Intrepid Potash, Inc.
Form 10-Q
November 06, 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 September 30, 2009

Commission File Number: 001-34025

INTREPID POTASH, INC.

(Exact Name of Registrant as Specified in its Charter)

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

707 17th Street, Suite 4200
Denver, Colorado 80202
(303) 296-3006
(Address of Principal Executive Offices, Including Zip Code)
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 October 31, 2009, 75,032,086 shares of the registrant's common stock, par value of $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

INTREPID POTASH, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 87,247	$ 116,573
Short-term investments	5,504	
Accounts receivable:		
Trade, net	30,762	15,107
Other receivables	1,196	385
Related parties	12	
Refundable income taxes	9,392	9,967
Inventory, net	68,827	49,318
Prepaid expenses and other current assets	2,685	5,804
Current deferred tax asset	4,223	1,222
Total current assets	209,848	198,376
Property, plant and equipment, net of accumulated depreciation of $37,060 and $26,514, respectively	202,565	138,790
Mineral properties and development costs, net of accumulated depletion of $6,895 and $6,367, respectively	33,850	30,244
Long-term parts inventory, net	4,396	3,973
Long-term investments	2,195	
Other assets	5,709	6,053
Non-current deferred tax asset	298,295	327,641
Total Assets	$ 756,858	$ 705,077
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable:		
Trade	13,891	15,516
Related parties	30	26
Accrued liabilities	13,357	14,967
Accrued employee compensation and benefits	7,429	6,478
Other current liabilities	4,088	1,952
Total current liabilities	38,795	38,939
Asset retirement obligation	8,835	8,138
Other non-current liabilities	7,707	6,401
Total Liabilities	55,337	53,478
Commitments and Contingencies		

Common stock, $0.001 par value; 100,000,000 shares authorized; and 75,032,086 and 74,846,874 shares outstanding at September 30, 2009, and December 31, 2008, respectively		75		75
Additional paid-in capital		555,482		554,743
Accumulated other comprehensive loss		(839)		(1,385)
Retained earnings		146,803		98,166
Total Stockholders' Equity		701,521		651,599
Total Liabilities and Stockholders' Equity	$	756,858	$	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		Nine Months Ended	April 25, 2008 Through	January 1, 2008 Through
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	April 24, 2008
Sales	$ 66,449	$ 146,257	$ 228,742	$ 226,420	$ 109,420
Less:					
Freight costs	5,593	5,054	14,422	8,591	12,359
Warehousing and handling costs	2,137	1,976	5,764	3,216	2,235
Cost of goods sold	30,035	49,133	90,943	77,084	48,647
Costs associated with abnormal production	5,784		12,159		
Gross Margin	22,900	90,094	105,454	137,529	46,179
Selling and administrative	6,475	9,394	21,021	14,708	6,034
Accretion of asset retirement obligation	169	185	510	299	198
Other	18	638	595	936	5
Operating Income	16,238	79,877	83,328	121,586	39,942
Other Income (Expense)					
Interest expense, including realized and unrealized derivative gains and losses	(639)	(643)	(592)	(457)	(2,456)
Interest income	42	396	75	664	23
Insurance settlements in excess of property losses	5	(1)	(11)	(33)	6,998
Other income (expense)	266	(436)	448	(612)	(14)
Income Before Income Taxes	15,912	79,193	83,248	121,148	44,493
Income Tax (Expense) Benefit	(6,392)	(29,474)	(34,611)	(45,665)	4
Net Income	$ 9,520	$ 49,719	$ 48,637	$ 75,483	$ 44,497
Weighted Average Shares Outstanding:					
Basic	75,032,086	74,843,124	75,008,438	74,843,124	
Diluted	75,055,990	75,002,839	75,023,180	74,991,166	
Earnings Per Share:					
Basic	$ 0.13	$ 0.66	$ 0.65	$ 1.01	
Diluted	$ 0.13	$ 0.66	$ 0.65	$ 1.01	

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (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					48,637	48,637
Total comprehensive income						49,183
Stock-based compensation	6,900		2,022			2,022
Vesting of restricted common stock, net of restricted common stock used to fund employee income tax withholding due upon vesting	178,312		(1,283)			(1,283)
Balance, September 30, 2009	75,032,086	$ 75	$ 555,482	$ (839)	$ 146,803	$ 701,521

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. Nine Months Ended September 30, 2009	Intrepid Potash, Inc. April 25, 2008 Through September 30, 2008	Intrepid Mining LLC (Predecessor) January 1, 2008 Through April 24, 2008
Cash Flows from Operating Activities:			
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 48,637	$ 75,483	$ 44,497
Deferred income taxes	26,097	15,920	(4)
Insurance reimbursements	11	33	(6,998)
Items not affecting cash:			
Depreciation, depletion, amortization and accretion	12,017	5,105	3,543
Stock-based compensation	2,022	4,634	
Unrealized derivative (gain) loss	(810)	(262)	439
Other	414	2,091	170
Changes in operating assets and liabilities:			
Trade accounts receivable	(15,655)	(12,223)	(11,886)
Other receivables	(823)	124	186
Refundable income taxes	1,369		
Inventory	(19,932)	(4,201)	(830)
Prepaid expenses and other assets	1,476	823	(4,349)
Accounts payable, accrued liabilities and accrued employee compensation and benefits	956	3,443	1,494
Income taxes payable		18,846	
Other liabilities	2,211	(4)	(251)
Net cash provided by operating activities	57,990	109,812	26,011
Cash Flows from Investing Activities:			
Proceeds from insurance reimbursements	1,989	(33)	6,998
Additions to property, plant, and equipment	(76,899)	(21,529)	(14,747)
Additions to mineral properties and development costs	(5,548)	(2,470)	(15)
Proceeds from liquidation of bond sinking fund	2,098		
Purchases of investments	(7,695)		
Cash received in exchange transaction with Intrepid Mining LLC		428	
Other	22	(38)	(10)
Net cash used in investing activities	(86,033)	(23,642)	(7,774)
Cash Flows from Financing Activities:			
Issuance of common stock, net of expenses		1,032,354	
Proceeds from long-term debt			11,503
Repayments on long-term debt		(86,951)	(7,009)
Payments to fund employee tax withholding due upon vesting of restricted common stock	(1,283)		
Members' capital distributions			(15,000)
Payments to Intrepid Mining LLC for exchange of assets and liabilities and formation distribution		(892,755)	
Net cash (used in) provided by financing activities	(1,283)	52,648	(10,506)

