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Intrepid Potash, Inc.
Form 10-Q
August 01, 2013
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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 June 30, 2013

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

(Address of principal executive offices)

(Zip Code)

(303) 296-3006

(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 ☒ 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.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a 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 ☒

As of July 31, 2013, the registrant had 75,768,303 shares of common stock, par value \$0.001, outstanding (including 373,926 restricted shares of common stock).

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INTREPID POTASH, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

INTREPID POTASH, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$47,797	\$33,619
Short-term investments	37,419	24,128
Accounts receivable:		
Trade, net	35,822	31,508
Other receivables	10,616	9,122
Refundable income taxes	3,381	3,306
Inventory, net	70,775	53,275
Prepaid expenses and other current assets	3,935	5,393
Current deferred tax asset	4,138	2,005
Total current assets	213,883	162,356
Property, plant, and equipment, net of accumulated depreciation of \$167,713 and \$142,137, respectively	616,226	543,169
Mineral properties and development costs, net of accumulated depletion of \$12,096 and \$11,060, respectively	123,764	94,096
Long-term parts inventory, net	11,306	10,208
Long-term investments	44,205	—
Other assets	4,106	4,246
Non-current deferred tax asset	162,766	180,548
Total Assets	\$1,176,256	\$994,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable:		
Trade	\$19,471	\$19,431
Related parties	127	203
Accrued liabilities	37,311	32,496
Accrued employee compensation and benefits	8,416	11,680
Other current liabilities	2,202	3,578
Total current liabilities	67,527	67,388
Long-term debt	150,000	—
Asset retirement obligation	20,321	19,344
Other non-current liabilities	3,088	2,155
Total Liabilities	240,936	88,887
Commitments and Contingencies		
Common stock, \$0.001 par value; 100,000,000 shares authorized; and 75,394,377 and 75,312,805 shares outstanding at June 30, 2013, and December 31, 2012, respectively	75	75
Additional paid-in capital	570,244	568,375

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Accumulated other comprehensive loss	(250) (1,729)
Retained earnings	365,251	339,015	
Total Stockholders' Equity	935,320	905,736	
Total Liabilities and Stockholders' Equity	\$1,176,256	\$994,623	
See accompanying notes to these condensed consolidated financial statements.			

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INTREPID POTASH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,		
	2013	2012	2013	2012	
Sales	\$92,680	\$98,784	\$191,937	\$211,027	
Less:					
Freight costs	6,526	4,823	14,623	11,585	
Warehousing and handling costs	3,094	3,005	6,673	6,369	
Cost of goods sold	55,003	51,064	108,776	111,645	
Other	4	(3	) 12	327
Gross Margin	28,053	39,895	61,853	81,101	
Selling and administrative	8,639	8,710	18,131	16,967	
Accretion of asset retirement obligation	374	181	749	362	
Other (income) expense	(1,340	) 85	(1,169	) 57
Operating Income	20,380	30,919	44,142	63,715	
Other Income (Expense)					
Interest expense, including realized and unrealized derivative gains and losses, net	(219) (215) (432) (468)
Interest income	163	526	215	1,039	
Other (expense) income	(1,836	) 95	(1,820	) 278
Income Before Income Taxes	18,488	31,325	42,105	64,564	
Income Tax Expense	(7,171) (12,312) (15,869) (24,925)
Net Income	\$11,317	\$19,013	\$26,236	\$39,639	
Weighted Average Shares Outstanding:					
Basic	75,383,108	75,279,074	75,361,951	75,253,230	
Diluted	75,399,566	75,308,472	75,396,164	75,312,773	
Earnings Per Share:					
Basic	\$0.15	\$0.25	\$0.35	\$0.53	
Diluted	\$0.15	\$0.25	\$0.35	\$0.53	

See accompanying notes to these condensed consolidated financial statements.

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INTREPID POTASH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$11,317	\$19,013	\$26,236	\$39,639
Other Comprehensive Income:				
Pension liability adjustment (net of tax effect of \$1,087, \$26, \$1,116, and \$52, respectively)	1,657	38	1,700	77
Unrealized loss on investments available for sale (net of tax effect of \$155, \$0, \$137, and \$0, respectively)	(250)	) —	(221)) —
Other Comprehensive Income	1,407	38	1,479	77
Comprehensive Income	\$12,724	\$19,051	\$27,715	\$39,716

See accompanying notes to these condensed consolidated financial statements.

