

Intrepid Potash, Inc.  
Form 10-Q  
August 01, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
filer  (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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## 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
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup>, 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 Gain	Unrealized Loss	Fair Value
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 Gain	Unrealized Loss	Fair Value
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<sup>®</sup> 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
Six months ended June 30, 2013	\$2,024

2012

Three months ended June 30, 2012	\$945
Six months ended June 30, 2012	\$1,781

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	\$(3)	\$(44)

Please see Note 13 — Fair Value for a description of how the above financial instruments were valued.

## Note 13 — FAIR VALUE

Assets Measured at Fair Value—Fair value accounting establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1—Quoted prices in active markets for identical assets and liabilities.

Level 2—Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Significant inputs to the valuation model are unobservable.

The following is a listing of Intrepid's assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of June 30, 2013, and December 31, 2012 (in thousands):

		Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2013			
Investments				
Corporate bonds	\$ 79,364	\$ —	\$ 79,364	\$ —
	December 31, 2012			
Investments				
Corporate bonds	\$ 17,462	\$ —	\$ 17,462	\$ —
Certificate of deposit	\$ 166	\$ —	\$ 166	\$ —

Financial assets or liabilities are categorized within the hierarchy based upon the lowest level of input that is significant to the fair value measurement. Below is a general description of Intrepid's valuation methodologies for financial

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assets and liabilities, which are measured at fair value and are included in the accompanying condensed consolidated balance sheets.

Intrepid's available-for-sale investments consist of corporate bonds and certain certificates of deposits that are valued using Level 2 inputs. Market pricing for these investments is obtained from an established financial markets data provider.

The methods described above may result in a fair value estimate that may not be indicative of net realizable value or may not be reflective of future fair values and cash flows. While Intrepid believes that the valuation methods used are appropriate and consistent with the requirements of ASC Topic 820 and the methods used by other marketplace participants, Intrepid recognizes that third parties may use different methodologies or assumptions to determine the fair value of certain financial instruments that could result in a different estimate of fair value at the reporting date.

Financial Instruments—The carrying values and fair values of our financial instruments as of June 30, 2013, and December 31, 2012, are as follows (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$47,797	\$47,797	\$33,619	\$33,619
Certificate of deposits	\$2,260	\$2,260	\$6,666	\$6,666
Accounts receivable	\$46,438	\$46,438	\$40,630	\$40,630
Refundable income taxes	\$3,381	\$3,381	\$3,306	\$3,306
Accounts payable	\$19,598	\$19,598	\$19,634	\$19,634
Long-term debt	\$150,000	\$144,559	\$—	\$—

For cash and cash equivalents, certificate of deposit investments, accounts receivable, refundable income taxes, and accounts payable, the carrying amount approximates fair value because of the short-term maturity of those instruments. 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 (a Level 2 input) and is designed to approximate the amount at which the instruments could be exchanged in an arm's length transaction between knowledgeable willing parties.

#### Note 14 — EMPLOYEE BENEFITS

Defined Benefit Pension Plan—In accordance with the terms of the Moab Purchase Agreement associated with the purchase of the assets relating to its Moab facility in 2000, Intrepid and its predecessor established the Moab Salt, L.L.C. Employees' Pension Plan ("Pension Plan"), a defined benefit pension plan. Pursuant to the terms of the Moab Purchase Agreement, employees transferring from the acquiree to Intrepid were granted credit under the Pension Plan for their prior service and for the benefits they had accrued under the acquiree's pension plan, and approximately \$1.5 million was transferred from the acquiree's pension plan to the Pension Plan to accommodate the recognition of these prior services and benefits. In February 2002, Intrepid froze the benefits to be paid under the Pension Plan by limiting participation in the Pension Plan solely to employees hired before February 22, 2002, and by including only pay and service through February 22, 2002, in the calculation of benefits.

