PHIBRO ANIMAL HEALTH CORP
Form 10-Q
November 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

|X|*QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to ___________.

Commission File Number 333-64641

Phibro Animal Health Corporation

(Exact name of registrant as specified in its charter)

New York	13-1840497
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Parker Plaza, Fort Lee, New Jersey 07024
(Address of principal executive offices) (Zip Code)

(201) 944-6020
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| * No |_|

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes |_| No |X|

Number of shares of each class of common stock outstanding as of September 30, 2004:

Class A Common Stock, $.10 par value: 12,600.00
Class B Common Stock, $.10 par value: 11,888.50

* By virtue of Section 15(d) of the Securities Act of 1934, the Registrant is not subject to such filing requirements and not required to file this Quarterly Report, but has provided all such reports as if so required during the preceding 12 months.

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PHIBRO ANIMAL HEALTH CORPORATION

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This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the Company's Annual Report on Form 10-K for its fiscal year ended June 30, 2004 and/or throughout this Form 10-Q and in particular in Item 2 of Part I of this Form 10-Q under the caption "Certain Factors Affecting Future Operating Results." Unless the context otherwise requires, references in this report to the "Company" or to "we" or "our" refers to Phibro Animal Health Corporation and/or one or more of its subsidiaries, as applicable.

PART I -- FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In Thousands)

	September 30, 2004	June 30, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,778	$ 5,568
Trade receivables, less allowance for doubtful accounts of $1,344 at September 30, 2004 and $1,358 at June 30, 2004	52,721	57,658
Other receivables	3,440	2,766
Inventories	87,122	79,910
Prepaid expenses and other current assets	7,707	8,688
TOTAL CURRENT ASSETS	156,768	154,590
PROPERTY, PLANT AND EQUIPMENT, net	59,818	58,786
INTANGIBLES	11,354	11,695
OTHER ASSETS	15,611	16,298
	$243,551	$241,369
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash overdraft	$ 654	$ 891
Loans payable to banks	11,268	10,996
Current portion of long-term debt	953	1,351
Accounts payable	38,892	46,972
Accrued expenses and other current liabilities	47,331	40,010
TOTAL CURRENT LIABILITIES	99,098	100,220
LONG-TERM DEBT	157,992	158,018
OTHER LIABILITIES	22,676	22,286
TOTAL LIABILITIES	279,766	280,524
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series C preferred stock	25,359	24,678

STOCKHOLDERS' DEFICIT:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	860	860
Accumulated deficit	(58,787)	(57,964)
Accumulated other comprehensive income (loss):		
Gain on derivative instruments	84	9
Cumulative currency translation adjustment	(4,254)	(7,261)
TOTAL STOCKHOLDERS' DEFICIT	(61,574)	(63,833)
	$ 243,551	$ 241,369

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

For the Three Months Ended September 30, 2004 and 2003

(In Thousands)

	2004	2003
NET SALES	$ 88,275	$ 84,950
COST OF GOODS SOLD	65,653	63,790
GROSS PROFIT	22,622	21,160
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	16,594	15,785
OPERATING INCOME	6,028	5,375
OTHER:		
Interest expense	5,246	3,933
Interest (income)	(25)	(242)
Other (income) expense, net	24	(585)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	783	2,269
PROVISION FOR INCOME TAXES	924	783
INCOME (LOSS) FROM CONTINUING OPERATIONS	(141)	1,486

DISCONTINUED OPERATIONS:		
(Loss) from discontinued operations (net of income taxes)	--	(462)
Gain on disposal of discontinued operations (net of income taxes)	--	231
NET INCOME (LOSS)	(141)	1,255
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in derivative instruments, net of tax	75	317
Change in currency translation adjustment	3,007	(859)
COMPREHENSIVE INCOME	$ 2,941	$ 713
NET INCOME (LOSS)	(141)	1,255
Dividends and equity value accreted on Series B and C redeemable preferred stock	(682)	(987)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ (823)	$ 268

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)
For the Three Months Ended September 30, 2004

(In Thousands)

	Preferred Stock	Common Stock		Paid-in	Accumulated	Accumu Oth Compreh
	Series A	Class A	Class B	Capital	Deficit	Income
Balance, June 30, 2004	$ 521	$ 1	$ 1	$ 860	$(57,964)	$ (7,
Dividends on Series C redeemable preferred stock					(668)	
Equity value accreted on Series C redeemable preferred stock					(14)	
Change in derivative						

instruments, net of tax						
Foreign currency translation adjustment						3,
Net (loss)					(141)	
Balance, September 30, 2004	$ 521	$ 1	$ 1	$ 860	$(58,787)	$ (4,

See notes to unaudited Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Three Months Ended September 30, 2004 and 2003

(In Thousands)

	2004	2003
OPERATING ACTIVITIES:		
Net income (loss)	$ (141)	$ 1,255
Adjustment for discontinued operations	--	231
Income (loss) from continuing operations	(141)	1,486
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:		
Depreciation and amortization	3,355	3,168
Deferred income taxes	68	53
Effects of changes in foreign currency	(122)	(1,364)
Other	47	153
Changes in operating assets and liabilities:		
Accounts receivable	4,689	832
Inventories	(4,602)	(4,126)
Prepaid expenses and other current assets	1,077	7
Other assets	(1)	(375)
Accounts payable	(8,580)	(5,483)
Accrued expenses and other liabilities	7,695	7,293
Accrued costs of non-completed transaction	(1,100)	--
Cash provided (used) by discontinued operations	--	(376)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,385	1,268
INVESTING ACTIVITIES:		
Capital expenditures	(1,748)	(852)
Proceeds from sale of assets	12	12
Discontinued operations	--	14,049
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,736)	13,209

FINANCING ACTIVITIES:		
Net increase (decrease) in cash overdraft	(237)	731
Net increase (decrease) in short-term debt	272	(280)
Proceeds from long-term debt	445	1,500
Payments of long-term debt	(872)	(944)
Discontinued operations	--	86
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(392)	1,093
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(47)	168
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	210	15,738
CASH AND CASH EQUIVALENTS at beginning of period	5,568	11,179
CASH AND CASH EQUIVALENTS at end of period	$ 5,778	$ 26,917

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

1. General

Principles of Consolidation and Basis of Presentation:

In the opinion of Phibro Animal Health Corporation (the "Company" or "PAHC"), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly its financial position as of September 30, 2004 and its results of operations and cash flows for the three months ended September 30, 2004 and 2003.

The condensed consolidated balance sheet as of June 30, 2004 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Additionally it should be noted the accompanying condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting standards appropriate for interim financial statements. While the Company believes that the disclosures presented are adequate to make the information contained herein not misleading, it is suggested that these financial statements be read in conjunction the Company's audited consolidated financial statements as found in the Company's annual report filed on Form 10-K for the year ended June 30, 2004.