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INTREPID POTASH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2012	75,312,805	\$75	\$568,375	\$ (1,729)	\$339,015	\$ 905,736
Pension liability adjustment	—	—	—	1,700	—	1,700
Unrealized gain on investments available for sale				(221)		(221)
Net income	—	—	—	—	26,236	26,236
Stock-based compensation	—	—	2,677	—	—	2,677
Change in excess income tax benefit from stock- based compensation	—	—	(231)	—	—	(231)
Vesting of restricted common stock, net of restricted common stock used to fund employee income tax withholding due upon vesting	81,572	—	(577)	—	—	(577)
Balance, June 30, 2013	75,394,377	\$75	\$570,244	\$ (250)	\$365,251	\$ 935,320

See accompanying notes to these condensed consolidated financial statements.

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INTREPID POTASH, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$26,236	\$39,639
Deferred income taxes	15,526	21,483
Items not affecting cash:		
Depreciation, depletion, and accretion	28,479	22,632
Stock-based compensation	2,677	2,705
Unrealized derivative gain	—	(497)
Other	1,361	1,985
Changes in operating assets and liabilities:		
Trade accounts receivable	(4,314)	(2,643)
Other receivables	(1,492)	(2,193)
Refundable income taxes	(76)	2,778
Inventory	(18,598)	(1,407)
Prepaid expenses and other assets	1,492	1,927
Accounts payable, accrued liabilities, and accrued employee compensation and benefits	(3,405)	12,950
Other liabilities	(442)	(481)
Net cash provided by operating activities	47,444	98,878
Cash Flows from Investing Activities:		
Additions to property, plant, and equipment	(94,502)	(75,769)
Additions to mineral properties and development costs	(29,257)	(11,406)
Purchases of investments	(80,234)	(65,634)
Proceeds from investments	21,839	48,337
Other	68	2
Net cash used in investing activities	(182,086)	(104,470)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	150,000	—
Debt issuance costs	(603)	—
Employee tax withholding paid for restricted stock upon vesting	(577)	(746)
Excess income tax benefit from stock-based compensation	—	(191)
Net cash provided by (used in) financing activities	148,820	(937)
Net Change in Cash and Cash Equivalents	14,178	(6,529)
Cash and Cash Equivalents, beginning of period	33,619	73,372
Cash and Cash Equivalents, end of period	\$47,797	\$66,843
Supplemental disclosure of cash flow information		
Net cash paid (received) during the period for:		
Interest, net of \$1.2 million of capitalized interest, for the three and six months ended June 30, 2013	\$264	\$939
Income taxes	\$2,302	\$890

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Accrued purchases for property, plant, and equipment, and mineral properties and development costs	\$30,916	\$23,165
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See accompanying notes to these condensed consolidated financial statements.

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INTREPID POTASH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — COMPANY BACKGROUND

Intrepid Potash, Inc. (individually or in any combination with its subsidiaries, “Intrepid”) produces muriate of potash (“potassium chloride” or “potash”) and langbeinite. Langbeinite, which is marketed for sale as ~~Trio~~ a low-chloride potassium fertilizer with the additional benefits of sulfate and magnesium. Intrepid sells potash and Trio® primarily into the agricultural market as a fertilizer. Intrepid also sells these products into the animal feed market as a nutritional supplement and sells potash into the industrial market as a component in drilling and fracturing fluids for oil and gas wells. In addition, Intrepid sells by-products including salt, magnesium chloride, and metal recovery salts.

Intrepid owns five active potash production facilities: three in New Mexico, and two in Utah. Intrepid is constructing a sixth production facility, the HB Solar Solution mine, near Carlsbad, New Mexico. Intrepid has placed into service certain assets of the HB Solar Solution mine project, as it is already injecting brine into the production caverns and pumping potassium-rich brine into the majority of the newly constructed solar evaporation ponds.

Currently, 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. Trio® production comes from mining the mixed ore body that contains both potash and langbeinite, which is mined and processed at the East facility near Carlsbad, New Mexico. Intrepid manages sales and marketing operations centrally. This allows Intrepid to evaluate the product needs of its customers and then determine which of its production facilities to use to fill customers’ orders in a manner designed to realize the highest average net realized sales price to Intrepid. Intrepid calculates average net realized sales price by deducting freight costs from gross revenues and then by dividing this result by tons of product sold during the period. Intrepid also monitors product inventory levels and overall production costs centrally. Intrepid has one reporting segment being the extraction, production, and sale of potassium related products. Intrepid's extraction and production operations are conducted entirely in the continental United States.

