Intrepid Potash, Inc.
Form 10-Q
May 08, 2009

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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 March 31, 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. ý 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 ý (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 ý No

As of April 30, 2009, 75,025,154 shares of the registrant's common stock, par value of $0.001 per share, were outstanding.

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INTREPID POTASH, INC. and INTREPID MINING LLC

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INTREPID POTASH, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)

	March 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 102,459	$ 116,573
Accounts receivable:		
Trade, net	37,602	15,107
Other receivables	235	385
Refundable income taxes	1,844	9,967
Inventory, net	55,193	49,318
Prepaid expenses and other current assets	3,551	5,804
Current deferred tax asset	448	1,222
Total current assets	201,332	198,376
Property, plant and equipment, net of accumulated depreciation of $29,564 and $26,514, respectively	157,203	138,790
Mineral properties and development costs, net of accumulated depletion of $6,558 and $6,367, respectively	32,380	30,244
Long-term parts inventory, net	4,480	3,973
Other assets	7,911	6,053
Non-current deferred tax asset	321,924	327,641
Total Assets	$ 725,230	$ 705,077
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable:		
Trade	$ 13,471	$ 15,516
Related parties	39	26
Accrued liabilities	12,018	14,967
Accrued employee compensation and benefits	4,873	6,478
Other current liabilities	1,902	1,952
Total current liabilities	32,303	38,939
Accrued pension liability	1,264	1,280
Asset retirement obligation	8,306	8,138
Other non-current liabilities	7,077	5,121
Total Liabilities	48,950	53,478
Commitments and Contingencies		
Common stock, $0.001 par value; 100,000,000 shares authorized; and 74,985,026 and 74,846,874 shares outstanding at March 31, 2009, and December 31, 2008, respectively	75	75
Additional paid-in capital	554,197	554,743
Accumulated other comprehensive loss	(839)	(1,385)
Retained earnings	122,847	98,166

Total Stockholders' Equity		676,280		651,599
Total Liabilities and Stockholders' Equity	$	725,230	$	705,077

See accompanying notes to these consolidated financial statements

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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 March 31, 2009	Three months ended March 31, 2008	Three months ended March 31, 2008
Sales	$ 88,901	$	$ 84,401
Less:			
Freight costs	4,707		10,172
Warehousing and handling costs	1,529		1,800
Cost of goods sold	35,508		38,461
Gross Margin	47,157		33,968
Selling and administrative	6,783	11	4,542
Accretion of asset retirement obligation	168		156
Other	(12)		14
Operating Income	40,218	(11)	29,256
Other Income (Expense)			
Interest expense, including realized and unrealized derivative gains and losses	(203)		(3,085)
Interest income	17		23
Insurance settlements in excess of property losses	(14)		6,998
Other expense	(141)		(137)
Income (Loss) Before Income Taxes	39,877	(11)	33,055
Income Tax (Expense) Benefit	(15,196)	4	4
Net Income (Loss)	$ 24,681	$ (7)	$ 33,059
Weighted Average Shares Outstanding:			
Basic	74,975,511	1,000	
Diluted	74,982,580	1,000	
Earnings (Loss) Per Share:			
Basic	$ 0.33	$ (6.56)	
Diluted	$ 0.33	$ (6.56)	

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(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, 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					24,681	24,681
Total comprehensive income						25,227
Stock-based compensation, net of restricted stock used for employee tax withholding upon vesting	138,152		(546)			(546)
Balance, March 31, 2009	74,985,026	$ 75	$ 554,197	$ (839)	$ 122,847	$ 676,280

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Intrepid Potash, Inc.		Intrepid Mining LLC (Predecessor)
	Three months ended March 31, 2009	Three months ended March 31, 2008	Three months ended March 31, 2008
Cash Flows from Operating Activities:			
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	$ 24,681	$ (7)	$ 33,059
Deferred income taxes	6,730	(4)	(4)
Insurance reimbursements	14		(6,998)
Items not affecting cash:			
Depreciation, depletion, amortization and accretion	3,492		2,790
Stock-based compensation	334		
(Gain) loss on disposal of assets and other	(12)		27
Pension expense	42		8
Unrealized derivative (gain) loss	(369)		1,467
Bond sinking fund unrealized loss	153		210
Changes in operating assets and liabilities:			
Trade accounts receivable	(22,495)		(10,638)
Insurance and other receivables	150		110
Refundable income taxes	8,431		
Inventory	(6,382)		835
Prepaid expenses and other assets	187		(2,543)
Accounts payable, accrued liabilities and accrued employee compensation and benefits	(689)	11	(948)
Other current liabilities	2,275		(251)
Total cash provided by operating activities	16,542		17,124
Cash Flows from Investing Activities:			
Proceeds from sale of assets	16		
Proceeds from insurance reimbursements	(14)		6,998
Additions to property, plant, and equipment	(26,317)		(9,776)
Additions to mineral properties and development costs	(3,461)		(2)
Additions to bond sinking fund			(14)
Total cash used in investing activities	(29,776)		(2,794)
Cash Flows from Financing Activities:			
Proceeds from long-term debt			7,509
Repayments on long-term debt			(7,003)
Payments of capital leases			(5)
Restricted stock used for employee tax withholding upon vesting	(868)		
Members' capital distributions			(15,000)
Other	(12)		
Total cash used in financing activities	(880)		(14,499)
Net Change in Cash and Cash Equivalents	(14,114)		(169)

