CASS INFORMATION SYSTEMS INC
Form 10-Q
May 03, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended _ March 31, 2013
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 No. 000-20827

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Missouri (State or other jurisdiction of incorporation or organization)	**43-1265338** (I.R.S. Employer Identification No.)
12444 Powerscourt Drive, Suite 550 **St. Louis, Missouri** (Address of principal executive offices)	**63131** (Zip Code)

(314) 506-5500
(Registrant s telephone number, including area code)

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

Yes 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	Accelerated Filer	X
	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

The number of shares outstanding of the registrant's only class of common stock as of April 29, 2013: Common stock, par value $.50 per share 11,487,650 shares outstanding.

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Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, Risk Factors of the Company s 2012 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands except Share and Per Share Data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 9,692	$ 18,794
Interest-bearing deposits in other financial institutions	89,420	108,560
Federal funds sold and other short-term investments	67,255	13,734
Cash and cash equivalents	166,367	141,088
Securities available-for-sale, at fair value	307,507	341,935
Loans	679,890	687,733
Less: Allowance for loan losses	11,032	12,357
Loans, net	668,858	675,376
Premises and equipment, net	11,905	10,735
Investment in bank-owned life insurance	15,041	14,910
Payments in excess of funding	69,419	63,522
Goodwill	11,590	11,590
Other intangible assets, net	3,610	3,757
Other assets	25,982	24,474
Total assets	$ 1,280,279	$ 1,287,387
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 133,284	$ 144,143
Interest-bearing	403,062	419,565
Total deposits	536,346	563,708
Accounts and drafts payable	542,528	522,761
Other liabilities	25,019	26,903
Total liabilities	1,103,893	1,113,372
Shareholders Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued		
Common stock, par value $.50 per share; 20,000,000 shares authorized and 11,931,147 shares issued at March 31, 2013 and December 31, 2012	5,966	5,966
Additional paid-in capital	124,983	125,086
Retained earnings	64,918	60,952
Common shares in treasury, at cost (451,284 shares at March 31, 2013 and 467,316 shares at December 31, 2012)	(11,580)	(11,896)
Accumulated other comprehensive loss	(7,901)	(6,093)
Total shareholders equity	176,386	174,015
Total liabilities and shareholders equity	$ 1,280,279	$ 1,287,387

See accompanying notes to unaudited consolidated financial statements.

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in Thousands except Per Share Data)

	Three Months Ended March 31, 2013	2012
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 16,576	$ 16,487
Bank service fees	304	298
Gains on sales of securities	1,453	966
Other	132	132
Total fee revenue and other income	18,465	17,883
Interest Income:		
Interest and fees on loans	8,415	8,940
Interest and dividends on securities:		
Taxable	11	10
Exempt from federal income taxes	2,333	2,510
Interest on federal funds sold and other short-term investments	97	129
Total interest income	10,856	11,589
Interest Expense:		
Interest on deposits	687	838
Net interest income	10,169	10,751
Provision for loan losses	200	200
Net interest income after provision for loan losses	9,969	10,551
Total net revenue	28,434	28,434
Operating Expense:		
Salaries and employee benefits	16,258	15,561
Occupancy	609	532
Equipment	908	863
Amortization of intangible assets	147	139
Other operating expense	2,467	3,246
Total operating expense	20,389	20,341
Income before income tax expense	8,045	8,093
Income tax expense	2,013	2,185
Net income	$ 6,032	$ 5,908
Basic earnings per share	$ .53	$ .52
Diluted earnings per share	.52	.51

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars In Thousands)

	Three Months Ended March 31, 2013	2012
Comprehensive income:		
Net income	$ 6,032	$ 5,908
Other comprehensive income:		
Net unrealized gain on securities available-for-sale, net of tax	(815)	(903)
Reclassification adjustments for gains included in net income, net of tax	(945)	(628)
Foreign currency translation adjustments	(48)	3
Total comprehensive income	$ 4,224	$ 4,380

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2013	2012
Cash Flows From Operating Activities:		
Net income	$ 6,032	$ 5,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,828	1,515
Net gains on sales of securities	(1,453)	(966)
Provision for loan losses	200	200
Stock-based compensation expense	421	351
Increase in income tax liability	537	1,770
Increase in pension liability	625	129
Other operating activities, net	(3,785)	903
Net cash provided by operating activities	4,405	9,810
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	28,021	14,659
Proceeds from maturities of securities available-for-sale	4,015	2,950
Purchase of securities available-for-sale		(18,490)
Net decrease (increase) in loans	6,318	(18,999)
Increase in payments in excess of funding	(5,897)	(4,247)
Purchases of premises and equipment, net	(1,714)	(168)
Environmental management acquisition		(7,798)
Net cash provided by (used in) investing activities	30,743	(32,093)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(10,859)	(6,456)
Net decrease in interest-bearing demand and savings deposits	(13,130)	(14,130)
Net decrease in time deposits	(3,373)	(11,866)
Net increase (decrease) in accounts and drafts payable	19,767	(20,211)
Cash dividends paid	(2,066)	(1,765)
Distribution of stock awards, net	(208)	(135)
Net cash used in financing activities	(9,869)	(54,563)
Net increase (decrease) in cash and cash equivalents	25,279	(76,846)
Cash and cash equivalents at beginning of period	141,088	235,962
Cash and cash equivalents at end of period	$ 166,367	$ 159,116
Supplemental information:		
Cash paid for interest	$ 669	$ 842
Cash paid for income taxes	1,445	293

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. All share and per share data have been restated to give effect to the 10% stock dividend issued on December 14, 2012. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc. s (the Company or Cass) Annual Report on Form 10-K for the year ended December 31, 2012.