The Company's Mineral Resource Technologies, Inc. ("MRT") and La Cornubia S.A. (France) ("La Cornubia") businesses have been classified as discontinued operations as discussed in Note 6. The Company's condensed consolidated financial statements have been reclassified to report separately the financial position, operating results and cash flows of the discontinued operations. These footnotes present information only for continuing operations, unless otherwise noted.

The results of operations for the three months ended September 30, 2004 may not be indicative of results for the full year.

New Accounting Pronouncements:

The Company has reviewed the Statements of Financial Accounting Standards and the FASB Interpretations of the Financial Accounting Standards Board and has determined that no new statements or interpretations have been issued which would apply to the Company's financial statements or disclosures.

2. Risks, Uncertainties, and Liquidity

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company's fiscal 2005 operating plan projects adequate liquidity throughout the year, with periods of reduced availability around the dates of the semi-annual interest payments due November 1, 2004 and June 1, 2005 related to its senior secured and senior subordinated notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. The Company also has undertaken a strategic review of its manufacturing capabilities, and is currently increasing inventory levels of certain products to enhance future supply flexibility and reduce costs. There can be no assurance the Company will be successful in any of the above-noted actions.

The use of antibiotics in medicated feed additives is a subject of legislative and regulatory interest. The issue of potential for increased bacterial resistance to certain antibiotics used in certain food-producing animals is the subject of discussions on a worldwide basis and, in certain instances, has led to government restrictions on the use of antibiotics in food-producing animals. The sale of feed additives containing antibiotics is a material portion of the Company's business. Should regulatory or other developments result in further restrictions on the sale of such products, it could have a material adverse impact on the Company's financial position, results of operations and cash flows.

The testing, manufacturing, and marketing of certain of the Company's products are subject to extensive regulation by numerous government authorities in the United States and other countries.

The Company has significant assets located outside of the United States, and a significant portion of the Company's sales and earnings are attributable to operations conducted abroad.

The Company has assets located in Israel and a portion of its sales and earnings are attributable to operations conducted in Israel. The Company is affected by social, political and economic conditions affecting Israel, and any major hostilities involving Israel as well as the Middle East or curtailment of trade between Israel and its current trading partners, either as a result of hostilities or otherwise, could have a material adverse effect on the Company.

The Company's operations, properties and subsidiaries are subject to a wide variety of complex and stringent federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes, the remediation of contaminated soil and groundwater, the manufacture, sale and use of pesticides and the health and safety of employees. As such, the nature of the Company's current and former operations and those of its subsidiaries exposes the Company and its subsidiaries to the risk of claims with respect to such matters.

3. Inventories

Inventories are valued at the lower of cost or market. Cost is determined principally under the first-in, first-out (FIFO) and average methods. Obsolete and unsaleable inventories are reflected at estimated net realizable value. Inventory costs include materials, direct labor and manufacturing overhead. Inventories are comprised of:

	As of	
	September 20, 2004	June 30, 2004
Raw materials	$16,651	$16,313
Work-in-process	1,329	1,764
Finished goods	69,142	61,833
Total inventory	$87,122	$79,910

4. Intangibles

Product intangible cost arising from the acquisition of the medicated feed additive business of Pfizer, Inc. and the acquisition of the rights to sell amprolium was $14,832 and $14,925 at September 30, 2004 and June 30, 2004, respectively, with related accumulated amortization of $3,478 and $3,230 at September 30, 2004 and June 30, 2004, respectively. Amortization expense was $371 and $304 for the three months ended September 30, 2004 and 2003 respectively.

5. Prince Transactions

Effective December 26, 2003, the Company completed the divestiture of substantially all of the business and assets of Prince Quincy, Inc. (f/k/a The Prince Manufacturing Company ("PMC")), to a company ("Buyer") formed by Palladium Equity Partners II, LP and certain of its affiliates (the "Palladium Investors"), and the related reduction of the Company's preferred stock held by the Palladium Investors (collectively, the "Prince Transactions").

The divestiture of PMC has not been reflected as a discontinued operation due to the existence of the Backstop Indemnification Amount and continuing supply and service agreements.

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

PMC is included in the Company's Industrial Chemicals segment. The results of operations of PMC were:

	Three Months Ended September 30, 2003
Net sales	$5,683
Operating income	1,213
Depreciation and amortization	243

6. Discontinued Operations

The Company divested MRT and shutdown La Cornubia during fiscal 2004. These businesses have been classified as discontinued operations.

Operating results and gain on sale of MRT were:

	Three Months Ended September 30, 2003
OPERATING RESULTS:	
Net sales	$ 3,327
Cost of goods sold	3,135
Selling, general and administrative expenses	316
Loss before income taxes	(124)
Provision for income taxes	--
(Loss) from operations	$ (124)
GAIN ON SALE:	
Current assets	$ (5,813)
Property, plant & equipment - net and other assets	(10,703)
Current liabilities	2,911
Net proceeds of sale	13,836
Gain on sale	$ 231

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

Operating results of La Cornubia were:

	Three Months Ended September 30, 2003

OPERATING RESULTS:	
Net sales	$ 2,220
Cost of goods sold	2,216
Selling, general and administrative expenses	376
Other (income)	(50)
Interest expense	16
Loss before income taxes	(338)
Provision for income taxes	--
Loss from operations	$ (338)
Depreciation and amortization	$ 100

7. Debt

Loans Payable to Banks

At September 30, 2004, loans payable to banks included $11,268 under the senior credit facility with Wells Fargo Foothill, Inc. The weighted average interest rate under the senior credit facility during the three months ended September 30, 2004 was 4.5%.

As of September 24, 2004, the Company amended its senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $27,500 to $32,500; the amount of aggregate borrowings available under the working capital facility remained unchanged at $17,500; (ii) amend the EBITDA definition to exclude charges and expenses related to unsuccessful acquisitions and related financings in an aggregate amount not to exceed $5,300 for the period beginning January 1, 2004 and ending June 30, 2004; (iii) amend the definition of Additional Indebtedness to exclude advances under the working capital facility; (iv) amend the definition of Permitted Investments to allow other investments made during the period from January 1, 2004 through June 30, 2004 in an aggregate amount not to exceed $336; and (v) establish covenant EBITDA levels for the periods after June 30, 2004. The amendment was effective June 30, 2004 for items (i), (ii) and (iii); effective January 1, 2004 for item (iv); and effective September 24, 2004 for item (v).

As of September 30, 2004, the Company was in compliance with the financial covenants of its senior credit facility. The senior credit facility requires, among other things, the maintenance of certain levels of trailing consolidated and domestic EBITDA (earnings before interest, taxes, depreciation and amortization) calculated on a monthly basis, and an acceleration clause should an event of default (as defined in the agreement) occur. In addition, there are certain restrictions on additional borrowings, additional liens on the Company's assets, guarantees, dividend payments, redemption or purchase of the Company's stock, sale of subsidiaries' stock, disposition of assets, investments, and mergers and acquisitions.

The senior credit facility contains a lock-box requirement and a material adverse change clause should an event of default (as defined in the agreement) occur. Accordingly, the amounts outstanding have been classified as short-term and are included in loans payable to banks in the consolidated balance sheet.

