Intrepid Potash, Inc.
Form 10-K
February 19, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2014
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. x

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 by Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of 55,427,763 shares of voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, of $16.76 per share as reported on the New York Stock Exchange was $928,969,308 Shares of common stock held by each director and executive officer and by each person who owns 10% or more of the registrant's outstanding common stock and is believed by the registrant to be in a control position were excluded. The determination of affiliate status for this purpose is not a conclusive determination of affiliate status for any other purposes.

As of January 31, 2015, the registrant had 75,998,708 shares of common stock, par value $0.001, outstanding (including 461,967 restricted shares of common stock).

DOCUMENTS INCORPORATED BY REFERENCE

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Certain information required by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from portions of the registrant's definitive proxy statement relating to its 2015 annual meeting of stockholders to be filed within 120 days after December 31, 2014.

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PART I

Unless the context otherwise requires, the following definitions apply throughout this Annual Report on Form 10-K:

- "Intrepid," "our," "we," or "us" means Intrepid Potash, Inc. and its consolidated subsidiaries.
- "West," "East," "North," and "HB" mean our four operating facilities near Carlsbad, New Mexico. "Moab" means our operating facility in Moab, Utah. "Wendover" means our operating facility in Wendover, Utah. You can find more information about our facilities in Item 2 of this Annual Report on Form 10-K.
- "Tons" mean short tons. One short ton equals 2,000 pounds. Many of our international competitors refer to metric tonnes. One metric tonne equals 1,000 kilograms or 2,205 pounds.
- To supplement our consolidated financial statements, which are presented in this Annual Report on Form 10-K and which are prepared and presented in accordance with GAAP, we also use several non-GAAP financial measures to monitor and evaluate our performance. These non-GAAP financial measures include net sales, average net realized sales price, cash operating costs and average potash and Trio® gross margin. These non-GAAP financial measures are described and reconciled to the most comparable GAAP measures in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures of this Annual Report on Form 10-K.
- We have included technical terms important to understanding our business in the "Glossary of Terms" in Item 1 of this Annual Report on Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Securities Act of 1933, as amended (the "Securities Act"). These forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this Annual Report on Form 10-K other than statements of historical fact are forward looking statements. Forward-looking statements include statements about our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, among other things. In some cases, you can identify these statements by forward looking words, such as "estimate," "expect," "anticipate," "project," "plan," "intend," "believe," "forecast," "foresee," "likely," "may," "should," "goal," "target," "might," "will," "could," "predic

Forward looking statements are only predictions based on our current knowledge, expectations, and projections about future events.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including the following:

- changes in the price, demand, or supply of potash or Trio®/langbeinite
- circumstances that disrupt or limit our production, including operational difficulties or operational variances due to geological or geotechnical variances
- interruptions in rail or truck transportation services, or fluctuations in the costs of these services
- increased labor costs or difficulties in hiring and retaining qualified employees and contractors, including workers with mining, mineral processing, or construction expertise
- the costs of, and our ability to successfully construct, commission, and execute, any of our strategic projects
- adverse weather events, including events affecting precipitation and evaporation rates at our solar solution mines
- changes in the prices of raw materials, including chemicals, natural gas, and power
- the impact of federal, state, or local governmental regulations, including environmental and mining regulations; the enforcement of those regulations; and governmental policy changes
- our ability to obtain any necessary governmental permits relating to the construction and operation of assets
- changes in our reserve estimates
- competition in the fertilizer industry
- declines or changes in U.S. or world agricultural production or fertilizer application rates
- declines in the use of potash products by oil and gas companies in their drilling operations
- changes in economic conditions
- our ability to comply with covenants in our debt-related agreements to avoid a default under those agreements, or the total amount available to us under our credit facility is reduced, in whole or in part, because of covenant limitations

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- disruption in the credit markets
- our ability to secure additional federal and state potash leases to expand our existing mining operations
- the other risks, uncertainties, and assumptions described in Item 1A. Risk Factors and elsewhere in this Annual Report on Form 10-K

In addition, new risks emerge from time to time. It is not possible for our management to predict all risks that may cause actual results to differ materially from those contained in any forward-looking statements we may make.

In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in these forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, except as required by law.

ITEM 1. BUSINESS

General

We are the only producer of muriate of potash ("potassium chloride" or "potash") in the United States and are one of two producers of langbeinite ("sulfate of potash magnesia"). Langbeinite is a low-chloride potassium fertilizer with the additional benefits of sulfate and magnesium. We generally describe this multi-nutrient specialty product as langbeinite when we refer to production and as Trio® when we refer to sales and marketing. Our revenues are generated exclusively from the sale of potash and Trio®. We are a leader in the utilization of solar solution mining to produce potash, which is one of the lowest cost production methods for potash.

