

**Phosphate Holdings, Inc.
Second Quarter 2010 Earnings Call Transcript**

**Moderator: Robert Jones
August 31, 2010
3:30 p.m. CT**

Operator: Good day everyone and welcome to the Phosphate Holdings Inc., Second Quarter 2010 Earnings conference call. Please note that Phosphate Holdings Inc., issued their second quarter and 2010 operating results on August 26, 2010.

As you read the company's press release, which is also posted on the company's Web site 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 condition 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 undue reliance on any forward-looking statement.

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

Robert Jones: Good afternoon everyone. We want to welcome you again and we appreciate your participation in our second quarter 2010 earnings call. 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.

Looking back several months ago during our first quarter 2010 earnings call we reported solid results and announced our return to profitability. During that call we also reported that certain unresolved operational issues affecting our sulfuric acid plant would negatively impact our second quarter.

That impact proved to be significant indeed. In the second quarter of fiscal 2010, we incurred a net loss of \$4.9 million or 58 cents per share. EBITDA for the quarter was negative \$4.6 million. Needless to say, we are very disappointed with our second quarter results. The primary cause of our poor showing was a substantial shortfall in our sulfuric acid production.

The most serious production issue, which we announced during our prior call, arose as a result of a major boiler failure in one of our two sulfuric acid plants. That incident would keep the affected plant offline for nearly the entire month of June.

This boiler failure also impacted other areas of the plant and contributed to a very sharp increase in maintenance expense during the quarter. Second quarter maintenance expense was more than \$1 million higher than first quarter levels and approximately \$1.7 million above the prior year fourth quarter average.

Sulfuric acid production during our second quarter was 167,000 tons, only 66 percent of planned levels. Lost sulfuric acid and down production affect us in several ways.

First, we obviously lose the margins on the lost sales. Q2 DAP sales volumes were 152,000 short tons or 48,000 tons less than plan levels of 200,000 tons. Second, because the vast majority of our conversion costs are fixed production losses increase our per-ton conversion cost.

In the aggregate, if we make pro forma adjustments to Q2 results to reflect budgeted sulfuric acid and DAP production and normalized maintenance expense, we estimate that EBITDA for the quarter would have been positive \$2.3 million versus actuals of negative \$4.6 million.

This represents an EBITDA increase of nearly \$7 million. The May boiler failure was totally unexpected and it had serious implications. But other operational issues were known well in advance and measures were taken and are being taken to mitigate their impact.

Our sales group has done an excellent job of securing favorably priced sulfuric acid to supplement captive production both in the second quarter and in our current third quarter. During the second quarter we produced over 30,000 tons of DAP using purchased sulfuric acid.

This was helpful but only marginally so. We will use purchased acid to produce DAP when we can generate a contribution margin or whenever our DAP sales realizations exceed our variable production costs. However, the cost of DAP using purchased acid is usually much higher than the cost of DAP manufactured using produced acid.

This was the case in the second quarter and is likely the case in the third quarter. Let me give you a hypothetical, to date the market price at Pascagoula for sulfuric acid is approximately \$90 per ton.

It takes 1.4 tons of sulfuric acid to produce a ton of DAP, therefore, the cost of sulfuric acid per ton of DAP using purchased acid is \$126 per ton of DAP. On the other hand, if we burn sulfur, the market price of sulfur at Pascagoula is \$90 per long ton. It takes .29 long tons of sulfur to produce a ton of sulfuric acid. Add approximately \$7 for variable costs and the cost per ton of produced sulfuric acid is \$33 per ton versus the \$90 per ton for purchased acid. The cost of produced sulfuric acid per ton of DAP is \$46 per ton versus the \$126 per ton of DAP using purchased acid, an \$80 difference.

It's helpful but only marginally so. Elevated costs related to tending environmental issues also had a material impact on our second quarter results.

During the second quarter we expensed \$2.8 million related to environmental matters.

These expenses were primarily for legal and consulting services incurred to review and evaluate our environmental reporting and compliance processes.