Note 2 Intangible Assets

The Company accounts for intangible assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, Goodwill and Other Intangible Assets, which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives.

Details of the Company s intangible assets are as follows:

(In thousands)	**March 31, 2013** Gross Carrying Amount	**March 31, 2013** Accumulated Amortization	**December 31, 2012** Gross Carrying Amount	**December 31, 2012** Accumulated Amortization
Assets eligible for amortization:				
Customer lists	$ 3,933	$ (1,121)	$ 3,933	$ (1,015)
Non-compete agreements	261	(66)	261	(53)
Software	234	(98)	234	(78)
Other	500	(33)	500	(25)
Unamortized intangible assets:				
Goodwill[1]	11,817	(227)	11,817	(227)
Total intangible assets	$ 16,745	$ (1,545)	$ 16,745	$ (1,398)

[1]Amortization through December 31, 2001 prior to adoption of FASB ASC 350.

The customer lists are amortized over seven and 10 years; the non-compete agreements over five years; software over three years and other intangible assets over 15 years. Amortization of intangible assets amounted to $147,000 and $139,000 for the three-month periods ended March 31, 2013 and 2012, respectively. Estimated future amortization of intangibles is as follows: $535,000 in 2013, $482,000 in 2014, $404,000 in 2015 and 2016 and $352,000 in 2017.

Note 3 Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three months ended March 31, 2013 and 2012. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended March 31,	
(In thousands except share and per share data)	**2013**	**2012**
Basic		
Net income	$ 6,032	$ 5,908
Weighted-average common shares outstanding	11,422,028	11,369,221
Basic earnings per share	$ .53	$ .52
Diluted		
Net income	$ 6,032	$ 5,908
Weighted-average common shares outstanding	11,422,028	11,369,221
Effect of dilutive restricted stock, stock options and stock appreciation rights	174,866	175,597
Weighted-average common shares outstanding assuming dilution	11,596,894	11,544,818
Diluted earnings per share	$ .52	$ .51

Note 4 Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 363,000 shares of the Company s common stock. The Company did not repurchase any shares during the three-month periods ended March 31, 2013 and 2012. As of March 31, 2013, 363,000 shares remained available for repurchase under the program. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 Industry Segment Information

The services provided by the Company are classified into two reportable segments: Information Services and Banking Services. Each of these segments provides distinct services that are marketed through different channels. They are managed separately due to their unique service, processing and capital requirements.

The Information Services segment provides freight, utility, telecommunication and environmental invoice processing and payment services primarily to large corporations. The Banking Services segment provides banking services primarily to privately-held businesses and churches.

The Company s accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Management evaluates segment performance based on net income after allocations for corporate expenses and income taxes. Transactions between segments are accounted for at what management believes to be fair value.

Substantially all revenue originates from, and all long-lived assets are located within, North America, and no revenue from any customer of any segment exceeds 10% of the Company s consolidated revenue.

Assets represent actual assets owned by Information Services and Banking Services and there is no allocation methodology used. Loans are sold by Banking Services to Information Services to create liquidity when the loan-to-deposit ratio of the Company s bank subsidiary, Cass Commercial Bank (the Bank), is greater than 100%. In addition, investment securities are sold by Information Services to Town and Country Investments LLC, a subsidiary of the Bank, to balance consolidated liquidity. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.

Summarized information about the Company s operations in each industry segment is as follows:

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Quarter Ended March 31, 2013				
Fee revenue and other income:				
Income from customers	$ 18,161	$ 304	$	$ 18,465
Intersegment income (expense)	2,568	381	(2,949)	
Net income	3,693	2,252	87	6,032
Goodwill	11,454	136		11,590
Other intangible assets, net	3,610			3,610
Total assets	660,631	629,929	(10,281)	1,280,279
Quarter Ended March 31, 2012				
Fee revenue and other income				
Income from customers	$ 22,548	$ 5,886	$	$ 28,434
Intersegment income (expense)	2,540	428	(2,968)	
Net income (expense)	3,877	2,031		5,908
Goodwill	11,454	136		11,590
Other intangible assets, net	3,699			3,699
Total assets	693,352	590,458	(10,296)	1,273,514

Note 6 Loans by Type

A summary of loan categories is as follows:

(In thousands)	March 31, 2013	December 31, 2012
Commercial and industrial	$ 179,021	$ 160,862
Real estate		
Commercial:		
Mortgage	125,204	134,843
Construction	6,836	7,025
Church, church-related:		
Mortgage	350,674	368,118
Construction	17,994	16,450
Other	161	435
Total loans	$ 679,890	$ 687,733

