PHOSPHATE HOLDINGS, INC.

Moderator: Robert Jones
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Operator: Good day and welcome to the Phosphate Holdings earnings results conference call. This call is being recorded.

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At this time, I'd like to turn the call over to the Phosphate Holdings Chief Executive Officer, Mr. Robert Jones. Please go ahead, sir.

Robert Jones: Good afternoon everyone and welcome to our earnings call. We appreciate your being here.

I'm joined in Madison, Mississippi by Ed McCraw, our Chief Operating Officer, Tim Cantrell, our Chief Financial Officer, and Jim Perkins, our Vice President of Sales and Marketing. Jim has just assumed this position. Jim has spent 30 years in the fertilizer industry. He has extensive experience and exposure to all facets of the business. Most recently, Jim Vice President and General Manager at the Pascagoula facility. Jim is a smart guy. He'll do a good job for us, and hi also did a great job at Pascagoula, putting together a solid team, with good replacements for him down there, so we're welcoming him to Madison.

Our fourth quarter results were absolutely horrible. During the quarter, we had an operating loss of $90 million. We had negative EBITDA of $88.5 million, including $84.8 million of inventory write-downs during the quarter. This is perhaps the most challenging period our industry has faced, and certainly in my 35 years in the business, I have never witnessed anything quite like the fourth quarter and the very early part of 2009.

What I'm going to try to do before Tim gets into the details with the numbers, is to try to just explain what happened since some unknown date in late September, when the world decided to stop consuming phosphate fertilizers.

In order to understand what happened in our fourth quarter, we really have to go back to late 2007 and early 2008. During 2007, DAP prices doubled during the year. Production of phosphates increased to meet surging demands. This placed strains on raw material availability, primarily sulfur and phosphate rock, and led to shortages in both of those materials by the end of 2007. Raw material suppliers, particularly those of sulfur and phosphate rock, responded with very sharp increases in their prices in early 2008. Sulfur, during the first nine months of 2008, increased from $112 per ton FOB C&F Tampa to $635 per ton. Phosphate rock, at the beginning of 2008, increased several hundred percent and doubled again by the end of the third quarter. During the first three quarters of 2008 these price increases and the increasing cost of DAP were very easily pushed through to the end users, as corn prices and other grain prices at the time were escalating very rapidly.

Late in the third quarter, for the first time, we experienced some difficulty and in late September in making a shipment and making a sale. At that time, little did we know what was unfolding before us. We knew things were flopping. Anybody in this business knows what follows high prices, but the extent of the devastation in the fourth quarter, was certainly not foreseen in early October. At October 1, DAP prices were still near their historical highs at approximately $1,200 per metric ton FOB U.S. Gulf.

At Phosphate Holdings, we had just completed, as of October 1, three excellent quarters, where we had operating earnings of $86 million and generated EBITDA of nearly $95 million over the nine-month period. We had a very solid balance sheet, with a cash balance of $13.0 million. However, due to the very rapid rise in input costs, most of the cash generated in the first nine months of the year were tied up in our inventories and working capital.

Shortly after the quarter began, we realized that DAP demand had absolutely vanished, and sales into a completely illiquid market were nearly impossible. By mid October, DAP virtually had no clearing price. There were posted market prices all along, and those postings remained above $1,000 through November 10, and during that week, based on one sale, a tender into Ethiopia, dropped $500 overnight. Not only had demand disappeared, certainly need had not disappeared, but there was basically no money available – no credit to purchase the product. At mid October, basically all of our attention turned to preserving our liquidity, and in response to market conditions, we began to cut back production rates. We discontinued the purchase of phosphate rock in October and did not resume purchasing rock until March 2009. We reduced capital expenditures to the base minimum and placed several projects on hold during late 2008.

In October, our sales dropped to $14 million, down from $70 million in September. The sales would not recover for the balance of the year and were down 80 percent in the fourth quarter from third quarter levels. By November, we were running out of cash and we were unable to monetize our inventories in a completely illiquid DAP market. Not only could we not monetize those inventories, it was obvious to us that they were very, very rapidly losing their value.

In order to sustain our operations through the final two months of the year, we entered into two significant sales transactions that generated between $45 and $50 million in cash. We also secured tax refunds in the amount of $15 million, but by November we also felt that there would certainly be some semblance of a fall season in the United States. That never occurred. Our fall season consisted of ten barges and two trucks.

During the course of the fourth quarter, DAP prices fell by more than $800, from $1,200 to under $400, and there was absolutely no opportunities to sell between the high point of that range and the low point of the range.

