Phosphate Holdings, Inc.

2011 THIRD QUARTER REPORT

Management's Discussion and Analysis
For the three and nine months ended September 30, 2011

You should read the following discussion and analysis together with our audited consolidated financial statements and the related notes thereto included in our 2010 Proxy Statement and Annual Report. All references to "the Company," "we," "us," and "our" refer to Phosphate Holdings, Inc. (PHI), Mississippi Phosphates Corporation (MPC) and MPC's subsidiaries unless otherwise noted. This discussion contains forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results may differ materially from those expressed in or implied by these forward-looking statements. See "Forward-Looking Statements" on page 17 of this 2011 Third Quarter Report.

Overview

Our Company

We are a major U.S. producer and marketer of diammonium phosphate (DAP), the most common form of phosphate fertilizer. Our production facilities are strategically located on a deep-water channel in Pascagoula, Mississippi, with direct access to the Gulf of Mexico. Our manufacturing facilities consist of two sulfuric acid plants, a phosphoric acid plant and a DAP granulation plant. Our DAP granulation plant has a maximum annual DAP production capacity of approximately 850,000 tons. Our existing sulfuric acid plants currently produce sulfuric acid sufficient for annual DAP production of approximately 600,000 to 640,000 tons. When it is economical to do so, we can purchase additional quantities of sulfuric acid on the open market in order to increase our DAP production.

Our Products

Our primary product is DAP. To produce DAP, we combine phosphate rock and sulfuric acid to form phosphoric acid, which is then mixed with ammonia to produce DAP, a dry granular product. In its chemical composition, DAP is composed of 46 percent phosphate and 18 percent nitrogen.

Plants need a steady supply of phosphate to complete a healthy growth cycle and produce a bountiful harvest. Phosphate plays a key role in the photosynthesis process, which drives the production, transportation, and accumulation of sugars in plants. Phosphate is also involved in seed germination, helps plants use water efficiently, and protects plants against diseases. Thus, phosphate fertilizers play an important role in improving crop quality, increasing crop yields and mitigating the effects of environmental stresses on plants.

Our Results

For the three months ended September 30, 2011, we had net sales of $94.7 million, operating income of $2.7 million, and EBITDA of $6.6 million.

During the third quarter of 2011, total DAP and sulfuric acid production was 167,048 short tons and 169,902 short tons, respectively. We relied heavily on purchased sulfuric acid to supplement DAP production. The cost of DAP produced with purchased sulfuric acid is substantially higher than the cost of DAP manufactured using produced acid.

DAP prices began the quarter at $595 per short ton, NOLA, and $645 per metric ton, FOB, U.S. Gulf. At quarter's end, DAP prices were $586 per short ton, NOLA, and $635 per metric ton, FOB, U.S. Gulf. Sulfur prices in the quarter were posted at $220 per long ton, CFR, Tampa. Ammonia prices, CFR, Tampa, began the quarter at $555 per metric ton and closed the quarter at $650 per metric ton.

Our Liquidity

On May 6, 2010, we executed a Credit Facility for up to $25.0 million from our largest customer. The Credit Facility provides up to $10.0 million in letters of credit and a $15.0 million revolving loan feature. During the initial two years of the Credit Facility, or in certain cases at the borrower's option up to the initial four years, amounts borrowed under the Credit Facility serve as a revolving credit arrangement. After this initial period, any amounts outstanding under the Credit Facility amortize ratably over eight years, or if the revolving feature is extended for an additional two years, amortize ratably over six years. 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 3.5 percent per annum. Additionally, the Credit Facility requires an annual fee of $50,000 during the revolving period of the arrangement and a $35,000 annual fee thereafter. The Credit Facility is secured by a lien and security interest on our ammonia and sulfuric acid terminal assets, real property underlying our plant site and our personal property.

At September 30, 2011, we had $4.3 million cash on hand, $7.5 million outstanding under the Credit Facility and letters of credit outstanding in the amount of $6.6 million. While there can be no assurances, management believes that funds from our operations and availability under our Credit Facility should be adequate to meet our operating and other cash flow needs for 2011 and the foreseeable future.

Outlook

Global phosphate markets are favorable. In the U.S., grain prices reflect the tight supply/demand balance as reflected in continued low stock-to-use ratios. A recently published worldwide agricultural supply and demand estimate projected ending corn stock-to-use ratio of 6.8 percent for the 2011 marketing year. This would be the second lowest level in 40 years. Farmer income in 2011 is expected to be near record levels. With a favorable outlook for grain prices, farmers should be motivated to liberally apply fertilizers this fall and next spring to maximize yields. Globally, economic uncertainty persists. Nonetheless, the global outlook for fertilizer markets appears strong during the first half of 2012.

Results of Operations

The following table sets forth selected information derived from our consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010.

