Intrepid Potash, Inc.
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2012

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 x 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 x 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 x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x
As of July 31, 2012, the registrant had 75,229,126 shares of common stock, par value $0.001, outstanding.

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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, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$66,843	$73,372
Short-term investments	97,923	97,242
Accounts receivable:		
Trade, net	31,948	29,304
Other receivables	9,091	6,898
Income tax receivable	1,715	4,493
Inventory, net	58,963	55,390
Prepaid expenses and other current assets	3,088	5,015
Current deferred tax asset	3,362	4,931
Total current assets	272,933	276,645
Property, plant, and equipment, net of accumulated depreciation of $119,135 and $98,654, respectively	447,249	387,423
Mineral properties and development costs, net of accumulated depletion of $10,351 and $9,773, respectively	44,571	33,482
Long-term parts inventory, net	7,393	9,559
Long-term investments	21,143	6,180
Other assets	3,763	3,949
Non-current deferred tax asset	195,718	215,632
Total Assets	$992,770	$932,870
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable:		
Trade	$29,024	$20,900
Related parties	359	134
Accrued liabilities	27,445	14,795
Accrued employee compensation and benefits	10,237	12,370
Other current liabilities	596	1,476
Total current liabilities	67,661	49,675
Asset retirement obligation	10,236	9,708
Other non-current liabilities	2,256	2,354
Total Liabilities	80,153	61,737
Commitments and Contingencies		
Common stock, $0.001 par value; 100,000,000 shares authorized; and 75,297,477 and 75,207,533 shares outstanding at June 30, 2012, and December 31, 2011, respectively	75	75
Additional paid-in capital	566,053	564,285
Accumulated other comprehensive loss	(1,354)	(1,431)

Retained earnings	347,843	308,204
Total Stockholders' Equity	912,617	871,133
Total Liabilities and Stockholders' Equity	$992,770	$932,870

See accompanying notes to these 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,	
	2012	2011	2012	2011
Sales	$98,784	$119,373	$211,027	$224,351
Less:				
Freight costs	4,823	6,727	11,585	14,718
Warehousing and handling costs	3,005	3,784	6,369	7,061
Cost of goods sold	51,064	53,719	111,645	105,710
Other	(3)	5	327	507
Gross Margin	39,895	55,138	81,101	96,355
Selling and administrative	8,710	8,986	16,967	15,857
Accretion of asset retirement obligation	181	191	362	382
Insurance settlement income from property and business losses	—	—	—	(12,500)
Other expense (income)	85	(4,730)	57	(4,689)
Operating Income	30,919	50,691	63,715	97,305
Other Income (Expense)				
Interest expense, including realized and unrealized derivative gains and losses	(215)	(389)	(468)	(502)
Interest income	526	415	1,039	785
Other income	95	59	278	318
Income Before Income Taxes	31,325	50,776	64,564	97,906
Income Tax Expense	(12,312)	(20,068)	(24,925)	(38,919)
Net Income	$19,013	$30,708	$39,639	$58,987
Weighted Average Shares Outstanding:				
Basic	75,279,074	75,184,306	75,253,230	75,157,871
Diluted	75,308,472	75,268,279	75,312,773	75,266,010
Earnings Per Share:				
Basic	$0.25	$0.41	$0.53	$0.78
Diluted	$0.25	$0.41	$0.53	$0.78

See accompanying notes to these 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,	
	2012	2011	2012	2011
Net Income	$19,013	$30,708	$39,639	$58,987
Other Comprehensive income:				
Pension liability adjustment (net of tax effect of $26, $10, $52, and $20, respectively)	38	15	77	31
Unrealized gain on investments available for sale (net of tax effect of $0, $10, $0 and $7, respectively)	—	(16)	—	(11)
Other Comprehensive income	38	(1)	77	20
Comprehensive income	$19,051	$30,707	$39,716	$59,007

See accompanying notes to these consolidated financial statements.