2009 has brought very little relief. Markets for phosphate remained dormant through mid February. In late February, we saw an uptick in demand as India completed three major transactions involving over three million tons of product. We saw early orders out of South America that we had not expected until June or July, and we even saw some movement in the United States. Prices, during this period, rose from about $330 to about $375 FOB U.S. Gulf for export. Since March of 2009 the market has again deteriorated. Prices have dropped about $40 per ton. Export demand, other than India, has receded and we're still waiting on a weather-delayed U.S. spring season. That season should be eminent and we should see rapid movement to the field for the next two months at least, based on projected plantings of corn, which USDA is still predicting about 86 million of acres for the year.

The huge loss that we sustained in the fourth quarter of 2008 caused us to violate a financial covenant under our revolving credit facility with PNC. We have since amended that credit facility. By the terms of the amendment, the size of the facility was reduced from $27.0 million to $17.0 million and interest rates were increased. The size of the facility we believe is adequate, based on our current projections for raw material prices and DAP prices, and we're currently confident that we will meet the covenants under that credit facility.

Also, I want to give you an update on our phosphate rock contract with OCP. You will recall that in mid 2008, OCP gave notice to all of its customers that it, as part of an overall modernization plan to upgrade their contracts, they decided that rather than allow existing contracts to extend, they would terminate those contracts with the intent of concluding new agreements with their customers prior to the end of 2008. During the third quarter, in our negotiations with OCP, we were very close to agreeing on the terms of a Term Sheet. Those discussions were somewhat placed on the backburner during the fourth quarter, due to market conditions affecting us all. At this point, we have not entered into a new contract with OCP. We are continuing negotiations with OCP, with the expectation that a new contract will be concluded prior to July 1 of this year.

Before I turn things over to Tim to go through the numbers in greater detail, I want to end on a positive note. I know I've said very little positive today, but I assure you that phosphate demand will resurface. There are uncertainties that are lingering, and I'm not exactly sure when, but it will recover. The world has basically stopped consuming phosphates for a six-month period. The lack of fertilization has already impacted yields in various parts of the world. In the U.S., we've had no fall season and we're going to have a spring season where application rates will be down sharply from the prior year. This simply not sustainable, demand will return.

Our goal during the current crisis has been to survive until market conditions improve and we can capitalize on that improvement. I believe that we will do that. During this period, our employees have worked incredibly hard. They've demonstrated keen survival instincts, and to preserve liquidity during a crisis of this magnitude is, I believe, a positive accomplishment.

At the same time, we're very sensitive to the large loss of value that our shareholders have sustained, and we remain dedicated and committed to restoring that value as market conditions improve, as certainly they will. Tim, let me turn it over to you to give some more color on our financial results of the fourth quarter.

Tim Cantrell: Thanks, Robert.

As Robert indicated, we had a very difficult fourth quarter. During the fourth quarter of 2008, we had total revenues of $35.8 million, of which $30.7 million represented DAP sales on 64,000 tons of DAP sold. For the same period in 2007, we had total sales of $70.6 million, of which $69.2 million represented DAP sales on approximately 169,000 tons of DAP sold. This represented a 56 percent decrease in DAP sales quarter-over-quarter, and this decrease is primarily driven by the low volume of DAP sales we experienced in an illiquid fourth quarter DAP market.

For the year ended December 31, 2008, our total sales were $445.6 million, of which $432.9 million represented DAP sales and approximately 493,000 tons sold. For the same period in 2007, we had total sales of $222.4 million of which $219.6 million represented DAP sales and approximately 621,000 tons of DAP sold. Average sales price per ton of DAP for 2008 was $878, a 148% increase over the average sales price of DAP of $354 in 2007.

The significant drop in DAP prices had a profound impact on our fourth quarter 2008 operations. As Robert stated earlier, DAP prices dropped nearly 67% during the quarter, which resulted in a fourth quarter lower of cost or market write down of $84.8 million on our inventories. The write down of inventories was the principle driver of the $90.5 million operating loss we incurred in the fourth quarter.

While there was also a significant drop in sulfur and ammonia costs during the fourth quarter, it represented only a marginal benefit and did not offset the impact of the drop in DAP prices.

For the year ended December 31, 2008, we had an operating loss of $4.5 million versus operating income of $40.1 million in 2007. Again, the difference is attributable to a 2008 total LOCOM adjustment of $87.7 million and substantially fewer tons sold during 2008.