	Three Months ended September 30			*Nine Months ended September 30*		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
	(In thousands, except per-share data)					
DAP sales	$ 94,014	$ 69,353	35	$ 249,342	$ 189,680	31
Other	646	1,020	(37)	3,365	2,877	17
Total net sales	94,660	70,373	35	252,707	192,557	31
Cost of Sales	90,448	65,306	38	246,548	183,868	34
Selling, general and administrative expenses	1,514	1,642	(8)	5,856	4,654	26
Environmental remediation	-	260	(100)	159	3,731	(96)
Litigation recoveries, net	-	(750)	(100)	-	(750)	(100)
Interest expense	(272)	(280)	(3)	(769)	(850)	(10)
Other, net	(677)	413	(264)	(447)	178	(351)
Income tax expense (benefit)	232	1,539	(85)	(840)	171	(591)
Net income (loss)	$ 1,517	$ 2,509	(40)	$ (232)	$ 211	(210)
Income (loss) per share, basic and diluted	$ 0.18	$ 0.30	(40)	$ (0.03)	$ 0.03	(200)
EBITDA	$ 6,623	$ 7,279	(9)	$ 12,419	$ 9,899	25

Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010

Operating Results

Net income and EBITDA for the three months ended September 30, 2011, were $1.5 million and $6.6 million, respectively, on total net sales of $94.7 million, as compared to the three months ended September 30, 2010, where net income and EBITDA were $2.5 million and $7.3 million, respectively, on total net sales of $70.4 million. Gross profit for the three-month period ended September 30, 2011, was $4.2 million, or 4.4 percent of total net sales, as compared to the three months ended September 30, 2010, where we had a gross profit of $5.1 million, or 7.2 percent of total net sales.

Total Net Sales

The following table presents DAP sales for the subject periods.

	Three Months ended September 30,			
	2011	**2010**	**Change**	**% Change**
Net sales of DAP *(in millions)*	$ 94.0	$ 69.4	$ 24.6	35
Sales volume of DAP *(thousands of tons)*	162.8	152.5	10.3	7
Average net sales price per ton of DAP sold	$ 577.62	$ 454.77	$ 122.85	27

Net sales of DAP increased 35 percent during the three months ended September 30, 2011, to $94.0 million from $69.4 million during the three months ended September 30, 2010. This increase resulted from a 27 percent increase in average DAP sales prices and a 7 percent increase in DAP sales volumes. The price effect (current-period average sales price, less prior-period average sales price, multiplied by current-period sales tons) and volume effect (current-period sales tons, less prior-period sales tons, multiplied by prior-period average sales price) were positive $20.0 million and $4.6 million, respectively. During the three months ended Setpember 30, 2011, we sold 162,761 tons of DAP at an average price of $577.62 per ton, as compared to the three months ended September 30, 2010, in which we sold 152,500 tons of DAP at an average price of $454.77 per ton.

During the three months ended September 30, 2011 and 2010, other sales included terminaling fees of $0.6 million and $1.0 million, respectively. We had approximately 34 percent fewer tons moved through the terminal during 2011.

Cost of Sales

The following table presents our cost of sales for DAP for the subject periods.

	Three Months ended September 30,			
	2011	**2010**	**Change**	**% Change**
Cost of sales *(in millions)*	$ 90.4	$ 65.3	$ 25.1	38
Gross profit margin (loss)	4.4%	7.2%	(2.8%)	(39)
Sales volume of DAP *(thousands of tons)*	162.8	152.5	10.3	7
Average cost of sales per ton	$ 555.71	$ 428.24	$ 127.47	30

Cost of sales increased 38 percent during the three months ended September 30, 2011, to $90.4 million from $65.3 million during the three months ended September 30, 2010. The price effect (current-period average cost per ton sold, less prior-period average cost per ton sold, multiplied by current-period tons sold) and volume effect (current-period sales tons, less prior-period sales tons, multiplied by prior-period average costs per ton) were positive $20.7 million and $4.4 million, respectively. We realized a gross profit of $4.2 million during the three months ended September 30, 2011, as compared to a gross profit of $5.1 million during the three months ended September 30, 2010.

The 38 percent increase in cost of sales during the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, is primarily the result of higher raw material costs during the three months ended September 30, 2011. The cost of phosphate rock, ammonia, sulfur and purchased sulfuric acid consumed in the production of DAP increased 30 percent, 46 percent, 129 percent and 144 percent, respectively, during the three months ended September 30, 2011, as compared to the three months ended September 2010. During the current quarter, we also purchased approximately 62,000 tons of sulfuric acid, compared to purchasing approximately 25,000 tons during the quarter ended September 30, 2010. This purchased acid did not provide us with the same margins as produced sulfuric acid.

Production of DAP during the three months ended September 30, 2011, was 167,048 tons, a 7 percent increase from the 155,527 tons produced during the three months ended September 30, 2010.

During the third quarter of 2011, one of our two sulfuric acid plants operated at reduced instantaneous rates due to a leaking gas-to-gas heat exchanger. This leaking heat exchanger was replaced in a planned maintenance turnaround in late October 2011. Additionally, we encountered significant vibration problems in the main turbine/compressor in our other sulfuric acid plant. While we continue to detect minor vibration levels, repairs made during the quarter have resolved this issue. Because of these operational issues, our internally produced sulfuric acid was approximately 169,900 tons during the quarter.

During the third quarter of 2010, our sulfuric acid plants were negatively impacted by problems in our interstage absorption coolers. While we repaired a waste heat boiler in one of our sulfuric acid plants at the end of the second quarter of 2010, collateral damage related to the waste heat boiler occurred in the sulfuric acid plant's catalyst. This created steam balance issues between the sulfuric acid plants and limited downstream production of phosphoric acid and DAP.