In December 2011, Intrepid adopted resolutions to terminate the Pension Plan. After receiving the necessary regulatory approvals, plan amendments, and participant settlement elections, Intrepid funded \$2.0 million to settle all Pension Plan liabilities in April 2013. Upon funding, Intrepid was released from any further obligations under the Pension Plan. Accordingly, Intrepid recorded the additional expense of approximately \$1.9 million to reflect the termination of the Pension Plan in the three months ended June 30, 2013. This amount is recorded as "Other expense" in the condensed consolidated statement of operations and represents the difference between the final amount funded and the sum of the recorded pension liability and the unrecognized actuarial loss included in accumulated other comprehensive income. The components of the net periodic pension expense are set forth below (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Interest cost	\$7	\$23	\$28	\$46
Amortization of prior service cost	(1	) (4	) (5	) (8
Amortization of actuarial loss	25	61	100	122
Settlement loss	2,928	—	2,928	—
Net period benefit cost	\$2,959	\$80	\$3,051	\$160

## Note 15 — RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of Intrepid's Accumulated Other Comprehensive Income, net of tax, as of June 30, 2013, were as follows (in thousands):

	Unrealized Gains and Losses on Available-for-Sale Securities		Defined Benefit Pension Plan	Total
Balance as of December 31, 2012	\$ (29	) \$ (1,700	) \$ (1,729	)
Other comprehensive income before reclassifications	(241	) —	(241	)
Amounts reclassified from accumulated other comprehensive income	20	1,700	1,720	
Net current-period other comprehensive income	\$ (221	) \$ 1,700	\$ 1,479	
Balance as of June 30, 2013	\$ (250	) \$ —	\$ (250	)

The effects on net income of amounts reclassified from Accumulated Other Comprehensive Income for six months ended June 30, 2013, were as follows (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Condensed Consolidated Statement of Operations
Unrealized losses on available-for-sale securities	\$33	Other (expense) income
Total before tax	33	
Tax expense (benefit)	(13	)
Net of tax	\$20	
Pension liability adjustment		
Amortization of prior service cost and actuarial loss	\$71	Selling and administrative
Termination of pension plan expense	2,744	Other (expense) income
Total before tax	2,815	
Tax expense (benefit)	(1,115	)
Net of tax	\$1,700	
Total reclassification for the period, net of tax	\$1,720	

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Note 16 — RECOGNITION OF COMPENSATING TAX REFUND

In the second quarter of 2013, Intrepid received a refund from the State of New Mexico related to a compensating tax refund submitted for the period from December 2008 to October 2011. This refund consists of items for which Intrepid made compensating tax payments on behalf of vendors, as well as compensating tax payments on construction-related and service items during a period when the law was deemed unconstitutional. Upon receipt of the refund, which removed uncertainty about the amount and collection of the refund, Intrepid recorded \$1.7 million of income, which is reflected in "Other operating expense (income)" in the condensed consolidated statement of operations for the three months ended June 30, 2013.

Note 17 — RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. This ASU expands the presentation of changes in accumulated other comprehensive income. The new guidance requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the net income statement or as a separate disclosure in the notes. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. The adoption of this ASU did not have a significant impact on Intrepid's consolidated financial position, results of operations, or cash flows.

In July 2013, FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance prescribes the balance sheet presentation of unrecognized tax benefits relating to net operating loss carryforwards or similar items. ASU 2013-11 is effective for fiscal years beginning after December 15, 2013. Intrepid does not anticipate a material impact on its consolidated financial statements upon adoption.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Securities Act of 1933, as amended (the "Securities Act"). Forward-looking statements, are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward looking statements. These forward looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward looking statements include statements, among other things, concerning our business strategy, including anticipated trends and developments in and management plans for our business and the markets in which we operate; future financial results, operating results, revenues, gross margin, cost of goods sold, operating expenses, products, projected costs, and capital expenditures; sales; and competition. In some cases, you can identify these statements by forward looking words, such as "estimate," "expect," "anticipate," "project," "plan," "intend," "be," "forecast," "foresee," "likely," "may," "should," "goal," "target," "might," "will," "could," "predict," and "continue," the negative of these words and other comparable terminology. Forward looking statements are only predictions based on our current expectations and our projections about future events. All forward looking statements included in this Quarterly Report on Form 10-Q are based upon information available to us as of the filing date of this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward looking statements. We undertake no obligation to update any of these forward looking statements, except as required by law.

These forward looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these statements.