Our SG&A expenses for the fourth quarter of 2008 were actually a positive $1.7 million, as we reversed $4.7 million in management bonuses in the quarter. This was partially offset by the write-down – or write-off of $1.8 million in previously capitalized offering costs, resulting from our indefinite postponement of the IPO that we filed in October of 2008. For the year, SG&A was $8.4 million. Again, we expensed $1.8 million related to the postponement of our offering, and incurred an additional $1.1 million during the year for re-audit costs associated with the offering. Without these costs, our SG&A would have been $5.5 million for the year or 1.2 percent of net sales.

We had a pre-tax loss of $91.4 million in the fourth quarter of 2008, and a pre-tax loss of $5.2 million for the year ended December 31, 2008. Net loss for the three- and twelve-month periods ended December 31, 2008 was $58.1 million and $3.5 million respectively, and net income was $11.2 and $42.9 million for the same periods in 2007. 2007 results also included hurricane-related gains of $37.8 million, resulting from insurance recoveries.

Finally, we entered the fourth quarter with aggregate EBITDA of $94.4 million. However, we gave back $8.5 million of that in the fourth quarter, principally through the write-down of our inventories, thus aggregate EBITDA for the year ended December 31, 2008, was a positive $5.9 million.

If I could, let me comment on our liquidity and cash position. As DAP demand vanished, we saw our working capital behave similarly. At the beginning of the fourth quarter, we had working capital of $93.3 million. At year-end, our working capital declined to $31.7 million. This nearly $62 million drop in working capital put significant pressure on our liquidity.

To address this pressure, we took several steps. First, we discontinued the purchase of phosphate rock. We made no new purchases of phosphate rock from October 2008 through February of 2009. Secondly, we utilized our existing credit facilities and entered into several major sales transactions with key relationship partners, which were provisionally priced. Thirdly, we placed a heightened focus on cost containment in our manufacturing process. And finally, we expedited the refund of previously paid federal income taxes.

At year-end, as Robert mentioned, we were in violation of a fixed-charge covenant pursuant to our credit facility. We worked with our lender, and on April 17, 2009, we amended that facility, which waived this violation. It also reduced our facility size from $27.0 million to $17.0 million. This amendment extended the maturity of the credit facility to March 31, 2012. It allows for $15.0 million in capital expenditures in 2009, and $10.0 million thereafter. Also, new financial covenants were established and certain minimum inventory levels are required under the amended facility. As Robert said, we believe this amended facility is adequate at current working capital levels and that we will be able to comply with the new covenant.

At December 31, 2008, we had borrowings of $11.5 million under our revolving credit facility. Currently, we have just over $1.0 million borrowed on this facility. We believe that our credit facility and cash from operations, once DAP demand resurfaces, will be adequate to meet our obligations in near-term.

At this point, I'd like to turn the presentation over to Ed McCraw, our Chief Operating Officer, for a few comments.

Ed McCraw: Let me just give you briefly where we stand on production. Just as a reminder from our last call, both sulfuric acid and the DAP production for the third quarter were approximately 94 percent of budgeted 242,000 tons and 173,000 tons, respectively. And the most significant issues that affected us the third quarter was the sulfur shortage that resulted from the delay (and) a completion of the scheduled turnaround at the adjacent refinery, downtime associated with Hurricane Gustav, and a bearing failure on the main blower of the No. 3 sulfuric acid plant.

In October an inspection revealed the initial signs of a failure in the refractory in the furnace of the No. 3 sulfuric acid plant, which resulted in about a nine day outage in that plant. As Robert indicated earlier, certainly by October, we were beginning to really feel the pressure of the market situation. (But in) trying to deal with our commitments and controlled inventories, in early November we took an outage in the DAP plant to replace a metal tire on the granulator, and began initial intentional sulfuric acid production curtailment for inventory control, and we transitioned to a DAP production level of approximately 50 percent of capacity and maintained that level well into March. For those reasons, a review of operating factors and instantaneous rates that we normally would do would be somewhat meaningless. We did return to full production in April, and through yesterday, April 26th, are essentially on budget for the month. At present, we have no known looming production issues.

Let me turn it over to Jim to make a few comments about the market.

James Perkins: Thank you, Ed.