Selling, General and Administrative

Selling, general and administrative expenses decreased to $1.5 million during the three months ended September 30, 2011, from $1.6 million during the three months ended September 30, 2010. During the three months ended September 30, 2011, lower payroll and benefit expense ($0.1 million) and lower compensation expense associated with stock appreciation rights ($0.4 million) was partially offset by higher consulting fees ($0.4 million) associated with a strategic review process being conducted by a special committee of the Board of Directors.

Environmental Remediation

In August 2009, the U.S. Environmental Protection Agency (EPA) and the Mississippi Department of Environmental Quality (MDEQ) conducted a site investigation of our Pascagoula facility. During the site investigation, the EPA and the MDEQ alleged the existence of certain violations of the Clean Water Act and Resource Conservation and Recovery Act (RCRA) primarily attributable to our handling of leaks and spills of acidic wastewater within the facility. Immediately after the inspection, we began the implementation of measures to address issues raised by the EPA and the MDEQ. Subsequently, in September 2009, the MDEQ issued a Notice of Violation (MDEQ NOV) with respect to the alleged Clean Water Act violations, and the EPA issued an Administrative Order (EPA Administrative Order) with respect to the alleged RCRA violations.

On March 4, 2011, the Company and the MDEQ executed an Agreed Order, which settled all matters asserted in the MDEQ NOV, as well as any other National Pollutant Discharge Elimination System (NPDES) permit violations from February 1, 2008 through February 28, 2011, not specifically identified in the MDEQ NOV. Further, the Agreed Order resolved alleged violations related to previously filed inaccurate air emission reports. While we neither admitted nor denied any liability arising out of the allegations of the MDEQ NOV or Title V Air Emissions Report filings, we agreed to pay a civil penalty of $0.3 million. The civil penalty was accrued in our 2010 consolidated financial statements and was paid in 2011.

We understand that the EPA continues to review the facts surrounding the activities at our plant. These reviews could result in possible civil or criminal enforcement actions. Currently, the EPA is seeking to impose monetary penalties, and discussions with regard to these penalties are underway. At this time, we cannot predict the amount or nature of any ultimate penalty. We will continue to cooperate fully with the EPA to ensure the expeditious resolution of the requirements imposed by the EPA Administrative Order.

During the three months ended September 30, 2011 and 2010, we expensed $0.0 million and $0.3 million, respectively, in connection with the EPA Order and the MDEQ NOV. Additionally, we have accrued environmental remediation costs of $0.7 million at September 30, 2011, related to these matters.

We estimate that we could incur additional future capital costs of $1.0 million, which will be recorded when incurred. The costs to be incurred in connection with these environmental matters are difficult to predict, and the actual costs could differ from current estimates. These differences could be material to our financial statements. For more information, please see Note 13(f) to our September 30, 2011 consolidated financial statements.

Litigation Recoveries, Net

In August 2010, we entered into a settlement agreement with a contractor's excess insurance carrier related to a lawsuit we filed against the contractor in the fourth quarter of 2007. The excess insurance carrier paid us $1,000 in September 2010 to dismiss all claims outstanding among the parties. We incurred litigation and related expenses of $0.2 million. As a result, we recorded in our September 30, 2010 consolidated statement of operations, litigation recoveries, net of $0.8 million.

Interest Expense

Interest expense was $0.3 million during the three months ended September 30, 2011 and 2010. During both three month periods, we incurred interest associated with our Credit Facility and our other short-term financing arrangements.

Other, Net

Other expense was $0.7 million during the three months ended September 30, 2011, as compared to other income of $0.4 million during the three months ended September 30, 2010. Both three-month periods consisted primarily of unrealized gains and losses on our restricted investments held in trust.

Income Tax Expense

Income tax expense was $0.2 million during the three months ended September 30, 2011. During the quarter, we reversed a $0.4 million accrual for interest and penalties related to uncertain tax positions, which had statutorily expired. As a result of the reversal, our tax expense was reduced by $0.4 million. Our effective tax rate prior to the reversal was 38.0 percent. Income tax expense was $1.5 million for the three months ended September 30, 2010, resulting in an effective tax rate of 38.0 percent.

Income Per Share

Basic and diluted income per share were $0.18 and $0.30 for the three months ended September 30, 2011 and 2010, respectively. Basic and diluted weighted-average shares outstanding were 8,411,308 at September 30, 2011 and 2010.

Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

Operating Results

Net loss and EBITDA for the nine months ended September 30, 2011, were $0.2 million and $12.4 million, respectively, on total net sales of $252.7 million, as compared to the nine months ended September 30, 2010, where net income and EBITDA were $0.2 million and $9.9 million, respectively, on total net sales of $192.6 million. Gross profit for the nine-month period ended September 30, 2011, was

$6.2 million, or 2.4 percent of total net sales, as compared to the nine-month period ended September 30, 2010, where we had a gross profit of $8.7 million, or 4.5 percent of total net sales.

Total Net Sales

The following table presents DAP sales for the subject periods.

	Nine Months ended September 30,			
	2011	**2010**	**Change**	**% Change**
Net sales of DAP *(in millions)*	$ 249.3	$ 189.7	$ 59.6	31
Sales volume of DAP *(thousands of tons)*	449.9	447.9	2.0	-
Average net sales price per ton of DAP sold	$ 554.17	$ 423.52	$130.65	31

Net sales of DAP increased 31 percent during the nine months ended September 30, 2011, to $249.3 million from $189.7 million during the nine months ended September 30, 2010. This increase resulted from a 31 percent increase in average DAP sales prices. The price effect (current-period average sales price, less prior-period average sales price, multiplied by current-period sales tons) and volume effect (current-period sales tons, less prior-period sales tons, multiplied by prior-period average sales price) were positive $58.7 million and $0.9 million, respectively. During the nine months ended September 30, 2011, we sold 449,942 tons of DAP at an average price of $554.17 per ton, as compared to the nine months ended September 30, 2010, in which we sold 447,863 tons of DAP at an average price of $423.52 per ton.

