Intrepid Potash, Inc.
Form 10-Q
August 07, 2009

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 June 30, 2009

Commission File Number: 001-34025

INTREPID POTASH, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	26-1501877
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

707 17th Street, Suite 4200
Denver, Colorado 80202
(303) 296-3006
(Address of Principal Executive Offices, Including Zip Code)
(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. x Yes o 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.) o Yes o 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.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of July 31, 2009, 75,032,086 shares of the registrant’s common stock, par value of $0.001 per share, were outstanding.

1

Table of Contents

INTREPID POTASH, INC.

TABLE OF CONTENTS

Table of Contents

INTREPID POTASH, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share and per share amounts)

	June 30, 2009		December 31, 2008	
ASSETS				
Cash and cash equivalents	$	118,673	$	116,573
Short-term investments		751		—
Accounts receivable:				
Trade, net		18,934		15,107
Other receivables		650		385
Related parties		14		—
Refundable income taxes		6,887		9,967
Inventory, net		63,223		49,318
Prepaid expenses and other current assets		2,042		5,804
Current deferred tax asset		719		1,222
Total current assets		211,893		198,376
Property, plant and equipment, net of accumulated depreciation of				
of $33,332 and $26,514, respectively		176,703		138,790
Mineral properties and development costs, net of accumulated				
depletion of $6,771 and $6,367, respectively		33,575		30,244
Long-term parts inventory, net		4,237		3,973
Other assets		8,060		6,053
Non-current deferred tax asset		310,352		327,641
Total Assets	$	744,820	$	705,077
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable:				
Trade	$	16,704	$	15,516
Related parties		184		26
Accrued liabilities		11,751		14,967
Accrued employee compensation and benefits		6,621		6,478
Other current liabilities		1,938		1,952
Total current liabilities		37,198		38,939
Asset retirement obligation		8,666		8,138
Other non-current liabilities		7,690		6,401
Total Liabilities		53,554		53,478
Commitments and Contingencies				
Common stock, $0.001 par value; 100,000,000 shares authorized; and 75,032,086 and				
		75		75

74,846,874 shares outstanding at June 30, 2009, and December 31, 2008, respectively				
Additional paid-in capital		554,747		554,743
Accumulated other comprehensive loss		(839)		(1,385)
Retained earnings		137,283		98,166
Total Stockholders' Equity		691,266		651,599
Total Liabilities and Stockholders' Equity	$	744,820	$	705,077

See accompanying notes to these consolidated financial statements.

Table of Contents

INTREPID POTASH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share amounts)

	Intrepid Potash, Inc.			Intrepid Mining LLC (Predecessor)	
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009	April 25, 2008 Through June 30, 2008	April 1, 2008 Through April 24, 2008	January 1, 2008 Through April 24, 2008
Sales	$ 73,392	$ 162,293	$ 80,162	$ 25,019	$ 109,420
Less:					
Freight costs	4,122	8,829	3,537	2,187	12,359
Warehousing and handling costs	2,098	3,627	1,240	435	2,235
Cost of goods sold	31,775	67,283	27,951	10,186	48,647
Gross Margin	35,397	82,554	47,434	12,211	46,179
Selling and administrative	7,763	14,546	5,313	1,492	6,034
Accretion of asset retirement obligation	173	341	115	42	198
Other	589	577	298	(9)	5
Operating Income	26,872	67,090	41,708	10,686	39,942
Other Income (Expense)					
Interest expense, including realized and unrealized derivative gains and losses	251	48	186	629	(2,456)
Interest income	15	32	268	—	23
Insurance settlements in excess of property losses	(2)	(16)	(32)	—	6,998
Other income (expense)	323	182	(175)	123	(14)
Income Before Income Taxes	27,459	67,336	41,955	11,438	44,493
Income Tax (Expense) Benefit	(13,023)	(28,219)	(16,191)	—	4
Net Income	$ 14,436	$ 39,117	$ 25,764	$ 11,438	$ 44,497
Weighted Average Shares Outstanding:					
Basic	75,017,097	74,996,419	74,843,124		
Diluted	75,030,347	75,006,579	74,977,793		

Earnings Per Share:						
Basic	$	0.19	$	0.52	$	0.34
Diluted	$	0.19	$	0.52	$	0.34

See accompanying notes to these consolidated financial statements.