Note 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements of Intrepid include the accounts of Intrepid and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of 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 include those for proven and probable mineral reserves, the related present value of estimated future net cash flows, useful lives of plant assets, asset retirement obligations, normal inventory production levels, inventory valuations, the valuation of equity awards, the valuation of derivative financial instruments, and estimated blended income tax rates utilized in the current and deferred income tax calculations. There are numerous uncertainties inherent in estimating quantities of proven 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 reserves, the related present value of estimated future cash flows, and useful lives of plant assets can affect various other items including depletion, the net carrying value of Intrepid’s mineral properties, the useful lives of related property, plant, and equipment, estimates associated with asset retirement obligations, and depreciation expenses. Specific to income tax items, we tend to see significant fluctuations in the valuation of the deferred tax assets and liabilities due to changing state income tax rates and the blend of state tax rates.

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 designated shipping point for the majority of sales, but, in a few cases, title passes at the delivery destination. The shipping point may be the plant, a distribution warehouse, a

customer warehouse, or a port. Title passes for some international shipments upon payment by the purchaser; however, revenue is not recognized for these transactions until shipment because the risks and rewards of ownership have transferred

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pursuant to a contractual arrangement. Prices are generally set at the time of, or prior to, shipment. In cases where the final price is determined upon resale of the product by the customer, revenue is deferred until the final sales price is known.

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. When a sale occurs on a delivered basis, Intrepid incurs and, in turn, bills the customer and records as gross revenue the product sales value, freight, packaging, and certain other distribution costs. Many customers, however, arrange and pay for these costs directly and, in these situations, only the product sales are included in gross revenues.

By-product Credits—When by-product inventories are sold, Intrepid records the sale 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 that are ready for sale; mined ore; potash in evaporation ponds, which is considered work-in-process; 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, 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 evaluates its production levels and costs to determine if any should be deemed abnormal and therefore excluded from inventory costs and expensed directly during the applicable period. The assessment of normal production levels is judgmental and is unique to each period. Intrepid models normal production levels and 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 that have not turned over in more than a year, excluding parts classified as critical spares, are reviewed for obsolescence and, if deemed appropriate, are included in the determination of an allowance for obsolescence.

Property, Plant, and Equipment—Property, plant, and equipment are stated at historical cost. Expenditures for property, plant, and equipment relating to new assets or improvements are capitalized, provided the expenditure extends the useful life of an asset or extends the asset's functionality. Property, plant, and equipment are depreciated under the straight-line method using estimated useful lives. 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 when incurred. Capitalized interest, to the extent of debt outstanding, is calculated and capitalized on assets that are being constructed, drilled, or built or that are otherwise classified as construction in progress.

Recoverability of Long-Lived Assets—Intrepid evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment is considered to exist if an asset's total estimated net future cash flows on an undiscounted basis are less than the carrying amount of the related asset. An impairment loss is measured and recorded based on the discounted estimated future cash flows. Changes in significant assumptions underlying future cash flow estimates or fair values of assets may have a material effect on our financial position and results of operations.

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 calculated 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 due to uncertainties inherent in long-term estimates. These reserve life estimates have been prepared by us and reviewed and independently determined by mine consultants. Tons of potash and langbeinite in the proven and probable reserves are expressed in terms of expected finished tons of product to be realized, net of estimated losses. Market price fluctuations of potash or Trio®, 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 royalty provisions, 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.

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Asset Retirement Obligation—Reclamation costs are initially recorded as a liability associated with the asset to be reclaimed or abandoned, based on applicable inflation assumptions and discount rates. The accretion of this discounted liability is recognized as expense over the life of the related assets, and the liability is periodically adjusted to reflect changes in the estimates of either the timing or amount of the reclamation and abandonment costs.

Planned Turnaround Maintenance—Each production operation typically shuts down periodically for planned maintenance activities. The costs of maintenance turnarounds at Intrepid's facilities are considered part of production 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. These determinations are subject to ongoing assessment.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash and liquid investments with an original maturity of three months or less.

Investments—Intrepid's short-term and long-term investments consist of certificates of deposit with various banking institutions, municipal tax-exempt and corporate taxable bonds, and corporate convertible debentures, which have been classified as either held-to-maturity or available-for-sale securities. Short-term investments on the consolidated balance sheets have remaining maturities to Intrepid less than or equal to one year and investments classified as long-term on the consolidated balance sheets have remaining maturities to Intrepid greater than one year. With regard to the financial instruments classified as held-to-maturity investments, they are carried on the consolidated balance sheets at cost, net of amortized premiums or discounts paid. The available-for-sale securities are carried at fair value, with changes in fair value recognized through "Other Comprehensive Loss" on the condensed consolidated balance sheets. Fair value is assessed using a market based approach.

