PHOSPHATE HOLDINGS, INCORPORATED

Moderator: Robert Jones
November 19, 2009
3:30 pm CT

Operator: Please stand by.

Good day everyone and welcome to the Phosphate Holding, Inc., Third Quarter 2009 Earnings conference call. As a reminder this call is being recorded.

Please note that Phosphate Holdings, Inc. (PHI), issued their third quarter operating results on November 12, 2009. As you read the company's press release, which is also posted on the company's Website at 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 oral statements on this call or other discussions other than those relating to historical information or current conditions are considered forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties many of which are beyond the company's control and which could cause actual results to differ materially from such statements.

These risks and uncertainties include 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 any 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: Thank you very much and welcome to everyone to our third quarter earnings call. I'm joined in Madison, Mississippi, by Tim Cantrell, our CFO, Ed McCraw, our Chief Operating Officer and Jim Perkins, our Vice President of Sales and Marketing.

The weekly industry publications are starting to come in and present welcome relief from the events of the last several months. DAP prices are increasing and the outlook is firm, primarily driven by continued demand DAP in China.

And finally, at long last, liquidity in U.S. and in the U.S. market. We're actually seeing kind of a mini-fall season after months of delayed demand due to weather conditions and a late harvest, so this is welcome news. We've seen DAP prices rise $10-$15 in the last week and we certainly expect a firm outlook for the foreseeable future.

Now turning to our third quarter -- a difficult quarter indeed -- we realized net income of $700,000. We had a gross loss of about a half million dollars and EBITDA for the quarter was approximately $3.8 million.

That included a litigation recovery - net recovery of $3 million. In connection with those proceedings, we also secured a judgment of $1.25 million that is being appealed and another component of the case is likely to move to trial early in 2010 against another defendant.

In the quarter, we also recognized a charge of about $600,000, which represents projected expenses - the expense portion of future environmental costs related to environmental issues that arose during our quarter.

The third quarter results are disappointing particularly in light of a significant drop in the cost of phosphate rock under our new contract versus prevailing cost in the prior quarter.

Several factors negatively impacted our third quarter results. First and foremost phosphate market conditions remained challenging throughout the quarter while export demand was adequate to permit an orderly flow of product. Demand in the U.S. was very, very weak again due to a late harvest, cool weather and price uncertainty impacting both farmers and dealers.

The price during the course of the quarter rose $20 but pricing remains soft based on weak U.S. demand. Our average price for the quarter was $295 per metric ton and this was our lowest quarterly average price since the last quarter of 2006.

The primary factor negatively impacting third quarter result however was our production rates, which reduced our sales and increased our per-ton production costs.

For the quarter we produced approximately 150,000 tons of DAP but 53,000 tons of that production was based on purchased sulfuric acid which remained at low prices throughout the quarter. If our sulfuric acid plants had run at planned rates we would have had sufficient sulfuric acid including purchased tons to support DAP production of 200,000.

That also does take into account that we had a scheduled maintenance turnaround during the quarter. If these results - production results - had been achieved our EBITDA would have been approximately $8 million for the quarter versus the $3.8 million achieved; still modest but much better under poor market conditions.

Turning now to our financial condition, liquidity remains very tight. As of today, we have a cash balance of approximately $3 million and availability under our revolving credit facility and the remaining availability is approximately $4.5 million.

