance on the Hardee County Extension Permit. The Jacksonville District Court also ordered a remand of the Hardee County Extension Permit to the Corps to adequately conduct an alternatives analysis, and further stated a public hearing should be conducted in conjunction with the remand. The order provided that the First Preliminary Injunction was effective until the requisite alternatives analysis was accomplished and a permit was reissued by the Corps, or, alternatively, the case was decided in our favor.

Without the Hardee County Extension Permit, mining at the South Fort Meade mine could not continue without adverse consequences. Three draglines that extract phosphate rock had already exhausted available reserves in Polk County before the Jacksonville District Court issued the TRO and had been idled awaiting access to the new reserves in Hardee County. Accordingly, we indefinitely closed the South Fort Meade mine.

On August 2, 2010, we appealed the Jacksonville District Court's order to the Eleventh Circuit.

On October 27, 2010, we reached a partial settlement (the *Partial Settlement*) with the plaintiffs. The Partial Settlement allowed mining to proceed on approximately 200 acres (*Phase I*) out of the 10,586 acre Hardee County Extension. In connection with the Partial Settlement, we agreed not to mine approximately 40 acres of the Hardee County Extension, including preservation of 14.3 acres of wetlands through a conservation easement. The Jacksonville District Court approved the Partial Settlement on November 3, 2010, and we

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commenced mining Phase I in December 2010. We completed the mining of approximately 1.35 million tonnes of phosphate rock from Phase I in June 2011 or an average of approximately 225,000 tonnes per month.

On April 11, 2011, four days after hearing oral arguments on the matter, the Eleventh Circuit vacated the First Preliminary Injunction and set aside the District Court's remand of the permit to the Corps. In vacating the First Preliminary Injunction, the Court of Appeals remanded the case to the Jacksonville District Court for a decision on the merits to determine, after a review of the full administrative record, whether the Corps came to a rational permit decision to be analyzed through the deferential lens mandated by the APA. The Eleventh Circuit also directed the Jacksonville District Court to stay the effectiveness of the permit for 90 days to permit the District Court to make a decision on the merits based on this deferential standard.

On April 19, 2011, we notified the Jacksonville District Court that we planned to conduct uplands-only mining (*i.e.*, non-wetlands) in an area (**Phase II**) at our South Fort Meade mine.

On May 24, 2011, the plaintiffs amended their complaint to include allegations that our mining of Phase II was a significant new fact that required the Corps to make a supplemental environmental study or assessment in connection with the Hardee County Extension Permit and that our ability to conduct uplands-only mining in Phase II was a fact that should have been considered by the Corps in initially granting the Hardee County Extension Permit.

On June 6, 2011, the plaintiffs filed a motion for a preliminary injunction against our mining of Phase II and, on July 8, 2011, the Jacksonville District Court entered another preliminary injunction (the **Second Preliminary Injunction**) that prevents all mining activities in the Hardee County Extension, including uplands-only mining in Phase II. The Jacksonville District Court found that plaintiffs had demonstrated a substantial likelihood of success on the merits of their NEPA claim and that the Corps failed to adequately conduct its CWA alternatives analysis.

Following the Second Preliminary Injunction, we stopped mining in the Hardee County Extension. Two draglines are currently engaged in minimal phosphate rock extraction from lower-yield reserves in the Polk County portion of the South Fort Meade mine.

In fiscal 2011, the shutdown of the South Fort Meade mine resulted in costs to suspend operations and idle plant costs, and lower phosphate rock mining production levels also adversely affected gross margin. Because of our successful execution of mitigation measures, the indefinite closure of the South Fort Meade mine did not significantly impact our sales volumes in fiscal 2011. In addition to mining Phase I, our mitigation activities have included drawing down existing phosphate rock and finished product inventories; sourcing rock from our investment in the Miski Mayo Mine; purchasing phosphate rock from third parties where reasonable; and maximizing production at our other phosphate mines.