During the nine months ended September 30, 2011, other sales included $2.7 million in terminaling fees, and $0.7 million in sulfuric acid sales. During the nine months ended September 30, 2010, other sales included $2.6 million in terminaling fees and $0.3 million in sulfuric acid sales.

Cost of Sales

The following table presents our cost of sales for DAP for the subject periods.

	Nine Months ended September 30,			
	2011	**2010**	**Change**	**% Change**
Cost of sales *(in millions)*	$ 246.5	$ 183.9	$ 62.6	34
Gross profit margin	2.4%	4.5%	(2.1%)	(47)
Sales volume of DAP *(thousands of tons)*	449.9	447.9	2.0	-
Average cost of sales per ton	$ 547.96	$ 410.55	$ 137.41	33

Cost of sales increased 34 percent during the nine months ended September 30, 2011, to $246.5 million from $183.9 million during the nine months ended September 30, 2010. The price effect (current-period average cost per ton sold, less prior-period average cost per ton sold, multiplied by current-period tons sold) and volume effect (current-period sales tons, less prior-period sales tons, multiplied by prior-period average costs per ton) were positive $61.8 million and $0.8 million, respectively. We realized a gross profit of $6.2 million during the nine months ended September 30, 2011, as compared to a gross profit of $8.7 million during the nine months ended September 30, 2010. As a percent of total net sales, we had a gross profit margin of 2.4 percent during the nine months ended September 30, 2011, as compared to a gross profit margin of 4.5 percent during the nine months ended September 30, 2010.

The 34 percent increase in cost of sales during the nine months ended September 30, 2011, as compared to the nine month ended September 30, 2010, is primarily the result of higher raw material costs during the nine months ended September 30, 2011. The cost of phosphate rock, ammonia, sulfur, and purchased sulfuric acid consumed in the production of DAP increased 39 percent, 41 percent, 92 percent and 187 percent, respectively, during the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we purchased approximately 94,000 tons of sulfuric acid, compared to purchasing approximately 77,000 tons during the nine months ended September 30, 2010. This purchased acid did not provide us with the same margins as produced sulfuric acid.

Production of DAP during the nine months ended September 30, 2011 and 2010, was 450,524 tons and 452,059 tons, respectively. During the nine months ended September 30, 2011, our DAP production was negatively impacted by phosphate rock shortages due to logistical issues in Morocco. As a result, we curtailed production during late January and early February to avoid a complete shutdown of our phosphoric acid and DAP granulation plants. In May, we idled our phosphoric acid and DAP granulation plants for nine days as a result of more phosphate rock shortages. In addition, during our second quarter of 2011, sulfuric acid production was impacted by damage to the heat exchangers, which limited instantaneous rates to approximately 1,000 to 1,200 tons per day in both sulfuric acid plants, and a scheduled maintenance turnaround of one of our sulfuric acid plants, which required 19 days. During the third quarter of 2011, one of our two sulfuric acid plants operated at reduced instantaneous rates due to a leaking gas-to-gas heat exchanger. This leaking heat exchanger was replaced in a planned maintenance turnaround in late October 2011. Additionally, we encountered significant vibration problems in the main turbine/compressor in our other sulfuric acid plant. While we continue to detect minor vibration levels, repairs made during the quarter have resolved this issue. Because of these operational issues, our internally produced sulfuric acid was approximately 169,900 tons during the quarter.

During the nine months ended September 30, 2010, we also experienced operational issues in our sulfuric acid plants. During the first quarter of 2010, production rates were impacted by a planned outage at one of our plants, extreme cold temperatures and heavy rainfall events. During the second quarter of 2010, we had issues with the coolers in the interstage absorption tower, and a major boiler failure in one of our sulfuric acid plants which shut that plant down for 27 days during the quarter. These sulfuric acid plant problems had a corresponding unfavorable impact on our DAP production.

Selling, General and Administrative

Selling, general and administrative expenses increased to $5.9 million during the nine months ended September 30, 2011, from $4.7 million during the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we incurred higher professional and consulting fees ($1.1 million) associated with a strategic review process being conducted by a special committee of the Board of Directors, and higher franchise taxes ($0.2 million), partially offset by lower compensation expense related to stock appreciation rights ($0.1 million), as compared to the nine months ended September 30, 2010. During the nine months ended September 30, 2010, our franchise taxes were lower due to receiving a refund for previously paid franchise taxes.

Environmental Remediation

In August 2009, the EPA and the MDEQ conducted a site investigation of our Pascagoula facility. During the site investigation, the EPA and the MDEQ alleged the existence of certain violations of the Clean Water Act and Resource Conservation and Recovery Act (RCRA) primarily attributable to our handling of leaks and spills of acidic wastewater within the facility. Immediately after the inspection, we began the implementation of measures to address issues raised by the EPA and the MDEQ. Subsequently, in September 2009, the MDEQ issued a Notice of Violation (MDEQ NOV) with respect to the alleged Clean Water Act violations, and the EPA issued an Administrative Order (EPA Administrative Order) with respect to the alleged RCRA violations.