These risks and uncertainties include:

- changes in the price, demand, or supply of potash or Trio®/langbeinite
  - circumstances that disrupt or limit our production, including operational difficulties or operational variances due to geological or geotechnical variances
- interruptions in rail or truck transportation services, or fluctuations in the costs of these services
- increased labor costs or difficulties in hiring and retaining qualified employees and contractors, including workers with mining, mineral processing, or construction expertise
- the costs of, and our ability to successfully construct, commission and execute, any of our strategic projects, including the development of our HB Solar Solution mine, the further development of our langbeinite recovery and granulation assets, our North granulation plant, and our Moab cavern systems
- adverse weather events, including events affecting precipitation and evaporation rates at our solar solution mines
- changes in the prices of raw materials, including chemicals, natural gas, and electricity
- the impact of federal, state, or local government regulations, including environmental and mining regulations, the enforcement of those regulations, and government policy changes
- our ability to obtain any necessary government permits relating to the construction and operation of assets
- changes in our reserve estimates
- competition in the fertilizer industry
- declines in U.S. or world agricultural production
- declines in the use of potash products by oil and gas companies in their drilling operations
- changes in economic conditions
- our ability to comply with covenants in our debt-related agreements to avoid a default under those agreements
- disruption in the credit markets
- our ability to secure additional federal and state potash leases to expand our existing mining operations
- the other risks and uncertainties described in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by our subsequent Quarterly Reports on Form 10-Q.

Our Company

We are the largest producer of muriate of potash (“potassium chloride” or “potash”) in the United States and are one of two producers of langbeinite (“sulfate of potash magnesia”). Langbeinite is a low-chloride potassium fertilizer with the additional benefits of sulfate and magnesium. We generally describe this multi-nutrient specialty product as langbeinite when we refer to production and as Trio<sup>®</sup> when we refer to sales and marketing. Our revenues are generated exclusively from the

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sale of potash and Trio<sup>®</sup>. Potassium is one of the three primary macronutrients essential to plant formation and growth. Since 2005, we have supplied, on average, approximately 1.5% of annual world potassium consumption and 9.2% of annual U.S. potassium consumption. We also produce salt and magnesium chloride from our potash mining processes, the sales of which are accounted for as by-product credits to our cost of sales. These by-product credits represented approximately 2% - 3% of total cost of goods sold in each of the last three fiscal years.

Our potash is marketed for sale into three primary markets, which are the agricultural market as a fertilizer input, the industrial market as a component in drilling and fracturing fluids for oil and gas wells, and the animal feed market as a supplemental nutrient. The agricultural market is predominately a user of granular-sized potash and Trio<sup>®</sup>, while the industrial and animal feed markets largely consume standard and fine standard-sized product. Each of our operating facilities supplies these markets. Additionally, we have the capability to supply customers from our different locations due to the relatively homogeneous nature of our products. The flexibility to compact a greater percentage of our production in granular form allows us to meet demand and maximize our average net realized sales price. Our investments in granulation capacity have allowed us to expand our geographical reach for granular product sales that would otherwise be unavailable. This flexibility also allows us to adjust our production to more closely align with the specific markets, thereby decreasing our dependence on sales of any one particular size of potash.

Our sales of potash tend to focus on agricultural areas, feed manufacturers in the central and western United States, and oil and gas drilling areas in the Rocky Mountains and the greater Permian Basin area. We also have domestic sales, primarily of Trio<sup>®</sup>, in the southeastern and eastern United States, with a focus on areas with specific agricultural nutrition requirements. We centrally manage our sales and marketing operations, including our freight and logistics planning. This allows us to evaluate the product needs of our customers and then determine which of our production facilities can be used to fill customer orders, all with the goal of realizing the highest average net realized sales price for our potash.

We own five active potash production facilities—three in New Mexico (referenced collectively below as “Carlsbad” or individually as “West,” “East,” and “North”) and two in Utah (“Moab” and “Wendover”). We have an additional solar solution mine that is under construction in Carlsbad, New Mexico, called the HB Solar Solution mine. We have a current estimated annual productive capacity of approximately 900,000 tons of potash, not including 200,000 tons of designed productive capacity for the HB Solar Solution mine, and approximately 240,000 tons of langbeinite, based on current design; however, we are not yet producing at these levels. Actual production is affected by operating rates, recoveries, mining rates, ore grade, precipitation, evaporation rates at our solar solution operations, and the amount of development work that we perform. Therefore, our production results tend to be lower than our productive capacity. We have additional opportunities to develop mineralized deposits of potash in New Mexico. These opportunities could include one or more of the following: additional solution mining activities; improved recovery methods on existing ore; investments to extend the life of our solar solution mining assets; and potential acceleration of the development of reserves using the North mine infrastructure, which was operated as a traditional underground mine until the early 1980s.

We routinely post important information about Intrepid and our business, including information about upcoming investor presentations, on our website under the Investor Relations tab. We encourage investors and other interested parties to enroll on our website to receive automatic email alerts or Really Simple Syndication (RSS) feeds regarding new postings. Our website is [www.intrepidpotash.com](http://www.intrepidpotash.com).