Cash and Cash Equivalents, beginning of period		116,573		1		1,960
Cash and Cash Equivalents, end of period	$	102,459	$	1	$	1,791
Supplemental disclosure of cash flow information						
Cash paid during the period for:						
Interest	$	347	$		$	1,641
Income taxes	$	35	$		$	

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 COMPANY BACKGROUND

Intrepid Potash, Inc. ("Intrepid" or the "Company") and its subsidiaries produce 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 we market for sale as 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. Beginning on 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 aggregate 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 controlling interest in Intrepid, in connection with the IPO.

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 2 THE COMPANY AND THE INITIAL PUBLIC OFFERING OF INTREPID POTASH, INC. (Continued)

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. 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 the Company's financial position, results of operations and cash flows at March 31, 2009, and for all periods presented. These unaudited consolidated financial statements should be read in conjunction with the Company'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.

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 proved and probable mineral reserve volumes, useful lives of plant assets, and the related present value of estimated future net cash flows. 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

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 transfer for some shipments into Mexico is at the border crossing, which is the port of exit. 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 most customers arrange for and pay for these costs.

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

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, operational overhead, depreciation, depletion, and equipment lease costs applicable to the production process. Direct costs, maintenance, and operational overhead include labor and associated benefits. The Company also periodically evaluates its production inventory 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 deemed to be abnormal within the scope of the statement. In the first quarter of 2009, the Company determined that approximately $1.2 million of production costs related to abnormally low production levels, and, as a result, these costs have been excluded from our 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 evaluated 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.

Intrepid conducts detailed reviews 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.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the interest and natural gas costs when such borrowings and transactions are probable and the significant characteristics and expected timing are identified. 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. The Company has also entered into interest rate derivative instruments to swap a portion of floating rate debt to fixed rate. 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 extinguishment of our 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 we refer to collectively as mineral properties, include acquisition costs, the cost of drilling wells, and the cost of other development work. 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. Our 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 the average recovery rate for the deposit, which takes into account the processing

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 our mineral leases, including royalties payable, are subject to periodic readjustment by the state and federal government, which could affect the economics of our reserve estimates. Significant changes in the estimated reserves could have a material impact on our 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.

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

Leases Upon entering into leases, Intrepid evaluates whether they 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 future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and any credit carryforwards. Deferred tax assets and liabilities are measured at currently enacted tax rates. The Company 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, the Company'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 exchange was approximately $358 million, with a corresponding increase to additional paid-in capital.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The majority of this deferred tax asset is related to mineral properties, and the calculation of percentage depletion will reduce our taxable income relative to book income, resulting in the realization of this asset over time. Currently, we anticipate that for federal income tax purposes, percentage depletion allowed with respect to our mineral properties will exceed cost depletion in each taxable year, and consequently, we do not expect tax basis allocated to our mineral properties to result in any increase in our federal cost recovery deductions.

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 March 31, 2009, were overnight investments held by US Bank National Association ("US Bank"). As of March 31, 2009, these investments consisted of U.S. treasuries with daily liquidity of approximately $86.3 million and overnight Eurodollar deposits with US Bank of $13.7 million. The overnight Eurodollar deposits invested with the bank are essentially deposit arrangements with US Bank and are subject to the credit of US Bank.

Fair Value of Financial Instruments Intrepid's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, and accounts payable, all of which are 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. The revolving credit facility's recorded value approximates its fair value as it bears 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 our review. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the precise amounts the Company could realize 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 non-vested restricted share awards 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 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*. This statement requires the Company to record expense associated with the fair value of stock-based compensation. The Company has recorded compensation expense associated with the issuance of restricted 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.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5 EARNINGS PER SHARE

The treasury stock method is used to measure the dilutive impact of outstanding non-qualified stock options and non-vested restricted shares. For the quarter ended March 31, 2009, the outstanding non-qualified stock options and non-vested restricted stock were anti-dilutive and therefore were not included in the diluted weighted average share calculation. There were 174,229 unvested stock options and 312,922 non-vested restricted shares outstanding as of March 31, 2009, that have been excluded from this calculation. No earnings per share calculation exists 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 March 31, 2009	March 31, 2008
Net income (loss)	$ 24,681	$ (7)
Basic weighted-average common shares outstanding	74,976	1
Add: Dilutive effect of unvested restricted stock awards	7	
Add: Dilutive effect of non-qualified stock options outstanding		
Diluted weighted-average common shares outstanding	74,983	1
Earnings (loss) per share:		
Basic	$ 0.33	$ (6.56)
Diluted	$ 0.33	$ (6.56)