Net Change in Cash and Cash Equivalents		(29,326)		138,818		7,731
Cash and Cash Equivalents, beginning of period		116,573				1,960
Cash and Cash Equivalents, end of period	$	87,247	$	138,818	$	9,691
Supplemental disclosure of cash flow information						
Cash paid during the period for:						
Interest, including settlements on derivatives	$	1,306	$	435	$	2,274
Income taxes	$	7,145	$	10,899	$	

See accompanying notes to these consolidated financial statements.

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 COMPANY BACKGROUND

Intrepid Potash, Inc. (individually or in any combination with its subsidiaries, "Intrepid," "we," "us," or "our") produces muriate of potash ("potassium chloride" or "potash"); langbeinite; and by-products including salt, magnesium chloride and metal recovery salts. The processing of langbeinite results in sulfate of potash magnesia which is marketed for sale as 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, the extraction and production of potash-related products, and its operations are conducted entirely in the continental United States.

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

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

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

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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. As interim financial statements, they do not include all information and notes required by GAAP for complete financial statements. The accompanying unaudited consolidated financial statements reflect all adjustments, which are normal and recurring in nature, and which, in the opinion of management, are necessary for a fair presentation of Intrepid's financial position, results of operations and cash flows at September 30, 2009, and for all periods presented. These unaudited consolidated financial statements should be read in conjunction with Intrepid's Consolidated Financial Statements and Notes thereto included in Intrepid's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 6, 2009.

Mining is considered the predecessor entity to Intrepid, and all periods prior to April 25, 2008, reflect the results of operations of Mining, as there were no material activities for Intrepid until April 25, 2008. Therefore, discussions of related events before April 25, 2008, pertain only to activities of Intrepid's predecessor entity, Mining, unless otherwise specified.

Intrepid has evaluated the period after the balance sheet date of September 30, 2009, through November 6, 2009, the date its financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in its financial statements.

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenue Recognition Revenue is recognized when evidence of an arrangement exists, risks and rewards of ownership have been transferred to customers, which is generally when title passes, the selling price is fixed and determinable, and collection is reasonably assured. Title passes at the designated shipping point for all domestic sales and the majority of international sales. 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 recognized for these transactions upon shipment because the risks and rewards of ownership have transferred 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. Intrepid incurs and bills for freight, packaging, and certain other distribution costs only when it is responsible for such costs; however many customers arrange for and pay for these costs directly.

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 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.

Intrepid evaluates its production levels and costs to determine if any should be deemed abnormal, and therefore excluded from inventory costs, under relevant authoritative GAAP. In the three month and nine month periods ended September 30, 2009, Intrepid determined that approximately $5.8 million and $12.2 million, respectively, of production costs would have been allocated to additional tons produced, assuming Intrepid had been operating at normal production rates. As a result, these costs have been excluded from inventory and instead expensed during the applicable periods. The assessment of normal production levels is highly judgmental and is unique to each quarter. Intrepid

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 not having turned-over in more than a year, excluding parts classified as critical spares, are reviewed for obsolescence and included in the determination of an allowance for obsolescence.

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

On occasion, Intrepid enters into financial derivative contracts to fix a portion of its natural gas costs when natural gas purchase transactions are probable and the significant characteristics and expected timing are identified. These derivative contracts have not been designated as an accounting hedge, and changes in their fair market values have been 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 production costs and cost of sales.

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

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, 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. The cost basis for construction in progress was increased for capitalized interest prior to the repayment of Intrepid's debt. No depreciation is taken on assets classified as construction in progress until the asset is placed into service. Gains and losses are recorded upon retirement, sale, or disposal of assets. Maintenance and repair costs are recognized as period costs when incurred.

Mineral Properties and Development Costs Mineral properties and development costs, which are referred to collectively as mineral properties, include acquisition costs, the cost of drilling wells, and the cost of other development work, all of which are capitalized. Depletion of mineral properties is provided using the units-of-production method over the estimated life of the relevant ore body. The lives of reserves used for accounting purposes are shorter than current reserve life determinations prepared by us, and reviewed and independently determined by mine consultants, due to uncertainties inherent in long-term estimates. Reserve studies and mine plans are updated periodically, and the remaining net balance of the mineral properties is depleted over the updated estimated life, subject to a 25-year limit. Possible impairment is also considered in conjunction with updated reserve studies and

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Asset Retirement Obligation Reclamation costs are 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.

Scheduled Maintenance Each operation typically shuts down periodically for maintenance. The costs of maintenance turnarounds 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

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Intrepid records a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized in full; such determinations are subject to ongoing assessment.

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

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

Cash and Cash Equivalents Cash and cash equivalents consist of cash and liquid investments with an original maturity of three months or less. Included in cash and cash equivalents at September 30, 2009, were $2.3 million in cash and $84.9 million in cash equivalent investments, which consisted of money market accounts or certificates of deposit with banking institutions for $14.9 million, U.S. treasuries with daily liquidity of approximately $30.3 million, and U.S. Bank National Association ("U.S. Bank") commercial paper of approximately $39.7 million.

Investments Intrepid's short-term and long-term investments consist of certificates of deposit with various banking institutions. Certificates of deposit classified in short-term investments on the consolidated balance sheet have original maturities to Intrepid greater than three months and less than or equal to one year. Certificates of deposit classified as long-term investments on the consolidated balance sheet have original maturities to Intrepid greater than one year. These investments are carried on the consolidated balance sheet at cost, net of amortized premiums or discounts paid. The fair value of these investments at September 30, 2009, approximates their carrying amounts.

