

**Phosphate Holdings, Inc.**

**Moderator: Robert Jones**  
**June 15, 2010**  
**3:30 p.m. CT**

Operator: Good day, everyone, and welcome to the Phosphate Holdings Inc., First Quarter 2010 Earnings conference call. Please note that Phosphate Holdings Inc., issued their first quarter 2010 operating results on May 27, 2010.

As you read the company's press release, which is also posted on the company's Web site at [www.missphosphates.com](http://www.missphosphates.com) and as you listen to this conference call, please recognize that both contain forward-looking statements within the meaning of Federal Securities law.

All statements in this release and all statements on this call or other discussions, other than those relating to historical information or current condition, are considered forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the company's control and which would cause actual results to differ materially from such statements.

These risks and uncertainties, including those spelled out in the Safe Harbor Statement, included in the press release. Consider all forward-looking statements in light of those and other risks and uncertainties and do not place undue reliance on any forward-looking statements.

Now let me introduce Mr. Robert Jones, chief executive officer of Phosphate Holdings Inc., Mr. Jones?

Robert Jones: Good afternoon, everyone. And again, I'd like to welcome everyone to our First Quarter 2010 Earnings call. I'm joined here in Madison, Mississippi, by Tim Cantrell, our

CFO, and Jim Perkins, our vice president of sales and marketing, who will also be participating in today's call.

In the first quarter of 2010, we generated a profit after five consecutive losing quarters. For the quarter, we realized EBITDA of \$7.2 million on sales of approximately \$60.1 million. Net income for the quarter was \$2.6 million or \$0.31 per share. In a few moments, I'll ask Tim Cantrell to elaborate on our Q1 financial operating results and financial position.

During the first quarter, market fundamentals in the DAP business were good. Improvements began in late 2009, and between November 15, 2009, and the beginning of 2010, DAP prices per short ton FOB NOLA rose from \$260 to \$334 at year end.

The improvements continued throughout the first quarter. The key drivers of the business in the first quarter were:

Extremely low inventories. We began the year with a supply chain that was almost completely empty. The Fertilizer Institute reported end of December 2009 U.S. DAP/MAP inventories at a 33-year low. Soil nutrient levels were also at depleted levels due to very low fertilizer-application rates during prior seasons and near-record harvests in prior seasons. U.S. demand was bolstered by approximately 89 million acres of planted corn for the 2010 spring season and good farm economics. During the quarter, the supply and demand balance was further pressured by tight sulfur markets and resulting curtailments due to sulfur shortages at various production points around the world.

During the quarter, domestic DAP prices (FOB, NOLA) increased from \$334 per short ton at January 1, 2010, to \$417 per short ton at March 31, 2010. Export prices during the same period rose from \$375 per metric ton and ultimately reached a peak in mid-March at \$550 per metric ton, FOB U.S. Gulf.

Since the conclusion of the U.S. spring season, DAP prices have exhibited weakness with domestic prices declining from \$415 per short ton, NOLA, at March 31, 2010, to current levels of \$385 to \$387. During this period, while phosphate prices have shown weakness, they've exhibited greater stability than nitrogen prices over the same period and this relative stability is based on the pending emergence of demand from Latin America

and very low U.S. inventories at the end of the spring season with the prospect of a good fall application season in the U.S.

In a moment I'll ask Jim Perkins to comment further on current industry conditions and the near-term market outlook.

In summary, we're pleased with our first quarter results. Given where we've been throughout late 2008 and during the course of 2009, it's difficult not to be pleased with our performance. On the negative side, persistent operational issues in our sulfuric acid plants had a significant negative impact on our Q1 results.

For the quarter, sulfuric acid and DAP production was 172,000 and 146,000 tons respectively. Both levels are below 80 percent of planned budgeted levels. The primary factors that impacted our sulfuric acid production were vibration issues in a piece of rotating equipment. That issue was resolved early in our second quarter. Acid cooler issues required plant outages to repair throughout the quarter. Acid coolers are basically vessel and tube heat exchangers where very hot acid is cooled with ambient temperature cooling water.

To a lesser degree, production during the first quarter was also effected by very low temperatures that impacted plants along the U.S. Gulf Coast and sulfur shortages and to a lesser extent power failures.