During our last call, we spoke of a potential monetization of a fixed asset to provide us with a liquidity cushion. We have decided to try to move forward on that initiative and we are actively negotiating a transaction that would provide us up to $15 million of financing and it would take the form of a secured term loan of a fixed asset. We believe that that transaction will be completed during the fourth quarter although no assurances of completion of course can be given. In addition, we are presently engaged in a number of initiatives to try to lower our costs. That is a continuous effort for us. So this is really sort of a report on our progress. Our staffing levels are currently at 232; that is compared to an average staffing level in 2008 of 259. This represents an annual savings of about $1.3 million. We're also reviewing every function that we perform and every contract that we've entered into in a systematic process that is achieving results and we expect it to continue to do so as this analysis proceeds. But for us, remember production cost is largely a function of our production rates and we began an initiative several months ago to thoroughly analyze - and Ed's going to get into this in greater detail - but to thoroughly analyze the areas of the plant and the issues that cost us downtime and analyze those. And we then embarked on an initiative to identify targeted enhanced maintenance that we can perform during our turnarounds and we believe achieve better instantaneous rates and higher on-stream factors. The initial phase of this enhanced maintenance will take place in a January turnaround of our No. 2 sulfuric acid plant.

The cost over and above normal turnaround costs will be approximately $1.5 million. We would expect to incur a similar cost in a turnaround approximately a year later in our No. 3 sulfuric acid plant. But during the interim, we'll certainly look for opportunities to complete items of work on this checklist.

The last things that I want to cover before turning the discussion over to others are the environmental issues that arose during our third quarter. During August, the US EPA and the Mississippi Department of Environmental Quality conducted a joint inspection of the Pascagoula plant. During the course of that inspection they detected surface and groundwater contamination, which obviously came as a surprise to us. Immediately after that inspection, the surface contamination was remediated. The groundwater contamination was tested in an attempt to define the scope and size of the contamination. That testing has indicated that the area affected is very localized and that there has been no offsite migration.

Following the inspection the Mississippi Department of Environmental Quality issues a notice of violation alleging certain violations of the Clean Water Act. We are in active discussions with the MDEQ. We're cooperating with the agency in every way and we're attempting to resolve that matter and are optimistic that it will be resolved within the next several months.

On the federal front, the EPA has issued an order directing us to take certain actions and alleging violations under the Resource Conservation Recovery Act known as RCRA.

We have to-date either complied with each and every dictate of the order or we have submitted a plan of compliance to the EPA and are awaiting their response. We intend to continue our cooperation with these agencies and hopefully bring these matters to as prompt a conclusion as possible. With that I will turn matters over to Tim to go into greater detail on our financial results.

Tim Cantrell: Thanks, Robert. I would like to briefly point out a few highlights from our 2009 third quarter operating results. First, let me emphasize that little comparability exists between the third quarter of 2009 and the third quarter of 2008. The start of the third quarter of 2008 saw historic price levels for DAP. For example, DAP achieved a published high price of $1,107 per short ton U.S. Gulf during the quarter while the published high price for DAP in the third quarter of 2009 was $295 per short ton U.S. Gulf. Similarly, our third quarter 2008 average DAP sales price was $1,045 per short ton versus an average DAP sales price of $267 per short ton in the third quarter of 2009.

During the third quarter of 2009, we had total revenues of $42.1 million, of which $41.4 million represented DAP sales on 155,000 tons of DAP sold. For the same period in 2008, we had total sales of $139.1 million of which $136.3 million represented DAP sales on approximately 163,000 tons of DAP sold. This represented a 70 percent decrease in DAP sales quarter over quarter. This decrease was primarily driven by substantially lower DAP prices quarter over quarter, as previously mentioned, and fewer tons sold.

For the nine months ended September 30, 2009, our total sales were $171.6 million of which $170.3 million represented DAP sales on approximately 488,000 tons sold. For the same period in 2008, we had total sales of $410.0 million of which $402.3 million represented DAP sales on approximately 429,000 tons of DAP sold. Average sales price per short ton of DAP for the first nine months ended September 30, 2009 was $279, a 70 percent decrease over the average sales price per short ton of DAP of $937 in the same period in 2008.

During the third quarter of 2009, we saw U.S. Gulf prices increase from $257 per short ton at the beginning of the quarter to approximately $282 per short ton at the end of the quarter. While product prices did improve, we did not see a corresponding improvement in our profit margins. The third quarter was impacted by a planned turnaround, which reduces the amount of DAP tons we can produce and, thus, increased our fixed cost per ton. Further, we experienced various operating issues in our sulfuric acid plants going into and after emerging from the turnaround. Ed McCraw will further discuss the plant operations momentarily.