Potassium is one of the three primary macronutrients essential to plant formation and growth. Since 2005, we have supplied, on average, approximately 1.5% of annual world potassium consumption and 9.4% of annual U.S. potassium consumption. We also produce salt, magnesium chloride, and metal recovery salts from our potash mining processes, the sales of which are accounted for as by-product credits to our cost of sales.

We own three solution mining facilities and two conventional underground facilities that we utilize for producing potash. Our solution mining production comes from our HB solar solution mine near Carlsbad, New Mexico, a solar solution mine near Moab, Utah and a solar evaporation shallow brine mine in Wendover, Utah. Our conventional production comes from our underground West and East mines near Carlsbad, New Mexico. We also operate the North compaction facility near Carlsbad, New Mexico, which services the West and HB mines. Trio® production comes from underground conventional mining of a mixed ore body that contains both potash and langbeinite, which is mined and processed at the East facility near Carlsbad, New Mexico. We have additional opportunities to develop mineralized deposits of potash in New Mexico as well as to improve recoveries in our processing plants. These opportunities potentially include additional solution mining activities and improved recoveries of langbeinite.

Our principal offices are located at 707 17th Street, Suite 4200, Denver, Colorado 80202, and our telephone number is (303) 296-3006.

We have one operating segment which is the extraction, production and sale of potassium containing products. Our extraction and production operations are conducted entirely in the continental United States. We sell potash primarily into the domestic U.S. market and Trio® into both the domestic and international markets.

Intrepid (through a predecessor entity) was formed in 2000.

Our Products and Markets

Our two primary products are potash and Trio®.

Potash

The majority of our revenues and gross margin are derived from the production and sales of potash. Our potash is marketed for sale into three primary markets. These markets are the agricultural market as a fertilizer input, the industrial market as a component in drilling and fracturing fluids for oil and gas wells and an input to industrial processes, and the animal feed market as a nutrient supplement. The agricultural market is predominately a user of

granular-sized potash and Trio®, while the industrial and animal feed markets largely consume standard and fine standard-sized product.

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We have the flexibility to produce all of our potash in a granular form. This flexibility has allowed us to expand our geographical reach for granular sales and to adjust our production of standard-sized product to more closely align with the specific product demand, thereby decreasing our dependence on sales of any one particular size of potash. In addition, we centrally manage our sales and marketing operations, including our freight and logistics planning, which allows us to evaluate the product needs of our customers and then determine which of our production facilities can be utilized to fill customer orders, all with the design of realizing the highest average gross margin per ton of potash sold by achieving the highest average net realized sales price possible for our potash.

Because many of our sales are geographically concentrated in the central and western United States, our sales can be affected by weather and other conditions in these regions. In addition, our sales into the industrial market tend to correlate with oil and gas pricing, as well as drilling and well completion activity.

Trio®

Trio® is marketed into two primary markets. These markets are the agricultural market as a fertilizer and the animal feed market as a nutrient. We market Trio® internationally through an exclusive marketing agreement with PCS Sales (USA), Inc. (“PCS Sales”) for sales outside the United States and Canada and via a non-exclusive agreement for sales into Mexico.

Industry Overview

Long-term global fertilizer demand has been driven primarily by population growth and global economic conditions with annual demand variations based on planted acreage, agricultural commodity yields and prices, inventories of grains and oilseeds, application rates of fertilizer, weather patterns, and farm sector income. We expect these key variables to continue to have an impact on global fertilizer demand for the foreseeable future. Sustained per capita income growth and agricultural policies in the developing world also affect global demand for fertilizer. Fertilizer demand is affected by other geopolitical factors such as temporary disruptions in fertilizer trade related to government intervention and changes in the buying patterns of key consuming countries. Volatility in agricultural commodity prices also may impact farmer fertilizer buying decisions.

As the global population grows, more food is required from decreasing arable land per capita. A balanced approach to nutrient application will allow farmers to maximize yield and aid in feeding this growing population. As incomes grow in the developing world, people tend to change their diet and consume more animal protein, which requires larger amounts of grain for feed. In addition, the focus on increasing renewable energy has led to regulatory policies supportive of ethanol and bio-diesel production, which currently rely on agricultural products as feedstock.

Fertilizer serves a fundamental role in global agriculture by providing essential crop nutrients that help sustain both the yield and the quality of crops. The three primary nutrients required for plant growth are nitrogen, phosphate, and potassium, and there are no known substitutes for these nutrients. A proper balance of each of the three nutrients is necessary to maximize their effectiveness. Potassium helps regulate plants’ physiological functions and improves plant durability, providing crops with protection from drought, disease, parasites, and cold weather. Unlike nitrogen and phosphate, the potassium contained in naturally occurring potash does not require additional chemical conversion to be used as a plant nutrient.