Table of Contents

INTREPID POTASH, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(In thousands, except share amounts)

	Common Stock										
	Shares		Amount		Additional Paid-in Capital		Accumulated Other Comprehensive Loss		Retained Earnings		Total Stockholders' Equity
Balance, December 31, 2008	74,846,874	$	75	$	554,743	$	(1,385)	$	98,166	$	651,599
Comprehensive income, net of tax:											
Pension liability, net of adjustment for deferred taxes	—		—		—		546		—		546
Net income	—		—		—		—		39,117		39,117
Total comprehensive income											39,663
Stock-based compensation	6,900		—		1,287		—		—		1,287
Vesting of restricted common stock, net of restricted common stock used to fund employee tax withholding due upon vesting	178,312		—		(1,283)		—		—		(1,283)
Balance, June 30, 2009	75,032,086	$	75	$	554,747	$	(839)	$	137,283	$	691,266

See accompanying notes to these consolidated financial statements.

Table of Contents

INTREPID POTASH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Intrepid Potash, Inc.		Intrepid Mining LLC (Predecessor)
	Six Months Ended June 30, 2009	April 25, 2008 Through June 30, 2008	January 1, 2008 Through April 24, 2008
Cash Flows from Operating Activities:			
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 39,117	$ 25,764	$ 44,497
Deferred income taxes	18,033	8,849	(4)
Insurance reimbursements	16	32	(6,998)
Items not affecting cash:			
Depreciation, depletion, amortization and accretion	7,747	2,029	3,543
Stock-based compensation	1,287	2,012	—
Unrealized derivative (gain) loss	(1,215)	(471)	439
Other	577	663	170
Changes in operating assets and liabilities:			
Trade accounts receivable	(3,827)	(4,994)	(11,886)
Other receivables	(279)	(154)	186
Refundable income taxes	3,386	—	—
Inventory	(14,169)	(3,158)	(830)
Prepaid expenses and other assets	1,728	4,546	(4,349)
Accounts payable, accrued liabilities and accrued employee compensation and benefits	(1,492)	472	1,494
Income taxes payable	—	7,342	—
Other current liabilities	465	—	(251)
Total cash provided by operating activities	51,374	42,932	26,011
Cash Flows from Investing Activities:			
Proceeds from insurance reimbursements	1,984	(32)	6,998
Additions to property, plant, and equipment	(44,461)	(6,289)	(14,747)
Additions to mineral properties and development costs	(4,779)	9	(15)
Purchases of investments	(751)	—	—
Cash received in exchange transaction with	—	428	—

Intrepid Mining LLC						
Other		16		(11)		(10)
Total cash used in investing activities		(47,991)		(5,895)		(7,774)
Cash Flows from Financing Activities:						
Issuance of common stock, net of expenses		—		1,032,486		—
Proceeds from long-term debt		—		—		11,503
Repayments on long-term debt		—		(86,951)		(7,009)
Payments to fund employee tax withholding due upon vesting of restricted common stock		(1,283)		—		—
Members' capital distributions		—		—		(15,000)
Payments to Intrepid Mining LLC for exchange of assets and liabilities and formation distribution		—		(892,755)		—
Total cash (used in) provided by financing activities		(1,283)		52,780		(10,506)
Net Change in Cash and Cash Equivalents		2,100		89,817		7,731
Cash and Cash Equivalents, beginning of period		116,573		—		1,960
Cash and Cash Equivalents, end of period	$	118,673	$	89,817	$	9,691
Supplemental disclosure of cash flow information						
Cash paid during the period for:						
Interest	$	793	$	326	$	2,274
Income taxes	$	6,800	$	—	$	—

See accompanying notes to these consolidated financial statements.

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1—COMPANY BACKGROUND

Intrepid Potash, Inc. (individually or in any combination with its subsidiaries, “Intrepid,” “we,” “us,” or “our”) produces muriate of potash (MOP, potassium chloride, or potash); langbeinite; and by-products including salt, magnesium chloride and metal recovery salts. The processing of langbeinite results in sulfate of potash magnesia which is marketed for sale as Intrepid Trio™. Intrepid owns five active potash production facilities, three in New Mexico and two in Utah. Production comes from two underground mines in the Carlsbad region of New Mexico; a solar evaporation solution mine near Moab, Utah; and a solar evaporation shallow brine mine in Wendover, Utah. Intrepid has one operating segment, as defined by Statement of Financial Accounting Standards (“SFAS”) 131; the extraction and production of potash- related products, and its operations are conducted entirely in the continental United States.