Fair Value of Financial Instruments—Intrepid's financial instruments include cash and cash equivalents, short-term and long-term investments, restricted cash, accounts receivable, refundable income taxes, and accounts payable. These instruments are carried at cost, which approximates fair value due to the short-term maturities of the instruments. All available-for-sale investments are carried at fair value. Allowances for doubtful accounts are recorded against the accounts receivable balance to estimate net realizable value. The fair value of the long-term debt is estimated using discounted cash flow analysis based on current borrowing rates for debt with similar remaining maturities and ratings. Although there are no amounts currently outstanding under Intrepid's unsecured credit facility, any borrowings that become outstanding would bear interest at a floating rate and therefore be recorded at their estimated fair value.

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, non-vested performance units, and non-qualified stock options. The dilutive effect of stock based compensation arrangements are computed using the treasury stock method. Following the lapse of the vesting period of restricted shares of common stock, the shares are considered issued and therefore are included in the number of issued and outstanding shares for purposes of these calculations.

Stock Based Compensation—Intrepid accounts for stock-based compensation by recording expense using the fair value of the awards at the time of grant. Intrepid has recorded compensation expense associated with the issuance of non-vested restricted shares of common stock, non-vested performance units, and non-qualified stock options, all of

which are subject to service conditions. The expense associated with such awards is recognized over the service period associated with each issuance. Performance units are also subject to operational performance- or market-based conditions.

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Note 3 — EARNINGS PER SHARE

The treasury stock method is used to measure the dilutive impact of non-vested restricted shares of common stock and outstanding stock options. For the three months ended June 30, 2013, and 2012, a weighted average of 172,089 and 142,913 non-vested shares of restricted common stock and 344,162 and 199,138 stock options, respectively, were anti-dilutive and therefore were not included in the diluted weighted average share calculation. For the three months ended June 30, 2013, and 2012, 3,272 and zero shares of common stock underlying non-vested performance units, respectively, were anti-dilutive and therefore were not included in the diluted weighted average share calculation. For the six months ended June 30, 2013, and 2012, a weighted average of 106,201 and 109,809 non-vested shares of restricted common stock and 294,459 and 188,000 stock options, respectively, were anti-dilutive and therefore were not included in the diluted weighted average share calculation. For the six months ended June 30, 2013, and 2012, 1,636 and 1,036 shares of common stock underlying non-vested performance units, respectively, were anti-dilutive and therefore were not included in the diluted weighted average share calculation. The following table sets forth the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$11,317	\$19,013	\$26,236	\$39,639
Basic weighted average common shares outstanding	75,383	75,279	75,362	75,253
Add: Dilutive effect of non-vested restricted common stock	11	20	24	43
Add: Dilutive effect of stock options outstanding	—	7	4	16
Add: Dilutive effect of performance units	6	2	6	1
Diluted weighted average common shares outstanding	75,400	75,308	75,396	75,313
Earnings per share:				
Basic	\$0.15	\$0.25	\$0.35	\$0.53
Diluted	\$0.15	\$0.25	\$0.35	\$0.53

Note 4— CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following table summarizes the fair value of Intrepid's cash and investments held in its portfolio, recorded as cash and cash equivalents or short-term or long-term investments as of June 30, 2013, and December 31, 2012 (in thousands):

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	June 30, 2013	December 31, 2012
Cash	\$ 14,941	\$ 6,063
Commercial paper and money market accounts	32,856	27,556
Total cash and cash equivalents	\$ 47,797	\$ 33,619
Corporate bonds	35,159	17,462
Certificates of deposit and time deposits	2,260	6,666
Total short-term investments	\$ 37,419	\$ 24,128
Corporate bonds	\$ 44,205	\$ —
Total long-term investments	\$ 44,205	\$ —
Total cash, cash equivalents, and investments	\$ 129,421	\$ 57,747

The following table summarizes the cost basis, unrealized gains and losses, and fair value of Intrepid's available-for-sale investments held in its portfolio as of June 30, 2013, and December 31, 2012 (in thousands):