While industry experts continue to expect that potash consumption rates will increase as world population grows, significant additional capacity has been brought on line over the last two years by existing potash producers. There are a number of brownfield expansions that have been commissioned or that are under construction by the larger potash producers. The estimated worldwide annual capacity is now in excess of recent annual demand. We expect that this supply surplus will exist for several years. As it is difficult to operate at full capacity for sustained periods of time, the larger, well-established producers are operating at less than full capacity, and have a history of managing production levels to more closely meet worldwide demand.

Potash is mined from conventional underground mines, such as at our West and East mines near Carlsbad, as well as through solution mining sub-surface structures and brine recovery from surface resources, as is done at our Moab, Wendover and HB facilities. In conventional underground mines, shafts are sunk to the ore body and mining machines cut out the ore, which is lifted to the surface for processing. In solution mining, the potash is dissolved in brine and pumped to the surface for evaporation and processing.

Virtually all of the world's potash is currently extracted from approximately 19 commercial deposits. According to the International Fertilizer Industry Association and data published by potash mining companies, six countries accounted for approximately 85% of the world's aggregate potash production during 2013. During this time period, the top nine potash producers supplied approximately 94% of world production. The three major Canadian producers participate in the Canpotex marketing group that supplied approximately 35% of the global potash production in 2013, one producer in Russia supplied

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approximately 18% of global production and one producer in Belarus supplied approximately 12% of global potash production during 2012.

There are substantial challenges to adding new potash production as economically recoverable potash deposits are scarce, deep in the earth and geographically concentrated. In addition, a considerable amount of capital is required to produce potash. In addition to typical mining and processing infrastructure, product storage, product load out, and rail access to ship the product are required. A further challenge is that the majority of unexploited mineralized deposits of potash existing outside the Canadian province of Saskatchewan are located in remote and/or politically unstable regions such as the Congo, Thailand, Ethiopia, Argentina, and Kazakhstan.

Energy prices and consumption affect the potash industry in several ways. Energy policies in the U.S. have supported the development of biofuels, which currently rely upon agricultural products as feedstock. As demand and prices for these agricultural products increase or decrease, the use of fertilizer becomes more or less economically attractive. In addition, energy prices affect the global levels of oil and gas drilling, and potash is used as a fluid additive as a means to reduce the risk of swelling in clays in the formation. The level of drilling activity in the United States impacts demand for standard-sized potash.

Competition and Competitive Strategy

We sell into commodity markets and compete based on delivered price of potash and Trio®, reliability and timeliness of supply, and product quality. Products must be durable, and maintain particle size and potassium oxide ("K_2O") content benchmarks in order to compete effectively.

We compete primarily with much larger potash producers, principally Canadian producers and, to a lesser extent, producers located in Russia, Belarus, Chile, Germany, and Israel.

Our competitive strategy is focused on the following:

- Maximizing margin. We focus on marketing our products into markets that provide the greatest margins relative to our production capacity. By fully participating in these markets at competitive prices, we aim to operate our plants at maximum capacity, which in turn, maximizes production and reduces per ton operating costs. We have the advantage of being located close to the markets we serve and the North American market is much larger than our production capacity. Over the long term, we have achieved a higher average net realized sales price for our potash products compared to our North American competitors because of our freight advantage to key geographies, our diverse customer and market base and our flexible marketing approach. We continue to look for additional opportunities to control our fixed and variable operating expenses and plan to pursue various initiatives to increase the sustainability and reliability of our facilities.
- Expanding potash production. We are focused on expanding our potash production through the optimization of our current facilities and through additional solar solution production. The capital that we have invested in recent years has been focused on additional solution mining opportunities from our existing reserves and on increasing our recoveries at our West facility, which is expected to increase production and decrease our costs per ton.
- Expanding langbeinite production. We believe the demand for Trio® significantly exceeds the amount of supply. We are focused on increasing our Trio® production by developing our significant langbeinite reserves, optimizing our recovery techniques and maximizing the amount of premium-sized product we manufacture.

Competitive Strengths

- U.S. based potash-only producer. We are one of three publicly traded potash-only companies, and the only U.S. producer of potash. We are dedicated to the production and marketing of potash and Trio®. We are located in the heart of a market that consumes significantly more potash than we can produce on an annual basis. Our geographic location also provides us with a transportation advantage shipping our product to our customers.