Now, let me try to put the production issues in perspective. If we had produced sulfuric acid and DAP at planned rates, EBITDA for the first quarter would have been \$11.5 million versus the \$7.2 million actually realized. Production rates impact us in several ways. First, obviously, we lose the profits on lost sales, but the vast majority of our conversion cost are fixed and production levels – lower production levels – cause higher per-ton conversion costs of the DAP that we do produce. In addition, when we lose a plant, we can also have steam shortages and supplementing steam with a package boiler is a significant expense. To the extent we can make up for lost production with purchased acid, under today's economics, that is a much more expensive cost of DAP.

Looking at production issues for our second quarter, we will once again fall short of budget. DAP and sulfuric acid productions are projected at 155,000 and 169,000 tons

versus 146,000 and 172,000 tons in the first quarter. That, once again, is below 80 percent of budgeted levels and the levels are, as you will note, similar to Q1 levels.

The acid cooler issues that I discussed previously have continued to have a negative impact on both our instantaneous rates and our on-stream factors. The acid coolers during an earlier study in 2009, were identified as potential and likely issues to affect us in the future. In response, we ordered long-lead delivery items for a replacement cooler and a re-tubed cooler. Both items of equipment have now been delivered to the plant site. One cooler will be installed before the end of the month and the second new cooler will be installed as the opportunity presents itself.

Finally, I want to report on one significant recent event. On May 6, we closed a new \$25 million credit facility. The facility has two components, a \$15 million revolving line of credit and \$10 million in letters of credit. The facility is secured by liens on certain terminal assets that the company owns. The fee structure and interest rates under the facility are considered attractive. Interest is at the three-month LIBOR plus six percent. The purpose for the facility, as we've discussed on previous calls, was to provide the company with a liquidity cushion and a line of credit to finance certain planned plant maintenance items.

I failed to mention one other item regarding second quarter production. In late May we incurred a failure in the waste heat boiler in one of our sulfuric acid plants. After several unsuccessful attempts to repair that waste heat boiler, we decided that it had to be re-tubed. The plant was taken out of service and we expect it to return to service prior to the end of June. June production was, of course, adversely impacted by the loss of that boiler.

At this point, I'll turn things over to Tim to elaborate on our financial results for the first quarter.

Tim Cantrell: Thanks, Robert.

I would like to briefly point out a few highlights from our first quarter 2010 operating results. As Robert stated, the first quarter of 2010 was a marked improvement over more recent operating results including a return to profitability. During the first quarter of 2010, we had total sales of \$60.1 million; of which \$59.3 million represented DAP sales on

approximately 143,000 tons of DAP sold. Our average sales price for the first quarter of 2010 was approximately \$415 per short ton.

During the first quarter of 2010, we had a gross profit margin of \$6.8 million or 11.3 percent of net sales. During the quarter we produced approximately 145,000 short tons of DAP, which was 78 percent of our plan. With the substantial majority of our costs fixed, the production shortfalls impacted our margins during the quarter. Had we achieved our planned production, our gross profit margin would have been approximately \$11.1 million or 14.5 percent of net sales.

Our SG&A expenses for the first quarter of 2010 was \$1.9 million, or 3.2 per cent of net sales.

During the first quarter of 2010, we expensed approximately \$662,000 related to the 7003 Administrative Order from the EPA. From inception of the 7003 order through March 31, 2010, we have either paid or accrued \$2.0 million for remediation and related incremental direct costs and an additional \$0.2 million in capital costs associated with this order. At quarter end, we anticipated incurring an additional \$1.8 million in capital costs to address this order. However, I would caution that amounts attributable to addressing the 7003 Administrative Order are subject to on-going evaluation and will likely, be subject to change.

For the first quarter ended March 31, 2010, we had operating income of \$4.2 million and net income of approximately \$2.6 million.

EBITDA for the first quarter of 2010 was approximately \$7.2 million. Again as Robert previously mentioned, had we operated at our planned rates, EBITDA for the first quarter would have been approximately \$11.5 million.

Capital expenditures for the quarter were approximately \$2.5 million.

Now, let me briefly address our liquidity position.

Cash flow from operations for the quarter ended March 31, 2010 approximated \$8.5 million and we ended the quarter with approximately \$6.9 million in cash and had no borrowings under our previous revolving credit facility.

On May 6, 2010, we executed a new \$25.0 million financing arrangement. The Credit facility provides up to \$10 million in letters of credit and a \$15 million revolving loan feature. During the initial two years of the Credit Facility, or in certain cases at our option, up to the initial four years, amounts borrowed under the facility serve as a revolving credit arrangement. Amounts borrowed under the Credit Facility bear interest at the three-month LIBOR rate plus 6.0 percent. Outstanding letters of credit bear an all-in cost of 3.50 percent per annum. The Credit Facility is secured by a lien and security interest on our ammonia and sulfuric acid terminal assets and our personal property.