Note 2—THE COMPANY AND THE INITIAL PUBLIC OFFERING OF INTREPID POTASH, INC.

Intrepid was incorporated in the state of Delaware on November 19, 2007, for the purpose of continuing the business of Intrepid Mining LLC (“Mining”) in corporate form after an initial public offering. On April 25, 2008, Intrepid closed on the sale of 34,500,000 shares of common stock in an initial public offering (“IPO”), including 4,500,000 shares sold in connection with the underwriters’ exercise of their over-allotment option. Prior to April 25, 2008, Intrepid was a consolidated subsidiary of Mining, the predecessor company. Since April 25, 2008, Mining’s ongoing business has been conducted by Intrepid and includes all operations that previously had been conducted by Mining. There were no material activities for Intrepid for the period from its inception to the date of the IPO.

The 34,500,000 shares of common stock sold in the IPO were sold at a price of $32.00 per share, for aggregate offering proceeds of $1.104 billion. Intrepid received net proceeds of approximately $1.032 billion after deducting underwriting discounts, commissions, and other transaction costs of approximately $71.6 million. On April 25, 2008, pursuant to an exchange agreement (“Exchange Agreement”) dated April 21, 2008, by and between Intrepid and Mining, Mining assigned to Intrepid all of its assets other than approximately $9.4 million of cash in exchange for 40,339,000 shares of common stock, approximately $757.4 million of the net proceeds of the IPO, the assumption by Intrepid of all amounts in excess of $18.9 million of the principal amount outstanding under Mining’s senior credit facility as of April 25, 2008 (including a pro rata share of the fees and accrued interest attributable to the assumed indebtedness), and all other liabilities and obligations of Mining. In connection with the exercise of the underwriters’ over-allotment option, Intrepid also distributed to Mining approximately $135.4 million on April 25, 2008 (the “Formation Distribution”). The IPO, the transactions under the Exchange Agreement, and the Formation Distribution are referred to collectively as the “Formation Transactions.” Upon the closing of the IPO, Intrepid replaced Mining as the borrower under the senior credit facility. Mining repaid $18.9 million of the principal amount outstanding under the senior credit facility, plus fees and accrued interest, from the amounts Mining received under the Exchange Agreement, and Intrepid repaid the remaining $86.9 million of principal outstanding, plus fees and accrued interest, using net proceeds from the IPO. The remaining approximately $52.6 million of net proceeds from the IPO were retained by Intrepid and were used to fund production expansions and other growth opportunities and for general corporate purposes. The transfer of the nonmonetary assets by Mining to Intrepid pursuant to the Exchange Agreement has been accounted for at historical cost because the members of Mining received common stock of Intrepid, representing a continuing controlling interest in Intrepid, in connection with the IPO.

Mining was dissolved on April 25, 2008. On that date, Mining’s estimated liabilities were provided for, and Mining’s remaining cash of approximately $882.8 million and 40,340,000 shares of Intrepid common stock owned by Mining were distributed pro rata to Mining’s members.

Note 3—BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and Regulation S-X of the Securities and Exchange Commission. As interim financial statements, they do not include all information and notes required by GAAP for complete financial statements. The accompanying unaudited consolidated financial statements reflect all adjustments, which are normal and recurring in nature, and which, in the opinion of management, are necessary for a fair presentation of Intrepid’s financial position, results of operations and cash flows at June 30, 2009, and for all periods

Table of Contents

presented. These unaudited consolidated financial statements should be read in conjunction with Intrepid's Consolidated Financial Statements and Notes thereto included in Intrepid's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 6, 2009.

Mining is considered the predecessor entity to Intrepid. The results of operations for all periods prior to April 25, 2008, are reflected as the predecessor period for Mining. There were no material activities for Intrepid until April 25, 2008; therefore, discussions of related events before April 25, 2008, pertain to activities of the predecessor entity, Mining, unless otherwise specified.

Intrepid has evaluated the period after the balance sheet date of June 30, 2009, through August 7, 2009, the date its financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in its financial statements.