For the third quarter ended September 30, 2009, we had operating income of $943,000, compared to $20.1 million in the same period in 2008. This marked quite an improvement over the first two quarters of 2009, which had an operating loss of $18.2 million.

Our third quarter 2009 operating income was impacted by two unusual events. First, we reached a settlement with a former contractor and their insurance carrier pertaining to defective workmanship in repairing a waste heat boiler. After expenses, this settlement favorably impacted operating income by $3.0 million. Also, our lawsuit against the subcontractor went to trial and we were awarded damages of $1.2 million from this defendant. No financial statement recognition has been given to this event as the verdict is under appeal.

As Robert described earlier, we received a Notice of Violation from the Mississippi Department of Environmental Quality and an Administrative Order from the EPA, during the third quarter of 2009. While difficult to estimate the remediation costs associated with these matters, we have accrued $600,000 towards groundwater remediation in our third quarter operating results. We have made no provision in our financial statements and do not have a basis to reasonably estimate what fines, if any, may result from these actions.

Our SG&A expenses for the third quarter of 2009 were $1.0 million, or 2.4% of net sales, compared to $4.6 million in the third quarter of 2008. The third quarter of 2008 had $1.0 million in management bonuses, which were subsequently reversed in the fourth quarter of 2008. As of September 30, 2009, we have no management bonuses recorded.

We had a pre-tax profit of approximately $1.2 million in the third quarter of 2009, and net income of approximately $700,000.

EBITDA for the third quarter of 2009 was approximately $3.8 million and aggregate EBITDA for the nine months ended September 30, 2009 was negative $9.0 million.

I would like to re-address the plant's third quarter operating performance. While we produced approximately 150,000 tons of DAP during the third quarter, that production level was significantly augmented by 53,000 tons of purchased sulfuric acid during the quarter. Had our sulfuric acid plants run at planned rates and including the planned turnaround, we would have had enough sulfuric acid to support 200,000 tons of DAP produced for that quarter. Again, assuming the additional produced tons could have been sold at the average price achieved in the third quarter, we would have expected EBITDA generated in the quarter to have approximated $8.0 million instead of the $3.8 million achieved.

Now, let me briefly address our liquidity position.

Cash flow from operations for the nine months ended September 30, 2009 approximated $8.3 million. A major contributor to this cash flow was the expedited income tax refunds we received, which approximated $20.2 million. At September 30, 2009, we had borrowings of $8.3 million under our revolving credit facility and another $6.6 million of letters of credit outstanding, which reduces our borrowing capacity. We continue to aggressively manage our liquidity. Our current credit facility is capped at $17 million, which provides little flexibility in meeting unforeseen issues that arise from time to time which impact our cash needs. Currently, we have a cash balance of approximately $2.9 million, no borrowings outstanding under the credit facility, and have capacity under our credit facility of $4.5 million, net of outstanding letters of credit. As Robert indicated earlier, we are in the process of securing additional financing to enhance our liquidity position.

Now, I would like to turn the presentation over to Ed McCraw, our Chief Operating Officer, for a few comments.

Ed McCraw: In the third quarter, we produced 158,166 tons of sulfuric acid, versus 213,981 tons in the second quarter. Third quarter DAP production was 150,031 tons, versus 170,503 tons in the second quarter. The greatest impact to this quarter’s production was downtime for turnaround, with the impact offset somewhat by purchased sulfuric acid.

In our second quarter earnings call, I shared information with you regarding the negative impacts of reduced instantaneous rates and resulting steam shortage on our sulfuric acid production rates. Just as a reminder, the instantaneous rate is the maximum daily rate that the plants can operate at with no downtime, and the instantaneous rate that our plants are designed for is 1,500 TPD each, or a combined total of 3,000 TPD. This rate varies over time with ambient temperature and the condition of the catalyst. The catalyst becomes fouled (or dirty) between turnarounds and, again, is one of the main reasons you have a turnaround.