The following table presents the aging of loans by loan categories at March 31, 2013 and December 31, 2012:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
March 31, 2013						
Commercial and industrial	$ 178,885	$	$	$	$ 136	$ 179,021
Real estate						
Commercial:						
Mortgage	124,600				604	125,204
Construction	6,836					6,836
Church, church-related:						

Mortgage	349,355	1,151			168	350,674
Construction	17,994					17,994
Other	161					161
Total	$ 677,831	$ 1,151	$	$	$ 908	$ 679,890
December 31, 2012						
Commercial and industrial	$ 159,423	$	$	$	$ 1,439	$ 160,862
Real estate						
Commercial:						
Mortgage	129,884				4,959	134,843
Construction	7,025					7,025
Church, church-related:						
Mortgage	367,944				174	368,118
Construction	16,450					16,450
Other	435					435
Total	$ 681,161	$	$	$	$ 6,572	$ 687,733

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of March 31, 2013 and December 31, 2012:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
March 31, 2013				
Commercial and industrial	$ 175,369	$ 3,516	$ 136	$ 179,021
Real estate				
Commercial:				
Mortgage	116,618	7,982	604	125,204
Construction	6,836			6,836
Church, church-related:				
Mortgage	347,173	3,333	168	350,674
Construction	17,994			17,994
Other	161			161
Total	$ 664,151	$ 14,831	$ 908	$ 679,890
December 31, 2012				
Commercial and industrial	$ 155,838	$ 3,585	$ 1,439	$ 160,862
Real estate				
Commercial:				
Mortgage	123,315	6,569	4,959 [3]	134,843
Construction	7,025			7,025
Church, church-related:				
Mortgage	366,366	1,578	174	368,118
Construction	16,450			16,450
Other	435			435
Total	$ 669,429	$ 11,732	$ 6,572	$ 687,733

[1]Loans subject to normal monitoring involve borrowers of acceptable-to-strong credit quality and risk, who have the apparent ability to satisfy their loan obligation.

[2]Loans subject to special monitoring possess some credit deficiency or potential weakness which requires a high level of management attention.

[3]In February 2013, a payment of $4,115,000 was received for one nonaccrual loan with a balance of $4,198,000. $83,000 was charged off.

Impaired loans consist primarily of nonaccrual loans, loans greater than 90 days past due and still accruing interest and troubled debt restructurings, both performing and nonperforming. Troubled debt restructuring involves the granting of a concession to a borrower experiencing financial difficulty resulting in the modification of terms of the loan, such as changes in payment schedule or interest rate. Management measures impairment in accordance with FASB ASC 310, Allowance for Credit Losses. At March 31, 2013 and December 31, 2012, all impaired loans were evaluated based on the fair value of the collateral. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 3. Loans delinquent 90 days or more and still accruing interest at March 31, 2013 and December 31, 2012 were $0. Loans classified as troubled debt restructuring were $0 at March 31, 2013 and December 31, 2012.

There are two foreclosed loans with an aggregate book value of $1,322,000 which have been recorded as other real estate owned (included in other assets) as of March 31, 2013 and there were two foreclosed loans with an aggregate book value of $1,322,000 as of December 31, 2012.

The following table presents the recorded investment and unpaid principal balance for impaired loans at March 31, 2013 and December 31, 2012:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
March 31, 2013			
Commercial and industrial:			
Nonaccrual	$ 136	$ 136	$ 68
Troubled debt restructurings still accruing			
Real estate			
Commercial Mortgage:			
Nonaccrual	604	604	144
Past due 90 days or more and still accruing			
Troubled debt restructurings still accruing			
Church Mortgage:			
Nonaccrual	168	168	84
Total impaired loans	$ 908	$ 908	$ 296
December 31, 2012			
Commercial and industrial:			
Nonaccrual	$ 1,439	$ 1,439	$ 657
Troubled debt restructurings still accruing			
Real estate			
Commercial Mortgage:			
Nonaccrual	4,959 *	4,959 *	660
Past due 90 days or more and still accruing			
Troubled debt restructurings still accruing			
Church Mortgage:			
Nonaccrual	174	174	87
Total impaired loans	$ 6,572	$ 6,572	$ 1,404

*In February 2013, a payment of $4,115,000 was received for one nonaccrual loan with a balance of $4,198,000. $83,000 was charged off.