Note 4—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements of Intrepid include the accounts of Intrepid and its wholly-owned subsidiaries Intrepid Potash—Moab, LLC ("Moab"), Intrepid Potash—New Mexico, LLC ("NM"), HB Potash, LLC ("HB"), Intrepid Potash—Wendover, LLC ("Wendover"), Moab Pipeline LLC, and Intrepid Aviation LLC. Prior to the IPO, the consolidated financial statements of Mining include the accounts of Intrepid, Moab, NM, HB, Wendover, Moab Pipeline LLC, and Intrepid Aviation LLC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Intrepid bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

Significant estimates with regard to Intrepid's consolidated financial statements include the estimate of proven and probable mineral reserve volumes, the related present value of estimated future net cash flows, useful lives of plant assets, and estimated statutory income tax rates utilized in the current and deferred income tax calculations. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, projecting future rates of production, and the timing of development expenditures. Future mineral prices may vary significantly from the prices in effect at the time the estimates are made, as may estimates of future operating costs. The estimate of proven and probable mineral reserve volumes, useful lives of plant assets, and the related present value of estimated future net cash flows can affect depletion, the net carrying value of Intrepid's mineral properties, and the useful lives of related property, plant and equipment, as well as depreciation expenses.

Revenue Recognition—Revenue is recognized when evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, which is generally when title passes, the selling price is fixed and determinable, and collection is reasonably assured. Title passes at the shipping point for all domestic sales and the majority of international sales. The shipping point may be the plant, a distribution warehouse, or a port. Title passes for some international shipments upon payment by the purchaser; however, revenue is recognized for these transactions upon shipment because the risks and rewards of ownership have transferred pursuant to contractual arrangement. Prices are set at the time of, or prior to, shipment. Intrepid uses few sales contracts, so prices are based on Intrepid's current published prices or upon negotiated short-term purchase orders from customers.

Sales are reported on a gross basis. Intrepid quotes prices to customers both on a delivered basis and on the basis of pick-up at Intrepid's plants and warehouses. Intrepid incurs and bills for freight, packaging, and certain other distribution costs only on the portion of its sales for which it is responsible, as many customers arrange for and pay for these costs directly.

By-product credits—When by-product inventories are sold, Intrepid records these sales of by-products as a credit to cost of goods sold.

Inventory and Long-Term Parts Inventory—Inventory consists of product and by-product stocks which are ready for sale, mined ore, potash in evaporation ponds, and parts and supplies inventory. Product and by-product inventory cost is determined using the lower of weighted average cost or estimated net realizable value and includes direct costs, maintenance,

Table of Contents

Note 4—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

operational overhead, depreciation, depletion, and equipment lease costs applicable to the production process. Direct costs, maintenance, and operational overhead include labor and associated benefits.

Intrepid also periodically evaluates its production levels and costs to determine if the principles of SFAS 151, Inventory Costs—An Amendment of ARB No. 43, Chapter 4, need to be applied for any production levels or costs deemed to be abnormal within the scope of the statement. In the three month and six month periods ended June 30, 2009, Intrepid determined that approximately $5.2 million and $6.4 million, respectively, of production costs would have been allocated to additional tons produced, assuming Intrepid had been operating at normal production rates. As a result, these costs have been excluded from inventory costs and expensed directly to cost of goods sold. The assessment of normal production levels is highly judgmental and is unique to each quarter. Intrepid evaluates historical ranges of production by operating plant in assessing what is deemed to be normal.

Parts inventory, including critical spares, that is not expected to be utilized within a period of one year is classified as non-current. Parts and supply inventory cost is determined using the lower of average acquisition cost or estimated replacement cost.

Detailed reviews are performed related to the net realizable value of parts inventory, giving consideration to quality, slow-moving items, obsolescence, excessive levels, and other factors. Parts inventories not having turned-over in more than a year, excluding parts classified as critical spares, are reviewed for obsolescence and included in the determination of an allowance for obsolescence.

Derivatives—Intrepid has a debt facility subject to variable interest rates, and Intrepid uses meaningful volumes of natural gas in its production operations which are purchased at variable rates.

On occasion, Intrepid enters into financial derivative contracts to fix a portion of its natural gas costs when natural gas purchase transactions are probable and the significant characteristics and expected timing are identified. Historically, these derivative contracts have not been designated as an accounting hedge, and changes in their fair market values are included in the Consolidated Statement of Operations. The realized and unrealized gains or losses resulting from the natural gas derivative contracts are recorded as a component of natural gas expense within cost of sales.