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INTREPID POTASH, INC.
CONDENSED CONSOLIDATED STATEMENT 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, 2011	75,207,533	$75	$564,285	$(1,431)	$308,204	$871,133
Pension liability adjustment, net of $52 tax effect	—	—	—	77	—	77
Net income	—	—	—	—	39,639	39,639
Stock-based compensation	—	—	2,705	—	—	2,705
Excess income tax benefit from stock-based compensation	—	—	(191)	—	—	(191)
Vesting of restricted common stock, net of restricted common stock used to fund employee income tax withholding due upon vesting	89,944	—	(746)	—	—	(746)
Balance, June 30, 2012	75,297,477	$75	$566,053	$(1,354)	$347,843	$912,617

See accompanying notes to these consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Reconciliation of net income to net cash provided by operating activities:		
Net income	$39,639	$58,987
Deferred income taxes	21,483	30,017
Insurance settlement income from property and business losses	—	(12,500)
Items not affecting cash:		
Depreciation, depletion, amortization, and accretion	22,632	17,224
Stock-based compensation	2,705	2,672
Unrealized derivative gain	(497)	(545)
Other	1,985	455
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,643)	(11,951)
Other receivables	(2,193)	(6,013)
Income tax receivable	2,778	(4,119)
Inventory	(1,407)	(4,595)
Prepaid expenses and other assets	1,927	1,247
Accounts payable, accrued liabilities, and accrued employee compensation and benefits	12,950	8,714
Other liabilities	(481)	(308)
Net cash provided by operating activities	98,878	79,285
Cash Flows from Investing Activities:		
Additions to property, plant, and equipment	(75,769)	(63,816)
Additions to mineral properties and development costs	(11,406)	(720)
Insurance settlement proceeds from property and business losses	—	806
Purchases of investments	(65,634)	(52,459)
Proceeds from investments	48,337	32,371
Other	2	—
Net cash used in investing activities	(104,470)	(83,818)
Cash Flows from Financing Activities:		
Employee tax withholding paid for restricted stock upon vesting	(746)	(1,076)
Excess income tax benefit from stock-based compensation	(191)	427
Proceeds from exercise of stock options	—	299
Net cash used in financing activities	(937)	(350)
Net Change in Cash and Cash Equivalents	(6,529)	(4,883)
Cash and Cash Equivalents, beginning of period	73,372	76,133
Cash and Cash Equivalents, end of period	$66,843	$71,250
Supplemental disclosure of cash flow information		
Net cash paid during the period for:		
Interest, including settlements on derivatives	$939	$759
Income taxes	$890	$12,605

Accrued purchases for property, plant, and equipment, and mineral properties and development costs	$23,165	$9,669

See accompanying notes to these 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”); a specialty nutrient known as langbeinite; and by-products including salt, magnesium chloride and metal recovery salts. The processing of langbeinite ore 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 near Carlsbad, New Mexico; a solar evaporation solution mine near Moab, Utah; and a solar evaporation shallow brine mine in Wendover, Utah. Intrepid also has an additional solar solution mine that is under development called the HB Solar Solution mine. Construction continues to progress on the HB Solar Solution mine, a project to apply solution mining and solar evaporation techniques to produce potash from previously abandoned mine workings near Intrepid's current underground operations near Carlsbad, New Mexico.
Intrepid manages sales and marketing operations centrally to evaluate the product needs of its customers and then determine which of its production facilities to utilize in order to fill customers’ orders in a manner designed to realize the highest average net realized sales price to Intrepid. As such, product inventory levels and overall production costs are monitored 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 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, inventory valuations, 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 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 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 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 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. 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.

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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 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 instead expensed 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 not having 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.

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. Impairment is considered to exist if an asset’s total estimated future cash flows on an undiscounted basis are less than the carrying amount of the related asset. An impairment loss is measured and recorded based on the discounted estimated future cash flows. Changes in significant assumptions underlying future cash flow estimates or fair values of assets may have a material effect on our financial position and results of operations.

Mineral Properties and Development Costs—Mineral properties and development costs, which are referred to collectively as mineral properties, include acquisition costs, the cost of drilling wells, and the cost of other development work, all of which are capitalized. Depletion of mineral properties is calculated using the units-of-production method over the estimated life of the relevant ore body. The lives of reserves used for accounting purposes are shorter than current reserve life determinations due to uncertainties inherent in long-term estimates. These reserve life estimates have been prepared by us and reviewed and independently determined by mine consultants. Tons of potash and langbeinite in the proven and probable reserves are expressed in terms of expected finished tons of product to be realized, net of estimated losses. Market price fluctuations of potash or Trio®, as well as increased production costs or reduced recovery rates, could render proven and probable reserves containing relatively lower grades of mineralization uneconomic to exploit and might result in a reduction of reserves. In addition, the provisions of Intrepid’s mineral leases, including royalty provisions, are subject to periodic readjustment by the state and/or 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.