Fair Value of Financial Instruments Intrepid's financial instruments include cash and cash equivalents, certificate of deposit investments, restricted cash, accounts receivable, refundable income taxes, and accounts payable, all of which are carried at cost and, other than the certificate of deposit investments previously described, approximate fair value due to the short-term nature of these instruments. Allowances for doubtful accounts are recorded against the accounts receivable balance to estimate net realizable value. Although there are no amounts currently outstanding under Intrepid's senior credit facility, any borrowings that are outstanding are expected to be recorded at amounts that approximate their fair value as borrowings bear interest at a floating rate. Intrepid's interest rate and natural gas swaps have been recorded at fair value with adjustments to this fair value recognized currently in the statements of operations using established counterparty evaluations that are subjected to management's review. Since considerable judgment is required to develop estimates of fair value,

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the estimates provided are not necessarily indicative of the precise amounts that could be realized upon the sale, settlement, or refinancing of such instruments.

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

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

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 common stock awards with service conditions and non-qualified stock option awards that are subject to a service period. The expense associated with such awards is amortized over the service periods. There are no performance or market conditions associated with these awards.

Reclassifications The consolidated statement of cash flows for the period from April 25, 2008, through September 30, 2008, reflects a reclassification of $2.2 million to additions to mineral properties and development costs from additions to property, plant, and equipment under Cash Flows from Investing Activities in order to conform to current year presentation.

Note 5 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 September 30, 2009, 120,430 non-vested shares of restricted common stock and 174,229 stock options were anti-dilutive and therefore were not included in the diluted weighted average share calculation. For the nine months ended September 30, 2009, there were 204,385 non-vested shares of restricted common stock and 174,229 stock options that were excluded from the diluted weighted average share calculation as they were considered anti-dilutive. No earnings per share calculations exist for the predecessor periods of Mining, as Mining was a limited liability company and did not have shares outstanding.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 5 EARNINGS PER SHARE (Continued)

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 September 30, 2009	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008
Net income	$ 9,520	$ 48,637	$ 75,483
Basic weighted average common shares outstanding	75,032	75,008	74,843
Add: Dilutive effect of non-vested restricted common stock	24	15	148
Add: Dilutive effect of stock options outstanding			
Diluted weighted average common shares outstanding	75,056	75,023	74,991
Earnings per share:			
Basic	$ 0.13	$ 0.65	$ 1.01
Diluted	$ 0.13	$ 0.65	$ 1.01

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 September 30, 2009, and December 31, 2008, respectively (in thousands):

	September 30, 2009	December 31, 2008
Product inventory	$ 51,008	$ 34,337
In-process mineral inventory	7,401	5,619
Current parts inventory	10,418	9,362
Total current inventory	68,827	49,318
Long-term parts inventory	4,396	3,973
Total inventory	$ 73,223	$ 53,291

Parts inventories are shown net of any required reserves. No obsolescence or other reserves were deemed necessary for product or in-process mineral inventory.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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):

	September 30, 2009	December 31, 2008	Range of useful lives (years) Lower Limit	Upper Limit
Buildings and plant	$ 46,069	$ 21,357	4	25
Machinery and equipment	95,681	62,599	3	25
Vehicles	7,080	5,905	3	7
Office and other equipment	3,027	251	2	7
Computers	1,344	1,033	2	5
Software	2,856	2,379	3	5
Leasehold improvements	5,205	123	7	10
Ponds and land improvements	5,176	2,894	5	25
Construction in progress	73,163	68,739		
Land	24	24		
Accumulated depreciation	(37,060)	(26,514)		
	$ 202,565	$ 138,790		
Mineral properties and development costs	$ 40,745	$ 31,798	10	25
Construction in progress		4,813		
Accumulated depletion	(6,895)	(6,367)		
	$ 33,850	$ 30,244		
Water rights in "Other Assets"	$ 2,670	$ 2,670	25	25
Accumulated depletion	(131)	(105)		
	$ 2,539	$ 2,565		

"Mineral properties and development costs" include mineral properties associated with the presently idled HB mine, with accumulated costs of approximately $1.5 million as of September 30, 2009, and December 31, 2008. 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. Intrepid is actively seeking permitting from the Bureau of Land Management and the state of New Mexico to resume production from this mine through the use of solution mining techniques and the application of solar evaporation, similar to the operations in Moab, Utah.

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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):

	Intrepid Potash, Inc.				Intrepid Mining LLC (Predecessor)
	Three months ended				
	September 30, 2009	September 30, 2008	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008	January 1, 2008 through April 24, 2008
Depreciation	$ 3,913	$ 2,474	$ 10,788	$ 4,170	$ 2,694
Depletion	132	359	553	533	555
Amortization	55	58	166	102	96
Accretion	169	185	510	300	198
Total incurred	$ 4,269	$ 3,076	$ 12,017	$ 5,105	$ 3,543

Note 8 DEBT

Intrepid's senior credit facility, as amended, is a syndicated facility led by U.S. Bank as the agent bank and provides a revolving credit facility of $125 million. The lenders have a security interest in substantially all of the assets of Intrepid and certain of its subsidiaries. Obligations under the senior credit facility are cross-collateralized between Intrepid and certain of its subsidiaries.

The senior credit facility contains certain covenants 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 senior 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 senior credit facility also contains events of default 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. Intrepid was in compliance with all covenants with respect to the senior credit facility on September 30, 2009.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 8 DEBT (Continued)

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
2009			
For the three months ended September 30, 2009	$		N/A
For the nine months ended September 30, 2009	$		N/A
2008			
For the three months ended September 30, 2008	$		N/A
For the period from April 25, 2008 through September 30, 2008	$		N/A
For the period from January 1, 2008 through April 24, 2008	$	52	6.4%

Note 9 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 revisions to estimated costs. The credit-adjusted risk-free rates used to discount Intrepid'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 requirements regarding the abandonment of mines.