These expenditures reflect the aggressiveness of our response to the issues raised by the EPA 7003 Order and the Mississippi Department of Environmental Quality NOV. And also the importance we place on achieving a satisfactory resolution of these very important matters.

With respect to the 7003 Order, and the MDEQ NOV, we're presently engaged in constructive discussions with both agencies. And while a number or open issues remain, we believe we are making meaningful progress toward a negotiated resolution of these matters.

In summary, a very tough quarter. A quarter that absorbed much of the liquidity cushion we had achieved with our most recent financing and we're back in a mode of very carefully managing our day-to-day liquidity. Looking ahead, we expect to be profitable in the current quarter.

Preliminary July results were positive. And the outlook for the balance of the quarter is good. We believe that phosphates markets will be very accommodating. Market fundamentals have improved substantially since late June and the outlook for the balance of the year is very promising.

But Déjà vu, once again, we expect that pending operational issues with our sulfuric acid plant will negatively impact our third quarter results. Several of these remaining issues cannot be fully addressed until our November turnaround.

In a few moments Ed (McCraw) will provide additional information regarding these issues and the scheduled resolution. For the balance of our call, Ed, will first review the production numbers and our production issues.

Then, Tim Cantrell will give additional details on our financial results. And finally, we'll end on a high note with Jim Perkin's review of current market conditions. Ed?

Ed McCraw: Thank you Robert. As Robert indicated in the second quarter we produced 167,000 tons of sulfuric acid or approximately 66 percent of planned production. And obviously when you have problems in the sulfuric acid plant that negatively impacts your DAP production.

Second quarter DAP production at 151,000 tons was at 75 percent of planned production. The two most significant issues that impacted production in the second quarter were acid cooler platers in both sulfuric acid plants and internal leaks in the waste heat boiler in the number three sulfuric acid plant.

Just as information, acid coolers dissipate heat generated in the production of acid in the absorption towers and the waste heat boiler generates steam for peak recovery from the process. Both are tube and shell heat exchangers, just a different design. Acid coolers associated with the interstate absorption tower of the sulfuric acid plants were identified as an issue impacting our operating factor in the operating evaluation that we conducted in the second half of 2009. The purpose of that evaluation was to target repairs or enhancements to those areas that were contributing the most to our down time. As a result of that evaluation, a rebuilt cooler of the current design as well as a new cooler of an improved design were placed on order. Delivery for the coolers was scheduled for the middle to latter part of the second quarter.

Unfortunately in February we had an electrical issue which caused the coolers to be subjected to higher temperatures for a period that obviously caused some damage. Following that event we suffered a rash of cooler failures in both sulfuric acid plants primarily to those associated with interstate absorption towers. To reduce downtime, we ultimately removed one cooler in each plant, the one causing the major problem, from service. That did reduce the downtime but it also reduced the maximum instantaneous rate from approximately 1,450 tons a day to approximately 1,250 tons a day. Both plants operated at reduced rates for most of the second quarter prior to the installation of the replacement coolers in August.

The second most significant issue that impacted the production in the second quarter was the failure of tubes in the waste heat boiler in the number three sulfuric acid plant on May 28th. This boiler had been inspected and pressure tested during the August 2009 turnaround with no issues identified. So frankly, we were not anticipating any problems. We began a repair effort but it became evident that a repair had a very low probability of success. We had spare tubes and tube sheets on site so we initiated an expedited effort to re-tube the unit. The re-tubing project was completed and the plant returned to production on June 24. And we estimated that the negative impact the DAP production in the quarter was somewhere between 25 and 30,000 tons or about 50 to 60 percent of the shortfall to projections.

Since restart of the number three sulfuric acid plant, the performance of the converter catalyst has deteriorated over time. That indicates that the boiler failure caused moisture contamination in a portion of the catalyst. We anticipate that this situation will continue to limit the instantaneous rate in that plant until the damaged catalyst can be replaced, which is currently scheduled for the November turnaround that Robert mentioned earlier.

With the installation of rebuilt cooler and other maintenance activities completed in the number two sulfuric acid plant, we anticipate that the instantaneous production rate in that plant has been restored to approximately 1,400 to 1,450 tons per day.