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

Long-Term Debt

	As of September 30, 2004	As of June 30, 2004
Senior secured notes due December 1, 2007	$105,000	$105,000
Senior subordinated notes due June 1, 2008	48,029	48,029
Foreign bank loans	5,912	6,237
Capitalized lease obligations and other	4	103
	158,945	159,369
Less: current maturities	953	1,351
	$157,992	$158,018

8. Employee Benefit Plans

The Company and its domestic subsidiaries maintain noncontributory defined benefit pension plans for all eligible domestic nonunion employees who meet certain requirements of age, length of service and hours worked per year. The Company's Belgium subsidiary maintains a defined contribution and defined benefit plan for eligible employees.

Components of net periodic pension expense were:

Domestic Pension Expense	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Service cost - benefits earned during the year	$ 287	$ 362
Interest cost on benefit obligation	164	230
Expected return on plan assets	(150)	(210)
Amortization of initial unrecognized net transition (asset)	--	(1)
Amortization of prior service costs	(17)	(41)
Amortization of net actuarial loss (gain)	2	16
Net periodic pension cost - domestic	$ 286	$ 356

International Pension Expense	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Service cost - benefits earned during the year	$ 122	$ 110
Interest cost on benefit obligation	98	88
Expected return on plan assets	(79)	(71)
Amortization of net actuarial loss	6	6
Net periodic pension cost - international	$ 147	$ 133

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

9. Contingencies

Litigation:

On or about April 17, 1997, CP Chemicals, Inc. (a subsidiary, "CP") and the Company were served with a complaint filed by Chevron U.S.A. Inc. ("Chevron") in the United States District Court for the District of New Jersey, alleging that the operations of CP at its Sewaren plant affected adjoining property owned by Chevron and alleging that the Company, as the parent of CP, is also responsible to Chevron. In July 2002, a phased settlement agreement was reached and a Consent Order entered by the Court. That settlement is in the process of being implemented. The Company's and CP's portion of the settlement for past costs and expenses through the entry of the Consent Order was $495 and was included in selling, general and administrative expenses in fiscal 2002 and was paid in fiscal 2003. The Consent Order then provides for a period of due diligence investigation of the property owned by Chevron. The investigation has been conducted and the results are under review. The investigation costs are being split with one other defendant, Vulcan Materials Company. Upon completion of the review of the results of the investigation, a decision will be made whether to opt out of the settlement or proceed. If no party opts out of the settlement, the Company and CP will take title to the adjoining Chevron property, probably through the use of a three-member New Jersey limited liability company. In preparation to move forward, a limited liability company has been formed, with Vulcan Materials Company as the third member. The Company also has commenced negotiations with Chevron regarding its allocation of responsibility and associated costs under the Consent Order. While the costs cannot be estimated with any degree of certainty at this time, the Company believes that insurance recoveries will be available to offset some of those costs.

The Company's Phibro-Tech subsidiary was named in 1993 as a potentially responsible party ("PRP") in connection with an action commenced under the Federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") by the United States Environmental Protection Agency ("the EPA"), involving a former third-party fertilizer manufacturing site in Jericho, South Carolina. An agreement has been reached under which such subsidiary agreed to contribute up to $900 of which $635 has been paid as of September 30, 2004. Some recovery from insurance and other sources is expected but has not been recorded. The Company also has accrued its best estimate of any future costs.

Phibro-Tech, Inc. has resolved certain alleged technical permit violations with the California Department of Toxic Substances Control and has reached an agreement to pay $425 over a six year period ending October 2008.

In February 2000, the EPA notified numerous parties of potential liability for waste disposal at a licensed Casmalia, California disposal site, including a business, assets of which were originally acquired by a subsidiary in 1984. A settlement has been reached in this matter and the Company has paid $171 in full settlement.

On or about April 5, 2002, the Company was served, as a potentially responsible party, with an information request from the EPA relating to a third-party superfund site in Rhode Island. The Company has investigated the matter, which relates to events in the 1950's and 1960's, and management does not believe that the Company has any liability in this matter.

On or about August 13, 2004 the Company was served with a Request for Information pursuant to Section 104 of CERCLA and Section 3007 of RCRA relating to possible discharges into Turkey Creek in Sumter, South Carolina. The Company is preparing its response to the Request for Information and believes that, because its Sumter, South Carolina facility is distant from Turkey Creek and does not discharge into Turkey Creek, the likelihood of liability associated with this matter is remote.

The Company and its subsidiaries are party to a number of claims and lawsuits arising out of the normal course of business including product liabilities and governmental regulation. Certain of these actions seek damages in various amounts. In most cases, such claims are covered by insurance. The Company believes that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on its financial position.

Environmental Remediation:

The Company's operations, properties and subsidiaries are subject to a wide variety of complex and stringent federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes, the remediation of contaminated soil and groundwater, the manufacture, sale and use of pesticides and the health and safety of employees. As such, the nature of the Company's current and former operations and those of its subsidiaries exposes the Company and its subsidiaries to the risk of claims with respect to such matters. Under certain circumstances, the Company or any of its subsidiaries might be required to curtail operations until a particular problem is remedied. Known costs and expenses under environmental laws incidental to ongoing operations are generally included within operating results. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under environmental laws or to investigate or remediate potential or actual contamination and from time to time the Company establishes reserves for such contemplated investigation and remediation costs. In many instances, the ultimate costs under environmental laws and the time period during which such costs are likely to be incurred are difficult to predict.

The Company's subsidiaries have, from time to time, implemented procedures at their facilities designed to respond to obligations to comply with environmental laws. The Company believes that its operations are currently in material compliance with such environmental laws, although at various sites its subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with their historic operations.

The nature of the Company's and its subsidiaries' current and former operations exposes the Company and its subsidiaries to the risk of claims with respect to environmental matters and the Company cannot assure it will not incur material costs and liabilities in connection with such claims. Based upon its experience to date, the Company believes that the future cost of compliance with existing environmental laws, and liability for known environmental claims pursuant to such environmental laws, will not have a material adverse effect on the Company's financial position.

Based upon information available, the Company estimates the cost of litigation proceedings described above and the cost of further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites to be approximately $2,870, which is included in current and long-term liabilities in the September 30, 2004 condensed consolidated balance sheet (approximately $2,933 at June 30, 2004).

10. Guarantees

As part of the Prince Transactions (Note 5), as is normal for such transactions, the Company has agreed to indemnify the Palladium Investors for losses arising out of breach of representations, warranties and covenants. The Company's maximum liability under such indemnification is limited to $15,000.