On March 4, 2011, the Company and the MDEQ executed an Agreed Order, which settled all matters asserted in the MDEQ NOV, as well as any other National Pollutant Discharge Elimination System (NPDES) permit violations from February 1, 2008 through February 28, 2011, not specifically identified in the MDEQ NOV. Further, the Agreed Order resolved alleged violations related to previously filed inaccurate air emission reports. While we neither admitted nor denied any liability arising out of the allegations of the MDEQ NOV or Title V Air Emissions Report filings, we agreed to pay a civil penalty of $0.3 million. The civil penalty was accrued in our 2010 consolidated financial statements and was paid in 2011.

We understand that the EPA continues to review the facts surrounding the activities at our plant. These reviews could result in possible civil or criminal enforcement actions. Currently, the EPA is seeking to impose monetary penalties, and discussions with regard to these penalties are underway. At this time, we cannot predict the amount or nature of any ultimate penalty. We will continue to cooperate fully with the EPA to ensure the expeditious resolution of the requirements imposed by the EPA Administrative Order.

During the nine months ended September 30, 2011 and 2010, we expensed $0.2 million and $3.7 million, respectively, in connection with the EPA Order and the MDEQ NOV. Additionally, we have accrued environmental remediation costs of $0.7 million at September 30, 2011, related to these matters. We estimate that we could incur additional future capital costs of $1.0 million, which will be recorded when incurred. The costs to be incurred in connection with these environmental matters are difficult to predict, and the actual costs could differ from current estimates. These differences could be material to our financial statements. For more information, please see Note 13(f) to our September 30, 2011 consolidated financial statements.

Litigation Recoveries, Net

In August 2010, we entered into a settlement agreement with a contractor’s excess insurance carrier related to a lawsuit we filed against the contractor in the fourth quarter of 2007. The excess insurance carrier paid us $1,000 in September 2010 to dismiss all claims outstanding among the parties. We incurred litigation and related expenses of $0.2 million. As a result, we recorded in our September 30, 2010 consolidated statement of operations, litigation recoveries, net of $0.8 million.

Interest Expense

During the nine months ended September 30, 2011, we recorded interest expense of $0.8 million, as compared to interest expense of $0.9 million during the nine months ended September 30, 2010. During May 2010, we executed a new Credit Facility which replaced our former credit facility with PNC Bank. In connection therewith, we incurred an early termination fee of $0.1 million and had unamortized deferred loan cost of $0.1 million, both of which were recorded as interest expense in our consolidated statement of operations. During both periods, we incurred interest associated with our applicable revolving line of credit, term debt, and our other short-term financing arrangements.

Other, Net

Other expense was $0.4 million during the nine months ended September 30, 2011, and other income was $0.2 million during the nine months ended September 30, 2010. Both nine-month periods consisted primarily of unrealized gains and losses on our restricted investments held in trust.

Income Tax Expense (Benefit)

Income tax benefit was $0.8 million during the nine months ended September 30, 2011. During September 2011, we reversed a $0.4 million accrual for interest and penalties related to uncertain tax positions, which had statutorily expired. As a result of the reversal, our tax expense was reduced by $0.4 million. Our effective tax rate prior to the reversal was 38.1 percent. Income tax expense was $0.2 million for the nine months ended September 30, 2010, resulting in an effective tax rate of 44.8 percent.

Income (Loss) Per Share

Basic and diluted income (loss) per share were ($0.03) and $0.03 for the nine months ended September 30, 2011 and 2010, respectively. Basic and diluted weighted-average shares outstanding were 8,411,308 as of September 30, 2011 and 2010.

Liquidity and Capital Resources

We have funded our operations primarily through funds generated by our operations and through borrowings under our Credit Facility. Based on the current phosphate economic environment, we believe that cash flow from operations and available borrowings under our Credit Facility described below will be sufficient to fund our operations, our capital spending program, debt service requirements and environmental expenditures for the foreseeable future. If we do not achieve forecasted results from operations, additional financing in the form of debt or equity may be required in order to offset any cash flow deficiencies. As described below, our financial covenants are calculated using cash flow and fixed charges, and therefore materially adverse operating results could restrict the availability of our credit.

The following table sets forth, as of the dates indicated, certain liquidity measures (in millions):

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 4.3	$ 2.3
Working capital	$ 9.0	$ 4.4
Borrowings under revolving credit agreement	$ 7.5	$ 9.0
Revolving line of credit availability	$ 7.5	$ 6.0

Operating Activities, Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

Net cash provided by operating activities was $16.2 million for the nine months ended September 30, 2011, compared to net cash provided by operating activities of $0.5 million for the nine months ended September 30, 2010. Net cash provided by operating activities in 2011 is due primarily to decreases in trade accounts receivable and increases in accounts payable and accrued expense, partially offset by increases in inventories and prepaid expenses and other. Depreciation of property, plant and equipment and amortization of prepaid maintenance turnaround costs were approximately $3.8 million higher during 2011, as compared to 2010.