For fiscal 2012, we have been able to continue to support planned finished phosphate production levels through a continuation of our mitigation activities, including additional rock sourced from our Florida mines, additional spot purchases from the Miski Mayo Mine and incremental third party purchases. The increased use of purchased phosphate rock due to the Second Preliminary Injunction has increased costs.

On February 21, 2012, we announced that we had entered into a settlement agreement (the **Hardee County Settlement Agreement**) with the plaintiffs that resolved the court proceedings regarding the Hardee County Extension Permit in their entirety and allows mining at the South Fort Meade mine to proceed. Proceedings affected by the Hardee County Settlement Agreement included (i) a ruling by the Jacksonville District Court on

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the merits of the plaintiffs' claims and (ii) rulings by the Eleventh Circuit on our appeal of the Second Preliminary Injunction, and our request to stay (as to Phase II only) the Second Preliminary Injunction.

The Hardee County Settlement Agreement required the plaintiffs to dismiss their challenge to the Hardee County Extension Permit in exchange for certain commitments by us, including:

Preservation of approximately 130 acres of land otherwise eligible for mining.

Donation of the Peaceful Horse Ranch in DeSoto County to the State of Florida or, alternatively, a not-for-profit organization for permanent conservation. In December, we acquired Peaceful Horse Ranch, which comprises an estimated 4,171 acres located in DeSoto County at the convergence of Horse Creek and the Peace River. The property is located immediately adjacent to existing conservation lands as well as the water intake for the Peace River Manasota Water Supply Authority. We purchased the property for approximately \$10 million. Peaceful Horse Ranch is on the State of Florida's list of priority projects for its Florida Forever land conservation program. Upon conveyance, we have also agreed to provide up to \$2 million for startup and recurring expenses to operate the ranch. Its conservation will expand wildlife corridors and preserve vital habitats and floodplain, while protecting a vital water resource from approaching development.

Certain mitigation, monitoring and site enhancements.

Additional efforts to obtain permanent conservation easements along the Peace River.

On March 21, 2012, the Eleventh Circuit remanded the case to the Jacksonville District Court for approval, and on March 28, 2012, the Jacksonville District Court granted final approval of the Hardee County Settlement Agreement. The settlement resulted in a pre-tax charge in the third quarter of approximately \$13 million.

Central Florida Phosphate District Area-Wide Environmental Impact Statement. On August 24, 2010, we received official confirmation from the Corps that it plans to conduct an area-wide EIS (*AEIS*) for the central Florida phosphate district. The Corps' current schedule calls for it to issue the AEIS in December 2012. We cannot predict the scope or actual timeline for this process, or what its outcome will be; however, the Corps' announced schedule has begun to slip, and, although we do not currently expect the outcome of the AEIS to materially influence the conditions of future federal wetlands permits for our mining in central Florida, a protracted timeline for this process could delay our future permitting efforts.

Potash Antitrust Litigation

On September 11, 2008, separate complaints (together, the *September 11, 2008 Cases*) were filed in the United States District Courts for the District of Minnesota (the *Minn-Chem Case*) and the Northern District of Illinois (the *Gage's Fertilizer Case*), on October 2, 2008 another complaint (the *October 2, 2008 Case*) was filed in the United States District Court for the Northern District of Illinois, and on November 10, 2008 and November 12, 2008, two additional complaints (together, the *November 2008 Cases* and collectively with the September 11, 2008 Cases and the October 2, 2008 Case, the *Direct Purchaser Cases*) were filed in the United States District Court for the Northern District of Illinois by Minn-Chem, Inc., Gage's Fertilizer & Grain, Inc., Kraft Chemical Company, Westside Forestry Services, Inc. d/b/a Signature Lawn Care, and Shannon D. Flinn, respectively, against The Mosaic Company, Mosaic Crop Nutrition, LLC and a number of unrelated defendants that allegedly sold and distributed potash throughout the United States. On November 13, 2008, the plaintiffs in the cases in the United States District Court for the Northern District of Illinois filed a consolidated class action complaint against the defendants, and on December 2, 2008 the *Minn-Chem Case* was consolidated with the *Gage's Fertilizer Case*. On April 3, 2009, an amended consolidated class action complaint was filed on behalf of the plaintiffs in the *Direct Purchaser Cases*. The amended consolidated complaint added Thomasville Feed and Seed, Inc. as a

named plaintiff, and was filed on behalf of the named plaintiffs and a purported class of all