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

	Intrepid Potash, Inc.				Intrepid Mining LLC (Predecessor)
	Three months ended				
	September 30, 2009	September 30, 2008	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008	January 1, 2008 through April 24, 2008
Asset retirement obligation beginning of period	$ 8,666	$ 8,092	$ 8,138	$ 7,977	$ 7,779
Changes in estimated obligations		446	187	446	
Accretion of discount	169	185	510	300	198
Total asset retirement obligation end of period	$ 8,835	$ 8,723	$ 8,835	$ 8,723	$ 7,977

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 9 ASSET RETIREMENT OBLIGATION (Continued)

The undiscounted amount of asset retirement obligation is $31.3 million as of September 30, 2009, and there are no significant payments expected to take place in the next five years.

Note 10 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. There is approximately $2.7 million of expense accrued for the year-to-date period ended September 30, 2009.

Equity Incentive Compensation Plan Effective April 20, 2008, Intrepid's stockholders adopted a long-term incentive compensation plan, the 2008 Equity Incentive Plan (the "2008 Plan"). Intrepid has issued common stock awards, awards of non-vested restricted shares of common stock and non-qualified stock option awards under the 2008 Plan. As of September 30, 2009, there were a total of 251,350 shares of non-vested restricted common stock outstanding and 174,229 outstanding stock options. As of September 30, 2009, there were approximately 4.4 million shares of common stock that remain available for issuance under the 2008 Plan.

Common Stock

Under the 2008 Plan, the Compensation Committee of the Board of Directors approved the award of 2,300 shares of common stock in May 2009 to each of the non-employee members of the Board of Directors as compensation for service for the period ending on the date of Intrepid's 2010 annual stockholders' meeting. These shares of common stock were granted without restrictions and vested immediately. In addition, grants of common stock were made to two non-employee members of the Board of Directors coincident with their appointment to the Board at the time of the IPO. Such awards were valued at the IPO price of $32.00 per share.

Non-vested Restricted Shares of Common Stock

Under the 2008 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. In the case of awards issued to consultants, there was a requirement of continued engagement with Intrepid through the time of vesting. There are no performance or market conditions associated with these awards. All awards to consultants vested fully in January 2009. The terms of the non-vested restricted common stock awards provide voting and dividend rights to the holders of such awards. Upon vesting of the restricted shares of common stock, the restrictions on such shares of common stock lapse, and they are considered issued and outstanding.

Through September 30, 2009, there have been multiple grants of non-vested restricted common stock, beginning with grants made at the time of the IPO that were valued at the IPO price of $32.00 per share. The grants made at the time of the IPO either vested in full on January 5, 2009, vest one-fourth on each of the first four anniversary dates of the grant, or vest on a graded schedule through February 2011, in the case of the grant made to one executive officer. The grants made at the

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 10 COMPENSATION PLANS (Continued)

time of the IPO were, in most instances, designed to reward certain individuals for their historic service to Intrepid and for the successful completion of the IPO, as well as to retain and provide an incentive to those receiving the awards to continue to execute Intrepid's long-term business plan. Additionally, awards have been made from time-to-time to newly-hired employees; these awards have typically had a three to four-year vesting schedule. In the first quarter of 2009, the Compensation Committee of Intrepid's Board of Directors approved awards of non-vested restricted common stock to some of Intrepid's executive management and other selected employees under an annual awards program. These awards vest one-third on each of the first three anniversary dates of the grant.

In measuring compensation expense associated with the grant of shares of non-vested restricted 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 common stock awards for the three and nine months ended September 30, 2009, was $0.6 million and $1.5 million, respectively. Such amounts were net of estimated forfeiture adjustments. As of September 30, 2009, there was $6.2 million of total remaining unrecognized compensation expense related to non-vested restricted common stock awards. The unrecognized compensation expense is being amortized through 2012.

A summary of the status and activity of non-vested restricted common stock for the period from December 31, 2008, to September 30, 2009, is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested restricted common stock, at beginning of period	475,733	$ 32.35
Granted	71,284	$ 20.66
Vested	(238,026)	$ 32.43
Forfeited	(57,641)	$ 32.00
Non-vested restricted common stock, at end of period	251,350	$ 29.03

Non-qualified Stock Options

Under the 2008 Plan, the Compensation Committee of Intrepid's Board of Directors approved the award of non-qualified stock options in the first quarter of 2009 to some of Intrepid's executive management and other selected employees under an annual award program. These stock options generally vest one-third on each of the three anniversary dates of the grant. Each option has an exercise price of $20.80 per share for Intrepid's common stock and a ten year option life. 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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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 10 COMPENSATION PLANS (Continued)

The following assumptions were used to compute the weighted average fair market value of options granted during the period presented.

	Nine months ended September 30, 2009
Risk free interest rates	1.8%-2.0%
Dividend yield	
Estimated volatility	44%
Expected option life	5 years

Intrepid's computation of the estimated volatility is based on the historic volatility of a peer company's common stock over the expected option life. The peer company selected had volatility that was highly correlated to Intrepid's common stock from the date of the IPO to the dates of grant. This proxy was utilized because Intrepid has insufficient trading history to calculate a meaningful long-term volatility factor. The computation of expected option life was determined based on a reasonable expectation of the average life prior to being exercised or forfeited, giving consideration to the overall vesting period and contractual terms of the awards. The risk free interest rates for periods that matched the option award's expected life were based on the U.S. Treasury constant maturity yield at the time of grant over the expected option life.