Investing Activities, Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

Net cash used in investing activities was $9.9 million for the nine months ended September 30, 2011, as compared to $6.5 million for the nine months ended September 30, 2010. Cash invested in property, plant and equipment increased to $9.3 million in the first nine months of 2011 from $5.9 million in the first nine months of 2010. The capital expenditures incurred in the first nine months of 2011 were primarily for capital maintenance on our sulfuric acid and phosphoric acid plants. Capital maintenance on our sulfuric acid plants included approximately $3.6 million for the replacement of two impaired heat exchangers. One was replaced during our second quarter and the other one was replaced in our turnaround, which began in late October 2011. In addition, we had approximately $1.1 million in construction costs related to Phase II of our east phosphogypsum disposal facility. In the first nine months of 2010, our capital expenditures were primarily for capital maintenance and other improvements to our sulfuric acid plants. In addition, we spent $0.9 million to raise the height of the levee surrounding our gypsum disposal facility. During both nine-month periods, we contributed $0.6 million to provide future funding of our gypsum stack closure obligation.

Financing Activities, Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

Net cash used in financing activities was $4.4 million for the nine months ended September 30, 2011, as compared to net cash provided by financing activities of $7.6 million for the nine months ended September 30, 2010. In the first nine months of 2011, we had net principal payments of $1.5 million on our Credit Facility and payments of $2.9 million related to the financing of our property and casualty insurance premiums. In the first nine months of 2010, we had net borrowings of $9.3 million on our Credit Facility, and net borrowings related to the financing of our property and casualty insurance premiums of $1.3 million, repaid $2.4 million on our term loan, and had $0.6 million in deferred loan costs.

Credit Facility

On May 6, 2010, we executed a new Credit Facility for up to $25.0 million from our largest customer. The Credit Facility provides up to $10.0 million in letters of credit and a $15.0 million revolving loan feature. During the initial two years of the Credit Facility, or in certain cases at the borrower's option up to the initial four years, amounts borrowed under the Credit Facility serve as a revolving credit arrangement. After this initial period, any amounts outstanding under the Credit Facility amortize ratably over eight years, or if the revolving feature is extended for an additional two years, amortize ratably over nine years. 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 3.5 percent per annum. Additionally, the Credit Facility requires an annual fee of $50,000 during the revolving period of the arrangement and a $35,000 annual fee thereafter. The Credit Facility is secured by a lien and security interest on our ammonia and sulfuric acid terminal assets, real property underlying our plant site and our personal property.

The Credit Facility contains customary provisions and covenants, including a fixed charge coverage ratio of 1.2 to 1, a current ratio, as defined, of 1.3 to 1, a minimum tangible net worth of $45.0 million, plus

50 percent of current-year net income (determined annually), limitations on capital expenditures and dividend payments and other covenants customary for loans of this type. Additionally, if the chief executive officer of MPC were to cease being an executive officer or director of MPC (other than as a result of his disability or death), the lender is under no obligation to make additional advances or issue letters of credit under the Credit Facility. A change of control in the Company, as defined within the Credit Facility, is also considered an event of default under the Credit Facility. At September 30, 2011, we had $7.5 million outstanding under the revolving loan feature and letters of credit outstanding in the amount of $6.6 million.

Prior to entering into the Credit Facility, we had a revolving credit agreement with PNC Bank, which provided for revolving advances based on specified percentages of accounts receivable and inventories. The borrowings were collateralized by receivables, inventories, equipment, and other personal property and had maximum borrowings of $17.0 million. Through May 6, 2010, we also had a term loan outstanding with PNC Bank, which funded the construction cost of our storm protection levee completed in 2007. The outstanding balance of $2.2 million was paid off in May 2010, when we executed the Credit Facility.

Gypsum Disposal Costs

The MDEQ permit required to operate the active stack of our gypsum disposal facility obligates us to provide financial assurance for payment of the closure, post-closure care and related water treatment of the active stack. We are fulfilling this obligation by making quarterly contributions of $0.2 million into a trust fund managed by a third party for closure, post-closure care and related water treatment costs to be incurred when the capacity of the active stack is depleted. These payments will continue until funds in the trust, combined with projected earnings from trust assets, are considered sufficient to cover the estimated costs of closure at the completion of the disposal site's useful life and the post-closure costs for water treatment. At September 30, 2011, the fair value of the trust assets available to fund this obligation was $5.8 million. The EPA is seeking adjustments to the financial assurance mechanism currently in place to fund the closure, post-closure care and related water treatment costs of our active facility. The impact of the adjustments, while not yet determinable, could materially impact our future funding requirements.

Qualitative and Quantitative Disclosures about Market Risk

Commodity prices, changes in interest rates and foreign currency exchange rates may impact our operating results.

Commodity Prices

DAP, our principal product, is a commodity, but is not traded on any commodity exchange or other trading platform with sufficient liquidity to permit the effective hedging of DAP price risk. In general, buyers and sellers are unwilling to enter into long-term, fixed-price contracts for DAP, and as a result, we are not able to undertake direct hedging of the prices for future DAP production. As we do not have long-term sales contracts, prices for our DAP will vary based on agreed-to published price indexes or negotiated short-term prices with our customers. Additionally, the DAP we produce is marketed for sale almost exclusively into the agricultural market as a fertilizer. Decreases in agricultural demand for DAP could reduce sales and prices for DAP.