Planned Turnaround Maintenance—Each operation typically shuts down periodically for planned 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,

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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, including financial instruments, U.S. government agency, 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. Fair value is assessed using a market-based approach.

Fair Value of Financial Instruments—Intrepid's financial instruments include cash and cash equivalents, certificate of deposit investments, short-term and long-term investments, restricted cash, accounts receivable, income tax receivables, and accounts payable, all of which are carried at cost, with the exception for available-for-sale investments which are carried at fair value. The remaining investments 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 become 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 swaps are recorded at fair value with adjustments to this fair value recognized currently in the statements of operations using established counterparty evaluations that are subject to management's review. Since considerable judgment is required to develop estimates of fair value, the estimates provided are not necessarily indicative of the precise amounts that could be realized upon the sale, settlement, or refinancing of the 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, 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 issued and therefore are 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 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.

Note 3 — EARNINGS PER SHARE

The treasury stock method is used to measure the dilutive impact of non-vested restricted shares of common stock, non-vested performance units, and stock options. For the three months ended June 30, 2012, and 2011, a weighted average of 142,913 and 42,028 non-vested shares of restricted stock and 199,138 and 174,343 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, 2012, and 2011, a weighted average of 109,809 and 27,995 non-vested restricted shares of common stock and 188,000 and 144,794 stock options, respectively, were anti-dilutive and therefore were not included in the diluted weighted average share calculation. In the six months ended June 30, 2012, Intrepid began issuing performance units. For the three and six months ended June 30, 2012, zero and 1,036 shares of common stock underlying non-vested performance units, respectively, were

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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,	
	2012	2011	2012	2011
Net income	$19,013	$30,708	$39,639	$58,987
Basic weighted average common shares outstanding	75,279	75,184	75,253	75,158
Add: Dilutive effect of non-vested restricted shares of common stock	20	39	43	59
Add: Dilutive effect of stock options	7	45	16	49
Add: Dilutive effect of performance units	2	—	1	—
Diluted weighted average common shares outstanding	75,308	75,268	75,313	75,266
Earnings per share:				
Basic	$0.25	$0.41	$0.53	$0.78
Diluted	$0.25	$0.41	$0.53	$0.78

Note 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS

The following table summarizes the fair value of Intrepid's cash and held-to-maturity securities held in its investment portfolio, recorded as cash and cash equivalents or short-term or long-term investments as of June 30, 2012, and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Cash	$2,038	$812
Commercial paper and money market accounts	64,805	72,560
Total cash and cash equivalents	$66,843	$73,372
Corporate bonds	$88,779	$94,700
Certificates of deposit and time deposits	9,144	2,542
Total short-term investments	$97,923	$97,242
Corporate bonds	$21,143	$6,180
Total long-term investments	$21,143	$6,180
Total cash, cash equivalents and investments	$185,909	$176,794

The fair value of Intrepid’s held-to-maturity investments at June 30, 2012, and December 31, 2011, was not significantly different than their carrying amounts.

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, 2012, and December 31, 2011, respectively (in thousands):

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	June 30, 2012	December 31, 2011
Product inventory	$31,512	$33,084
In-process mineral inventory	8,935	7,789
Current parts inventory	18,516	14,517
Total current inventory	58,963	55,390
Long-term parts inventory	7,393	9,559
Total inventory	$66,356	$64,949

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

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, 2012	December 31, 2011
Buildings and plant	$106,902	$100,123
Machinery and equipment	299,941	275,115
Vehicles	9,229	8,841
Office equipment and improvements	14,648	14,447
Ponds and land improvements	10,484	10,019
Construction in progress	124,917	77,269
Land	263	263
Accumulated depreciation	(119,135)	(98,654)
Total property, plant, and equipment	$447,249	$387,423
Mineral properties and development costs	$43,495	$42,864
Construction in progress	11,427	391
Accumulated depletion	(10,351)	(9,773)
Total mineral properties and development costs	$44,571	$33,482

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Depreciation	$11,005	$8,147	$21,677	$15,954
Depletion	190	353	593	795
Amortization	—	—	—	93
Accretion	181	191	362	382
Total incurred	$11,376	$8,691	$22,632	$17,224

Note 7 — DEBT

In August 2011, Intrepid entered into a $250 million unsecured credit facility, led by U.S. Bank, as administrative

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agent, and Wells Fargo Bank, as syndication agent. The credit facility provides a total revolving credit facility of $250 million with a five-year term through August 2016, 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 unsecured credit facility as of June 30, 2012, or December 31, 2011.