Intrepid has also entered into interest rate derivative instruments to swap a portion of floating rate debt to fixed rate when borrowings are probable and the significant characteristics and expected timing are identified. These items are not accounted for as hedge items; accordingly, the change in fair value from period to period associated with realized and unrealized gains or losses on interest-rate derivative contracts are shown within interest expense.

On January 1, 2009, Intrepid adopted SFAS 161, Disclosures about Derivative and Hedging Activities ("SFAS 161"). This standard amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), to change the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows.

Property, Plant, and Equipment—Property, plant, and equipment are stated at historical cost or at the allocated values determined upon acquisition of business entities. Expenditures for property, plant, and equipment relating to new assets or improvements are capitalized if they extend useful lives or extend functionality. Property, plant, and equipment are depreciated under the straight-line method using estimated useful lives. The cost basis for construction in progress was increased for capitalized interest prior to the repayment of Intrepid's debt. No depreciation is taken on assets classified as construction in progress until the asset is placed into service. Gains and losses are recorded upon retirement, sale, or disposal of assets. Maintenance and repair costs are recognized as period costs as incurred.

Mineral Properties and Development Costs—Mineral properties and development costs, which are referred to collectively as mineral properties, include acquisition costs, the cost of drilling wells, and the cost of other development work, all of which are capitalized. Depletion of mineral properties is provided using the units-of-production method over the estimated life of the relevant ore body. The lives of reserves used for accounting purposes are shorter than current reserve life determinations prepared by us and reviewed and independently determined by mine consultants due to uncertainties inherent in long-term estimates. Reserve studies and mine plans are updated periodically, and the remaining net balance of the mineral properties is depleted over the updated estimated life, subject to a 25-year limit. Possible impairment is also considered in conjunction with updated reserve studies and mine plans. Intrepid's proven and probable reserves are based on extensive drilling, sampling, mine modeling, and mineral recovery from which economic feasibility has been determined. The price sensitivity of reserves depends upon several factors including ore grade, ore thickness, and ore mineral composition. The reserves are estimated based on information available at the time the reserves are calculated. Recovery rates vary depending on the mineral properties of each deposit and the production process used. The reserve estimate utilizes

Note 4—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the average recovery rate for the deposit, which takes into account the processing methods scheduled to be used. The cutoff grade, or lowest grade of mineralized material considered economic to process, varies with material type, mineral recoveries, operating costs, and expected selling price. Proven and probable reserves are based on estimates, and no assurance can be given that the indicated levels of recovery of potash and langbeinite will be realized or that production costs and estimated future development costs will not exceed the net realizable value of the products. Short tons of potash and langbeinite in the proven and probable reserves are expressed in terms of expected finished short tons of product to be realized, net of estimated losses. Reserve estimates may require revision based on actual production experience. Market price fluctuations of potash or Intrepid TrioTM, as well as increased production costs or reduced recovery rates, could render proven and probable reserves containing relatively lower grades of mineralization uneconomic to exploit and might result in a reduction of reserves. In addition, the provisions of Intrepid's mineral leases, including royalties payable, are subject to periodic readjustment by the state and federal government, which could affect the economics of its reserve estimates. Significant changes in the estimated reserves could have a material impact on Intrepid's results of operations and financial position.

Exploration Costs—Exploration costs include geological and geophysical work performed on areas that do not yet have proven and probable reserves declared. These costs are expensed as incurred.

Asset Retirement Obligation—Reclamation costs are recognized as expense over the life of the related assets and are periodically adjusted to reflect changes in the estimates of either the timing or amount of the reclamation and abandonment costs.

Scheduled Maintenance—Each operation typically shuts down periodically for maintenance. The costs of maintenance turnarounds are considered inventorial costs and are absorbed into inventory in the period incurred.

Leases—Upon entering into leases, Intrepid evaluates whether leases are operating or capital leases. Operating lease expense is recognized as incurred. If lease payments change over the contractual term, or involve contingent amounts, the total estimated cost over the term is recognized on a straight-line basis.

Income Taxes—Intrepid is a subchapter C corporation and therefore is subject to U.S. federal and state income taxes. Intrepid recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Intrepid records a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized in full; such determinations are subject to ongoing assessment.

The tax basis of the assets and liabilities transferred to Intrepid pursuant to the Exchange Agreement is, in the aggregate, equal to Mining's adjusted tax basis in the assets as of the date of the exchange, increased by the amount of taxable gain recognized by Mining in connection with the Formation Transactions. Consequently, Intrepid's net tax basis in the assets acquired and liabilities assumed pursuant to the Exchange Agreement generated a net deferred tax asset. The net deferred tax asset recorded as of the date of the IPO associated with the exchange was approximately $358 million, with a corresponding increase to additional paid-in capital.