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persons who purchased potash in the United States directly from the defendants during the period July 1, 2003 through the date of the amended consolidated complaint (*Class Period*). The amended consolidated complaint generally alleges, among other matters, that the defendants: conspired to fix, raise, maintain and stabilize the price at which potash was sold in the United States; exchanged information about prices, capacity, sales volume and demand; allocated market shares, customers and volumes to be sold; coordinated on output, including the limitation of production; and fraudulently concealed their anticompetitive conduct. The plaintiffs in the Direct Purchaser Cases generally seek injunctive relief and to recover unspecified amounts of damages, including treble damages, arising from defendants' alleged combination or conspiracy to unreasonably restrain trade and commerce in violation of Section 1 of the Sherman Act. The plaintiffs also seek costs of suit, reasonable attorneys' fees and pre-judgment and post-judgment interest.

On September 15, 2008, separate complaints were filed in the United States District Court for the Northern District of Illinois by Gordon Tillman (the *Tillman Case*); Feyh Farm Co. and William H. Coaker Jr. (the *Feyh Farm Case*); and Kevin Gillespie (the *Gillespie Case*; the Tillman Case and the Feyh Farm Case together with the Gillespie case being collectively referred to as the *Indirect Purchaser Cases*; and the Direct Purchaser Cases together with the Indirect Purchaser Cases being collectively referred to as the *Potash Antitrust Cases*). The defendants in the Indirect Purchaser Cases are generally the same as those in the Direct Purchaser Cases. On November 13, 2008, the initial plaintiffs in the Indirect Purchaser Cases and David Baier, an additional named plaintiff, filed a consolidated class action complaint. On April 3, 2009, an amended consolidated class action complaint was filed on behalf of the plaintiffs in the Indirect Purchaser Cases. The factual allegations in the amended consolidated complaint are substantially identical to those summarized above with respect to the Direct Purchaser Cases. The amended consolidated complaint in the Indirect Purchaser Cases was filed on behalf of the named plaintiffs and a purported class of all persons who indirectly purchased potash products for end use during the Class Period in the United States, any of 20 specified states and the District of Columbia defined in the consolidated complaint as *Indirect Purchaser States*, any of 22 specified states and the District of Columbia defined in the consolidated complaint as *Consumer Fraud States*, and/or 48 states and the District of Columbia and Puerto Rico defined in the consolidated complaint as *Unjust Enrichment States*. The plaintiffs generally sought injunctive relief and to recover unspecified amounts of damages, including treble damages for violations of the antitrust laws of the Indirect Purchaser States where allowed by law, arising from defendants' alleged continuing agreement, understanding, contract, combination and conspiracy in restraint of trade and commerce in violation of Section 1 of the Sherman Act, Section 16 of the Clayton Act, the antitrust, or unfair competition laws of the Indirect Purchaser States and the consumer protection and unfair competition laws of the Consumer Fraud States, as well as restitution or disgorgement of profits, for unjust enrichment under the common law of the Unjust Enrichment States, and any penalties, punitive or exemplary damages and/or full consideration where permitted by applicable state law. The plaintiffs also seek costs of suit and reasonable attorneys' fees where allowed by law and pre-judgment and post-judgment interest.