	June 30, 2013			
	Cost Basis	Unrealized		Fair Value
		Gain	Loss	
Corporate bonds	\$ 79,770	\$ 3	\$ (409)	\$ 79,364
Total available-for-sale securities	\$ 79,770	\$ 3	\$ (409)	\$ 79,364
	December 31, 2012			
	Cost Basis	Unrealized		Fair Value
		Gain	Loss	
Corporate bonds	\$ 17,510	\$ 14	\$ (62)	\$ 17,462
Certificates of deposit and time deposits	166	—	—	166
Total available-for-sale securities	\$ 17,676	\$ 14	\$ (62)	\$ 17,628

The fair values of Intrepid's investments in corporate bonds are below their respective costs due to recent increases in short-term interest rates. However, Intrepid considers the unrealized losses on these investments to be temporary given Intrepid's current plans to hold the investments. These investments have been classified as available-for-sale as Intrepid sold certain held-to-maturity investments in 2012. For both the three and six months ended June 30, 2013, Intrepid's available-for-sale investments had gross realized gains of approximately \$35,000. For both the three and six months ended June 30, 2013, Intrepid recognized gross realized losses of approximately \$19,000 on investments classified as available-for-sale. For the three and six months ended June 30, 2012, no investments were classified as available-for-sale.

Note 5 — INVENTORY AND LONG-TERM PARTS INVENTORY

The following summarizes Intrepid's inventory, recorded at the lower of weighted average cost or estimated net realizable value, as of June 30, 2013, and December 31, 2012, respectively (in thousands):

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	June 30, 2013	December 31, 2012
Finished goods product inventory	\$40,114	\$26,856
In-process mineral inventory	12,600	9,110
Total product inventory	52,714	35,966
Current parts inventory	18,061	17,309
Total current inventory	70,775	53,275
Long-term parts inventory	11,306	10,208
Total inventory	\$82,081	\$63,483

Parts inventories are shown net of any required reserves. No obsolescence or other reserves were deemed necessary for product or in-process mineral inventory. In conjunction with a lower of weighted average cost or estimated net realizable value assessment of our product inventory as of June 30, 2012, Intrepid recorded an impairment charge of approximately \$0.3 million. No impairment charges for product inventory were considered necessary as of June 30, 2013.

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Note 6 — PROPERTY, PLANT, EQUIPMENT AND MINERAL PROPERTIES

“Property, plant, and equipment” and “Mineral properties and development costs” were comprised of the following (in thousands):

	June 30, 2013	December 31, 2012
Buildings and plant	\$162,627	\$148,989
Machinery and equipment	357,200	334,128
Vehicles	12,196	11,868
Office equipment and improvements	17,967	15,766
Ponds and land improvements	32,092	15,835
Construction in progress	201,559	158,422
Land	298	298
Accumulated depreciation	(167,713)	(142,137)
	\$616,226	\$543,169
Mineral properties and development costs	\$119,875	\$74,712
Construction in progress	15,985	30,444
Accumulated depletion	(12,096)	(11,060)
	\$123,764	\$94,096

Intrepid incurred the following costs for depreciation, depletion, and accretion, including costs capitalized into inventory, for the following periods (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Depreciation	\$13,498	\$11,005	\$26,678	\$21,677
Depletion	466	190	1,052	593
Accretion	374	181	749	362
Total incurred	\$14,338	\$11,376	\$28,479	\$22,632

Note 7 — DEBT

Unsecured Credit Facility— Intrepid has an unsecured credit facility, led by U.S. Bank, as administrative agent, and Wells Fargo Bank, as syndication agent. This unsecured credit facility provides a total revolving credit facility of \$250 million with a five-year term through August 2016. The facility is unsecured and is guaranteed by certain material subsidiaries of Intrepid, as defined in the agreement governing the facility. There were no amounts outstanding under the facility as of June 30, 2013, or December 31, 2012.

Unsecured Senior Notes—In April 2013, Intrepid issued \$150 million aggregate principal amount of unsecured senior notes ("the Notes") pursuant to a note purchase agreement entered into in August 2012. Intrepid received proceeds of \$149.3 million, net of offering costs. The Notes consist of the following series:

\$60 million of 3.23% Senior Notes, Series A, due April 16, 2020

\$45 million of 4.13% Senior Notes, Series B, due April 14, 2023

\$45 million of 4.28% Senior Notes, Series C, due April 16, 2025

The Notes are senior unsecured obligations of Intrepid and rank equally in right of payment with any other unsubordinated unsecured indebtedness of Intrepid. The obligations under the Notes are unconditionally guaranteed by Intrepid's material subsidiaries.