A summary of the activity in the allowance for loan losses from December 31, 2012 to March 31, 2013 is as follows:

(In thousands)	December 31, 2012	Charge-Offs	Recoveries	Provision	March 31, 2012
Commercial and industrial	$ 3,192	$ 1,296	$ 2	$ 724	$ 2,622
Real estate					
Commercial:					
Mortgage	3,784	233		(379)	3,172
Construction	137			(3)	134
Church, church-related:					
Mortgage	4,903		2	(124)	4,781
Construction	333			(12)	321
Other	8			(6)	2
Total	$ 12,357	$ 1,529	$ 4	$ 200	$ 11,032

Note 7 Commitments and Contingencies

In the normal course of business, the Company is party to activities that contain credit, market and operational risks that are not reflected in whole or in part in the Company s consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments and commitments under operating leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company s maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At March 31, 2013 and December 31, 2012, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2013, the balance of unused loan commitments, standby and commercial letters of credit were $11,919,000, $11,856,000, and $3,866,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management s credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments and time deposits at March 31, 2013:

		Amount of Commitment Expiration per Period			
		Less than	1-3	3-5	Over 5
(In thousands)	**Total**	**1 Year**	**Years**	**Years**	**Years**
Operating lease commitments	$ 7,926	$ 1,236	$ 1,997	$ 1,589	$ 3,104
Time deposits	109,177	91,230	17,149	798	
Total	$ 117,103	$ 92,466	$ 19,146	$ 2,387	$ 3,104

The Company and its subsidiaries are involved in various pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate resolution of these legal actions and proceedings will not have a material effect upon the Company s consolidated financial position or results of operations.

Note 8 Stock-Based Compensation

The 2007 Omnibus Incentive Stock Plan (the Omnibus Plan) permits the issuance of up to 1,065,000 shares of the Company s common stock in the form of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units and performance awards. The Company issues shares out of treasury stock for these awards. During the three months ended March 31, 2013, 21,804 restricted shares and 85,943 SARs were granted under the Omnibus Plan.

Restricted Stock

Restricted shares are amortized to expense over the three-year vesting period. As of March 31, 2013, the total unrecognized compensation expense related to non-vested common stock was $1,753,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.3 years.

Following is a summary of the activity of the restricted stock:

	Three Months Ended March 31, 2013	
	Shares	**Fair Value**
Balance at December 31, 2012	54,875	$ 31.61
Granted	21,804	$ 42.14
Vested	(18,959)	$ 30.68
Balance at March 31, 2013	57,720	$ 35.90

SARs

SARs vest over a three-year period, with one-third of the shares vesting and becoming exercisable each year on the anniversary date of the grant, and they expire 10 years from the original grant date. As of March 31, 2013, the total unrecognized compensation expense was $1,555,000, and the related weighted-average period over which it is expected to be recognized is 1.9 years. Following is a summary of the activity of the Company s SARs program for the three-month period ended March 31, 2013:

	Shares	**Weighted-Average Exercise Price**	**Average Remaining Contractual Term Years**	**Aggregate Intrinsic Value *(In thousands)***
Outstanding at December 31, 2012	351,881	$ 27.52	7.34	$ 4,988
Granted	85,943	$ 42.14		
Exercised	(3,192)	$ 29.66		
Outstanding at March 31, 2013	434,632	$ 30.40	7.60	$ 5,061

Exercisable at March 31, 2013	257,504	$ 25.78	6.46	$ 4,187

Following is a summary of the activity of the non-vested SARs during the three-month period ended March 31, 2013:

	Shares	Weighted-Average Grant Date Fair Value	
Non-vested at December 31, 2012	161,294	$	31.70
Granted	85,943	$	42.14
Vested	(70,109)	$	30.85
Non-vested at March 31, 2013	177,128	$	37.11

The Company uses the Black-Scholes pricing model to determine the fair value of the SARs at the date of grant. Following are the assumptions used to estimate the per-share fair value of SARs granted:

	Three Months Ended March 31,	
	2013	2012
Risk-free interest rate	1.29%	1.38%
Expected life	7 yrs.	7 yrs.
Expected volatility	28.72%	29.39%
Expected dividend yield	1.71%	1.84%

The risk-free interest rate is based on the zero-coupon U.S. Treasury yield for the period equal to the expected life of the SARs at the time of the grant. The expected life was derived using the historical exercise activity. The Company uses historical volatility for a period equal to the expected life of the rights using average monthly closing market prices of the Company s stock as reported on The Nasdaq Global Market. The expected dividend yield is based on the Company s current rate of annual dividends.

Note 9 Defined Pension Plans

The Company has a noncontributory defined benefit pension plan, which covers most of its employees. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years. Disclosure information is based on a measurement date of December 31 of the corresponding year. The following table represents the components of the net periodic pension costs:

(In thousands)	Estimated 2013	Actual 2012
Service cost benefits earned during the year	$ 3,519	$ 2,799
Interest cost on projected benefit obligation	2,821	2,570
Expected return on plan assets	(4,472)	(3,967)
Net amortization and deferral	1,849	1,473
Net periodic pension cost	$ 3,717	$ 2,875

Pension costs recorded to expense were $935,000 and $665,000 for the three-month periods ended March 31, 2013 and 2012, respectively. The Company made a contribution of $500,000 to the plan during the three-month period ended March 31, 2013 and expects to contribute at least an additional $1,500,000 in 2013.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2012 and an estimate for 2013:

	Estimated	Actual

(In thousands)	**2013**	**2012**
Service cost benefits earned during the year	$ 144	$ 115
Interest cost on projected benefit obligation	335	307
Net amortization	551	360
Net periodic pension cost	$ 1,030	$ 782

Pension costs recorded to expense were $260,000 and $224,000 for the three-month periods ended March 31, 2013 and 2012, respectively.