In July and the first half of August prior to the turnaround, our combined effective instantaneous rate was about 2,300 TPD, versus the design, clean conditions, rate of 3,000 TPD. The instantaneous rate, especially in the No. 2 sulfuric acid plant, where the last turnaround was conducted in January 2008, had deteriorated dramatically in the period leading up to the turnaround. The quality of the inlet air filter has a major impact on the rate at which the instantaneous rate will decline between turnarounds. We installed a new, improved filter in the No. 3 sulfuric acid plant in 2008, and will install a new filter in the No. 2 sulfuric acid plant in 2010. This should allow us to either extend the time between turnarounds, or reduce the decline in instantaneous rates between turnarounds.

In August, we conducted turnarounds in all of the production facilities.

The extended turnaround in the No. 3 sulfuric acid plant, and abbreviated turnaround in the No. 2 sulfuric acid plant, was intended to restore our combined, instantaneous rates to approximately 2,800 TPD until we can complete a full turnaround in the No. 2 sulfuric acid plant, tentatively scheduled for January of 2010. We believe we were successful in achieving this, but do not expect to re-establish the full, instantaneous rate until the January 2010 turnaround. The instantaneous rate of the No. 2 sulfuric acid plant will likely decline somewhat prior to that turnaround, since we did minimal catalyst work in August.

In addition to these issues with instantaneous production rates, we incurred several production interruptions during the quarter. Prior to the late August turnaround, we experienced significant issues with the shell of the final tower in the No. 3 sulfuric acid plant. We had planned, and did complete, a major improvement to the integrity of the shell during the turnaround.

Subsequent to the turnarounds, we experienced unexpected downtime due to problems with the internals of the final tower in both sulfuric acid plants, and that represents the single most significant operating issue we have dealt with since the turnaround. We believe the root cause of the problem was corrosion during the outage when moisture/humidity formed weak acid on the affected components. We've had several episodes, with the most recent being relatively minor and believe we'll get past this issue.

In addition, we've experienced an unusually high volume of the type of issues that typically contribute to our unscheduled downtime—items which are, frankly, just a function of the age of our sulfuric acid plants.

You may recall that, in 2007, we initiated an outside engineering study to review our short-term expectations for operations in the sulfuric acid plants and to develop a plan to systematically replace aging components to ensure future reliability. This evaluation was completed in 2008. This project, when fully implemented, will address many of the issues currently causing our downtime. In September of 2008, we placed the first piece of replacement equipment on order. Unfortunately, with the financial crisis and associated impact on our business, we were forced to place that order on hold. It's certainly our intent to release the project as soon as we are comfortable doing so, but this is a significant project and will take several years to fully implement.

Our current efforts are focused on developing a smaller, less costly, project that targets repairs or enhancements to those areas of the plant that are contributing the most to our downtime. For example, there is a particular area in two of the towers that causes a significant portion of the problems with those two towers. We are attempting to design a “fix” targeted to that particular area to improve our operating factors. We hope to have such a project defined within the next several months.

In the interim, while we expect improved performance in the sulfuric acid plants, we have arranged for a supplemental supply of sulfuric acid, which provides a high degree of confidence that we can sustain a reasonable level of DAP production (~60,000 tons per month).
That concludes my remarks I'd like to turn it over to Jim Perkins to cover the sales and marketing.

Jim Perkins: Thank you Ed. First I'd like to speak to the domestic market. In the U.S. many dealers were hurt last year as they were caught with high-priced inventory when demand cratered and prices plummeted. This year they've reacted by significantly reducing inventories.