The Company agreed to indemnify the Palladium Investors for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of the Buyer for less than $21,000, up to a maximum payment by the Company of $4,000 (the "Backstop Indemnification Amount"). The Backstop Indemnification Amount would be payable on the earlier to occur of July 1, 2008 or six months after the redemption date of all of the Company's Senior Secured Notes due 2007 if such a disposition closes prior to such redemption and six months after the closing of any such disposition if the disposition closes after any such redemption. The Company's obligations with respect to the Backstop Indemnification Amount will cease if the Palladium Investors do not close the disposition of the Buyer by January 1, 2009. The maximum potential Backstop Indemnification Amount is included in other liabilities on the Company's condensed consolidated balance sheet.

The Company established a $1,000 letter of credit escrow for two years to collateralize its working capital adjustment and certain other indemnification obligations relating to the Prince Transactions.

11. Business Segments

The Company's reportable segments are Animal Health and Nutrition, Industrial Chemicals, Distribution and All Other. Reportable segments have been determined primarily on the basis of the nature of products and services and certain similar operating units have been aggregated. The Company's Animal Health and Nutrition segment manufactures and markets more than 500 formulations and concentrations of medicated feed additives and nutritional feed additives including antibiotics, antibacterials, anticoccidials, anthelmintics, trace minerals, vitamins, vitamin premixes and other animal health and nutrition products. The Industrial Chemicals segment manufactures and markets a number of chemicals for use in the pressure-treated wood, chemical catalyst, semiconductor, automotive, and aerospace industries. The Distribution segment markets and distributes a variety of industrial, specialty and fine organic chemicals and intermediates produced primarily by third parties. The All Other segment manufactures and markets a variety of specialty custom chemicals and copper-based fungicides. Intersegment sales and transfers were not significant. The following segment data includes information only for continuing operations.

(In Thousands)

Three Months Ended September 30, 2004	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor
Net sales	$65,806	$ 8,393	$ 7,661	$ 6,415	$
Operating income/(loss)	7,815	773	864	705	
Depreciation and amortization	2,195	403	2	100	

Three Months Ended September 30, 2003	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor
Net sales	$59,841	$11,982	$ 7,939	$ 5,188	$
Operating income/(loss)	6,900	822	841	669	
Depreciation and amortization	2,029	649	3	115	

Identifiable Assets	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor
At September 30, 2004	$188,620	25,632	$ 8,607	$ 5,818	$
At June 30, 2004	185,601	26,146	7,715	5,696	

12. Consolidating Financial Statements

The units of Senior Secured Notes due 2007, consisting of US Senior Notes issued by the Company (the "Parent Issuer") and Dutch Senior Notes issued by Philipp Brothers Netherlands III B.V. (the "Dutch Issuer"), are guaranteed by certain subsidiaries. The Company and its U.S. subsidiaries ("U.S. Guarantor Subsidiaries"), excluding PMC, Prince MFG, LLC and MRT (until divested) (the "Unrestricted Subsidiaries", as defined in the indenture), fully and unconditionally guarantee all of the Senior Secured Notes on a joint and several basis. In addition, the Dutch Issuer's subsidiaries, presently consisting of Phibro Animal Health SA (the "Belgium Guarantor"), fully and unconditionally guarantee the Dutch Senior Notes. The Dutch issuer and the Belgium Guarantor do not guarantee the US Senior Notes. Other foreign subsidiaries ("Non-Guarantor Subsidiaries") do not presently guarantee the Senior Secured Notes. The U.S. Guarantor Subsidiaries include all domestic subsidiaries of the Company other than the Unrestricted Subsidiaries and include: CP Chemicals, Inc., Phibro-Tech, Inc., Prince Agriproducts, Inc, Phibrochem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc., and Phibro Animal Health U.S., Inc.

The Senior Subordinated Notes due 2008, issued by the Parent Issuer, are guaranteed by certain subsidiaries. The Company's U.S. subsidiaries, including the U.S. Guarantor Subsidiaries and the Unrestricted Subsidiaries, fully and unconditionally guarantee the Senior Subordinated Notes on a joint and several basis. The Dutch Issuer, Belgium Guarantor and Non-Guarantor Subsidiaries do not presently guarantee the Senior Subordinated Notes. The U.S. Guarantor Subsidiaries and Unrestricted Subsidiaries include all domestic subsidiaries of the Company including: CP Chemicals, Inc., Phibro-Tech, Inc., Prince Agriproducts, Inc., PMC, Prince MFG, LLC, MRT (until divested), Phibrochem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc., and Phibro Animal Health U.S., Inc.

(In Thousands)

The following consolidating financial data summarizes the assets, liabilities and results of operations and cash flows of the Parent Issuer, Unrestricted Subsidiaries, U.S. Guarantor Subsidiaries, Dutch Issuer, Belgium Guarantor and Non-Guarantor Subsidiaries. The Unrestricted Subsidiaries, U.S. Guarantor Subsidiaries, Dutch Issuer, Belgium Guarantor and Non-Guarantor Subsidiaries are directly or indirectly wholly owned as to voting stock by the Company.

Investments in subsidiaries are accounted for by the Parent Issuer using the equity method. Income tax expense (benefit) is allocated among the consolidating entities based upon taxable income (loss) by jurisdiction within each group. The principal consolidation adjustments are to eliminate investments in subsidiaries and intercompany balances and transactions.

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gu Subsid
			ASSETS			
CURRENT ASSETS:						
Cash and cash equivalents	$ 184	$ --	$ 568	$ --	$ 202	$
Trade receivables	2,828	--	27,208	--	2,015	2
Other receivables	338	--	1,942	--	133	
Inventory	3,316	--	36,410	--	29,112	1
Prepaid expenses and other	2,278	--	691	--	863	
TOTAL CURRENT ASSETS	8,944	--	66,819	--	32,325	4
Property, plant & equipment, net	136	--	14,052	--	17,270	2
Intangibles	--	--	4,146	--	1,544	
Investment in subsidiaries	107,628	--	3,619	1,304	--	
Intercompany	8,802	--	59,723	20,853	(1,833)	(
Other assets	14,051	--	833	--	--	
	$ 139,561	$ --	$ 149,192	$ 22,157	$ 49,306	$ 7

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:						
Cash overdraft	$ --	$ --	$ 654	$ --	$ --	$
Loan payable to banks	11,268	--	--	--	--	
Current portion of long-term debt	--	--	3	--	--	
Accounts payable	3,985	--	24,014	--	1,567	
Accrued expenses and other	15,328	--	9,083	867	13,766	
TOTAL CURRENT LIABILITIES	30,581	--	33,754	867	15,333	1
Long-term debt	133,029	--	1	20,000	--	
Intercompany debt	--	--	--	--	31,720	4
Other liabilities	12,166	--	5,054	--	949	
TOTAL LIABILITIES	175,776	--	38,809	20,867	48,002	7
REDEEMABLE SECURITIES:						
Series C preferred stock	25,359	--	--	--	--	
STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	--	31	--	--	
Paid-in capital	860	--	112,004	21	52	
Retained earnings (accumulated deficit)	(58,787)	--	(1,484)	(3,500)	(3,517)	
Accumulated other comprehensive income (loss):						
Gain on derivative instruments	84	--	84	--	--	
Cumulative currency translation adjustment	(4,254)	--	(252)	4,769	4,769	(
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(61,574)	--	110,383	1,290	1,304	
	$ 139,561	$ --	$ 149,192	$ 22,157	$ 49,306	$ 7