In summary, prior to the November turnaround, we expect the instantaneous rates in the number two and the number three sulfuric acid plants to be approximately 1,400 to 1,450 tons per day and 1,200 to 1,250 tons per day respectively with an operating factor of approximately 92 percent.

That is adequate to support approximately 17 to 1,800 tons per day of DAP production, plus the additional DAP production that will be supported by the purchase of sulfuric acid. Subsequent to the November turnaround, we would anticipate that the number three sulfuric acid plant will also return to its full instantaneous production rate.

The turnaround scheduled in the number three sulfuric acid plant early November will be extensive. In addition to the sulfuric acid plant, we have turnaround activity scheduled for both the DAP and in the phosphoric acid plants. The sulfuric acid plant turnaround is scheduled for approximately 14 days with DAP and phosphoric acid outage scheduled for approximately seven days. In addition to the routine turnaround activities we will be performing extensive work in the number three sulfuric acid plant targeting those areas that have contributed the most run down time much as we did in the number two sulfuric acid plant end of January 2010 turnaround.

I'll turn it over to Tim now to review the operational results.

Tim Cantrell: Thanks Ed, I'd like to briefly point out a few highlights from our second quarter of 2010 operating results. As Robert stated the second quarter 2010 was a very challenging period, during this quarter we had total sales of \$62.1 million of which 61 million represented DAP sales on approximately 152,400 tons of DAP sold.

Our average sales price for the second quarter 2010 was approximately \$400 per short ton. In the same quarter of 2010, we had a negative gross margin of 3.2 million and we produced approximately 151,000 short tons of DAP, which was 75 percent of our production plan.

With a substantial majority of our cost fixed the production shortfall had significant impact on our margins during the quarter. The impact to the lost production taken by itself does not properly depict the full picture. While a boiler failure had one of sulfuric acid plants down for 27 days, it also impacted our costs. We incurred approximately \$480,000 in additional utility costs from the consumption of natural gas to run our auxiliary boiler in order to generate adequate steam to power our process in DAP plants.

Also, as a Robert indicated, our maintenance and material costs were approximately 1.7 million higher than the previous four quarter average. Additionally, we purchased sulfuric acid in an attempt to maintain DAP production, which yields lower margins than with DAP produced from internally manufactured sulfuric acid.

SG&A expenses for the second quarter of 2010 were 1.1 million or 1.8 percent of net sales.

During the second quarter we expensed approximately 2.8 million related to environmental matters. Robert previously elaborated on these expenditures.

At quarter end, we anticipate incurring an additional 2.4 million in capital costs to further address the EPA's 7003 Order and the (MDEQ's) notice of violation issued last September. However, our costs and estimates attributable to addressing our environmental matters are subject to ongoing evaluation and will likely be subject to change.

For the second quarter ended June 30, 2010, we had an operating loss of 7.1 million, a net loss of approximately 4.9 million. EBITDA for the second quarter of 2010 was approximately negative 4.6 million.

Again, as earlier stated, on a pro forma basis our EBITDA would have been approximately 2.3 million had we achieved planned sulfuric acid production rate, and avoided the cost attributable to the poor operating performance and outage in the sulfuric acid plants.

Capital expenditures for the quarter were approximately \$4.5 million.

Now let me briefly address our liquidity position. In our first quarter call we mentioned we had completed a new financing arrangement in early May of 2010. The timing of this facility was fortuitous in light of the operating problems and maintenance costs incurred in our second quarter. Cash flow use in operations for the second quarter end of June 30, 2010, approximated 9.8 million and we ended the quarter with approximately 3.1 million in cash and had 8.1 million in borrowings under our revolving credit facility.

Presently, we have approximately 3.4 million in cash on hand and outstanding borrowings of 12.3 million, our liquidity position receives our constant attention. Now I'd like to turn the presentation over to Jim Perkins our vice president of sales and marketing for a few comments.

Jim Perkins: Thanks Tim, tight supply and firm pricing continue to characterize the current phosphate market. On the domestic front DAP prices bottomed in mid June at \$383 per short ton, (NOLA barge) basis. Since then prices have surged 24 percent as reflected in recent (barge) sales at \$475 per short ton.