Interest on the Notes began accruing on April 16, 2013, the date the Notes were issued. Interest will be paid semiannually on April 16 and October 16 of each year, beginning on October 16, 2013. Interest expense will be recorded net

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of any capitalized interest associated with investments in capital projects. Intrepid incurred gross interest expense for the three months ended June 30, 2013, and 2012, of \$1.4 million and \$0.2 million, respectively. Intrepid incurred gross interest expense for the six months ended June 30, 2013, and 2012, of \$1.6 million and \$0.5 million, respectively. Intrepid capitalized \$1.2 million of interest during the three and six months ended June 30, 2013. Intrepid had no capitalized interest in the three and six months ended June 30, 2012.

Note 8 — ASSET RETIREMENT OBLIGATION

Intrepid recognizes an estimated liability for future costs associated with the abandonment and reclamation of its mining properties. A liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset are recorded as the mining operations occur or the assets are acquired. Intrepid's asset retirement obligation is based on the estimated cost to abandon and reclaim the mining operations, the economic life of the properties, and federal and state regulatory requirements. The liability is discounted using credit adjusted risk-free rate estimates at the time the liability is incurred or when there are upward revisions to estimated costs. The credit adjusted risk-free rates used to discount Intrepid's abandonment liabilities range from 6.9% to 8.5%. Revisions to the liability occur due to construction of new or expanded facilities, changes in estimated abandonment costs or economic lives, or if federal or state regulators enact new requirements regarding the abandonment or reclamation of mines.

Following is a table of the changes to Intrepid's asset retirement obligations for the following periods (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Asset retirement obligation, at beginning of period	\$21,114	\$9,616	\$20,579	\$9,708
Liabilities settled	(104)	—	(128)	(273)
Liabilities incurred	148	—	332	—
Changes in estimated obligations	—	439	—	439
Accretion of discount	374	181	749	362
Total asset retirement obligation, at end of period	\$21,532	\$10,236	\$21,532	\$10,236

The current portion of asset retirement obligations of \$1.2 million was included in "Other" current liabilities on the condensed consolidated balance sheets as of June 30, 2013, and December 31, 2012. The undiscounted amount of asset retirement obligation is \$53.5 million as of June 30, 2013, of which Intrepid estimates approximately \$8.8 million in payments may occur in the next five years.

Note 9 — COMPENSATION PLANS

Cash Bonus Plan—Intrepid has cash bonus plans that allow participants to receive varying percentages of their aggregate base salary. Any awards under the cash bonus plans are based on a variety of elements related to Intrepid's performance in certain production, operational, financial, and other areas, as well as the participants' individual performance. Intrepid accrues cash bonus expense related to the current year's performance.

Equity Incentive Compensation Plan—Intrepid's Board of Directors and stockholders have adopted a long-term incentive compensation plan called the Intrepid Potash, Inc. Equity Incentive Plan, as Amended and Restated (the "Plan"). Intrepid has issued common stock, restricted shares of common stock, performance units, and non-qualified stock option awards under the Plan. As of June 30, 2013, the following awards were outstanding under the plan: 375,137 shares of non-vested restricted shares of common stock; 97,367 non-vested performance units representing shares of common stock; and options to purchase 343,391 shares of common stock. As of June 30, 2013, approximately 3.6 million shares of common stock remained available for issuance under the Plan.

Common Stock—On an annual basis, under the Plan, the Compensation Committee of the Board of Directors (the "Compensation Committee") approves the award of shares of common stock to the non-employee members of the Board of Directors as compensation for service for the period ending on the date of Intrepid's annual stockholders' meeting for the following year. These shares of common stock were granted without restrictions and vested immediately.

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Non-vested Restricted Shares of Common Stock—Under the Plan, grants of non-vested restricted shares of common stock have been awarded to executive officers, other key employees, and consultants. The awards contain service conditions associated with continued employment or service. There are no performance or market conditions associated with these awards. The terms of the non-vested restricted shares of common stock provide voting and regular dividend rights to the holders of the awards. Upon vesting, the restrictions on the restricted shares of common stock lapse, and the shares are considered issued and outstanding.

Since 2009, the Compensation Committee has granted restricted shares of common stock under the Plan in the first quarter of each year to Intrepid's executive management team and other selected employees as part of an annual equity award program. These awards vest ratably over three years. From time to time, the Compensation Committee grants restricted shares of common stock to newly hired or promoted employees or other employees or consultants who have achieved extraordinary personal performance objectives. These restricted shares of common stock generally vest over one- to four-year periods.