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

CONSOLIDATING STATEMENT OF OPERATIONS
For The Three Months Ended September 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-G Subsi
NET SALES	$ 5,929	$--	$ 56,675	$ --	$ 1,668	$
NET SALES - INTERCOMPANY	56	--	93	--	6,204	
COST OF GOODS SOLD	4,620	--	41,634	--	4,699	
GROSS PROFIT	1,365	--	15,134	--	3,173	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,903	--	6,956	6	553	
OPERATING INCOME (LOSS)	(3,538)	--	8,178	(6)	2,620	
OTHER:						
Interest expense	4,352	--	(2)	650	11	
Interest (income)	(1)	--	--	--	--	
Other (income) expense, net	1	--	(228)	--	(59)	
Intercompany interest and other	(7,527)	--	5,449	(660)	939	
(Profit) loss relating to subsidiaries	(532)	--	--	(1,567)	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	169	--	2,959	1,571	1,729	
PROVISION FOR INCOME TAXES	310	--	104	--	162	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(141)	--	2,855	1,571	1,567	
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	--	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	--	--	--	--	
Gain (loss) from disposal of discontinued operations (net of income taxes)	--	--	--	--	--	
NET INCOME (LOSS)	$ (141)	$--	$ 2,855	$ 1,571	$ 1,567	$

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended September 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S.Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-G Subsi
OPERATING ACTIVITIES:						
Net income (loss)	$ (141)	$ --	$ 2,855	$ 1,571	$ 1,567	$(3
Adjustment for discontinued operations	--	--	--	--	--	
Income (loss) from continuing operations	(141)	--	2,855	1,571	1,567	(3
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	655	--	703	--	713	1
Deferred income taxes	--	--	--	--	--	
Net gain from sales of assets	--	--	--	--	--	
Effects of changes in foreign currency	--	--	(227)	--	(59)	
Other	3	--	31	--	--	
Changes in operating assets and liabilities:						
Accounts receivable	(161)	--	216	--	618	4
Inventory	(1,322)	--	3,251	--	(5,409)	(1
Prepaid expenses and other	896	--	(267)	--	107	
Other assets	(175)	--	173	--	--	
Intercompany	(2,988)	5	(2,153)	(2,238)	2,450	2
Accounts payable	(749)	6	(4,441)	--	(724)	(2
Accrued expenses and other	3,813	(1)	781	650	997	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(169)	10	922	(17)	260	1
INVESTING ACTIVITIES:						
Capital expenditures	(55)	--	(834)	--	(274)	
Proceeds from sale of assets	--	--	--	--	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(55)	--	(834)	--	(274)	
FINANCING ACTIVITIES:						
Net (decrease) in cash overdraft	--	(10)	(227)	--	--	
Net (decrease) in short-term debt	272	--	--	--	--	
Proceeds from long-term debt	--	--	--	--	--	
Payments of long-term debt	--	--	(99)	--	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	272	(10)	(326)	--	--	

EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	5	--	4	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48	--	(233)	(17)	(10)	
CASH AND CASH EQUIVALENTS at beginning of period	136	--	801	17	212	4
CASH AND CASH EQUIVALENTS at end of period	$ 184	$ --	$ 568	$ --	$ 202	$ 4

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-G Subsi
			ASSETS			
CURRENT ASSETS:						
Cash and cash equivalents	$ 136	$ --	$ 801	$ 17	$ 212	$
Trade receivables	2,670	--	26,996	--	2,592	2
Other receivables	317	414	1,195	--	72	
Inventory	1,994	--	37,890	--	23,159	1
Prepaid expenses and other	3,195	110	565	--	1,018	
TOTAL CURRENT ASSETS	8,312	524	67,447	17	27,053	5
Property, plant & equipment, net	105	--	13,730	--	17,321	2
Intangibles	--	--	4,252	--	1,569	
Investment in subsidiaries	125,355	--	3,619	1,604	--	
Intercompany	(14,995)	20,995	60,030	20,181	1,630	(1
Other assets	14,506	--	1,056	--	--	
	$ 133,283	$ 21,519	$ 150,134	$ 21,802	$ 47,573	$ 7
			LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:						

Cash overdraft	$ --	$ 10	$ 881	$ --	$ --	$
Loan payable to banks	10,996	--	--	--	--	
Current portion of long-term debt	--	--	101	--	--	
Accounts payable	4,734	9	28,434	--	2,258	1
Accrued expenses and other	11,857	159	8,306	216	12,022	
TOTAL CURRENT LIABILITIES	27,587	178	37,722	216	14,280	2
Long-term debt	133,029	--	2	20,000	--	
Intercompany debt	--	--	--	--	30,553	4
Other liabilities	11,822	--	4,897	--	1,136	
TOTAL LIABILITIES	172,438	178	42,621	20,216	45,969	7
REDEEMABLE SECURITIES:						
Series C preferred stock	24,678	--	--	--	--	
STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	31	--	--	
Paid-in capital	860	--	112,004	21	52	
Retained earnings (accumulated deficit)	(57,964)	21,340	(4,339)	(2,744)	(2,757)	
Accumulated other comprehensive income (loss):	--					
Gain on derivative instruments	9	--	9	--	--	
Cumulative currency translation adjustment	(7,261)	--	(192)	4,309	4,309	(1
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(63,833)	21,341	107,513	1,586	1,604	(
	$ 133,283	$ 21,519	$ 150,134	$ 21,802	$ 47,573	$ 7

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

CONSOLIDATING STATEMENT OF OPERATIONS
For The Three Months Ended September 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 5,697	$ 5,683	$ 48,095	$ --	$ 992	$ 24

NET SALES - INTERCOMPANY	45	1,339	209	--	9,269	
COST OF GOODS SOLD	4,508	5,134	35,893	--	9,196	20
GROSS PROFIT	1,234	1,888	12,411	--	1,065	4
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,673	675	6,221	--	524	3
OPERATING INCOME (LOSS)	(3,439)	1,213	6,190	--	541	
OTHER:						
Interest expense	3,712	11	--	--	--	
Interest (income)	--	--	--	--	(30)	
Other (income) expense, net	228	--	(242)	--	(978)	
Intercompany interest and other	(5,992)	1,082	2,539	--	696	1
(Profit) loss relating to subsidiaries	(2,874)	--	--	--	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,487	120	3,893	--	853	(1
PROVISION FOR INCOME TAXES	1	16	218	--	333	
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,486	104	3,675	--	520	(1
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(462)	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	(124)	--	--	--	
Gain from disposal of discontinued operations (net of income taxes)	231	--	--		--	
NET INCOME (LOSS)	$ 1,255	$ (20)	$ 3,675	$ --	$ 520	$ (1

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In Thousands)