As a U.S. producer, we enjoy a significantly lower total production tax and royalty burden than our principal competitors, which operate primarily in Saskatchewan, Canada. The Saskatchewan tax system for potash producers includes a capital tax and several potash mineral taxes, none of which are imposed on us as a U.S. producer. We currently pay an average royalty rate of approximately 4% of our net sales, which compares favorably to that of our competitors in Canada. The relative tax and royalty advantage for U.S. producers becomes more pronounced when profits per ton increase due primarily to the profit tax component of the Saskatchewan potash mineral tax.

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- Solar evaporation operations. The HB mine, located in the New Mexico desert, the Moab mine and the Wendover facility, both located in the Utah desert, utilize solar evaporation to crystallize potash from brines. Solar evaporation is a cost efficient production method because it significantly reduces our labor and energy consumption, which are two of the largest costs of production. Our understanding and application of low cost solution mining, combined with the fact that our reserves are located where a favorable climate for evaporation exists, make solar solution mining difficult for other producers to replicate. We also have significant reserves for future expansion of our solar solution mining operations.
- Assets located near our primary customer base. We believe that our locations allow us to obtain higher average net realized sales prices than our competitors, who must ship their products across longer distances to consuming markets, which are often export markets. Our location allows us to target sales to the markets in which we have the greatest transportation advantage, maximizing our average net realized sales price. Our access to strategic rail destination points and our location along major agricultural trucking routes support this advantage.
- Diversity of markets. We sell to three different markets for potash—the agricultural, industrial and feed markets. During 2014, these markets represented approximately 76%, 19%, and 5% of our potash sales, respectively.
- Marketing flexibility. We have the ability to convert all of our standard-sized product into granular-sized product as market conditions warrant. This also provides us with increased marketing flexibility as well as decreased dependence on any one particular market.
- Participation in specialty markets. Given the greater scarcity of langbeinite relative to potash and its agronomic suitability for certain soils and crops, there is demand for our langbeinite product, known as Trio®, outside of our core potash markets. There continues to be a growing awareness of the agronomic value of this specialty product.
- Significant reserve life and water rights. Our potash and langbeinite reserves each have substantial years of reserve life, with remaining reserve life ranging from 28 to 163 years, based on proven and probable reserve estimates. In addition to our reserves, we have valuable water rights and access to significant mineralized areas of potash for potential future exploitation.
- Existing facilities and infrastructure. Constructing a new potash production facility requires substantial time and extensive capital investment in mining, milling, and infrastructure to process, store and ship product. Our operating facilities already have significant facilities and infrastructure in place. We also have the ability to expand our business using existing installed infrastructure, in less time and with lower expenditures than would be required to construct entirely new mines.

International Sales and Distribution

During 2014, approximately 9% of our Trio® tons were sold internationally, representing approximately 2% of our total net sales. During the years ended December 31, 2014, 2013, and 2012, approximately 96% of our net sales were in the United States, with the remaining sales into countries and regions such as Ghana, Canada, Mexico and other countries in Latin America.

Major Customers

Within the agricultural market, we supply a diversified customer base of distributors, cooperatives, retailers, and dealers, which in turn supply farmers producing a wide range of crops in different geographies. Servicing the industrial and feed markets provides us with a customer base that is unrelated to agricultural markets.

In 2014, no customer accounted for more than 10% of our sales. In 2013 and 2012, one of our distributor customers accounted for approximately 11% and 22%, respectively, of our sales. Because of the size of our company compared to the overall size of the North American market and the regional demands for our products, we do not believe that a decline in a specific customer's purchases would have a material adverse long-term effect upon our financial results.

Environmental, Safety, and Health Matters

We are subject to an evolving set of federal, state, and local environmental, safety, and health (“ESH”) laws that regulate, or propose to regulate (1) soil, air and water quality standards for our facilities; (2) disposal, storage, and management

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of hazardous and solid wastes; (3) post-mining land reclamation and closure; (4) conditions of mining and production operations; (5) employee and contractor safety and occupational health; and (6) product content and labeling.

We employ, both within and outside Intrepid, environmental professionals to review our operations, assist with environmental compliance, and obtain new and maintain established permits and licenses to operate. These environmental professionals identify and address compliance issues regarding hydrocarbon management, solid and hazardous waste management, protection of water and air quality, asbestos abatement, potable water standards, reclamation and closure, radiation control, animal and plant life, and other ESH issues.

We have spent, and anticipate that we will continue to spend, financial and managerial resources to comply with ESH standards. In 2014, we had approximately $5.8 million of capital investments, and $0.3 million in other expenses, relating to environmental compliance, environmental studies and remediation efforts. We expect to have a similar level of expenditures in 2015. If potential negative effects to the environment are discovered, or if the potential negative effects are of a greater magnitude than currently estimated, material expenditures could be required in the future to remediate the identified e