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 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 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Asset retirement obligation, beginning of period	$9,616	$9,669	$9,708	$9,478
Liabilities settled	—	—	(273)	—
Changes in estimated obligations	439	—	439	—
Accretion of discount	181	191	362	382
Total asset retirement obligation, end of period	$10,236	$9,860	$10,236	$9,860

The undiscounted amount of asset retirement obligations is $34.2 million as of June 30, 2012, and there are no significant payments expected to take place in the next five years.

Note 9 — COMPENSATION PLANS

Cash Bonus Plan—Intrepid has cash bonus plans that allow participants to earn 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 Plan—Intrepid's Board of Directors and stockholders have adopted a long-term incentive compensation plan. The plan is 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 options under the Plan. As of June 30, 2012, Intrepid had outstanding a total of 217,729 shares of non-vested restricted shares of common stock, 43,604 non-vested performance units which potentially represent a maximum of 65,406 shares of common stock, and options to purchase 350,983 shares of common stock. As of June 30, 2012, there were approximately 3.9 million shares of common stock that remain available for issuance under the Plan.

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 and other key employees. 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 dividend rights to the holders of the awards. Upon vesting, the restrictions on the restricted shares of common stock lapse, and they are considered issued and outstanding.

From time to time, newly hired or promoted employees are issued restricted shares of common stock, which

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generally vest on a schedule between one to four years. Since 2009, the Compensation Committee of Intrepid's Board of Directors (the "Compensation Committee") has also issued restricted shares of common stock in the first quarter of each year to Intrepid's executive management and other selected employees as part of an annual equity award programs. These awards generally vest ratably over a three-year period.

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 $1.0 million and $1.2 million for the three months ended June 30, 2012, and 2011, respectively. Total compensation expense related to the non-vested restricted shares of common stock awards was $1.9 million and $2.0 million for the six months ended June 30, 2012, and 2011, respectively. These amounts were net of estimated forfeiture adjustments. As of June 30, 2012, there was $5.0 million of total remaining unrecognized compensation expense related to non-vested restricted shares of common stock awards that will be expensed through 2015.

A summary of Intrepid's non-vested restricted shares of common stock activity for the six months ended June 30, 2012, is presented below.

	Shares		Weighted Average Grant-Date Fair Value
Non-vested restricted shares of common stock, beginning of period	164,600		$30.34
Granted	159,948		$24.93
Vested	(104,965	)	$29.23
Forfeited	(1,854	)	$28.19
Non-vested restricted shares of common stock, end of period	217,729		$26.92

Performance Units

In 2012, the Compensation Committee added performance units as a type of equity award that may be issued under the Plan to certain members of Intrepid's executive management. In the six months ended June 30, 2012, 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 condition is based on tons produced, and the market condition is based on Intrepid's stock performance relative to a peer group. The satisfaction of these conditions will be measured as of December 31, 2012, and the awards vest ratably over three years. Assuming continued employment by all grantees through all vesting dates and assuming performance at the maximum level under both conditions, the maximum number of shares of common stock that may be issued under the awards is 65,406.

Non-qualified Stock Options

From 2009 to 2011, under the Plan, the Compensation Committee issued non-qualified stock options 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 the 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. No stock options were issued in the first half of 2012.

The following assumptions were used to compute the weighted average fair market value of options granted during the six months ended June 30, 2011.