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Three Months Ended September 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-G Subsi
OPERATING ACTIVITIES:						
Net income (loss)	$ 1,255	$ (20)	$ 3,675	$ --	$ 520	$ (1
Adjustment for discontinued operations	231	124	--	--	--	
Income (loss) from continuing operations	1,486	104	3,675	--	520	(1
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	372	243	630	--	632	
Deferred income taxes	--	--	--	--	--	
Net gain from sales of assets	--	--	--	--	--	
Effects of changes in foreign currency	--	--	(164)	--	(913)	
Other	126	--	319	--	--	
Changes in operating assets and liabilities:						
Accounts receivable	119	83	(1,351)	--	544	
Inventory	(778)	(1,305)	(9,995)	--	6,828	
Prepaid expenses and other	433	404	(955)	--	441	
Other assets	(530)	1	78	--	--	
Intercompany	(11,621)	523	7,744	--	(7,853)	8
Accounts payable	(1,176)	289	(996)	--	(2,152)	(
Accrued expenses and other	4,015	(9)	(174)	--	2,641	
Cash provided (used) by discontinued operations	231	(652)	--	--	--	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(7,323)	(319)	(1,189)	--	688	9
INVESTING ACTIVITIES:						
Capital expenditures	--	(32)	(286)	--	(226)	
Proceeds from sale of assets	--	--	--	--	--	
Discontinued operations	13,788	--	--	--	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13,788	(32)	(286)	--	(226)	
FINANCING ACTIVITIES:						
Net (decrease) in cash overdraft	18	277	365	--	--	
Net (decrease) in short-term debt	(6,280)	--	--	--	--	6
Proceeds from long-term debt	--	--	--	--	--	1
Payments of long-term debt	(203)	(12)	(143)	--	--	
Discontinued operations	--	--	--	--	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(6,465)	265	222	--	--	7

EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	2	--	16	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	--	(86)	(1,251)	--	478	16
CASH AND CASH EQUIVALENTS at beginning of period	43	119	2,167	--	185	8
CASH AND CASH EQUIVALENTS at end of period	$ 43	$ 33	$ 916	$ --	$ 663	$ 25

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the consolidated financial statements and related notes contained in this Report. The Company's MRT and LaCornubia businesses have been classified as discontinued operations. This discussion presents information only for continuing operations, unless otherwise indicated. The Company presents its annual consolidated financial statements on the basis of its fiscal year ending June 30.

General

The Company is a leading diversified global manufacturer and marketer of a broad range of animal health and nutrition products, specifically medicated feed additives (MFAs) and nutritional feed additives (NFAs), which are sold throughout the world predominantly to the poultry, swine and cattle markets. MFAs are used preventatively and therapeutically in animal feeds to produce healthy livestock. The Company believes it is the third largest manufacturer and marketer of MFAs in the world, and that certain of its MFA products have leading positions in the marketplace. The Company is also a specialty chemicals manufacturer and marketer, serving primarily the United States pressure-treated wood and chemical industries. The Company has several proprietary products, and many of the Company's products provide critical performance attributes to customers' products, while representing a relatively small percentage of total end-product cost.

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company's fiscal 2005 operating plan projects adequate liquidity throughout the year, with periods of reduced availability around the dates of the semi-annual interest payments due November 1, 2004 and June 1, 2005 related to its senior secured and senior subordinated notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. The Company also has undertaken a strategic review of its manufacturing capabilities, and is currently increasing inventory levels of certain products to enhance future supply flexibility and reduce cost. There can be no assurance the Company will be successful in any of the above-noted actions.

Other Risks and Uncertainties

The use of antibiotics in medicated feed additives is a subject of legislative and regulatory interest. The issue of potential for increased bacterial resistance to certain antibiotics used in certain food-producing animals is the subject of discussions on a worldwide basis and, in certain instances, has led to government restrictions on the use of antibiotics in food-producing animals. The sale of feed additives containing antibiotics is a material portion of the Company's business. Should regulatory or other developments result in further restrictions on the sale of such products, it could have a material adverse impact on the Company's financial position, results of operations and cash flows.

The testing, manufacturing, and marketing of certain products are subject to extensive regulation by numerous government authorities in the United States and other countries.

The Company has significant assets located outside of the United States, and a significant portion of the Company's sales and earnings are attributable to operations conducted abroad.

The Company has assets located in Israel and a portion of its sales and earnings are attributable to operations conducted in Israel. The Company is affected by social, political and economic conditions affecting Israel, and any major hostilities involving Israel as well as the Middle East or curtailment of trade between Israel and its current trading partners, either as a result of hostilities or otherwise, could have a material adverse effect on the Company.

The Company's operations, properties and subsidiaries are subject to a wide variety of complex and stringent federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes, the

remediation of contaminated soil and groundwater, the manufacture, sale and use of pesticides and the health and safety of employees. As such, the nature of the Company's current and former operations and those of its subsidiaries exposes the Company and its subsidiaries to the risk of claims with respect to such matters.

Summary Consolidated Results of Continuing Operations

	Three Months Ended September 30,	
	2004	2003
	(Thousands)	
Net sales	$ 88,275	$ 84,950
Gross profit	22,622	21,160
Selling, general and administrative	16,594	15,785
Operating income	6,028	5,375
Interest expense, net	5,221	3,691

Other (income) expense, net	24	(585)
Provision for income taxes	924	783
Income (loss) from continuing operations	$ (141)	$ 1,486

Comparison of Three Months Ended September 30, 2004 and 2003

Net Sales of $88.3 million increased $3.3 million, or 4%. Animal Health and Nutrition sales of $65.8 million grew $6.0 million, or 10%, due to volume increases offset in part by lower average selling prices. Specialty Chemical Group (comprised of the Industrial Chemicals, Distribution and All Other segments) sales of $22.5 million decreased $2.6 million. Excluding PMC, Specialty Chemical group sales increased by $3.1 million due to volume increases in Industrial Chemicals and All Other segments. The Specialty Chemical Group included PMC sales of $5.7 million for the 2003 quarter.

Gross Profit of $22.6 million increased $1.5 million to 25.6% of net sales, compared with 24.9% in 2003. Animal Health and Nutrition gross profit increased due to higher sales unit volumes and lower unit costs offset in part by lower average selling prices. The Specialty Chemical Group also contributed to the improvement due to expanded sales of the Company's new copper-based wood treatment products. The Specialty Chemical Group included PMC gross profit of $1.9 million for the 2003 quarter.

Selling, General and Administrative Expenses of $16.6 million increased $0.8 million. Expenses in the operating segments, excluding PMC, increased over the prior year due to severance accruals, higher research and development costs associated with registration trials, unfavorable foreign exchange rates and overall higher operating costs. Corporate expenses increased due to higher depreciation and amortization charges, compensation and severance costs offset partially by income of $0.2 million from the PMC advisory fee and the elimination of the Palladium management fee of $0.6 million in 2003. PMC expenses were $0.7 million for the 2003 quarter.