As these gentlemen have already spoken to where we've been, let me take a minute or two to share with you where we are today. As Robert, in particular, has already mentioned, fiscal 2009 is off to a slow start. Prices remain depressed and demand lackluster. Adverse weather, in particular, has delayed the domestic spring planting. According to Doanes, only six percent of the spring wheat crop has been planted, versus 18 percent for the ten-year average. Similarly, planting progress for corn is expected to reach somewhere between 17 to 20 percent this week, and that's compared to a five-year average of about 28 percent. In some areas, wet weather continues to impede progress. I heard earlier today that some areas, in both Oklahoma and Kansas, received up to six inches of rain in the last day or so.

Current movement of DAP in the domestic market remains slow, but shows some signs of picking up. Truck movement out of the warehouses is reportedly accelerating. The bulk of the spring fertilizer application lies ahead of us, but it's going to be compressed, in terms of timing. Internationally, we are in the expected time of year for slow demand. There continues to be some small lot business in Mexico and South America. However, the only major international market at present is in India, and they know it. It is the only region that currently continues to buy in large quantities. It's a highly competitive market. – Robert.

Robert Jones: At this point, we will be glad to try to answer any questions you have.

We'll have our first question from Fran Montagna with Babson Capital.

Fran Montagna: Hi, good afternoon.

Male: Good afternoon.

Fran Montagna: I was hoping you could tell us what is the new fixed charge covenant the Company is supposed to meet and does it step up over time?

Robert Jones: It is essentially the same fixed-charge coverage ratio. It's 1.2 to one. In the interim, there are monthly EBITDA covenants, and then quarterly. We build up to a full quarter average. So, let me make sure you understand. We have interim monthly EBITDA covenants until June 30 of 2009, at which case we must comply with the 1.2 to one fixed-charge coverage ratio. The 1 point – then we have to apply for the – comply for the 6 months ended September 30, the 9 months ended December 31, and 12 months ended March 31, and 12-month periods thereafter.

Fran Montagna: OK. And will you be putting this full amendment available for us to review, or perhaps put it in your Qs, all the metrics, so that it's clear to everybody?

Robert Jones: I'd certainly have to confirm that there's nothing confidential in the agreement, but we certainly did not have those plans, but we'll consider that request.

Fran Montagna: OK. And is there anything else, like interest coverage, or is it just simply fixed charge, the way you just depict it?

Robert Jones: There is a net-worth covenant that is at a very low level. There are limitations on capital expenditures, but the only – other than net worth, the only financial covenant is the fixed-charge coverage ratio.

Fran Montagna: OK, thank you.

Robert Jones: Tim, did you have anything to add?

Tim Cantrell: Yes, Fran, I was just going to state that the – virtually all of the covenant requirements are going to be set forth out in the footnotes to the audited financial statements, which are going to – which are now, I believe, on our Web site.

Fran Montagna: OK, thank you.

Operator: We'll go next to Nick DeLeonardis with Bond Street Capital.

Nick DeLeonardis: Hey, guys, a quick follow up to that same question. Can you share what the pricing is on that credit facility?

Robert Jones: Sure. Tim, do you have the – on the term facility is (L plus) 300, and there's also a term facility, and it's (L plus) 350.

Nick DeLeonardis: OK.

Male: (Revolving).

Nick DeLeonardis: And then on the current negotiations with OCP – I know you can't share details, but just in terms of you know what sort of contract we should expect – is this likely to be a short-term deal, long term? You know when – can you kind of give some parameters around when pricing would be set? Will it be fixed variable – just that kind of detail, if possible?

Robert Jones: Well, I'm certainly limited in the details I can provide you. We expect it to be a multi-year contract. And, with all that's transpired in the fourth quarter and 2009 year-to-date, we're certainly you know looking at pricing arrangements and reexamining (prior) price structures, but to comment beyond that, at this time, would be inappropriate. These are just confidential business negotiations.

Nick DeLeonardis: OK. You mentioned that there's one million drawn on the credit facility today. Can you give just an update on what the cash position is?

Robert Jones: Well, if we're drawing on the facility, the cash position is basically zero.

Nick DeLeonardis: OK.

Robert Jones: ... petty cash laying around, but ...

Nick DeLeonardis: OK.

Robert Jones: ... that's it.

Nick DeLeonardis: And then have you guys received all of the tax receivable you had on your balance sheet at year end?

Male: We have received all of the federal income tax receivable. We have applied to receive the state income tax receivable and hope to receive it within let's say the next 60 days.

Nick DeLeonardis: What's the magnitude of the state?

Robert Jones: Three point seven million.

Nick DeLeonardis: All right, appreciate (it), you guys.

Operator: As a reminder, it is star 1 if you'd like to ask a question. We'll have our next question from Steve Gidumal with Virtus Capital.