Also, the Credit Facility contains customary provision such as, limitations on capital expenditures and dividend payments and other covenants customary for loans of this type.

Now, I would like to turn the presentation over to Jim Perkins, our Vice President of Sales, for a few comments.

Jim Perkins: Thank you, Tim.

The DAP market is currently in a transition period. The U.S. domestic spring season has just ended, and we are now seeing the traditional seasonal re-entry of Latin American buyers to the market.

With the spring season over, there is very little domestic activity at present, and it is expected to remain quiet until at least the second half of July or possible even August.

Distributors and dealers in the U.S. ended the spring season with very low inventories. Thus far, however, buyers seem reluctant to purchase DAP for summer refill. With an extremely lean pipeline, domestic demand is expected to be robust when it eventually kicks in.

Crop prices will ultimately be the key to the level of business we see for the fall season. Overall, last week's revised USDA supply/demand forecast is viewed as positive

for the industry. With approximately 89 million acres of planted corn and expectations for near-record yields, corn production for the 2010/2011 crop year is projected at approximately 13.4 billion bushels – a huge crop. The USDA report, however, offsets this tremendous production figure with lower beginning stocks and higher consumption – the increased consumption coming on the back of 4.7 billion bushels of corn consumption in ethanol production.

The end result is estimated ending stocks of about 1.6 billion bushels and a stocks-to-use ratio of 11.7 percent – the lowest in four years.

At last week's close of business, December corn traded at \$3.70 per bushel.

The current domestic DAP price is in the \$385-\$387 per short ton range for NOLA barges.

In international markets, we view the near-term outlook as stable but firming as U.S. fall demand develops. The Q3 supply/demand balance is underpinned by large volume Indian contract sales. U.S. producers seem comfortable with their inventory positions. A number of export players are sold out for a month or so ahead.

As expected, Latin American buyers, particularly Brazil, have recently begun buying and inquiries are being reported from Pakistan.

World-wide phosphate inventories are believed to be near historically low levels, with Brazil, Turkey and Pakistan requiring Q3 tonnage. Combined with a depleted domestic pipeline, we see cause for optimism regarding Q3.

Current export pricing is in the range of \$438 to \$442 per metric ton, U.S. Gulf basis.

Regarding input costs, we have seen continued softening in the ammonia market in recent weeks due to surplus of supply. However, prices are fast approaching production cost of the Ukrainian swing producers. Thus, while there may be room for marginal additional ammonia price reductions, we are likely getting close to a floor.

Current ammonia pricing is \$370 per metric ton, U.S. Gulf, but we look for some deterioration going into Q3.

In the sulfur markets, suppliers and buyers have begun negotiating for Q3 contracts in an environment of sharply falling spot pricing. Phosphate producers clearly have hopes of lower sulfur costs in Q3 and continuing through Q4.

The current Tampa sulfur posting stands at \$145 per long ton.

Robert?

Robert Jones: At this point, we'd be glad to take your questions and respond.

Operator: Ladies and gentlemen on the phones, if you have a question at this time, please press star then one on your touchtone phone. If your question has been answered or you wish to leave the queue for any reason, please press the pound key.

Once again, ladies and gentlemen, if you have a question at this time, please press star then one now. Let's give everyone just a few seconds to queue up. Our first question comes from (Steve Goodamill), Virtuous Capital.

(Steve Goodamill): Yes, hi. Robert, can you hear me OK?

Robert Jones: I sure can. How are you doing, Steve?

(Steve Goodamill): Good to hear from you, and thanks for that nice overview. I had a couple questions. Let me see, the first one is just a technical question. What was the reasoning for the share increase from 7.65 million shares to 8.41 million shares?

Robert Jones: At the end of – well, on December 22, I believe, Ed McCraw and I had some options that were set to expire and we exercised those options and that is the basis for the increase.

(Steve Goodamill): OK. You know what, that's what I thought it was but then why wouldn't it have been in fully diluted shares in other calculations or is it because they were – you know can you just help me on that? Why ...



Tim Cantrell: Steve, let me take that. In prior periods recently, we had losses. So, to include it in there would have been anti-diluted.

(Steve Gidumal): Oh, OK. That would explain it. OK. I thought it was something technical like that, OK. My next question is, are all the problems – I mean I heard your summary on all the different manufacturing problems. But you know with the different things with the – you know this tank and that tank, where do we stand? Are they done now? And if they're not done, when do you think in the third quarter, if by then, everything will be you know back to normal?