In measuring compensation expense associated with the grant of non-vested restricted shares of common stock, Intrepid uses the fair value of the award, determined as the closing stock price for Intrepid's common stock on the grant date. Compensation expense is recorded monthly over the vesting period of the award. Total compensation expense related to the non-vested restricted shares of common stock awards was \$0.9 million and \$1.0 million for the three months ended June 30, 2013, and 2012. Total compensation expense related to the non-vested restricted shares of common stock awards was \$1.7 million and \$1.9 million for the six months ended June 30, 2013, and 2012. These amounts are net of estimated forfeiture adjustments. As of June 30, 2013, there was \$6.9 million of total remaining unrecognized compensation expense related to non-vested restricted shares of common stock that will be expensed through 2015.

A summary of activity relating to Intrepid's non-vested restricted shares of common stock for the six months ended June 30, 2013, is presented below.

	Shares	Weighted Average Grant-Date Fair Value
Non-vested restricted shares of common stock, beginning of period	240,757	\$26.04
Granted	235,490	\$19.25
Vested	(88,186)	) \$27.12
Forfeited	(12,924)	) \$22.17
Non-vested restricted shares of common stock, end of period	375,137	\$21.65

Performance Units—Since 2012, the Compensation Committee has granted performance units under the Plan to certain members of Intrepid's executive management team as part of the annual equity award program. The Compensation Committee issued two types of performance units: an operational performance-based award and a market condition-based award. The awards contain service conditions associated with continued employment, as well as an operational performance or market condition. The operational performance conditions are based on tons of potash and Trio® produced, and the market conditions are based on Intrepid's stock performance relative to a peer group and a broad market index. As of June 30, 2013, the maximum number of shares of common stock that may be issued, pending satisfaction of the operational performance or market condition and continued employment is 97,367 shares of common stock. These performance shares are subject to vesting conditions that provided for issuance over a three-year period assuming continued employment by the individual grantees through the vesting dates. For the three months ended June 30, 2013, and 2012, Intrepid recognized stock based compensation related to performance units of approximately \$0.2 million and \$0.1 million, respectively. For the six months ended June 30, 2013, and 2012, Intrepid recognized stock based compensation related to performance units of approximately \$0.3 million and \$0.1 million, respectively. As of June 30, 2013, there was \$1.0 million of total remaining unrecognized compensation expense related to unvested performance units that will be expensed through 2015.

Non-qualified Stock Options—From 2009 to 2011, the Compensation Committee issued non-qualified stock options under the Plan in the first quarter of each year to Intrepid's executive management and other selected employees as part

of its annual award program. These stock options generally vest ratably over three years. In measuring compensation expense for this grant of options, Intrepid estimated the fair value of the award on the grant date using the Black-Scholes option valuation model. Option valuation models require the input of highly subjective assumptions, including the expected volatility of the price of the underlying stock.

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For the three months ended June 30, 2013, and 2012, Intrepid recognized stock based compensation related to previously issued stock options of approximately \$0.1 million and \$0.3 million, respectively. For the six months ended June 30, 2013, and 2012, Intrepid recognized stock based compensation related to previously issued stock options of approximately \$0.3 million and \$0.7 million, respectively. As of June 30, 2013, there was \$0.4 million of total remaining unrecognized compensation expense related to unvested non-qualified stock options that will be expensed through 2013 and 2014. Realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation for such options are regarded as “excess tax benefits.”

A summary of Intrepid’s stock option activity for the three months ended June 30, 2013, is as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Weighted Average Remaining Contractual Life	Weighted Average Grant-Date Fair Value
Outstanding non-qualified stock options, end of period	343,391	\$26.23	\$—	6.3	\$13.11
Vested or expected to vest, end of period	341,622	\$26.18	\$—	6.3	\$13.07
Exercisable non-qualified stock options, end of period	312,828	\$25.31	\$—	6.1	\$12.48

(1) The intrinsic value of a stock option is the amount by which the market value exceeds the exercise price as of the end of the period presented.