Operating Income of $6.0 million increased $0.7 million to 6.8% of sales. Operating income, excluding PMC, improved in both the Animal Health and Nutrition and Specialty Chemical Group with increased gross profit offset in part by higher selling, general and administrative expenses. PMC contributed $1.2 million for the 2003 quarter offset in part by the elimination of the Palladium management fee.

Interest Expense, Net of $5.2 million increased $1.5 million from the 2003 quarter, primarily due to higher average interest rates and also higher borrowing levels associated with the issuance of the Company's Senior Secured Notes.

Other (Income)Expense, Net principally reflects foreign currency transaction net (gains) losses related to short-term inter-company balances and foreign currency translation (gains) losses.

Income Taxes of $0.9 million were recorded on consolidated pre-tax income of $0.8 million. The tax rate reflects income tax provisions in profitable foreign jurisdictions and for state income taxes. A provision for U.S. federal income taxes has not been recorded due to the utilization of net operating loss carryforwards. The Company has recorded valuation allowances related to substantially all deferred tax assets. The Company will continue to evaluate the likelihood of recoverability of these deferred tax assets based upon actual and expected operating performance.

Operating Segments

The Animal Health and Nutrition segment manufactures and markets MFAs and NFAs to the poultry, swine and cattle markets, and includes the operations of the Phibro Animal Health business unit, Prince AgriProducts, Koffolk (1949) Ltd. and Planalquimica. The Industrial Chemicals segment manufacturers and markets specialty chemicals for use in the pressure treated wood, brick, glass, and chemical industries, and includes Phibro-Tech and PMC. The Distribution segment markets a variety of specialty chemicals, and includes PhibroChem and Ferro operations. The All Other segment includes contract manufacturing of crop protection chemicals, Wychem and all other operations. Due to the divestiture of PMC in December 2003, PMC's results are shown separately for comparability.

	Three Months ended September 30,	
	2004	2003
	(Thousands)	
Net Sales		
Animal Health & Nutrition	$65,806	$59,841
Industrial Chemicals - ex PMC	8,393	6,299
Industrial Chemicals - PMC	--	5,683
Distribution	7,661	7,939
All other	6,415	5,188
	$88,275	$84,950

	Three Months ended September 30,	
	2004	2003
	(Thousands)	
Operating Income		
Animal Health & Nutrition	$ 7,815	$ 6,900
Industrial Chemicals - ex PMC	773	(391)
Industrial Chemicals - PMC	--	1,213
Iistribution	864	841
All other	705	669
Corporate expenses and adjustments	(4,129)	(3,857)
	$ 6,028	$ 5,375

Operating Segments Comparison of Three Months Ended September 2004 and 2003

Animal Health and Nutrition

Net Sales of $65.8 million increased $6.0 million, or 10%. MFA net sales increased by $2.4 million. Revenues were higher primarily for antibacterials and antibiotics but were offset in part by lower sales of anticoccidials. The increase in MFA revenues was due to higher unit volumes and favorable currency effect on international sales offset in part by lower average selling prices. NFA net sales increased by $3.6 million principally due to volume increases in trace mineral premixes and other feed ingredients.

Operating Income of $7.8 million increased $0.9 million, or 13%. Operating income improved due to higher sales unit volumes and lower unit costs offset in part by lower average selling prices and increased selling, general and administrative expenses.

Specialty Chemicals

Industrial Chemicals net sales of $8.4 million, excluding PMC, increased $2.1 million, or 33%. Sales of copper- related products to the wood treatment markets increased due to the introduction of new copper based wood treatment products. PMC, divested in December 2003, generated revenues of $5.7 million for the 2003 quarter. Operating income, excluding PMC, of $0.8 million improved by $1.2 million from the 2003 quarter. This improvement was due to new product introductions and savings from previously implemented headcount reductions and facility restructurings in Phibro-Tech operations. PMC provided operating income of $1.2 million for the 2003 quarter.

Distribution net sales of $7.7 million decreased $0.3 million, or 4%. Lower sales volumes in Europe were offset in part by higher domestic unit volumes and slightly higher average selling prices. Distribution operating income of $0.9 million approximated the prior period. As a percentage of sales, operating income was 11% in both 2004 and 2003 quarters.

All Other net sales of $6.4 million increased $1.2 million, or 24%. Revenues for contract manufacturing increased $0.7 million due to increased volumes and average selling prices. Revenues from specialized lab projects and formulations increased $0.5 million over the prior period. Operating income of $0.7 million improved slightly from the prior period due to higher margins on specialized lab projects and formulations.

Discontinued Operations

In August 2003, the Company divested Mineral Resource Technologies, Inc and shutdown its operations at La Cornubia. These businesses have been classified as discontinued operations. The Company's consolidated financial statements have been reclassified to report separately the operating results and cash flows of the discontinued operations.

	Three Months Ended September 30, 2003		
	MRT	LaCornubia	Total
Net Sales	$ 3,327	$ 2,220	$ 5,547
Operating Loss	$ (124)	$ (372)	$ (496)
Interest Expense, net	--	16	16
Other Expense (Income), net	--	(50)	(50)
Provision (benefit) for income tax	--	--	--
Net Income (loss) from discontinued operations	$ (124)	$ (338)	$ (462)
Depreciation and Amortization	$ -	$ 100	$ 100

Mineral Resource Technologies, Inc. ("MRT"). In August 2003, the Company divested MRT for net proceeds, after transaction costs, of approximately $13.8 million. MRT was included in the Company's All Other segment.

La Cornubia. On June 30, 2004, one of the Company's French subsidiaries, La Cornubia SA ("La Cornubia"), filed for bankruptcy under the insolvency laws of France. The Company believes that, as a result of the bankruptcy filing by La Cornubia, it is possible that LC Holding S.A. ("LC Holding"), La Cornubia's parent, a holding company

with no assets except for its investment in La Cornubia, may also file for bankruptcy in France. The Company does not believe that La Cornubia's bankruptcy filing, nor the possible bankruptcy filing by LC Holding, will have a material adverse effect on its financial condition or results of operations.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the three months ended September 30, 2004 and 2003 was $2.4 million and $1.3 million, respectively. Cash provided was due to income from continuing operations offset in part by working capital requirements. The Company is currently increasing inventory levels of certain products to enhance future supply flexibility and reduce cost as part of a strategic review of its manufacturing capabilities.

Net Cash Provided (Used) by Investing Activities. Net cash provided (used) by investing activities for the three months ended September 30, 2004 and 2003 was ($1.7) million and $13.2 million, respectively. Capital expenditures of $1.7 million and $0.9 million for 2004 and 2003, respectively, were for new product capacity, for maintaining the Company's existing asset base and for environmental, health and safety projects. Discontinued operations, primarily from the sale of MRT, provided funds of $14.0 million in 2003.