Risk free interest rate	2.6	%
Dividend yield	—	
Estimated volatility	57	%
Expected option life	6 years	

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Intrepid’s computation of the estimated volatility was based on the historic volatility of its and selected peer companies' common stock over the expected option life. The peer companies selected have had volatility that was highly correlated to Intrepid’s common stock from the date of the initial public offering to the dates of grant. This peer information has been 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 months ended June 30, 2012, and 2011, Intrepid recognized stock-based compensation related to stock options of approximately $0.3 million and $0.4 million, respectively. For both the six months ended June 30, 2012, and 2011, total compensation was approximately $0.7 million. As of June 30, 2012, there was $1.3 million of total remaining unrecognized compensation expense related to unvested non-qualified stock options that will be expensed through 2014. A summary of Intrepid’s stock option activity for the six months ended June 30, 2012, 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	350,983	$26.26	$298,167	7.5	$13.14
Vested or expected to vest, end of period	346,718	$26.15	$298,167	7.2	$13.06
Exercisable non-qualified stock options, end of period	252,157	$23.97	$298,167	7.2	$11.37

(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.

The weighted-average grant-date per share fair value of options granted during the six months ended June 30, 2011, was $19.59.

Note 10 — INCOME TAXES

Intrepid’s income tax provision is comprised of the elements listed in the table below. Intrepid's effective tax rate was 39.3% and 39.5% for the three months ended June 30, 2012, and 2011, respectively. The effective tax rate was 38.6% and 39.8% for the six months ended June 30, 2012, and 2011, 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,	
	2012	2011	2012	2011
Current portion of income tax expense	$1,062	$5,430	$3,684	$8,915
Deferred portion of income tax expense	11,250	14,638	21,241	30,004
Total income tax expense	$12,312	$20,068	$24,925	$38,919

Note 11

— COMMITMENTS AND
CONTINGENCIES

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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.

Intrepid has a sales agreement with an entity appointing it the 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. Sale prices were specified to the entity in the agreement subject to cost-based escalators. Wendover is also entitled to certain adjustments in the sales price to the entity based on the final sales price it receives from its customers, as defined by the agreement. Any adjustments in sales price are settled after the entity's fiscal year end in September; however, Intrepid estimates and recognizes earned sales price adjustments each quarter as the amounts are earned and reasonably determinable.

Reclamation Deposits, Surety Bonds, and Sinking Fund—As of June 30, 2012, Intrepid had $8.7 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, $1.3 million consisted of long-term restricted cash deposits reflected in “Other assets” on the balance sheet, and $7.4 million was secured by surety bonds issued by an insurer. The surety bonds are held in place by the payment of a 1.2% fee paid to the surety bond 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, 2012. Intrepid has established a general legal reserve for loss contingencies that are considered probable and reasonably estimable.

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 20 years.

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

2012	
Three Months Ended June 30, 2012	$945
Six Months Ended June 30, 2012	$1,781
2011	
Three Months Ended June 30, 2011	$1,319
Six Months Ended June 30, 2011	$2,580

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 are used for risk management purposes and were originally entered into as economic hedges, they have not been designated as hedging instruments.

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 through the use of interest rate derivative contracts, as required by a credit agreement in place at the time. Although Intrepid repaid its assumed debt obligations after its initial public offering, it has not yet closed its positions in the derivative financial instruments also assumed from its predecessor.

A tabular presentation of the outstanding interest rate derivatives as of June 30, 2012, follows:

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Termination Date	Notional Amount	Weighted Average Fixed Rate
	(In thousands)	
December 31, 2012	$22,800	5.3%

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 its risk from movements in the cost of natural gas consumed as gains and losses on the financial contracts offset losses and gains on its physical purchases of natural gas. Intrepid had no natural gas derivative contracts outstanding at June 30, 2012.

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

	June 30, 2012		December 31, 2011	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Other current liabilities	$552	Other current liabilities	$1,049

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 (loss) recognized in income on derivative	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest rate contracts:					
Realized loss	Interest expense	$(276)	$(365)	$(541)	$(712)
Unrealized gain	Interest expense	273	224	497	545
Total loss	Interest expense	$(3)	$(141)	$(44)	$(167)

Please see footnote titled 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 counterparty to the interest rate derivative contracts, but, as Intrepid was in a liability position at June 30, 2012, with respect to these interest rate derivative contracts, counterparty risk is not applicable. There were no derivative instruments with credit-risk-related contingent features as of June 30, 2012.

Note 13 — FAIR VALUE MEASUREMENTS

Intrepid applies the provisions of the Financial Accounting Standards Board’s ("FASB") Accounting Standards Codification™ ("ASC") Topic 820, Fair Value Measurements and Disclosures, 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

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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.