On June 15, 2009, we and the other defendants filed motions to dismiss the complaints in the Potash Antitrust Cases. On November 3, 2009, the court granted our motions to dismiss the complaints in the Indirect Purchaser Cases except (a) for plaintiffs residing in Michigan and Kansas, claims for alleged violations of the antitrust or unfair competition laws of Michigan and Kansas, respectively, and (b) for plaintiffs residing in Iowa, claims for alleged unjust enrichment under Iowa common law. The court denied our and the other defendants' other motions to dismiss the Potash Antitrust Cases, including the defendants' motions to dismiss the claims under Section 1 of the Sherman Act for failure to plead evidentiary facts which, if true, would state a claim for relief under that section. The court, however, stated that it recognized that the facts of the Potash Antitrust Cases present a difficult question under the pleading standards enunciated by the U.S. Supreme Court for claims under Section 1 of the Sherman Act, and that it would consider, if requested by the defendants, certifying the issue for interlocutory appeal. On January 13, 2010, at the request of the defendants, the court issued an order certifying for interlocutory appeal the issues of (i) whether an international antitrust complaint states a plausible cause of

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action where it alleges parallel market behavior and opportunities to conspire; and (ii) whether a defendant that sold product in the United States with a price that was allegedly artificially inflated through anti-competitive activity involving foreign markets, engaged in conduct involving import trade or import commerce under applicable law. On September 23, 2011, the United States Court of Appeals for the Seventh Circuit (the *Seventh Circuit*) vacated the district court's order denying the defendants' motion to dismiss and remanded the case to the district court with instructions to dismiss the plaintiffs' Sherman Act claims. On December 2, 2011, the Seventh Circuit vacated its September 23, 2011 order and subsequently has held an *en banc* rehearing.

We believe that the allegations in the Potash Antitrust Cases are without merit and intend to defend vigorously against them. At this stage of the proceedings, we cannot predict the outcome of this litigation or determine whether it will have a material effect on our results of operations, liquidity or capital resources.

MicroEssentials® Patent Lawsuit

On January 9, 2009, John Sanders and Specialty Fertilizer Products, LLC filed a complaint against Mosaic, Mosaic Fertilizer, LLC, Cargill, Incorporated and Cargill Fertilizer, Inc. in the United States District Court for the Western District of Missouri (the *Missouri District Court*). The complaint alleges that our production of MicroEssentials® SZ, one of several types of the MicroEssentials® value-added ammoniated phosphate crop nutrient products that we produce, infringes on a patent held by the plaintiffs since 2001. Plaintiffs have since asserted that other MicroEssentials® products also infringe the patent. Plaintiffs seek to enjoin the alleged infringement and to recover an unspecified amount of damages and attorneys' fees for past infringement. Our answer to the complaint responds that the plaintiffs' patent is invalid and we have counterclaimed that the plaintiffs have engaged in inequitable conduct.

The Missouri District Court has stayed the lawsuit pending a reexamination of plaintiffs' patent claims by the U.S. Patent and Trademark Office.

We believe that the plaintiffs' allegations are without merit and intend to defend vigorously against them. At this stage of the proceedings, we cannot predict the outcome of this litigation or determine whether it will have a material effect on our results of operations, liquidity or capital resources.

Esterhazy Potash Mine Tolling Agreement Dispute

Under an agreement (the *Tolling Agreement*) with Potash Corporation of Saskatchewan Inc. (*PCS*), our wholly-owned subsidiary, Mosaic Potash Esterhazy Limited Partnership (*Mosaic Esterhazy*), has mined and refined PCS potash reserves at our Esterhazy mine for a fee plus a pro rata share of operating and capital costs for approximately forty years. Under the agreement, we have delivered to PCS up to approximately 1.1 million tonnes of potash per year. The agreement provided for a term through December 31, 2011 as well as certain renewal terms at the option of PCS, but only to the extent PCS had not received all of its available reserves under the agreement. To the extent we have not fully utilized the capacity to satisfy our obligations under the agreement, the productive capacity at our Esterhazy mine otherwise used to satisfy our obligations under the Tolling Agreement has been and continues to be available to us for sales to any of our customers at then-current market prices.