For the three and nine months ended September 30, 2009, Intrepid recognized stock-based compensation related to stock options of approximately $121,000 and $265,000, respectively. As of September 30, 2009, there was $1.2 million of total remaining unrecognized compensation expense related to unvested non-qualified stock options. The unrecognized compensation expense is being amortized through 2012. 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." Cash flows resulting from excess tax benefits are to be classified as part of cash flows from financing activities. None of the options have been exercised to date; therefore, no excess tax benefits have been recorded as of September 30, 2009, attributable to exercised options. A deferred tax asset, however, has been recorded related to the difference in timing of expense for financial reporting and income tax purposes.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 10 COMPENSATION PLANS (Continued)

A summary of Intrepid's stock option activity for the nine months ended September 30, 2009, 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, at beginning of period		$			$
Granted	174,229	$ 20.80			$ 8.39
Exercised		$			$
Forfeited		$			$
Outstanding non-qualified stock options, at end of period	174,229	$ 20.80	$ 486,099	9.4 years	$ 8.39
Vested or expected to vest, end of period	161,974	$ 20.80	$ 451,907	9.4 years	$ 8.38
Exercisable non-qualified stock options, at end of period		N/A	$	N/A	N/A

(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 11 INCOME TAXES

Intrepid's income tax provision is comprised of the elements below. The amounts related to Mining prior to April 25, 2008, include the activity of Intrepid when it was a subsidiary of Mining. A summary of the provision for income taxes is as follows (in thousands):

	Intrepid Potash, Inc.				Intrepid Mining LLC (Predecessor)
	Three months ended				
	September 30, 2009	September 30, 2008	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008	January 1, 2008 through April 24, 2008
Current portion of income tax expense (benefit):					
Federal	$ (1,403)	$ 18,798	$ 6,974	$ 24,823	$
State	(269)	3,605	1,540	4,922	

Deferred portion of income tax expense (benefit)	8,064	7,071	26,097	15,920	(4)
Total income tax expense (benefit)	$ 6,392	$ 29,474	$ 34,611	$ 45,665	$ (4)

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 11 INCOME TAXES (Continued)

A summary of the components of the net deferred tax assets as of September 30, 2009, and December 31, 2008, are as follows (in thousands):

	September 30, 2009	December 31, 2008
Current deferred tax assets (liabilities):		
Prepaid expenses	$ (489)	$ (2,025)
Unrealized loss	653	
Other	4,059	3,247
Total current deferred tax assets	4,223	1,222
Non-current deferred tax assets:		
Property, plant, equipment and mineral properties	288,072	317,413
Asset retirement obligation	3,464	3,311
Other	6,759	6,917
Total non-current deferred tax assets	298,295	327,641
Total deferred tax asset	$ 302,518	$ 328,863

Intrepid is required to evaluate its deferred tax assets and liabilities each reporting period 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. The estimated statutory income tax rates that are applied to Intrepid's current and deferred income tax calculations are impacted most significantly by the tax jurisdictions in which Intrepid is doing business. Changing business conditions for normal business transactions and operations, as well as changes to enacted tax rates, potentially alter the apportioned state tax factors used in Intrepid's income tax calculations. These changes to apportioned state tax factors in turn will result in changes being applied prospectively to Intrepid's current period income tax rate and the valuation of its deferred tax assets and liabilities. The effects of any such changes are recorded in the period of the adjustment. Such adjustments can increase or decrease the net deferred tax asset on the balance sheet and impact the corresponding deferred tax benefit or deferred tax expense on the income statement. Income tax expense for Intrepid differs from the amount that would be provided by applying the statutory U.S. federal income tax rate to income before income taxes. The difference is primarily due to the effect of state income taxes, the estimated effect of the domestic production activities deduction, and other permanent differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Changes in the state tax rate are a consequence of changes in the apportionment factors applicable to Intrepid. A decrease of Intrepid's blended state tax rate decreases the value of its deferred tax asset, resulting in additional deferred tax expense being recorded in the income statement. Conversely, an increase in Intrepid's blended state income tax rate would increase the value of the deferred tax asset, resulting in an increase in Intrepid's deferred tax benefit. Because of the magnitude of the temporary differences between book and tax basis in the assets of Intrepid, relatively small changes in the blended state tax rate may have a pronounced impact on the value of the net deferred tax asset. In the third quarter of 2009, no material adjustment occurred due to a change in the states in which Intrepid is doing business.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 11 INCOME TAXES (Continued)

A reconciliation of the statutory rate to the effective rate is as follows (in thousands):

	Intrepid Potash, Inc.				Intrepid Mining LLC (Predecessor)
	Three months ended				
	September 30, 2009	September 30, 2008	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008	January 1, 2008 through April 24, 2008
Federal taxes at statutory rate	$ 5,569	$ 27,722	$ 29,137	$ 42,406	$ (4)
Add:					
State taxes, net of federal benefit	680	3,022	3,531	4,915	
Domestic production activities deduction	95	(1,297)	(445)	(1,725)	
Other	48	27	2,388	69	
Net expense (benefit) as calculated	$ 6,392	$ 29,474	$ 34,611	$ 45,665	$ (4)
Effective tax rate	40.2%	37.2%	41.6%	37.7%	%*

* The income tax benefit presented in the period ending April 24, 2008, relates to the taxable activity of Intrepid only, as Mining was a limited liability company and the tax attributes of Mining flowed through to its members. Through April 24, 2008, Intrepid was a wholly-owned subsidiary of Mining, and there were no material activities for Intrepid for the period from its inception to the date of the IPO.

For the nine months ending September 30, 2009, there was a reduction in Intrepid's effective income tax rate, resulting in the relative lowering of current income tax expense for the accounting period, as well as a reduction of the deferred income tax asset driven by applying the lower estimated blended income tax rate that was applied to value the deferred tax items. It is anticipated that such adjustments will also occur in future periods; and, as a result, management's estimate of the value of the deferred income tax asset may fluctuate from period to period.

Note 12 COMMITMENTS AND CONTINGENCIES

Marketing Agreements In 2004, NM entered into a marketing agreement appointing PCS Sales (USA), Inc. ("PCS Sales") its exclusive sales representative for potash export sales, with the exception of sales to Canada and Mexico, and appointing PCS Sales as non-exclusive sales representative for potash sales into Mexico. This agreement is cancelable with thirty days written notice.