U.S. producers remain comfortable with inventory positions due mainly to Indian shipments and domestic commitments. TFI figures show end-of-July domestic DAP inventories at 492,000 short tons, that represents a 24 percent decrease relative to the previous five year average. Domestic prices currently yield a \$20 per ton premium over export values.

While several producers have reportedly committed through September and into October, sellers with uncommitted tons remaining will continue to focus on domestic opportunities. In international markets, shipments to India continue to provide producers with a significant base load. India has so far received roughly one half of the 8.1 million metric tons that they booked for the current year. Like domestic prices, export prices FOB U.S. Gulf basis have also been moving upwardly.

Export prices bottomed in mid-June at \$430 per metric ton FOB U.S. Gulf and have since risen over 16 percent to \$502 per metric ton. Looking ahead to fundamentals being set for continued strength, first crop prices should yield strong farming returns and motivate farmers towards fertilizations for maximum yields. At today's market, opening December 2010 corn stood at about \$4.40 per bushel and December 2011 corn was at \$4.46 per bushel.

Secondly, the potential record-setting corn harvest should leave soil nutrients depleted and in need of fertilizer. With the combination of a huge harvest and high crop prices farmers should have plenty of money in their pockets to spend on fertilizer. Third, an early harvest should yield a longer window of opportunity for fall fertilizer application. In addition current inventories both at the producer levels and in the distribution pipeline are considered low. And finally, the base load of shipments to India will continue.

All in all we are very optimistic as we look forward to the fourth quarter and beyond. Briefly regarding input cost the ammonia market remains firm and

we look to higher prices in the near term. The August Tampa price for ammonia settled at \$380 per metric ton. More recently, the September contract price at Tampa settled at \$425 per metric ton, for an increase of \$45 per metric ton month to month.

As regards to Sulfur, the current Tampa posting is \$95 per long ton. As we look toward the fourth quarter the current outlook is for an increase in Sulfur cost potentially in the \$25 to \$35 range. Robert.

Robert Jones: At this point we'd be glad to respond to any questions you may have.

Operator: Ladies and gentleman on the phone if you have a question at this time please press Star one on your touch tone phone. If your question has been answered or you wish to leave the Q for any reason please press the Pound key. Once again ladies and gentleman if you have a question at this time please press Star one now. Our first question comes from (David Silver) with Bank of America.

Male: Good afternoon (Dave).

(David Silver): Yes, hi how are you? I wasn't prepared to be first here I thought I waited a little bit there. I just want to ask you a question or two. Maybe first on the Sulfur market and this would be more of a regional question but I'm just wondering if you've seen any affect of reduced sulfur demand in the Gulf tied to the issues surrounding Mosaic and their ability to operate the South Fort Mede facility. And I am wondering if that would cause sulfur to kind of weaken in the Gulf relative to what it's doing in the rest of the world?

Male: Well I you know if that eventuates I don't think the effect is being seen today sulfur in our region is pretty tight right now. But we are experiencing price strengthening in the fourth quarter.

(David Silver): OK and then just kind of following up on kind of the same issue but regarding the Mosaic ruling and their ability to operate. So I know it's early days here but can you see any read through to Mississippi phosphate in terms of your ability to operate and I'm thinking mainly maybe waste treatment or chip stack disposal. In other words is there any read through from what the Sierra

Club was complaining about or targeting with Mosaic that you think might affect you guys or cause you guys to change the way you operate in any way?

Male: Well you know those matters, and I'm not particularly well versed on Mosaic's mind, but these are related to a mine and a permit to extend a mine and of course we are dealing with a processing facility and I would say the matters, we've got an apple and an orange and I would see no carry over impact related to those specific issues.

(David Silver): OK I was hoping you would say something like that, just making sure I'm not missing something. And then the third thing I would just ask you about would be more of a market related question. But as you rightly pointed out I mean the phosphate prices have been moving up here pretty steadily. Have you noticed any (diminution) of demand in other words are customers starting to chase at the pricing you know now that it's pretty much gotten to the highest it has ever been other than that one big run up in late '07, early '08 I think.