Robert Jones: Well, the big issue in Q1 and Q2 involved acid coolers, aside from the failure of the waste heat boiler. The acid cooler issues should be resolved in our third quarter.

As noted during the overview, this was identified as an issue for the plant during a comprehensive analysis of downtime and plant inspections, and the long-lead items were ordered during 2009. Unfortunately they did not arrive prior to the onset of frequent issues with the coolers, but they now have arrived and one of the recubed coolers will be installed in the plant that is currently down, and that plant will operate on with the one cooler for some period of time. We will install the horizontal cooler at a later date in the other of the plants. Right now, some of the piping is yet to be delivered and there is some required foundation work for the new cooler. So, the problems should be resolved during the third quarter. The waste heat boiler repairs are currently scheduled to be completed prior to the end of June, and we expect to have both sulfuric acid plants back online July 1.

(Steve Gidumal): OK. So, by July 1. OK.

Robert Jones: One of the two plants, as noted, would be operating at a slightly reduced rate. Instantaneous rates for the plant design are 1,500 tons per day. This plant, while operating with one acid cooler will be limited to between 1,200 and 1,300 tons per day.

(Steve Gidumal): Instead of how many?

Robert Jones: Instead of 1,500.

(Steve Gidumal): So it's a 20 percent reduction, I guess.

Robert Jones: Right, in one of the two plants.

(Steve Gidumal): In one of the two. So just trying to do this mathematically quickly is that – if you guys have averaged about 170,000 tons I think you said of DAP, right? I mean ...

Robert Jones: No, that was of – that was of acid during ...

(Steve Gidumal): Of the acid, OK.

Robert Jones: ... the two quarters it was approximately 170 in both quarters.

(Steve Gidumal): Hundred and seventy, OK. And then – and so the DAP was the 142 and 155?

Robert Jones: That's correct, 146 and 155.

(Steve Gidumal): One forty-six and 155, OK. So that's averaging about 150. If when we get these problems resolved, is that – or let me ask you this way. Is your production budget for Q3, is that – should we be expecting it to be higher than 150? Should it be in the 170 range? Where does it – where do we come out on that?

Robert Jones: Well, I expect it to be significantly higher than the 150. Now, we certainly will target and there's no known reason we should not achieve an average of slightly over 60,000 tons per month during the quarter.

(Steve Gidumal): That would be 180, OK. OK, and then my last question. You know with all this stuff – all this attention going on to the Gulf disaster, you know it's easy to overlook that basically a good chunk of Iowa was flooded out you know a couple weeks ago.

And did that hit the corn fields at all? And if so, how do you – how do we – should we factor that into our thinking about – does that destroy the corn crop and is that good for us, or does that destroy the acreage and that's bad for us? Do you guys have any thoughts on that and is it even significant?

Jim Perkins: Steve, I believe as of right now USDA is characterizing 77 percent of the corn crop is in excellent condition.

(Steve Gidumal): OK.

Jim Perkins: And just as compared to ...

(Steve Gidumal): (Inaudible) is marginal pricing, right, so.

Jim Perkins: Yes, as compared to prior years, it's shaping up to be a significant crop and the yield projections are in the range of 163 to 164 bushels an acre.

Robert Jones: And there is nothing more accurate than a June projection of yield. A lot of water under the bridge.

Jim Perkins: Actually now in the end of season, yes.

Robert Jones: So that'll lead to a big corn crop, which will maybe lower pricing for us on corn.

Jim Perkins: Yes, (Steve), as I mentioned, the offset is that they're now projecting a lower beginning stock level than they previously projected and consumption for the year is projected up primarily as a result of ethanol.

(Steve Gidumal): OK. So and this whole manifests itself into what you're seeing as a firming up of – you know or an expectation of firming up for the fall planting season.

Jim Perkins: Well, the hope thereof based on USDA projections.

(Steve Gidumal): OK, all right. Well, thank you very much.

Robert Jones: Next question.

Operator: There appear to be no further questions.

Robert Jones: Well, in closing I would like to, once again, thank you for your interest. We appreciate your participating in the call. And at this point, we'll sign off. Thanks to everyone and we look forward to having some better results going forward. DAP markets have exhibited relative stability. Prospects for the third quarter are, we think, pretty solid. So, we'll look forward to that. Thank you, everyone.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.

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