In 2004, Wendover entered into a sales agreement with Envirotech Services, Inc. ("ESI") appointing ESI its exclusive distributor, subject to certain conditions, for magnesium chloride produced by Wendover, with the exception of up to 15,000 short tons per year sold for applications other than dust control, de-icing, and soil stabilization. This agreement is cancelable with two years' written notice, unless a breach or other specified special event has occurred. Sales prices were specified to ESI in the agreement subject to cost-based escalators. Wendover also participates in excess profits, as defined by the agreement, earned by ESI upon resale. Such excess profits are settled after ESI's fiscal

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 12 COMMITMENTS AND CONTINGENCIES (Continued)

year end in September; however, Intrepid estimates and recognizes earned excess profits each quarter as the amount are earned and reasonably determinable.

Reclamation Deposits, Surety Bonds, and Sinking Fund In total, as of September 30, 2009, Intrepid had $8.9 million of security placed principally with the State of Utah and the Bureau of Land Management ("BLM") for eventual reclamation of its various facilities. Of this total requirement, $2.6 million consisted of long-term restricted cash deposits reflected in "Other" long term assets on the balance sheet, $6.2 million was secured by surety bonds issued by an insurer, and $0.1 million was secured with a letter of credit issued by a bank.

Prior to September 2009, a surety bond was provided to the State of Utah and the BLM for Moab reclamation through an agreement between Intrepid and an insurance company. The terms of the surety agreement included provisions governing the operation of the Moab mine; provided the Insurer a security interest in approximately 56 percent of the surface land owned by Moab; required the establishment and maintenance of a sinking fund; and required payment of an annual 1.5 percent premium. The sinking fund, a restricted deposit securing Moab's expected reclamation liability, consisted of investments held for trade for which gains and losses had been recognized based on changes in the fair market values of the underlying investments. In September 2009, Intrepid replaced, with the consent of the State of Utah and the BLM, the surety bond with other securities, consisting of a restricted cash deposit and a new surety bond. The bond sinking fund was liquidated as of September 30, 2009, and proceeds were transferred to Intrepid's general corporate cash account. The mortgage of the surface land owned by Moab is in the process of being released but was still outstanding at September 30, 2009.

Intrepid had reclamation security cash deposits outstanding for the NM and HB facilities of $0.3 million and $0.7 million at September 30, 2009, and December 31, 2008, respectively. Security deposits related to the Wendover facility of $0.3 million were outstanding at both September 30, 2009, and December 31, 2008. These restricted deposits were included within "Other" long-term assets. Intrepid has included its estimate for Wendover's reclamation costs in its calculation of the asset retirement obligation. Intrepid is in the process of replacing these security instruments in a manner consistent with that described in the preceding paragraph.

As of September 30, 2009, and December 31, 2008, a letter of credit in the amount of $0.1 million issued through U.S. Bank to the State of Utah was outstanding as security on a certain Moab obligation. Letters of credit reduce the amount available to borrow under Intrepid's line of credit on a dollar-for-dollar basis. Letters of credit involve a fee equal to the LIBOR spread multiplied by the commitment amount.

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

Health Care Costs Intrepid is self-insured, subject to a stop-loss policy, for its employees' health care costs. The estimated liability for outstanding medical costs has been based on the historical pattern of claim settlements. The medical-claims liability included in accrued liabilities was approximately $0.8 million as of September 30, 2009, and $0.5 million as of December 31, 2008.

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 12 COMMITMENTS AND CONTINGENCIES (Continued)

Legal Intrepid is periodically subject to litigation. Intrepid has determined that there are no material claims outstanding as of September 30, 2009, and has provided for any estimated amounts outstanding.

Future Operating Lease Commitments Intrepid has certain operating leases for land, mining and other operating equipment, an airplane, offices, railcars, and vehicles, with original terms ranging up to twenty years.

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

2009	
For the three months ended September 30, 2009	$ 1,323
For the nine months ended September 30, 2009	$ 4,340
2008	
For the three months ended September 30, 2008	$ 1,536
For the period from April 25, 2008 through September 30, 2008	$ 2,557
For the period from January 1, 2008 through April 24, 2008	$ 1,684

Note 13 DERIVATIVE FINANCIAL INSTRUMENTS

Intrepid is exposed to global market risks, including the effect of changes in commodity prices, interest rates, and the impact of foreign currency exchange rates, and 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 are used for risk management purposes, and were originally entered into as economic hedges, they have not been designated as hedging instruments.

Interest Rates

Mining historically managed a portion of its floating interest rate exposure through the use of interest rate derivative contracts. Mining's forward LIBOR-based contracts reduced its risk from interest rate movements as gains and losses on such contracts partially offset the impact of changes in its variable-rate debt. Although Intrepid repaid its assumed debt obligations immediately subsequent to the closing of its initial public offering, it has not yet closed its positions in the derivative financial instruments also assumed from Mining pursuant to the Exchange Agreement.

A tabular presentation of the outstanding interest rate derivatives as of September 30, 2009, follows:

Termination Date	**Notional Amount**	**Weighted Average Fixed Rate**
	(In thousands)	
December 31, 2009	$ 20,400	4.9%
March 1, 2010	$ 17,500	5.3%
December 31, 2010	$ 34,750	5.0%
December 31, 2011	$ 29,400	5.2%
December 31, 2012	$ 22,800	5.3%

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 13 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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's forward purchase contracts reduce Intrepid's risk from movements in the cost of natural gas consumed as gains and losses on such financial contracts offset losses and gains on its physical purchases of natural gas. Intrepid had no natural gas derivative contracts outstanding at September 30, 2009.