Note 10 — INCOME TAXES

Intrepid’s effective tax rate was 38.8% and 39.3% for the three months ended June 30, 2013, and 2012, respectively. Intrepid’s effective tax rate was 37.7% and 38.6% for the six months ended June 30, 2013, and 2012, respectively. Intrepid’s effective tax rate is impacted primarily by the amount of taxable income associated with each jurisdiction in which Intrepid’s income is subject to income tax, permanent differences between the financial statement carrying amounts and tax bases of assets, liabilities, and the benefit associated with the estimated domestic production activities deduction. A summary of the provision for income taxes is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Current portion of income tax expense	\$26	\$1,062	\$343	\$3,684
Deferred portion of income tax expense	7,145	11,250	15,526	21,241
Total income tax expense	\$7,171	\$12,312	\$15,869	\$24,925

The blended state tax rate applied to the deferred tax calculation is subject to change due to changes in state laws and changes in the mix of Intrepid’s business and the states in which Intrepid has a taxable relationship. This creates fluctuations in the value of Intrepid’s net deferred tax asset. In April 2013, the state of New Mexico lowered its corporate income tax rate pursuant to a schedule that goes into effect over the next five years. Intrepid has estimated that the lower state income tax rates will result in a relatively lower future income tax expense. As a result, Intrepid recorded additional deferred state income tax expense of \$1.3 million in the three months ended June 30, 2013, as its deferred tax asset has decreased in value. The actual timing for the use of the deferred income tax asset will be based on the actual taxable income earned over future periods and will likely be different from the current estimate.

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Note 11 — COMMITMENTS AND
CONTINGENCIES

Marketing Agreements—Intrepid has a marketing agreement appointing PCS Sales (USA), Inc. (“PCS Sales”) as its exclusive sales representative for potash export sales, with the exception of sales to Canada and Mexico, and appointing PCS Sales as its non-exclusive sales representative for potash sales into Mexico. Trio® is also marketed under this arrangement. This agreement is cancelable with 30 days' written notice.

Reclamation Deposits, Surety Bonds, and Sinking Fund—As of June 30, 2013, Intrepid had \$17.3 million of security placed principally with the State of Utah and the Bureau of Land Management for eventual reclamation of its various facilities. Of this total requirement, \$0.5 million consisted of long-term restricted cash deposits reflected in “Other” non-current assets on the condensed consolidated balance sheets, and \$16.8 million was secured by surety bonds issued by an insurer. The surety bonds are held in place by an annual fee paid to the issuer.

Intrepid may be required to post additional security to fund future reclamation obligations as reclamation plans are updated or as governmental entities change requirements.

Legal—Intrepid is subject to litigation. Intrepid has determined that there are no material claims outstanding as of June 30, 2013. Intrepid has established a legal reserve for loss contingencies that are considered probable and reasonably estimable.

Future Operating Lease Commitments—Intrepid has operating leases for land, mining and other operating equipment, an airplane, offices, and railcars, with original terms of up to 20 years.

Rental and lease expenses follow for the indicated periods (in thousands):

2013

Three months ended June 30, 2013	\$1,115
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Six months ended June 30, 2013	\$2,024
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2012

Three months ended June 30, 2012	\$945
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Six months ended June 30, 2012	\$1,781
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Note 12 — DERIVATIVE FINANCIAL INSTRUMENTS

Intrepid is exposed to global market risks, including the effect of changes in commodity prices and interest rates.

From time to time, Intrepid uses derivatives to manage financial exposures that occur in the normal course of business. Intrepid does not enter into or hold derivatives for trading purposes. While all derivatives had been used for risk management purposes, and were originally entered into as economic hedges, they had not been designated as hedging instruments.

Natural Gas—From time to time, Intrepid manages a portion of its exposure to movements in the market price of natural gas through the use of natural gas derivative contracts. Intrepid had no natural gas derivative contracts outstanding at June 30, 2013.

Interest Rates—Prior to Intrepid's initial public offering in April 2008, Intrepid's predecessor historically managed a portion of its floating interest rate exposure on outstanding debt through the use of interest rate derivative contracts, as required by its credit agreement. Intrepid repaid its assumed debt obligations immediately subsequent to the closing of its initial public offering and, in the year ended December 31, 2012, settled in the ordinary course of business its positions in the derivative financial instruments also assumed from its predecessor.

Intrepid did not have any derivative instruments outstanding during the first six months of 2013. The table below presents the amounts of gain or (loss) recognized in income on derivatives affecting the condensed consolidated statement of operations for the periods presented in 2012 (amounts in thousands):

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Derivatives not designated as hedging instruments	Location of gain (loss) recognized in income on derivative	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Interest rate contracts:			
Realized loss	Interest expense	\$(276	) \$(541
Unrealized gain	Interest expense	273	497
Total loss	Interest expense)