As previously reported, we and PCS disputed, among other matters, when PCS would have received all of its available reserves under the Tolling Agreement and the resulting expiration of the Tolling Agreement, and, on or about May 27, 2009, PCS filed a lawsuit (the *Tolling Agreement Dispute*) against Mosaic Esterhazy in the Queen's Bench Judicial Centre of Saskatoon, Saskatchewan. On December 7, 2011, we and PCS settled, among other matters, the Tolling Agreement Dispute. Under the settlement, the Tolling Agreement expires at December 31, 2012. We supplied PCS with potash on existing terms under the Tolling Agreement at the existing

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rate through the end of calendar 2011, and agreed to supply approximately 1.1 million additional tonnes of potash to PCS on existing terms for calendar 2012. We also granted PCS the right, which it has exercised, to take delivery of approximately 0.1 million of the 1.1 million tonnes through the first quarter of calendar 2013. In addition, effective December 31, 2012, we will receive credit for 1.3 million metric tonnes of capacity at our Esterhazy mine for purposes of calculating our relative share of annual sales of potash to international customers by Canpotex Limited, capacity which is currently allocated to PCS. Expiration of our obligation to ship under the Tolling Agreement will have a material positive effect on the volume of potash available to us to sell to customers at then-current market prices and could have a material positive effect on our results of operations and liquidity.

Other Claims

We also have certain other contingent liabilities with respect to judicial, administrative and arbitration proceedings and claims of third parties, including tax matters, arising in the ordinary course of business. We do not believe that any of these contingent liabilities will have a material adverse impact on our business or financial condition, results of operations, and cash flows.

13. Accounting for Derivative Instruments and Hedging Activities

We are exposed to the impact of fluctuations in the relative value of currencies, the impact of fluctuations in the purchase prices of natural gas and ammonia consumed in operations and changes in freight costs as well as changes in the market value of our financial instruments. We periodically enter into derivatives in order to mitigate our foreign currency risks and the effects of changing commodity and freight prices, but not for speculative purposes.

As of February 29, 2012, the following is the total absolute notional volume associated with our outstanding derivative instruments:

(in millions of Units)

Derivative Instrument	Derivative Category	Unit of Measure	February 29, 2012
Foreign currency derivatives	Foreign currency	US Dollars	1,311.9
Natural gas derivatives	Commodity	MMbtu	18.4
Ocean freight contracts	Freight	Tonnes	2.2

We do not apply hedge accounting treatments to our foreign currency exchange contracts, commodities contracts, and freight contracts. Unrealized gains and losses on foreign currency exchange contracts used to hedge cash flows related to the production of our products are included in cost of goods sold in the Condensed Consolidated Statements of Earnings. Unrealized gains and losses on commodities contracts and certain forward freight agreements are also recorded in cost of goods sold in the Condensed Consolidated Statements of Earnings. Unrealized gain or (loss) on foreign currency exchange contracts used to hedge cash flows that are not related to the production of our products are included in the foreign currency transaction loss line in the Condensed Consolidated Statements of Earnings. Below is a table that shows the unrealized gains and (losses) on derivative instruments related to foreign currency exchange contracts, commodities contracts, and freight:

Derivative Instrument	Location	Three months ended		Nine months ended	
		February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Foreign currency derivatives	Cost of goods sold	\$ 14.4	\$ 7.5	\$ 1.1	\$ 11.9
Foreign currency derivatives	Foreign currency transaction gain (loss)	8.6	7.1	(3.8)	11.3
Commodity derivatives	Cost of goods sold	(16.5)	(1.0)	(27.3)	1.6
Freight derivatives	Cost of goods sold	2.2	3.4	(2.7)	(1.2)

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The gross fair market value of all derivative instruments and their location in our Condensed Consolidated Balance Sheets are shown by those in an asset or liability position and are further categorized by foreign currency, commodity, and freight derivatives.

Derivative Instrument	Asset Derivatives		Liability Derivatives	
	Location	February 29, 2012	Location	February 29, 2012
Foreign currency derivatives	Other current assets	\$ 21.3		