The following table presents the fair values of the derivative instruments included within the consolidated balance sheet as of (in thousands):

Derivatives not designated as hedging instruments	September 30, 2009 Balance Sheet Location	September 30, 2009 Fair Value	December 31, 2008 Balance Sheet Location	December 31, 2008 Fair Value
Interest rate contracts	Current liabilities	$ 1,670	Current liabilities	$ 1,439
Interest rate contracts	Long-term liabilities	1,632	Long-term liabilities	2,673
Natural gas contracts	Current liabilities		Current liabilities	287
Total derivatives not designated as hedging instruments		$ 3,302		$ 4,399

The following table presents the amounts of gain or (loss) recognized in income on derivatives affecting the consolidated statement of operations for the periods presented (in thousands):

Derivatives not designated as hedging instruments	Location of gain or (loss) recognized in income on derivative	Intrepid Potash, Inc. — Three months ended September 30, 2009	Intrepid Potash, Inc. — Three months ended September 30, 2008	Intrepid Potash, Inc. — Nine months ended September 30, 2009	Intrepid Potash, Inc. — April 25, 2008 through September 30, 2008	Intrepid Mining LLC (Predecessor) — January 1, 2008 through April 24, 2008
Interest rate contracts:						
Realized gain (loss)	Interest expense	$ (427)	$ (247)	$ (1,059)	$ (452)	$ 76
Unrealized gain (loss)	Interest expense	$ (117)	$ (163)	$ 810	$ 308	$ (439)
Total loss	Interest expense	$ (544)	$ (410)	$ (249)	$ (144)	$ (363)
Natural gas contracts:						
Realized loss	Cost of goods sold	$	$	$ (161)	$	$
Unrealized loss	Cost of goods sold	$	$ (46)	$	$ (46)	$
Total loss	Cost of goods sold	$	$ (46)	$ (161)	$ (46)	$

Please see Note 14 Fair Value Measurements for a description of how the above financial instruments are valued.

Credit Risk

Intrepid can be exposed to credit-related losses in the event of non-performance by counterparties to derivative contracts. Intrepid believes the counterparties to the contracts to be credit-worthy trading entities, and therefore credit risk of counterparty non-performance is unlikely. U.S. Bank is the

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 13 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

counterparty to the interest rate derivative contracts, but, as Intrepid is in a liability position at September 30, 2009, with respect to these interest rate derivative contracts, counterparty risk is not applicable. There were no derivative instruments with credit-risk-related contingent features at September 30, 2009.

Note 14 FAIR VALUE MEASUREMENTS

Intrepid applies the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* (formerly Statement of Financial Accounting Standards No. 157) for all financial assets and liabilities measured at fair value on a recurring basis. The topic establishes a framework for measuring fair value and requires disclosures about fair value measurements. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The topic establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The topic also establishes a hierarchy for grouping these assets and liabilities, based on the significance level of the following inputs:

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 September 30, 2009 (in thousands):

	Level 1	Level 2	Level 3
Net accrued derivative liability		(3,302)	
Total	$	$ (3,302)	$

A financial asset or liability is 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 assets and liabilities, which are measured at fair value and are included in the accompanying consolidated balance sheets.

Intrepid uses Level 2 inputs to measure the fair value of interest rate swaps. This valuation is performed using a pricing model that calculates the fair value on the basis of the net present value of the estimated future cash flows receivable or payable. These instruments are allocated to Level 2 of the fair value hierarchy because the critical inputs to this model, including the relevant market values, yields, forward prices, and the known contractual terms of the instrument, are readily observable. The considered factors result in an estimated exit price for each asset or liability under a marketplace

INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 14 FAIR VALUE MEASUREMENTS (Continued)

participant's view. Management believes that this approach provides a reasonable, non-biased, verifiable, and consistent methodology for valuing derivative instruments.

Credit valuation adjustments may be necessary when the market price of an instrument is not indicative of the fair value due to the credit quality of the counterparty or Intrepid, depending on which entity is in the liability position of a given contract. Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. Therefore, an adjustment for counterparty credit risk may be necessary to reflect the credit quality of a specific counterparty to determine the fair value of the instrument. A similar adjustment may be necessary with respect to Intrepid to reflect its credit quality. Intrepid monitors the counterparties' credit ratings and may ask counterparties to post collateral if their ratings deteriorate. Although Intrepid has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, any credit valuation adjustment associated with the derivatives utilizes Level 3 inputs. These Level 3 inputs include estimates of current credit spreads to evaluate the likelihood of default by both Intrepid and the counterparties to the derivatives. As of September 30, 2009, Intrepid has assessed the significance of the impact of a credit valuation adjustment on the overall valuation of its derivatives and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivatives. Accordingly, management determined that the derivative valuations should be classified in Level 2 of the fair value hierarchy, and no adjustment has been recorded to the value of the derivatives.

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 utilized are appropriate and consistent with the requirements of ASC Topic 820 and with 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.

Note 15 FUTURE EMPLOYEE BENEFITS

Defined Benefit Pension Plan In accordance with the terms of the Moab Purchase Agreement associated with the purchase of the Moab assets 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 such prior service 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. However, Intrepid is still required to maintain the Pension Plan for the existing participants and for the benefits they had accrued as of that date. Intrepid expects to contribute $168,000 to the Pension Plan in 2009, $86,000 of which has been paid through September 30, 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 15 FUTURE EMPLOYEE BENEFITS (Continued)

The components of the net periodic pension expense are set forth below (in thousands):

	Intrepid Potash, Inc.				Intrepid Mining LLC (Predecessor)
	Three months ended				
	September 30, 2009	September 30, 2008	Nine months ended September 30, 2009	April 25, 2008 through September 30, 2008	January 1, 2008 through April 24, 2008
Components of net periodic benefit cost:					
Service cost	$	$	$	$	$
Interest cost	50		149	35	61
Expected return on assets	(35)		(104)	(32)	(56)
Amortization of transition obligation/(asset)					
Amortization of prior service cost					
Amortization of actuarial loss	27		81	6	10
Net periodic benefit cost	$ 42	$	$ 126	$ 9	$ 15

Note 16 PROPERTY INSURANCE SETTLEMENTS

In April 2006, a wind-shear struck the product warehouse at the East mine in Carlsbad, New Mexico. The warehouse had an insignificant book value. Damage to the warehouse, damage to the product stored in the warehouse, and alternative handling and storage costs were covered by Intrepid's insurance policies at replacement value, less a $1 million deductible. Through September 30, 2009, Intrepid had received $24.4 million of insurance settlement payments on the related claim; $2.0 million of this was received in March 2009 and has been recorded as a deferred liability at September 30, 2009, pending the insurer's final agreement to the related claims. The previous receipts of $22.4 million net of property losses were recognized as "Insurance settlements in excess of property losses" in 2008 and prior periods, as they represented final settlements with the insurer. Additional insurance payments to reconstruct the warehousing facilities are still contingent upon review by the insurer and therefore will be recognized in the future as claims are accepted and settled by the insurer.