Note 10 Income Taxes

As of March 31, 2013, the Company s unrecognized tax benefits were approximately $1,990,000, of which $1,439,000 would, if recognized, affect the Company s effective tax rate. As of December 31, 2012, the Company's unrecognized tax benefits were approximately $1,885,000, of which $1,357,000 would, if recognized, affect the Company's effective tax rate. During the next 12 months, the Company may realize a reduction of its unrecognized tax benefits of approximately $538,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had $106,000 and $89,000 of gross interest accrued as of March 31, 2013 and December 31, 2012, respectively. There were no penalties for unrecognized tax benefits accrued at March 31, 2013 and December 31, 2012.

The Company is subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2009 through 2011 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2009 through 2011.

Note 11 Investment in Securities

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company s investment securities available-for-sale are measured at fair value using Level 2 valuations. The market evaluation utilizes several sources which include observable inputs rather than significant unobservable inputs and therefore falls into the Level 2 category. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities are summarized as follows:

	March 31, 2013			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 283,625	$ 17,343	$ 203	$ 300,765
Certificates of deposit	6,742			6,742
Total	$ 290,367	$ 17,343	$ 203	$ 307,507

	December 31, 2012			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 315,345	$ 19,960	$ 112	$ 335,193
Certificates of deposit	6,742			6,742
Total	$ 322,087	$ 19,960	$ 112	$ 341,935

The fair values of securities with unrealized losses are as follows:

	March 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 28,408	$ 203	$	$	$ 28,048	$ 203
Certificates of deposit						
Total	$ 28,048	$ 203	$	$	$ 28,048	$ 203

	December 31, 2012					
	Less than 12 months		12 months or more		Total	
(In thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 19,758	$ 112	$	$	$ 19,758	$ 112
Certificates of deposit						
Total	$ 19,758	$ 112	$	$	$ 19,758	$ 112

There were 25 securities, or 10% of total (none greater than 12 months), in an unrealized loss position as of March 31, 2013. There were 18 securities, or 5% of total (none greater than 12 months), in an unrealized loss position as of December 31, 2012. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and the Company has the ability and intent to hold these securities until maturity.

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

	March 31, 2013	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 16,816	$ 17,039
Due after 1 year through 5 years	72,535	77,867
Due after 5 years through 10 years	148,171	155,920
Due after 10 years	52,845	56,681
Total	$ 290,367	$ 307,507

Proceeds from sales of investment securities classified as available for sale were $28,021,000 and $14,659,000 for the three months ended March 31, 2013 and 2012, respectively. Gross realized gains were $1,453,000 and $966,000 for the three months ended March 31, 2013 and 2012, respectively. There were two securities totaling $3,750,000 pledged to secure public deposits and for other purposes at March 31, 2013.

Note 12 Fair Value of Financial Instruments

Following is a summary of the carrying amounts and fair values of the Company s financial instruments:

	March 31, 2013			**December 31, 2012**				
	Carrying			**Carrying**				
(In thousands)	**Amount**	**Fair Value**		**Amount**	**Fair Value**			
Balance sheet assets:								
Cash and cash equivalents	$ 166,367	$ nt-weight:bold;">	**1H12**	**% change 2Q12/1Q12**	**% change 2Q12/2Q11**	**% change 1H12/1H11**		
COBALT (metric tons)	**640**	**592**	**693**	**1,221**	**1,285**	**17.0%**	**8.2%**	**5.3%**
Sudbury	57	206	166	98	372	-19.2%	190.8%	279.2%
Thompson	41	22	22	92	44	0.7%	-46.1%	-52.2%
Voisey Bay	410	310	316	838	626	1.9%	-22.9%	-25.3%
VNC	114	40	177	136	217	343.0%	55.7%	59.4%
Others	18	14	11	56	25	-21.4%	-39.0%	-55.5%
PLATINUM (000 oz troy)	**51**	**38**	**39**	**108**	**77**	**2.8%**	**-22.7%**	**-28.4%**
Sudbury	51	38	39	108	77	2.8%	-22.7%	-28.4%
PALLADIUM (000 oz troy)	**72**	**59**	**66**	**144**	**125**	**11.9%**	**-8.0%**	**-13.3%**
Sudbury	72	59	66	144	125	11.9%	-8.0%	-13.3%
GOLD (000 oz troy)	**95**	**19**	**18**	**125**	**37**	**-5.8%**	**-81.2%**	**-70.5%**
Sudbury	95	19	18	125	37	-5.8%	-81.2%	-70.5%
SILVER (000 oz troy)	**686**	**595**	**567**	**1,281**	**1,162**	**-4.7%**	**-17.3%**	**-9.3%**
Sudbury	686	595	567	1,281	1,162	-4.7%	-17.3%	-9.3%

Cobalt production reached 693 t, 17% higher than 1Q12 and 8.2% above 2Q11.

Sudbury cobalt production in 2Q12 amounted to 166 t, down 40 t from 1Q12, mostly due to a longer than expected temporary suspension for safety assessment of mining operations.

Output from VNC, at 177 t in 2Q12, reflected production before stoppage, which occurred on May 10, when we declared force majeure after an incident in the acid plant. We expect no cobalt production in 3Q12.