Inventories have been reduced to historically low levels and they've deferred the purchase of additional fertilizer until they seen signs at the farmer level of demand. That demand at the farmer level has been extremely slow in coming. The crop harvest is running significantly behind the norm. As of November, the nation's corn crop was only 44% complete and that's compared to a norm of 82%. That's the lowest, the slowest pace of harvest in the last 35 years. Fortunately more recently, mild dry weather has allowed farmers to get back into their fields and the pace of the crop harvest has accelerated. Farmers have begun to call for fertilizer and dealers have begun purchasing again. Over the last two weeks, there has been a significant increase in demand for prompt river barges and prices have rebounded from a low of around $260 a short ton to current prompt pricing levels of $285 or more for river barges.

Traders in anticipation of a run-up in demand and prices have begun taking long positions on the river. We're optimistic regarding market conditions for the remainder of this calendar year and into the first quarter of next year.

The fundamentals seem to be in place for a robust spring season. First, the soils are nutrient depleted. Significant reductions in fertilizer applications in prior seasons have left soils seriously in need of fertilizer. Secondly, farmers should have money to buy fertilizer. The combination of bumper crops this year and good crop pricing is expected to leave the farmers with money to buy fertilizer. December of 2009 corn has been selling as high as $4 a bushel this week. Finally low inventory levels, current inventory levels both in the distribution system and at the producer level are historically low. According to (TFI)'s statistics DAP and MAP inventories at the end of October were down 40% and 36% respectively as compared to last year.

In the international markets the fourth quarter is normally a slow time of year with the possibility of spot purchases. India and Pakistan are typically out of the market and China is a seller rather than a buyer of DAP.

This year China's fourth quarter demand for over 300,000 metric tons of US DAP has come as a very pleasant surprise for phosphate producers as has late buying from both Pakistan and India. This demand during a period when we have been waiting on domestic demand has served to support international pricing and help producers avoid inventory problems.

In the near term, Latin American buyers are also expected to resume buying, in fact, Brazil has already begun. Looking ahead a key driver for international market recovery is the continuing upturn in global economies. Thus all in all we look for near term stability and longer term firming in the international markets.

Robert Jones: In a nutshell what Jim is saying is markets are normalizing. The incredible lack of demand and drop off in application rates seems to be behind us. It was never sustainable and looking ahead we look for more normal applications in the U.S.

That concludes our prepared remarks. If there are any questions, we'll be glad to respond to them.

Operator: Thank you sir. The question and answer session will be conducted electronically. If you would like to ask a question please do so by pressing the star key followed by the digit 1 on your touchtone telephone. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again please press star 1 and we'll pause for just a moment. We'll take our first question from Ray Watson from Jeffries.

Ryan Watson: Hi. It's Ryan Watson. Thanks for taking my call. What do you consider sort of normalized levels of DAP tons shipped? I mean you spoke about just the sulfuric acid shipments sort of replacing, you know, plants 2 and 3 which get you to maybe a 60,000 per ton month rate. I mean do you think you can maintain that, you know, on a go forward basis through the bulk of 2010?

Robert Jones: Yes.

Ryan Watson: Okay so you're talking then about 700,000 plus tons?

Robert Jones: Well, yes. And, I think most of you heard this, our production capacity using the sulfuric acid that we can manufacturer at Pascagoula is approximately 750,000 short tons per year. Using supplemental purchased acid we can increase those rates to approximately 870,000 tons per year.

There is currently sulfuric acid available on the open market at costs that are economic to produce DAP. We have forward-purchased sulfuric acid into the first half of 2010 and those supplemental supplies should permit us to achieve production levels slightly higher than the 60,000 tons per year.

Ryan Watson: Okay. And can you talk about sort of your - the money that you need to spend on - I don't think you called them refurbishments but I kind of will. What sort of cap-ex can you outline - of course you have a covenant but I mean are we looking at 5-10 for 2010?

Robert Jones: Well I mean what I referred to earlier in my remarks and Ed did as well is what I'll call enhanced maintenance.