The majority of this deferred tax asset is related to mineral properties, and, through the use of percentage depletion, Intrepid's taxable income relative to book income will be reduced, resulting in the realization of this deferred tax asset over time. Currently, it is anticipated that, for federal income tax purposes, percentage depletion allowed with respect to Intrepid's mineral properties will exceed cost depletion in each taxable year.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash and liquid investments with an original maturity of three months or less. Included in cash equivalents at June 30, 2009, were investments held by U.S. Bank National Association ("U.S. Bank") and United Western Bank. As of June 30, 2009, these investments consisted of a money market account with United Western Bank for $0.3 million and U.S. treasuries with daily liquidity of approximately $99.3 million and overnight Eurodollar deposits with U.S. Bank of $16.6 million. The overnight Eurodollar deposits invested with the bank are essentially deposit arrangements with U.S. Bank and are subject to the credit of U.S. Bank.

Short-term Investments—Intrepid's short-term investments consist of certificates of deposit with original maturities greater than three months and less than one year.

Fair Value of Financial Instruments—Intrepid's financial instruments include cash and cash equivalents, short-term investments, restricted cash, accounts receivable, refundable income taxes, and accounts payable, all of which are

Table of Contents

Note 4—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

carried at cost and approximate fair value due to the short-term nature of these instruments. Allowances for doubtful accounts are recorded against the accounts receivable balance to estimate net realizable value. Although there are no amounts currently outstanding under Intrepid's senior credit facility, any borrowings that are outstanding are expected to be recorded at amounts that approximate their fair value as borrowings bear interest at a floating rate. Intrepid's interest rate and natural gas swaps have been recorded at fair value with adjustments to this fair value recognized currently in the statements of operations using established counterparty evaluations that are subjected to management's review. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the precise amounts that could be realized upon the sale, settlement, or refinancing of such instruments.

Earnings per Share—Basic net income per common share of stock is calculated by dividing net income available to common stockholders by the weighted average basic common shares outstanding for the respective period.

Diluted net income per common share of stock is calculated by dividing net income by the weighted average diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculation consist of awards of non-vested restricted shares of common stock with service conditions and outstanding non-qualified stock option awards that are subject to a service condition. The dilutive effect of share-based compensation arrangements are computed using the treasury stock method, as required by SFAS 128, Earnings per Share. Following the lapse of the vesting period of restricted common stock awards, the shares will be issued and therefore will be included in the number of issued and outstanding shares.

Stock-Based Compensation—Intrepid accounts for stock-based compensation under the provisions of SFAS 123(R), Share-Based Payment. Based on this statement, Intrepid records expense associated with the fair value of stock-based compensation. Intrepid has recorded compensation expense associated with the issuance of non-vested restricted common stock awards with service conditions and non-qualified stock option awards that are subject to a service period, using the fair value of the awards at the time of grant and amortizes the expense associated with such awards over the service periods. There are no performance or market conditions associated with these awards.

Note 5—EARNINGS PER SHARE

The treasury stock method is used to measure the dilutive impact of outstanding stock options and non-vested restricted shares of common stock. For the three months ended June 30, 2009, 174,229 stock options and 179,804 non-vested shares of restricted common stock were anti-dilutive and therefore were not included in the diluted weighted average share calculation. For the six months ended June 30, 2009, there were 174,229 stock options and 246,363 non-vested shares of restricted common stock that were excluded from the diluted weighted average share calculation as they were considered anti-dilutive. No earnings per share calculations exist for the predecessor periods of Mining, as Mining was a limited liability company and did not have shares outstanding.

The following table sets forth the calculation of basic and diluted earnings per share (in thousands, except per share amounts).

	Intrepid Potash, Inc.		
	Three months ended June 30, 2009	Six months ended June 30, 2009	April 25, 2008 through June 30, 2008
Net income	$ 14,436	$ 39,117	$ 25,764

Basic weighted-average common shares outstanding	75,017	74,996	74,843
Add: Dilutive effect of non-vested restricted common stock	13	10	135
Add: Dilutive effect of stock options outstanding	—	—	—
Diluted weighted-average common shares outstanding			