Our total net sales and ultimate profitability are determined principally by the price of DAP and the price of raw materials (phosphate rock, sulfur and ammonia) used in the production of DAP. Our phosphate rock supply is dependent upon one supplier. See “Risk Factors — Phosphate rock production is highly concentrated, and we are dependent upon one source to supply us with phosphate rock, the primary raw material in DAP” included in our 2010 Proxy Statement and Annual Report. Additionally, prices for the raw materials used in the production of DAP are subject to significant fluctuations. See “Risk Factors – Our operating results could be adversely affected by increases in other raw material prices, which may be subject to volatile pricing or an interruption of supply” included in our 2010 Proxy Statement and Annual Report.

Interest Rate Fluctuations

At September 30, 2011, we had outstanding borrowings under our revolving Credit Facility of $7.5 million. Borrowings under this revolving Credit Facility bear interest at a variable rate. In addition, we finance our property and liability insurance premiums, which bear interest at rates ranging from 2.74 percent to 2.89 percent, and mature in November 2011. Based on the principal outstanding under these arrangements as of September 30, 2011, a 1 percent change in the interest rate would increase our annual interest expense by approximately $0.1 million.

Foreign Currency Exchange Rates

Our sales of DAP and purchases of raw materials are denominated in U.S. dollars, which minimizes our direct foreign currency exchange risk.

Indirectly, we have foreign exchange risk based upon the movement in the U.S. dollar relative to certain other currencies. If the U.S. currency were to strengthen against currencies of other DAP importing countries, we could face lower sales in the export market, which may adversely affect our operating results. For the nine months ended September 30, 2011, $101.4 million, or 41 percent of our DAP sales, was attributable to product sold for resale into the export market.

Application of Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). In preparing our consolidated financial statements, we are required to make various judgments, estimates and assumptions that could have a significant impact on the results reported in our consolidated financial statements. We base these estimates on historical experience and other assumptions that management believes to be reasonable under the circumstances. Actual results could differ from such estimates and assumptions, and changes in these estimates and assumptions could have a material effect on our consolidated financial statements.

Our significant accounting policies can be found in Note 1 to our 2010 audited consolidated financial statements included in our 2010 Proxy Statement and Annual Report. We believe the following accounting policies may include a higher degree of judgment and complexity in their application and are most critical to aid in fully understanding and evaluating our reported financial condition and operating results:

Revenue Recognition

Revenue is recognized when the earnings process is completed. We view the earnings process as complete when risk of ownership and title passes to the customer, collection of the related receivable is probable, evidence of an arrangement exists and the sales price is fixed or determinable. Title passes to the customer at the point of delivery, which can be FOB shipping point, FOB destination, or at other points of delivery as specified by an individual customer's sales contract. Effective October 1, 2009, we entered into a DAP sales agreement with Transammonia, Inc., whereby sales are recorded at the time product passes the delivery point, which is the point where the plant conveyor belts enter our warehouses. Base prices for our product are set pursuant to sales contracts based on agreed-to published price indexes or upon negotiated short-term prices with our customers. Shipping and handling costs are included as a component of cost of sales.

Inventory Valuation

Inventories are valued at the lower of cost or net realizable value on a moving average cost basis. We review our inventory balances at least quarterly to determine if the carrying amount of inventories exceeds their net realizable value. This review process incorporates industry and market trends, current operational plans for the inventory and historical price activity for the inventory. If the carrying amount of our inventory were to exceed its estimated net realizable value, we would adjust our carrying values accordingly. Upon inventory liquidation, if the actual sales price ultimately realized is less than our initial estimate of net realizable value, additional losses would be recorded in the period of liquidation.

Recoverability of Long-Lived Assets

We evaluate our long-lived assets for impairment when events or changes in circumstances indicate that we may not recover the related carrying amount. Assets subject to this evaluation are our property, plant and equipment and related turnaround costs. If circumstances require that a long-lived asset be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value of the asset exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

The measurement of recoverability of these assets is dependent upon the accuracy of the assumptions used in making estimates on a number of factors including, but not necessarily limited to, sales volumes, sales prices, costs of raw materials, tax rates and capital spending. Certain of these operating assumptions are particularly sensitive because of the cyclical nature of the phosphate fertilizer industry.

Changes in significant assumptions underlying future cash flow estimates or fair values of assets may have a material effect on our financial position and operating results.

Currently, we have no long-lived intangible assets for evaluation.

Useful Lives of Depreciable Assets

Property, plant and equipment are stated at historical cost and depreciation is computed using the straight-line method over the lives of the assets. The lives used in computing depreciation expense are based on estimates of the period that the assets will be of economic benefit to us. Estimated lives are based on historical experience, manufacturers' estimates, engineering or appraisal estimates and future business plans. We review the depreciable lives assigned to our property, plant and equipment on a periodic basis, and change our estimates, if necessary, to reflect the results of these reviews.

Asset Retirement Obligation

We, together with our third-party consultants, develop estimates for the costs of retiring our active gypsum disposal facility pursuant to the guidance set forth in the Accounting Standards Codification (ASC) 410, "*Asset Retirement and Environmental Obligations*." The costs are inflated based on an inflation factor and discounted based on a credit-adjusted, risk-free rate. For operating facilities, fluctuations in the estimated costs, inflation and interest rates can have an impact on the amounts recorded on our consolidated balance sheet. For closed facilities, fluctuations in the estimated costs, inflation and interest rates can have an impact on our consolidated statement of operations. A further discussion of our asset retirement obligations can be found in Note 9 to our September 30, 2011 unaudited consolidated financial statements.