Ryan Watson: Okay.

Robert Jones: And these are activities and repairs that we intend to make that are sort of the result of the analysis of downtime that we've done and we've identified repair activities, enhanced maintenance that we can perform that will we believe increase our instantaneous rates and our on-stream factors.

The cost that we're projecting for those activities which we would expect to do primarily during turnarounds would be in the aggregate $3 million for the two plants with half being spent in a January turnaround and the other half being spent approximately a year later.

Ryan Watson: Okay so it's well, well within your means to spend this money?

Robert Jones: This activity, yes, is within our - well within our means.

Ryan Watson: And I guess, you know, the environment seems to be improving and that's a positive. I was curious as to why you were still kind of pursuing the liquidity action? It sounds like you're going to put some debt on - is it going to be structured as far as a sale lease-back or just a lien on one of your assets?

Robert Jones: It would be a lien on one of our assets.

Ryan Watson: Is there a reason why you still feel the need to kind of pursue that right now because it sounds like, you know, your liquidity picture is tight however, you know, you are forecasting a much more positive picture at least for the next six months.

Robert Jones: There's no downside. We're keeping the fixed asset applied in its highest and best use. It's the availability that we're seeking to achieve. We won't draw it unless we need it. Identified uses for the additional financing are a liquidity cushion. And this enhanced maintenance and other, you know, potential capital expenditures that we - normal capital expenditures.

We are still running very tight as you could tell. We've got a $3 million balance and $4 million of availability. Working capital levels are lumpy. We have over the last several months we've basically been in and out of the revolver - the current revolver that we have.

We're probably at a good position in that cycle. But you are correct, conditions are improving.

Ryan Watson: Okay and this will be a term facility so it will be fully drawn as of day one?

Robert Jones: No it will not be. It will have a - it will have a revolving feature but it can remain outstanding for long term tranches are likely to be - we'll likely to be able to draw a tranche and leave it outstanding for some period of time.

Ryan Watson: Okay so it'll be like a three to five year piece of, you know, piece of debt, something along those lines?

Robert Jones: Or longer.

Ryan Watson: Or longer. Okay. That's good. And then on the EPA actions what do you foresee kind of as the total cost to remedy that? I mean I think - I wrote here $600,000 but I wanted to understand kind of the extent and, you know, I understand you're taking those actions very seriously and working towards it.

I just wanted to kind of get a sense for like, you know, how much we should think about money set aside to kind of just, you know, ameliorate all of the, you know, the action by Mississippi and action by the EPA.

Robert Jones: Ryan, these are of course estimates at this time.

Ryan Watson: Okay.

Robert Jones: But we're generally thinking in terms of total expenditures - now this is not - this would not include any civil penalties that may be sought by EPA or MDEQ but the response to enhance our containment, remediate the contamination that has occurred we're looking at approximately $2.5 million.

Ryan Watson: Okay, that's an all-in number? Okay.

Robert Jones: That's an all-in number to be spent over a period of time.

Ryan Watson: Okay. And one final question, what do you...

Robert Jones: Jim do you want to add to that? Is that, I mean, that's just our current best guess?

Jim Perkins: No it's an (and/or) to today.

Ryan Watson: And you've built in some - okay. And you feel fairly comfortable with that. For a normalized level, I mean, I don't know if it's reasonable to assume DAP prices go to, you know, $800 to $1000 a ton again but, you know, certainly they're at lower levels and - now.

And if you were to return to more of a normalized environment what do you consider EBITDA margin per ton like on a dollar basis for your business to be reasonable?

Robert Jones: Too many moving parts.

Ryan Watson: Okay.

Robert Jones: There's no normalized margin per ton that I could address.

Ryan Watson: Okay. And that's because just, you know, because of ammonia and sulfur prices moving as well?

Robert Jones: Absolutely, I mean...

Ryan Watson: Yeah.