But have the higher prices caused any second thoughts on the part of your major customers that you can see?

Male: Now I won't be trifling but I will turn the question around have you noticed the price of leading corn? And so as long as we see continued strength in crop prices we think demand resistance is a bit in the future and that these prices have additional room to run.

(David Silver): Well I'll turn the question around on you and then I'll ask you a green question. But you know the scuttle butt I mean just around the grain markets and what not. Is that the early returns, sorry the early yield or the yields on the early harvested acres which I think are down closer to where you are have been a little disappointing. And I was wondering if you could offer any you know gossip or any what the folks out there are talking about in terms of how the yields on the early corn, say corn and soy bean crops have been.

Robert Jones: Jim I'm not ó do you have anythingí

Jim Perkins: Just anecdotally Robert, I have heard that in the Delta region that there may be some corn in the ground that the yields are just not going to be where they'd

hoped. But I think all in all I think USDA is still holding to the (prior) forecast. Now that just ó it'll be updated in the next several weeks, we'll see what they come with but as I recall their last forecast had the average yields at around 164 through 165 bushels an acre.

(David Silver): Right, right. OK.

Jim Perkins: One thing he did mention (David) and that is that the harvest is early and that's a positive you know for the market, it should extend the fall application season and be helpful overall.

(David Silver): Yes, I think it should be a big year-over-year benefit. So OK, I'll stop there but thanks very much for the help.

Jim Perkins: Thank you.

Operator: Our next question comes from (Steve Gidamol) with (Virtuous) Capital.

(Steve Gidamol): Yes, hi Robert, you hear me OK?

Robert Jones: Yes, how you doing (Steve).

(Steve Gidamol): Good, good, how are you?

Robert Jones: Great.

(Steve Gidamol): My first question is why wait until November to do the turnaround, I mean assume that that has something to do with the Thanksgiving Day holiday, it's a good time to shut down the plant or whatever.

Robert Jones: No, today would be a good time to shut down the plant. It really has to do with contractor and materials availability and you know it's scheduled at the earliest possible moment and if things were to change and it could be scheduled a day earlier it would. But that's really driven by contractor and material availability.

(Steve Gidamol): So it's just a matter of getting the equipment that you need to install?

Robert Jones: That's correct and with known and with known problems, known pieces of equipment, some have long lead (time) and it's driven by those schedules.

(Steve Gidamol): OK.

Robert Jones: You know, Steve, it is very painful to see these plants underperforming in today's market, so our impatience has no bounds.

(Steve Gidamol): After the one we heard rates of production I forget who that was, it was Jim or saying that plant one through November will be 1,400 or 1,450 and then plant two is 1,200 to 1,250, what do we come out of this. You know at the one at the completion of the November turnaround? What are we looking at then each for each plant? Is it closer you know 2,000 a day, is that?

Robert Jones: Well you know with the changes in weather and the resolution of all remaining issues and known issues in the plants, we know no reason why we won't be back to instantaneous rates at design levels. And then we'll have an operating factor in the low to mid '90s going forward or in some, a very vast improvement over where we've been year-to-date.

(Steve Gidamol): OK.

Robert Jones: So, and by the way, the design rate on both plants is 1,500.

(Steve Gidamol): OK, that would have been my question. OK, so the one so the first plant, it just goes from 1,400 or 1,450 to 1,500 and then the one but the second one is where you really pick up the improvement.

Robert Jones: That's correct and we'll pick up some improvement in the one in the other plant where the issues are already resolved, just due to changes in weather we're in the dog days right here and now. And that affects operating rates as well.

(Steve Gidamol): You mean like the humidity you mean or?

Robert Jones: Heat.

Male: Heat.

(Steve Gidamol): The heat does?

Robert Jones: The heat does.

(Steve Gidamol): OK. OK and then the ó thatø basically what I was going to ask. And the early harvest is just weather related right? There's nothing I mean it's just Mother Nature right?

Robert Jones: Thatø right.