### Significant Business Trends and Activities

Our financial results are impacted by several significant trends, which are described below. We expect that these trends will continue to drive our results of operations, cash flows, or financial position.

- **Potash demand.** We sold 184,000 tons of potash in the second quarter of both 2013 and 2012. While the volumes sold in each period are similar, the characteristics of the spring seasons were quite different. The persistent wet weather in 2013 across much of the Midwestern growing area of the United States compressed the spring planting season in the second quarter of 2013, limiting the amount of potash that was applied in this area. In contrast, the 2012 spring season was accelerated by the unseasonable warm weather in the previous fall and winter, which allowed farmers to apply fertilizer later in the field preparation season and prior to much of the normal spring application



window, thereby increasing 2012 spring demand. We expect to see solid potash demand during the second half of 2013 when we expect farmers to be active with fall fertilizer applications in an effort to replenish nutrients after the limited applications that occurred in some areas of the country in the spring. In addition, the outlook for farmer economics in 2013 continues to be favorable with tight grain stocks and supportive grain prices making fertilizer inputs a small component of total input costs for a farmer.

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The specific month in which farmers apply potash remains highly weather dependent and varies across the numerous growing regions within the United States. In addition, potash demand is significantly influenced by dealer storage volumes and the marketing programs of potash retailers. The combination of these items results in recurring variability in potash sales and shipments from our production facilities, thereby increasing volatility of sales volumes from quarter to quarter.

- **Potash prices.** Potash prices are a significant driver of profitability for our business. Our average net realized sales price decreased to \$402 per ton in the second quarter of 2013 from \$465 per ton in the second quarter of 2012. This decrease was due to the continued downward pressure on potash prices partially caused by concern around increased global potash supply and higher-than-average North American producer inventory levels. Uncertainty around global potash sales levels, especially into large international markets such as China and India, also puts pressure on domestic potash prices. It is possible the announcement by Uralkali to exit the Belarusian Potash Company ("BPC") marketing organization discussed below will further pressure potash prices. These pressures and the ongoing uncertainty in the world economy continue to cloud the long-term global potash market. Recently, several of the large North American producers with significant brownfield expansions have publicly announced curtailed production. Prior to Uralkali's announcement, certain potash producers had announced plans to cancel greenfield projects and the additional potential price pressure from Uralkali's announcement is expected to be the catalyst for further delays or cancellations of other competitors' expansion projects. Although North American potash inventory levels remain above the 5-year average, inventory levels have been decreasing since October 2012. Further, the larger North American potash producers announced a summer fill program. This summer fill program pricing was announced at approximately \$20 to \$25 per ton lower than pricing during the 2013 spring application season.
- **Tri<sup>®</sup> prices and demand.** The average net realized sales price of Tri<sup>®</sup> increased to \$359 per ton in the second quarter of 2013 from \$322 per ton in the second quarter of 2012. We continue to have strong demand for our granular-sized Tri<sup>®</sup> product. Tri<sup>®</sup> domestic pricing has historically tended to move in a relatively close correlation to potash pricing, although, over the last year, dealers' and farmers' recognition of the benefits of this low chloride product, coupled with the added value of magnesium and sulfate from this specialty product has translated into higher prices despite sequentially lower potash prices. Demand in excess of production, particularly for our granular-sized Tri<sup>®</sup>, has also been supportive of Tri<sup>®</sup> pricing. Standard-sized Tri<sup>®</sup> demand has been less predictable and we expect to experience some softening in standard-sized Tri<sup>®</sup> demand as sulfate and potassium pricing has softened recently. If potash prices continue to experience price pressure, particularly in light of the Uralkali announcement, we expect to see directional impact on Tri<sup>®</sup> pricing as well.
- **Major Capital Projects.** We are making significant progress on the construction of the HB Solar Solution mine. We have completed all of the drilling activities associated with the injection and extraction wells and pipelines that were contemplated in the initial design. Construction of the solar evaporation ponds is nearly complete, and we continue to pump potash-enriched brine into the majority of the completed evaporation ponds. Injection of brine into the mines and subsequent extraction of the enriched brines to fill the evaporation ponds are the key elements required before potash inventory begins to accumulate in the evaporation ponds prior to the harvest seasons. In addition, the construction of the processing plant continues to progress as scheduled and is expected to be completed in the fourth quarter of 2013. The total expected investment for the project is between \$225 million and \$245 million, of which \$176.5 million had been invested as of June 30, 2013.