Note 17 MEMBERSHIP INTERESTS AND RELATED PARTIES

The members of Mining were Intrepid Production Corp. ("IPC"), whose sole shareholder is Robert P. Jornayvaz III ("Mr. Jornayvaz"), Harvey Operating and Production Company ("HOPCO"), whose sole shareholder is Hugh E. Harvey, Jr. ("Mr. Harvey"), and Potash Acquisition, LLC ("PAL"), controlled by Platte River Ventures Investors I, LLC. These members maintained a controlling interest in Intrepid immediately subsequent to the IPO.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 17 MEMBERSHIP INTERESTS AND RELATED PARTIES (Continued)

Airplane Use Policy. Under Intrepid's aircraft use policy, Mr. Jornayvaz, Mr. Harvey, and approved executive officers are allowed personal use of Intrepid's plane. Any personal use of aircraft may be taxable to the executive officer as a "fringe benefit" under Internal Revenue Service ("IRS") regulations. Additionally, Mr. Jornayvaz and Mr. Harvey may use the plane under dry-leases and reimburse Intrepid the lesser of the actual cost or the maximum amount chargeable under Federal Aviation Regulation 91-501(d). Personal use of the airplane was calculated based on occupied seat miles, rather than flight miles, based on IRS regulations. Flight segments may have passengers for both personal and business purposes. Each seat occupied for personal use was multiplied by the flight segment miles to calculate the percentage of flight time reported as personal use pursuant to IRS regulations.

An entity formed in May 2008 known as BH Holdings LLC ("BH"), which is owned by entities controlled by Mr. Jornayvaz and Mr. Harvey, entered into a dry-lease arrangement with Intrepid to allow Intrepid use of an aircraft owned by BH for Intrepid business purposes. Additionally, on January 9, 2009, a dry-lease arrangement by and between Intrepid and Intrepid Production Holdings LLC ("IPH"), which is indirectly owned by Mr. Jornayvaz, became effective to allow Intrepid use of an aircraft owned by IPH for Intrepid business purposes. Both dry-lease rates and dry-lease arrangements were approved by Intrepid's Audit Committee.

In the three and nine month periods ended September 30, 2009, Intrepid incurred dry-lease charges of $29,000 and $251,000, respectively, for BH and $24,000 and $581,000, respectively, for IPH. As of September 30, 2009, and December 31, 2008, accounts payable balances due to BH were $18,000 and $26,000, respectively. As of September 30, 2009, and December 31, 2008, there were no accounts payable balances due to IPH.

Sublease of Office Space from Intrepid. Intrepid entered into an agreement with IPC and the LARRK Foundation during 2008 to sublease portions of its headquarters office space to these entities. The LARRK Foundation is a charitable foundation of which Mr. Jornayvaz and his wife are trustees. The subleases to IPC and the LARRK Foundation are on the same general terms and conditions as the master lease under which Intrepid leases its office space. IPC and the LARRK Foundation have paid their respective shares of the security deposit due under the master lease and paid directly for the build-out of their respective subleased space. The terms of the subleases are from February 1, 2009, to April 30, 2019, for a total of one hundred twenty-three (123) months. As of September 30, 2009, and December 31, 2008, there were related party accounts receivable balances from IPC and the LARRK Foundation for $8,000 and $3,000, respectively, related to these arrangements. The rent due from IPC and the LARRK Foundation are billed on a monthly basis and recognized as a receivable due within 30 days.

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INTREPID POTASH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 17 MEMBERSHIP INTERESTS AND RELATED PARTIES (Continued)

The future minimum lease payments to be made by IPC to Intrepid for the next five years and thereafter are presented below (in thousands):

Q4 2009	$	17
2010	$	69
2011	$	71
2012	$	73
2013	$	75
2014	$	78
Thereafter	$	365
Years 2009 - 2019	$	748

The future minimum lease payments to be made by the LARRK Foundation to Intrepid for the next five years and thereafter are presented below (in thousands):

Q4 2009	$	2
2010	$	9
2011	$	10
2012	$	10
2013	$	10
2014	$	10
Thereafter	$	49
Years 2009 - 2019	$	100

Transition Services Agreement. On April 25, 2008, Intrepid, Intrepid Oil & Gas, LLC ("IOG"), and Intrepid Potash Moab, LLC executed a Transition Services Agreement. Pursuant to the Transition Services Agreement, IOG may request specified employees of Intrepid or its subsidiaries (other than Mr. Jornayvaz and Mr. Harvey) to provide a limited amount of geology, land title and engineering services in connection with IOG's oil and gas venture. Effective April 25, 2009, the term of the Transition Services Agreement was extended until April 24, 2010. As of September 30, 2009, and December 31, 2008, there were related party accounts receivable balances from IOG for $5,000 and $0, respectively. The services provided by Intrepid to IOG are billed on a monthly basis and recognized as a receivable from IOG with collection due within 30 days.

Relationship with Quinn & Associates, P.C. Patrick A. Quinn, who served as Mining's former Interim Chief Financial Officer until March 24, 2008, is an independent contractor and performed services for us through the accounting firm of Quinn & Associates, P.C. ("Q&A") of which he is the primary owner. The services performed by Mr. Quinn related to contract accounting and consulting services. Q&A has not provided any attest services to Intrepid, its subsidiaries or any predecessor entity at any time. Q&A billed Intrepid based on actual hours incurred and at standard hourly rates. Mr. Quinn was a related party of Mining; however, because he resigned prior to the IPO, Mr. Quinn is not considered a related party to Intrepid. For the period from January 1, 2008, through April 24, 2008, Q&A's billings to Mining were $0.2 million.

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