Share-Based Compensation

We account for share-based compensation in accordance with ASC 718, "*Compensation –Stock Compensation*," which requires the measurement and recognition of compensation expense for all share-based payment awards to be made based on estimated grant date fair values. As such, stock-based compensation expense is measured at the grant date based on the fair value of the award using an option-pricing model and is recognized as an expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires judgment. Key assumptions used in an option-pricing model include estimating the expected term of stock options, the expected volatility of our stock, the risk-free interest rate and expected dividends. In addition, estimates of the number of stock-based awards that are expected to be forfeited are also required as a component of measuring stock-based compensation expense.

In April 2008, our board of directors approved the adoption of an incentive plan to provide grants of Stock Appreciation Rights (SARs) to our non-employee directors (2008 Directors Plan). As of September 30, 2011, the 2008 Directors Plan had 41,257 of shares available for future grants. The SARs have a grant date value equal to such director's cash compensation for the ensuing year.

In February 2009, our Board of Directors approved the adoption of an incentive plan to provide grants of SARs to key employees and certain service providers (2009 Incentive Plan). The 2009 Incentive Plan provides for the granting of up to 688,860 SARs in the aggregate over a five-year period. As of September 30, 2011, the 2009 Incentive Plan had 343,624 shares available for future grants.

Under both plans, the SARs are to be settled with a cash payment equal to the intrinsic value of the SARs as of the exercise date. One-third of the SARs vest on each of the first three anniversary dates following the grant date and expire on the fifth anniversary of the grant date. All SARs are accounted for as liability awards, with compensation cost measured as of the end of each reporting period based on the then-current fair value of the SARs. We recorded share-based compensation expense related to the SARs of $0.3 million and $0.4 million for the nine months ended September 30, 2011 and 2010, respectively.

A further discussion of our share-based compensation can be found in Note 12 to our September 30, 2011 consolidated financial statements.

Deferred Income Taxes

We estimate the actual amount of taxes currently payable or receivable as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred income tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related tax benefits will not be realized, which generally includes significant estimates and assumptions that result from a complex series of judgments about future events. The judgments include evaluating objective evidence, both positive and negative, in determining the need for a valuation allowance. In determining whether a valuation allowance is required, we apply the principles enumerated in ASC 740, "*Income Taxes*." If during an accounting period we determine that we will not realize all or a portion of our deferred tax assets, we will increase our valuation allowances with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related tax benefits, we will reduce valuation allowances with a reduction to income tax expense or, if the valuation allowance reduction was attributable to deferred tax assets that existed at our emergence from bankruptcy, we would recognize additional paid-in capital.

As of September 30, 2011, we had net operating loss carryforwards of $5.0 million, which are subject to annual utilization limitations pursuant to Internal Revenue Code, Section 382 of approximately $0.45 million per year through 2022. As of September 30, 2011, we had post-bankruptcy federal net operating loss carryforwards of approximately $26.7 million, which expire between years 2026 and 2029. In addition, at September 30, 2011, we had an unrecognized excess income tax benefit of $1.1 million associated with stock options exercises during 2009. Such benefit will be recognized as additional paid-in capital when realized.

Environmental Remediation

Environmental remediation liabilities are recognized when the related costs are considered probable and can be reasonably estimated, consistent with the requirements of ASC 450, "*Contingencies*." Estimates of these costs are based upon currently available facts, existing technology, site-specific costs and currently enacted laws and regulations. In reporting environmental liabilities, no offset is made for potential recoveries. All liabilities are monitored and adjusted as new facts or changes in law or technology occur. In accordance with GAAP, environmental expenditures are capitalized when such costs provide future economic benefits. As disclosed in Note 13 to our unaudited consolidated financial statements for September 30, 2011, we are subject to several pending environmental matters, including an EPA Administrative Order issued in September 2009. The costs to be incurred to resolve these matters are difficult to predict, and the actual costs could differ from current estimates. The differences could be material to our financial statements.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 1(m) to our September 30, 2011, consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This 2011 Third Quarter Report contains "forward-looking statements" within the meaning of the federal securities law, which are intended to qualify for the safe harbor from liability provided thereunder. All statements which are not historical statements of fact are "forward-looking statements" for purposes of these provisions and are subject to numerous risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Future events, risks and uncertainties that could cause a material difference in such results include, but are not limited to,(i) changes in matters which affect the global supply and demand of phosphate fertilizer products, phosphate rock, ammonia, sulfur and sulfuric acid, (ii) a variety of conditions in the agricultural industry such as grain prices, planted acreage, projected grain stocks, U.S. government policies, weather, and changes in agricultural production methods, (iii) changes in the availability and cost of phosphate rock and our other primary raw materials, (iv) changes in capital markets, (v) possible unscheduled plant outages and other operating difficulties, (vi) price competition and capacity expansions and reductions from both domestic and international competitors, (vii) the concentration of our sales with one large customer, (viii) foreign government agricultural policies (in particular, the policies of the governments of India and China), (ix) the relative unpredictability of international and local economic conditions, (x) international trade risks, (xi) political unrest in Northern Africa and possible implications on phosphate rock availability (xii) the relative value of the U.S. dollar, (xiii) regulations regarding the environment and the sale and transportation of fertilizer products, (xiv) our potential inability to obtain or maintain required permits and governmental approvals or to meet financial assurance requirements, (xv) loss of key members of management, and (xvi) impact of future storms. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.