The construction of the new North compaction facility is also progressing with \$84.2 million of the expected \$90 million to \$95 million invested as of June 30, 2013. Based on progress to date and our estimate of what is required for completion, we lowered the capital estimate for this project by approximately \$5 million. The majority of the construction work for two of the three compactor lines is complete and these two lines have commenced initial commissioning activities. The delivery of the third compactor line in early 2014 will determine the timing for bringing the final phase into service. This new facility expands our granulation capacity to accommodate the increased tonnage expected from the HB Solar Solution mine and ongoing upgrades at our West mine. The new facility will use state-of-the-art equipment providing us the tools to provide high quality granular production.

There are several ongoing projects at the West facility with total expected investment of approximately \$35 million to \$45 million, with \$13 million invested through June 30, 2013. The projects underway at the West facility, some of

which began in 2012, are intended not only to sustain, but also increase, production through improvements in throughput and recovery rates as we transition into different ore zones within our long life reserves. These projects address the lower recoveries experienced at the West facility during the second quarter 2013 and are expected to increase the throughput of the facility. Intrepid has made ongoing improvements to the West facility since its acquisition and this next phase of improvements is expected to increase capacity to nearly double throughput from the plant's original design.

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The majority of these projects are expected to be completed by early 2014. There is a level of coordination among the projects at West and the North compaction facility that will cause some interruptions in production during the third and fourth quarters.

- Operating efficiencies at the East facility. We have dedicated significant resources to the long-term improvement plan that we implemented in the beginning of 2012 to address production challenges at the East facility. Execution of the long-term improvement plan is expected to continue throughout 2013. We have seen steady and measurable improvement as we execute the plan. Our potash production at the East facility increased each quarter in 2012 and has approximated historical production rates in the first half of 2013. More recently, in the second quarter of 2013, our langbeinite production level increased to 50,000 tons, representing the highest quarterly production level in over two years. We expect langbeinite production levels in 2013 to be greater than those in 2012, as a result of the improvement plan. The benefit of this increased productivity is directly reflected in the improved profitability associated with Trio<sup>®</sup> with average Trio<sup>®</sup> gross margin improving to \$101 per ton in the second quarter of 2013 compared to \$27 per ton in the same period in 2012.

- Uralkali Announcement. On July 30, 2013, Uralkali announced it was exiting the BPC marketing organization, and intends to market its potash production independently. There were reports that Uralkali was offering tons at a significant discount to current pricing. This event is expected to apply additional pressure on potash prices in our markets, although the impact on our average net realized sales price is uncertain at this time.

Selected Operating and Financial Data

The following tables present selected operations data for the periods noted. Analysis of the details of this information is contained throughout this discussion. We present this table as a summary of information relating to key indicators of financial condition and operating performance that we believe are important. We calculate 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.

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	Three Months Ended June 30,		Change		
	2013	2012	Between	% Change	
			Periods		
Production volume (in thousands of tons):					
Potash	182	170	12	7	%
Langbeinite	50	33	17	52	%
Sales volume (in thousands of tons):					
Potash	184	184	—	—	%
Trio®	35	26	9	35	%
Gross sales (in thousands):					
Potash	\$78,195	\$88,755	\$(10,560)	(12)	)%
Trio®	14,485	10,029	4,456	44	%
Total	92,680	98,784	(6,104)	(6)	)%
Freight costs (in thousands):					
Potash	4,351	3,291	1,060	32	%
Trio®	2,175	1,532	643	42	%
Total	6,526	4,823	1,703	35	%
Net sales (in thousands):					
Potash	73,844	85,464	(11,620)	(14)	)%
Trio®	12,310	8,497	3,813	45	%
Total	\$86,154	\$93,961	\$(7,807)	(8)	)%
Potash statistics (per ton):					
Average net realized sales price	\$402	\$465	\$(63)	(14)	)%
Cash operating cost of goods sold, net of by-product credits* (exclusive of items shown separately below)	186	178	8	4	%
Depreciation and depletion	50	42	8	19	%
Royalties	18	17	1	6	%
Total potash cost of goods sold	\$254	\$237	\$17	7	%
Warehousing and handling costs	14	14	—	—	%
Average potash gross margin	\$134	\$214	\$(80)	(37)	)%
Trio® statistics (per ton):					
Average net realized sales price	\$359	\$322	\$37		