Note 6 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 March 31, 2009, and December 31, 2008, respectively (in thousands):

	March 31, 2009	December 31, 2008
Product inventory	$ 39,495	$ 34,337
In-process mineral inventory	5,481	5,619
Current parts inventory	10,217	9,362
Total current inventory	55,193	49,318
Long-term parts inventory	4,480	3,973
Total inventory	$ 59,673	$ 53,291

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 6 INVENTORY AND LONG-TERM PARTS INVENTORY (Continued)

Parts inventories are shown net of stores inventory reserves of $514,000 and $526,000 as of March 31, 2009, and December 31, 2008, respectively. No obsolescence or other reserves were deemed necessary for product or in-process mineral inventory.

Note 7 PROPERTY, PLANT, EQUIPMENT AND MINERAL PROPERTIES

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

	March 31, 2009	December 31, 2008	Range of useful lives (years) Lower Limit	Upper Limit
Buildings and plant	$ 24,865	$ 21,357	4	25
Machinery and equipment	70,270	62,599	3	25
Vehicles	5,912	5,905	3	7
Office and other equipment	1,395	251	2	7
Computers	1,211	1,033	2	5
Software	2,379	2,379	3	3
Leasehold improvements	5,763	123	2	10
Ponds and land improvements	5,731	2,894	5	25
Construction in progress	69,217	68,739		
Land	24	24		
Accumulated depreciation	(29,564)	(26,514)		
	$ 157,203	$ 138,790		
Mineral properties and development costs	$ 35,862	$ 31,798	21	25
Construction in progress	3,076	4,813		
Accumulated depletion	(6,558)	(6,367)		
	$ 32,380	$ 30,244		
Water rights in "Other Assets"	$ 2,670	$ 2,670	25	25
Accumulated depletion	(114)	(105)		
	$ 2,556	$ 2,565		

"Mineral properties and development costs" include mineral properties associated with the presently idled HB mine, with accumulated costs to date of approximately $1.5 million as of March 31, 2009, and December 31, 2008. Therefore, no depletion is currently being recognized on this property, as the mine has not yet been placed in service and there is no basis over which to amortize the historical costs.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 7 PROPERTY, PLANT, EQUIPMENT AND MINERAL PROPERTIES (Continued)

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Depreciation	$ 3,070	$ 2,124
Depletion	199	430
Amortization	55	80
Accretion	168	156
Total incurred	$ 3,492	$ 2,790

Note 8 DEBT

The Company's senior credit facility, as amended, is a syndicated facility led by US Bank as the agent bank, which provides a total revolving credit facility of $125 million. The lenders have a security interest in substantially all of the assets of the Company. Obligations are cross-collateralized between all of the Company's legal entities, parent and subsidiaries.

The senior credit facility contains certain covenants customary for financings of this type, including, without limitation, restrictions on: (i) indebtedness; (ii) the incurrence of liens; (iii) investments and acquisitions; (iv) mergers and the sale of assets; (v) guarantees; (vi) distributions; and (vii) transactions with affiliates. The credit facility also contains a requirement to maintain at least $3.0 million of working capital; a ratio of adjusted earnings before income taxes, depreciation and amortization to fixed charges greater than 1.3 to 1.0; and a ratio of the outstanding principal balance of debt to adjusted earnings before income taxes, depreciation and amortization of not more than 3.5 to 1.0. The credit facility also contains events of default customary for financings of this type, including, without limitation, failure to pay principal and interest in a timely manner, the breach of certain covenants or representations and warranties, the occurrence of a change in control, and judgments or orders of the payment of money in excess of $1.0 million on claims not covered by insurance. The Company was in compliance with all covenants with respect to the senior credit facility on March 31, 2009.

Capitalized interest and the weighted average interest rate were as follows for the periods presented in the financial statements:

	Capitalized Interest (In thousands)	Weighted Average Interest Rate
For the three months ended March 31, 2009	$	N/A
For the three months ended March 31, 2008	$ 41	6.3%

Note 9 ASSET RETIREMENT OBLIGATION

The Company recognizes an estimated liability for future costs associated with the abandonment of its mining properties. A liability for the fair value of an asset retirement obligation and a

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 9 ASSET RETIREMENT OBLIGATION (Continued)

corresponding increase to the carrying value of the related long-lived asset are recorded as the mining operations occur or the assets are acquired.

The Company's asset retirement obligation is based on the estimated cost to abandon 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 revisions to estimated costs. The credit-adjusted risk-free rates used to discount the Company's abandonment liabilities range from 6.9 percent to 8.5 percent. Revisions to the liability occur due to changes in estimated abandonment costs or economic lives, or if federal or state regulators enact new req