In 2Q12, production of platinum and palladium was 105,000 troy ounces, 8,000 troy ounces higher than 1Q12.

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FERTILIZER NUTRIENTS

- ***Potash***

000 metric tons	**2Q11**	**1Q12**	**2Q12**	**1H11**	**1H12**	**% change 2Q12/1Q12**	**% change 2Q12/2Q11**	**% change 1H12/1H11**
POTASH	**145**	**118**	**129**	**279**	**247**	**8.9%**	**-11.2%**	**-11.6%**
Taquari-Vassouras	145	118	129	279	247	8.9%	-11.2%	-11.6%

- ***Phosphates***

	2Q11	**1Q12**	**2Q12**	**1H11**	**1H12**	**% Change 2Q12/1Q12**	**% Change 2Q12/2Q11**	**% Change 1H12/1H11**
PHOSPHATE ROCK	**1,858**	**1,826**	**2,017**	**3,601**	**3,843**	**10.4%**	**8.5%**	**6.7%**
Brazil	1,272	1,112	1,237	2,420	2,349	11.2%	-2.8%	-2.9%
Bayóvar	586	714	779	1,180	1,493	9.2%	33.1%	26.5%
MAP(1)	**131**	**311**	**286**	**341**	**597**	**-8.3%**	**118.3%**	**75.3%**
TSP(2)	**175**	**241**	**213**	**408**	**454**	**-11.5%**	**21.6%**	**11.1%**
SSP(3)	**666**	**484**	**507**	**1,212**	**991**	**4.7%**	**-23.9%**	**-18.2%**
DCP(4)	**158**	**144**	**136**	**315**	**280**	**-5.5%**	**-14.1%**	**-11.1%**

(1) Monoammonium phosphate

(2) Triple superphosphate

(3) Single superphosphate

(4) Dicalcium phosphate

As our sales are primarily destined to the Brazilian market, where the demand for nutrients is more concentrated in the second half of the year, our production tends to be weaker in the first half.

Production of potash was 129,000 t in 2Q12, increasing 8.9% quarter-over-quarter and decreasing 11.2% year-over-year. The output increase reflected the improvement in infrastructure, the acquisition of equipment and the results of maintenance work in Taquari-Vassouras.

In 2Q12, total production of phosphate rock, which is used to feed the output of phosphate nutrients, achieved a record high figure, reflecting the ramp-up of Bayóvar. Total production of phosphate rock in 2Q12 was 10.4% higher than 1Q12. Output from Brazilian operations increased 11.2% on a quarterly basis, recovering from the maintenance stoppages and the rainy season in Brazil. Additionally, production from Bayóvar, which is ramping up, increased 9.2% over 1Q12.

The production of MAP (monoammonium phosphate) amounted to 286,000 t, down 8.3% on a quarter-over-quarter basis, due to the annual maintenance stoppage at Uberaba, which happened in June.

TSP (Triple superphosphate) production was 11.5% lower than 1Q12, also showing the effects of the maintenance work at Uberaba.

In 2Q12, the production of SSP (single superphosphate) was 4.7% higher than 1Q12, recovering from the maintenance stoppages in the Guará and Catalão units which took place in February 2012.

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DCP (dicalcium phosphate) production decreased 5.5% compared to 1Q12, showing production adjustments due to weaker demand.

- ***Nitrogen***

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
AMMONIA	**167**	**132**	**101**	**325**	**233**	**-23.4%**	**-39.5%**	**-28.1%**
UREA	**175**	**107**	**143**	**335**	**250**	**32.8%**	**-18.5%**	**-25.2%**
NITRIC ACID	**121**	**118**	**120**	**228**	**238**	**1.5%**	**-0.6%**	**4.4%**
AMMONIUM NITRATE	**114**	**119**	**124**	**217**	**242**	**4.2%**	**8.5%**	**11.8%**

In 2Q12, ammonia production was 23.4% lower when compared to 1Q12, as a result of low availability of steam from the Araucária refinery. Urea production increased 32.8% when compared to 1Q12, recovering from a scheduled stoppage for maintenance, which took place in 1Q12.

The output of nitric acid and ammonium nitrate was 1.5% and 4.2%, respectively, higher than last quarter.