Robert Jones: ...the range of sulfur prices in the last 12 months - 12-15 months is being paid to take it to $650 per ton. Ammonia is nearly $1000 a ton to $1000 a ton...

Ryan Watson: Right.

Robert Jones: ...sulfuric acid $400 per ton to being paid to take it. How do you, I mean, there's no normalized margin that I could...

Ryan Watson: Okay, okay. Thank you for your time.

Robert Jones: You're welcome.

Operator: As a reminder that is star 1 if you'd like to ask a question. And we'll take our next question from Nick Walsh from Wilfrid Aubrey.

Nick Walsh: Hello Robert.

Robert Jones: Hello Nick, how are you?

Nick Walsh: Good, how you doing?

Robert Jones: We're fine.

Nick Walsh: Good, good. A quick question, there's no way we could see the quantification of the benefit from the rock contract. I understand the confidentiality of it and everything but we could just assume that things would be much worse absent that contract correct?

Robert Jones: Rock cost would be much higher absent that contract. Would have been assuming they would have continued at the prior - the immediately preceding quarter's level.

You can - you can see posted market prices of rock in various publications. But...

Nick Walsh: Okay.

Robert Jones: ...yes, I mean, you certainly can assume for this particular quarter our costs were lower under the new contract than they would have been outside of that contract.

Nick Walsh: And you're not in a position to give any kind of order of magnitude?

Robert Jones: Not really.

Nick Walsh: Okay.

Robert Jones: No I really can't Nick.

Nick Walsh: Yeah I understand. The...

Robert Jones: That's confidential, very confidential. The current posted price for phosphate rock per one particular publication is $95-$105 FOB North Africa.

Nick Walsh: Okay. And our sales are still being done primarily through Transammonia?

Robert Jones: Our export sales are being done exclusively through Transammonia.

Nick Walsh: Okay. And just - I'm just curious in terms of...

Robert Jones: Export sales are being handled internally.

Nick Walsh: I know they've provided us some liquidity in the past. Did they do anything this quarter and was there any way we can identify what, I mean, what costs we incurred because of that if you understand my question.

Robert Jones: No, the answer is no.

Nick Walsh: We did not utilize that?

Robert Jones: We - no, we have...

Nick Walsh: Okay.

((Crosstalk))

Robert Jones: ...buy product and pay for it that's been the extent of our activity.

Nick Walsh: Great, that's it for me. Thank you.

Operator: And we'll take our next question from Jake Mercer from Whitebox Advisors.

Jake Mercer: Hi Robert.

Robert Jones: Hi Jake.

Jake Mercer: I was curious - good, good. Hey, I was curious if the boards made a decision on the poison pill?

Robert Jones: No final decision at this point. One will be made very shortly.

Jake Mercer: Okay. And are you going to - is there going to be a press release sent out?

Robert Jones: I'm not sure we'd need a press release on that. We would issue a press release if we extend the pill.

Jake Mercer: Okay. I guess I'd just like to go on record and hopefully the board - everybody on the board is listening then that you guys don't, you know, that you don't extend the poison pill.

Robert Jones: Thank you for that comment.

Jake Mercer: Well I've been vocal before so I, you know, I have to go on the call and, you know, reiterate our view. Onto the next question, have you guys thought any more about, you know, filing a From 10, being a public company?

Robert Jones: We continue to analyze that. The current thinking is we'd like to see some impact on our share price from improving market conditions before making that - taking that step. But that's a matter that's continuously under evaluation.

Jake Mercer: And what's holding you back if you did want to file? I mean are you - is everything okay as far as stocks and everything else?

Robert Jones: Yes I mean it's - as far as what - I'm sorry?

Jake Mercer: Well stock compliant. I mean is there anything that would hold you back from filing if you wanted to?

Robert Jones: No. No there's not. We would simply have to file, I mean simply, we would have to file a Form 8, I mean, the - we've made, I mean, the disclosure materials are generally available it's updating them and repackaging them and making the filing.