(Steve Gidamol): OK and then any ideas now that the soil becomes (foul) these farmers in some of these regions can turn it around once again a little bit sooner, is that the idea?

Robert Jones: Thatø correct and you know overall we're expecting a good (August), depleted nutrient contents in the soil and ample time to replenish those nutrient levels. So you know year-over-year we're looking for an improved fall season.

(Steve Gidamol): And you were speaking about China in this you know in this call you have in other calls, you mentioned you know a big name coming from you know from India. I mean is China a player here? Or have they been holding back and might be a wildcard on you know as additional incremental buyer or?

Robert Jones: Well China is and for the last several years has been an exporter and they did (inaudible) various periods during the year when the government lists an excise tax and permits exports. Their internal demand is expected to be strong and their exports are having little impact on ó well they're certainly satisfying demand and having little impact on prices currently.

(Steve Gidamol): OK. OK, great well those are my questions. Thank you.

Robert Jones: Thank you.

Operator: Once again ladies and gentlemen, if you have a question at this time, please press star then one now. Our next question comes for (Craig Patrossey) with Revere Securities.

(Craig Patrossey): Hi gentlemen, good afternoon. Hello, good afternoon gentlemen, how are you?

Male: We're good thank you.

(Craig Patrossey): A quick question that you can address, I think you tried addressing it when you were talking about the purchasing of sulfuric acid and the impact it has. Looking at the statement of operations, your cost of sales between the two quarters, first quarter and second quarter, I think I can attribute some of that to different input cost increases, like through sulfur and ammonia, but can you talk at all, what impact this whole purchasing versus produce sulfuric acid has on that number.

Because it's a pretty substantial difference between the two quarters, I think to the tune to about \$12 million.

Male: It's ó well I don't have that at my fingertips. It would take us ó we could make a very good estimate of that, I can tell you as based on the illustration that I went through during my remarks. It's helpful but when we're producing DAP with purchased asset, it is far more expensive than producing DAP with produced acid.

And you know that's certainly the case today even though you know the hypothetical is not reflective of true values, (we got) favorably priced sulfuric acid in inventory, but the cost impact is nonetheless significant and represents a significant increase. I'll be glad to dig into those numbers and perhaps get back with you. But hopefully the illustration and the hypothetical were helpful.

(Craig Patrossey): Yes, they were. Was there any ó was there any of the maintenance repairs in that cost of sales number for the quarter?

Male: Yes, they're in the cost of sales number.

(Craig Patrossey): They're buried in there.

Male: Right.

(Craig Patrossey): OK and that would be what of the five -- would then show up in the \$500,000 natural gas cost that you mentioned and the 1.7 million higher maintenance for the quarter, all those numbers are in there?

Male: That's correct.

(Craig Patrossey): OK. And then I might have missed it on the call, but did you guys mention what your production forecasts were for at least Q3, if not Q4 going forward with the of with the different issues that you're facing and the repairs that are coming up?

Male: We're expecting a slight improvement and we're projecting DAP production of 155 to 165.

(Craig Patrossey): That's for Q3?

Male: This 152 in the second quarter, 151 excuse me.

(Craig Patrossey): So would 155, 165 be the range from both the third and fourth quarter do you think?

Male: No, that's the projected range for the third quarter. We have not projected Q4 levels.

(Craig Patrossey): OK and just one last quick question, which I've spoken to Tim about before. I know there are some things that are stopping you guys from potentially getting you know full-blown listing on the AMEX or NASDAQ or something like that with (inaudible) shareholders.

But has there been any discussion even to upgrade to like a fully reporting (bulletin board) company which would at least be somewhat of a higher profile and a little bit more legitimacy from a financial reporting standpoint?

Male: (Craig) we view the first step is to continue to work through the qualification issues with the one of the major exchanges and then give full consideration to that option before looking to alternatives.

(Craig Patrossey): Right.

Male: That would certainly be you know much preferred results.

(Craig Patrossey): Sure, OK. Thank you very much.

Male: You're quite welcome. If they're no other calls, again we appreciate your participation and your interest in Phosphate Holdings. And we look forward to having a better report at our next earnings call. Good afternoon gentlemen.

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

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