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BULK MATERIALS

Iron ore

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
IRON ORE	**80,257**	**69,994**	**80,542**	**151,797**	**150,536**	**15.1%**	**0.4%**	**-0.8%**
Northern System	**26,019**	**21,711**	**27,362**	**48,670**	**49,073**	**26.0%**	**5.2%**	**0.8%**
Carajás	26,019	21,711	27,362	48,670	49,073	26.0%	5.2%	0.8%
Southeastern System	**30,528**	**26,759**	**28,296**	**59,222**	**55,054**	**5.7%**	**-7.3%**	**-7.0%**
Itabira	10,499	8,154	9,184	19,581	17,338	12.6%	-12.5%	-11.5%
Mariana	9,861	9,340	9,080	19,234	18,420	-2.8%	-7.9%	-4.2%
Minas Centrais	10,168	9,265	10,032	20,407	19,297	8.3%	-1.3%	-5.4%
Southern System	**19,496**	**17,667**	**20,743**	**36,275**	**38,409**	**17.4%**	**6.4%**	**5.9%**
Minas Itabirito	7,691	7,345	7,993	14,868	15,338	8.8%	3.9%	3.2%
Vargem Grande	5,784	4,800	5,950	10,242	10,750	24.0%	2.9%	5.0%
Paraopeba	6,021	5,521	6,800	11,165	12,321	23.2%	12.9%	10.4%
Midwestern System	**1,417**	**1,302**	**1,366**	**2,331**	**2,668**	**4.9%**	**-3.6%**	**14.5%**
Corumbá	1,028	975	915	1,637	1,890	-6.2%	-11.0%	15.5%
Urucum	389	327	451	694	778	38.1%	16.0%	12.1%
Samarco(1)	**2,798**	**2,556**	**2,775**	**5,300**	**5,331**	**8.6%**	**-0.8%**	**0.6%**

(1) Vale s attributable production capacity of 50%.

Pellets

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
PELLETS	**13,140**	**12,692**	**14,256**	**25,656**	**26,949**	**12.3%**	**8.5%**	**5.0%**
Tubarão I and II	1,440	1,062	1,530	2,776	2,592	44.1%	6.3%	-6.6%
Fábrica	992	907	956	1,939	1,863	5.4%	-3.6%	-3.9%
São Luís	1,349	962	1,373	2,686	2,334	42.7%	1.7%	-13.1%
Vargem Grande	1,321	823	1,383	2,597	2,206	68.2%	4.7%	-15.0%
Oman	336	1,415	1,593	336	3,008	12.6%	374.8%	796.5%
Nibrasco	2,291	2,257	1,977	4,699	4,234	-12.4%	-13.7%	-9.9%
Kobrasco	1,001	1,139	1,258	2,224	2,397	10.5%	25.6%	7.8%
Hispanobras(1)	544	540	565	1,086	1,105	4.7%	4.0%	1.8%
Itabrasco	1,135	1,019	1,020	2,155	2,039	0.1%	-10.1%	-5.4%
Samarco(2)	2,731	2,570	2,599	5,159	5,169	1.2%	-4.8%	0.2%

(1) Vale s attributable production capacity of 50.89%.

(2) Vale s attributable production capacity of 50%.

Manganese ore and ferroalloys

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
MANGANESE ORE	**619**	**484**	**584**	**1,117**	**1,068**	**20.6%**	**-5.6%**	**-4.4%**
Azul	486	379	463	902	843	22.2%	-4.6%	-6.6%
Urucum	82	67	81	134	148	22.1%	-0.7%	10.2%
Other mines	51	38	39	81	78	3.0%	-23.3%	-3.8%
FERROALLOYS	**114**	**106**	**109**	**227**	**215**	**2.7%**	**-4.2%**	**-5.3%**
Brazil	52	50	46	104	96	-6.7%	-11.6%	-7.8%
Dunkerque	37	30	35	74	64	17.1%	-4.9%	-12.4%
Mo I Rana	25	27	28	50	55	4.3%	12.2%	10.1%

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Coal

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
METALLURGICAL COAL	**518**	**1,127**	**1,277**	**1,007**	**2,403**	**13.3%**	**146.3%**	**138.8%**
Moatize	0	501	728	0	1,229	45.2%	n.m.	n.m.
Carborough Downs	368	325	82	599	407	-74.8%	-77.8%	-32.1%
Integra Coal	30	124	266	216	390	115.0%	793.5%	80.9%
Others	121	177	201	192	378	13.6%	66.3%	96.6%
THERMAL COAL	**787**	**1,223**	**1,190**	**1,720**	**2,414**	**-2.7%**	**51.3%**	**40.3%**
Moatize	0	193	390	0	583	101.7%	n.m.	n.m.
El Hatillo	698	848	571	1,533	1,419	-32.7%	-18.2%	-7.5%
Integra Coal	25	81	121	96	202	50.5%	381.9%	110.9%
Others	63	102	108	91	210	6.5%	70.9%	130.8%

BASE METALS

Nickel

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
NICKEL	**56**	**63**	**61**	**115**	**124**	**-3.6%**	**8.4%**	**7.9%**
Sudbury	10	23	17	25	40	-22.6%	69.1%	62.5%
Thompson	7	6	7	15	13	12.6%	1.0%	-14.0%
Voisey s Bay	15	14	15	32	29	1.9%	-5.2%	-7.7%
Sorowako	19	12	17	37	29	36.3%	-11.6%	-20.6%
VNC	2	2	2	2	4	-17.5%	-5.9%	73.7%
Onça Puma	1	4	2	1	6	-56.3%	62.0%	316.7%
Others(1)	2	2	2	4	3	-1.3%	-2.0%	-9.3%

(1) External feed purchased from third parties and processed into finished nickel in our operations

Copper

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
COPPER	**63**	**73**	**70**	**133**	**143**	**-4.4%**	**11.0%**	**7.4%**
Sossego	23	25	28	46	53	11.5%	22.7%	16.8%
Sudbury	22	24	22	47	46	-7.2%	0.4%	-3.4%