Steve Gidumal: Hi, guys, you hear me OK?

Robert Jones: Sure.

Steve Gidumal: Hey, Rob.

Robert Jones: How you doing, Steve?

Steve Gidumal: Good, thank you.

OK, I did want to follow up on the prior – it was one of my questions, so I just want to make sure – so, on the tax refunds it was 21.4 million as of 12/31, and you said you have 3.7 on the state coming back – just doing this math quickly – so then – so that means it's you know whatever that difference is – 17.7 million was received in the first quarter, or whatever that math is, but the bulk of that has come in already? Is that what you're saying? Not first quarter, but up to now.

Tim Cantrell: That is up to now. That's correct. We got it the federal refund in two installments, the first being 14.5 million that we got in February, late, and the balance in early April.

Steve Gidumal: OK, and then that's helped you bring the revolver balances down, I guess?

Tim Cantrell: That's correct.

Steve Gidumal: OK, and is all the tax assessments for last year done? I mean, I would have thought that maybe the refund would have been a little bit higher. You know you guys have done all your (ticking) and ...

Tim Cantrell: Well, that's based upon what we'd paid in ...

Steve Gidumal: Yes.

Tim Cantrell: ... so that is the – that's the sum that we could get back.

Steve Gidumal: I know that – you know I mean, I remember laws from 20 years ago, and then they've changed them, and then I thought they recently changed them again that maybe you have a 2-year look back. Is that still possible? Is that still the way the law is or not?

Tim Cantrell: Basically it's a prospective carry forward.

Steve Gidumal: Oh, yes, so the look back is only in the year to the current year.

Tim Cantrell: That's right.

Steve Gidumal: OK. Then the other question I had is how do we interpret the deposits on the future sales of 24.6 and has that number been lowered?

Robert Jones: Let me – that is the provisional sale that we referred to earlier. As we were running out of cash, and found it virtually impossible to make – you know to sell our – to monetize our current assets, we entered into a sale contract whereby a quantity of product was provisionally priced. We were paid the provisional price, which was subject to adjustment based on the ultimate resale value received for the product. That transaction has now been closed out. There is no further – it's closed out. It's over. There are no further ...

Steve Gidumal: Obligations?

Robert Jones: ... or obligations under that contract.

Steve Gidumal: OK, so – so you delivered against that?

Robert Jones: That is correct, and received the cash.

Steve Gidumal: OK, OK. Well that's very good. And did you say what DAP pricing is right now do you think?

Robert Jones: DAP pricing, as of this past Friday, the (NOLA) DAP price was 277.50 per short ton, and the export values posted at 320 to 339 per metric ton FOB U.S. Gulf.

Steve Gidumal: OK, and how about ammonia?

Robert Jones: The current price of ammonia is $318. Our outlook for ammonia is for softening in May and June.

Steve Gidumal: OK, great. Well, thank you, and I think you guys are running this the right way, so I appreciate it.

Robert Jones: Thank you.

Operator: We'll go next to Nick DeLeonardis with Bond Street Capital.

Nick DeLeonardis: Hey, guys, sorry, just one quick follow up. Is there any way that you can give an update on what your inventories are currently and maybe break them out, in terms of any component detail that you can give?

Robert Jones: Sure, I've got that right here. Let me find it.

Male: ((inaudible)).

Robert Jones: Yes, you have – oh, here, I've got them right here. As of – as of the end of March, DAP was basically zero, but we had other – or total inventories were $15.5 million.

Nick DeLeonardis: OK, and you guys are back on a normal purchasing schedule for rock?

Robert Jones: That is correct.

Nick DeLeonardis: OK. OK, thank you.

Robert Jones: You're welcome.

Operator: And at this time, we have no further questions in the queue. I'll turn the conference back over to Mr. Robert Jones for any additional or closing remarks.

Robert Jones: Well, other than to repeat something we said earlier, and that is we're certainly sensitive to the incredible loss of value that's (stirred), but you know we're either out of or nearing the end of probably the most challenging period certainly that I've ever experienced in my career. We have strong alliances. We have the operating leverage to recover quickly.

We are confident that DAP demand will resurface. We can assure that. The current rates of application on a global basis are not sustainable. The consequences of – are too great. So, we're certainly – you know although 2009 is off to a difficult start, we're looking forward to better times.

I appreciate your interest and we appreciate your participation in this call. Thank you very much.

Operator: That does conclude today's conference. You may disconnect at this time. We do appreciate your participation.

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