Jake Mercer: Okay thanks. Last question, do you guys still have (Moelis) on retainer?

Robert Jones: No but we still talk to (Meolis) and seek advice from time to time but no they're not under - they're not on retainer.

Jake Mercer: Okay thanks.

Robert Jones: You bet.

Operator: And we have a follow-up question from Ryan Watson from Jefferies.

Ryan Watson: Just to follow-up on that phosphate rock supply agreement. Were you implying that, you know, because phosphate - the spot is around $90 I'm seeing but $90 to $95. Are you saying then that the contract rate that you have now is at a discount to that?

Robert Jones: Not necessarily. I guess what we've previously said, Ryan, is that the phosphate rock price to some - is to some extent based on relevant market conditions. And so it moves independent of actual phosphate, I mean, it's market conditions including market conditions for phosphate rock.

Ryan Watson: Okay. So can you be more specific when you say market conditions? Like...

Robert Jones: I can't be really more...

Ryan Watson: Okay, okay.

Robert Jones: I really can't be more specific.

Ryan Watson: Okay, okay. Thanks.

Robert Jones: You bet.

Operator: And one final reminder that is star 1 if you would like to ask a question. And we'll go next to Christopher Miller from JP Morgan.

Christopher Miller: Thank you just a couple quick housekeeping items. The current liquidity that you mentioned, the $4.5 million revolver...

Robert Jones: Chris, I'm sorry, I can't hear you.

Christopher Miller: Okay, sorry about that. Just housekeeping, on the revolver you said you had $4.5 million available...

Robert Jones: Right.

Christopher Miller: ...what was the borrowing base on the revolver? Is that based on full availability, the borrowing base?

Robert Jones: Yes. Now that - we also have outstanding letters of credit that consume some of that availability.

Christopher Miller: Six point six.

Robert Jones: That's correct.

Christopher Miller: Okay. And then just to go back to the poison pill, Robert, I'm curious your view - obviously it's a decision to be made by the board but what would be the - in your view the benefit of keeping that at this point?

Robert Jones: Well, I mean, there are both benefits and risk and cost as well. I mean, I'd say the benefits are generally pretty well known. I mean it's effectively prevents a two-tiered transaction that's unfair to the shareholders. It prevents someone from coming into the market and acquiring a control position that is inimical to the interest of the balance of the shareholders.

There is a change of control provision in our current phosphate rock agreement. It prevents entry into the market by someone unbeknownst to the company and the board to assume a control position that would have an inimical impact on that relationship.

The arguments against are also just, you know, well known. We've got large shareholders; generally they know how to take care of themselves. There's always the argument that it's a deterrent to a transaction. And the board is weighing those pros and cons and the board is taking into account the views expressed by the shareholders and a decision will be made very shortly.

The current pill expires at the end of December.

Christopher Miller: Would you be willing to share your thoughts with what your recommendation and your conversations with the board will be on the issue?

Robert Jones: I think that would be preempting the board's authority and I would rather do that in the confines of the boardroom Chris.

Christopher Miller: Okay fair enough. I appreciate it, thank you.

Robert Jones: You bet.

Operator: And it appears there are no further questions at this time. Mr. Jones, I'd like to turn the conference back over to you for any additional or closing remarks.

Robert Jones: Well again thank - I want to thank everyone for their interest in the company and for their attendance today. As I say this is fairly recent vintage and we've had a couple of false starts over the last six to eight months but for some reason this - the improvements - the inquiries regarding orders into 2010 that we're receiving indicates to us kind of a return to normal and better market conditions moving forward.

We're also taking, you know, positive steps to address and lower our cost structure from levels that we've been, you know, that already benchmark very well among other producers. So we're looking forward to better times and hopefully a positive 2010.

Thank you everyone and we will see you after the close of the year.

Operator: That concludes...

Robert Jones: That's all I have. Thank you.

Operator: That concludes today's presentation. Thank you for your participation.

END