Thompson	0	1	1	1	2	-28.4%	242.0%	166.8%
Voisey s Bay	11	11	8	25	19	-31.6%	-31.6%	-21.8%
Tres Valles	2	4	3	3	7	-2.5%	58.3%	126.1%
Others	4	8	8	11	15	-4.9%	80.2%	36.5%

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Nickel by-products

	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
COBALT (metric tons)	**640**	**592**	**693**	**1,221**	**1,285**	**17.0%**	**8.2%**	**5.3%**
Sudbury	57	206	166	98	372	-19.2%	190.8%	279.2%
Thompson	41	22	22	92	44	0.7%	-46.1%	-52.2%
Voisey Bay	410	310	316	838	626	1.9%	-22.9%	-25.3%
VNC	114	40	177	136	217	343.0%	55.7%	59.4%
Others	18	14	11	56	25	-21.4%	-39.0%	-55.5%
PLATINUM (000 oz troy)	**51**	**38**	**39**	**108**	**77**	**2.8%**	**-22.7%**	**-28.4%**
Sudbury	51	38	39	108	77	2.8%	-22.7%	-28.4%
PALLADIUM (000 oz troy)	**72**	**59**	**66**	**144**	**125**	**11.9%**	**-8.0%**	**-13.3%**
Sudbury	72	59	66	144	125	11.9%	-8.0%	-13.3%
GOLD (000 oz troy)	**95**	**19**	**18**	**125**	**37**	**-5.8%**	**-81.2%**	**-70.5%**
Sudbury	95	19	18	125	37	-5.8%	-81.2%	-70.5%
SILVER (000 oz troy)	**686**	**595**	**567**	**1,281**	**1,162**	**-4.7%**	**-17.3%**	**-9.3%**
Sudbury	686	595	567	1,281	1,162	-4.7%	-17.3%	-9.3%

FERTILIZER NUTRIENTS

Potash

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
POTASH	**145**	**118**	**129**	**279**	**247**	**8.9%**	**-11.2%**	**-11.6%**
Taquari-Vassouras	145	118	129	279	247	8.9%	-11.2%	-11.6%

Phosphates

	2Q11	1Q12	2Q12	1H11	1H12	% Change 2Q12/1Q12	% Change 2Q12/2Q11	% Change 1H12/1H11
PHOSPHATE ROCK	**1,858**	**1,826**	**2,017**	**3,601**	**3,843**	**10.4%**	**8.5%**	**6.7%**
Brazil	1,272	1,112	1,237	2,420	2,349	11.2%	-2.8%	-2.9%
Bayóvar	586	714	779	1,180	1,493	9.2%	33.1%	26.5%
MAP(1)	**131**	**311**	**286**	**341**	**597**	**-8.3%**	**118.3%**	**75.3%**
TSP(2)	**175**	**241**	**213**	**408**	**454**	**-11.5%**	**21.6%**	**11.1%**
SSP(3)	**666**	**484**	**507**	**1,212**	**991**	**4.7%**	**-23.9%**	**-18.2%**
DCP(4)	**158**	**144**	**136**	**315**	**280**	**-5.5%**	**-14.1%**	**-11.1%**

(1) Monoammonium phosphate

(2) Triple superphosphate

(3) Single superphosphate

(4) Dicalcium phosphate

Nitrogen

000 metric tons	2Q11	1Q12	2Q12	1H11	1H12	% change 2Q12/1Q12	% change 2Q12/2Q11	% change 1H12/1H11
AMMONIA	**167**	**132**	**101**	**325**	**233**	**-23.4%**	**-39.5%**	**-28.1%**
UREA	**175**	**107**	**143**	**335**	**250**	**32.8%**	**-18.5%**	**-25.2%**
NITRIC ACID	**121**	**118**	**120**	**228**	**238**	**1.5%**	**-0.6%**	**4.4%**
AMMONIUM NITRATE	**114**	**119**	**124**	**217**	**242**	**4.2%**	**8.5%**	**11.8%**

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This press release may include statements that present Vale s expectations about future events or results. All statements, when based upon expectations about the future and not on historical facts, involve various risks and uncertainties. Vale cannot guarantee that such statements will prove correct. These risks and uncertainties include factors related to the following: (a) the countries where we operate, especially Brazil and Canada; (b) the global economy; (c) the capital markets; (d) the mining and metals prices and their dependence on global industrial production, which is cyclical by nature; and (e) global competition in the markets in which Vale operates. To obtain further information on factors that may lead to results different from those forecast by Vale, please consult the reports Vale files with the U.S. Securities and Exchange Commission (SEC), the Brazilian Comissão de Valores Mobiliários (CVM), the French Autorité des Marchés Financiers (AMF), and The Stock Exchange of Hong Kong Limited, and in particular the factors discussed under Forward-Looking Statements and Risk Factors in Vale s annual report on Form 20-F.

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Signatures

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

		Vale S.A. (Registrant)
	By:	/s/ Roberto Castello Branco
Date: July 18, 2012		Roberto Castello Branco
		Director of Investor Relations