Net Cash Provided (Used) by Financing Activities. Net cash provided (used) by financing activities for the three months ended September 30, 2004 and 2003 was ($0.4) million and $1.1 million, respectively. Short-term debt increased due to a $0.3 million increase in the senior credit facility. Proceeds from long-term debt and payments of long-term debt, net used $0.4 million of funds and primarily reflect the borrowing activity of Koffolk Israel.

Working Capital and Capital Expenditures. Working capital as of September 30, 2004 was $57.7 million compared to $54.4 million at fiscal year end June 30, 2004, an increase of $3.0 million. The Company is currently increasing inventory levels of certain products to enhance future supply flexibility and reduce cost as part of a strategic review of its manufacturing capabilities. The fiscal 2005 increase in working capital primarily was due to higher inventory levels.

The Company anticipates spending approximately $8.0 million for capital expenditures in fiscal 2005, primarily to cover the Company's asset replacement needs, to improve processes, and for environmental and regulatory compliance, subject to the availability of funds.

Liquidity. At September 30, 2004, the amount of credit extended under the Company's senior credit facility totaled $11.3 million under the revolving credit facility and $8.7 million under the letter of credit facility, and the Company had $6.2 million available under the credit facility. In addition, certain of the Company's foreign subsidiaries also had availability totaling $5.1 million under their respective loan agreements. As of September 24, 2004, the Company amended its senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities to $32.5 million; the amount of aggregate borrowings available under the working capital facility remained unchanged at $17.5 million; (ii) amend the EBITDA definition to exclude charges and expenses related to unsuccessful acquisitions and related financings in an aggregate amount not to exceed $5.3

million for the period beginning January 1, 2004 and ending June 30, 2004; (iii) amend the definition of Additional Indebtedness to exclude advances under the working capital facility; (iv) amend the definition of Permitted Investments to allow other investments made during the period from January 1, 2004 through June 30, 2004 in an aggregate amount not to exceed $336,000; and (v) establish covenant EBITDA levels for the periods ending after June 30, 2004. The amendment was effective June 30, 2004 for items (i), (ii) and (iii); effective January 1, 2004 for item (iv); and effective September 24, 2004 for item (v).

The senior credit facility contains a lock-box requirement and a material adverse change clause should an event of default (as defined in the agreement) occur. Accordingly, the amounts outstanding have been classified as short-term and are included in loans payable to banks in the condensed consolidated balance sheet.

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation

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of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company's fiscal 2005 operating plan projects adequate liquidity throughout the year, with periods of reduced availability around the dates of the semi-annual interest payments due November 1, 2004 and June 1, 2005 related to its senior secured and senior subordinated notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. The Company also has undertaken a strategic review of its manufacturing capabilities, and is currently increasing inventory levels of certain products to enhance future flexibility and reduce cost. There can be no assurance the Company will be successful in any of the above-noted actions.

The Company's contractual obligations (in millions) at September 30, 2004 mature as follows:

	Years				
	Within 1	Over 1 to 3	Over 3 to 5	Over 5	Total
Loans payable to banks	$ 11.3	$ --	$ --	$ --	$ 11.3
Long-term debt (including current portion)	1.0	4.1	153.9	--	159.0
Interest payments	19.3	38.4	12.7	--	70.4
Lease commitments	1.4	2.6	2.0	2.2	8.2
Acquisition of rights	0.6	0.8	0.4	--	1.8
Total contractual obligations	$ 33.6	$ 45.9	$169.0	$ 2.2	$250.7

Critical Accounting Policies

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates. The accounting policies and related risk described in our Annual Report on Form 10-K for the year ended June 30, 2004 are those that depend most heavily on these judgments and estimates. As of September 30, 2004 there have been no material changes to any of the critical accounting policies contained therein.

New Accounting Pronouncements

There were no new accounting policies issued during the quarter ended September 30, 2004 which would result in a material impact on the Company's financial statements.

Quantitative and Qualitative Disclosure About Market Risk

In the normal course of operations, the Company is exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates, and commodity prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. The Company uses, from time to time, foreign currency forward contracts as a means of hedging exposure to foreign currency risks. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing processes, to hedge the cost of

its anticipated purchase requirements. The Company does not utilize derivative instruments for trading purposes. The Company does not hedge its exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values. The Company monitors the financial stability and credit standing of its major counterparties.

For financial market risks related to changes in interest rates, foreign currency exchange rates and commodity prices, reference is made to Part II, Item 7, Quantitative and Qualitative Disclosure about Market Risk, in our annual report on Form 10-K for the fiscal year ended June 30, 2004 and to Notes 2 and 17 to our Consolidated Financial Statements included therein.

Certain Factors Affecting Future Operating Results

Forward-Looking Statements

This Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend," or similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results that differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

o our substantial leverage and potential inability to service our debt

o our dependence on distributions from our subsidiaries

o risks associated with our international operations and significant foreign assets

o our dependence on our Israeli operations

o competition in each of our markets

o potential environmental liability

o potential legislation affecting the use of medicated feed additives

o extensive regulation by numerous government authorities in the United States and other countries

o our reliance on the continued operation and sufficiency of our manufacturing facilities

o our reliance upon unpatented trade secrets

o the risks of legal proceedings and general litigation expenses

o potential operating hazards and uninsured risks

o the risk of work stoppages

o our dependence on key personnel

See also the discussion under "Other Risks and Uncertainties" in Note 2 of our Condensed Consolidated Financial Statements included in this Report.

In addition, the issue of the potential for increased bacterial resistance to certain antibiotics used in certain food producing animals is the subject of discussions on a worldwide basis and, in certain instances, has led to government restrictions on the use of antibiotics in these food producing animals. The sale of feed additives containing antibiotics is a material portion of our business. Should regulatory or other developments result in further restrictions on the sale of such products, it could have a material adverse impact on our financial position, results of operations and cash flows.

We believe the forward-looking statements in this Report are reasonable; however, no undue reliance should be placed on any forward-looking statements, as they are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information regarding quantitative and qualitative disclosures about market risk is set forth in Item 2 of this Form 10-Q.

Item 4. Controls and Procedures

(a) Based upon an evaluation, under the supervision and with the participation of our Principal Executive Officers and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, they have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures, as defined in Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended, are effective for gathering, analyzing and disclosing information we are required to disclose in periodic reports that we furnish to the Securities and Exchange Commission.

(b) During the quarter ended September 30, 2004, the Company remediated the material weakness in internal control (which was comprised of a combination of significant deficiencies) discussed in our Annual Report on Form 10K. The Company completed a review of significant balance sheet accounts related to September 30, 2004 balances and implemented enhanced supervisory reviews of these accounts. Additionally, the Company is implementing improvements in processes and procedures related to the review, substantiation and evaluation of general ledger account balances. As of the end of the period covered by this report, other than noted above, there have been no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of internal controls, however well designed and operated, can provide only reasonable, but not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

PART II -- OTHER INFORMATION

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
31.1	Certification of Gerald K. Carlson, Chief Executive Officer required by Rule 15d-14(a) of the Act.
31.2	Certification of Jack C. Bendheim, Chairman of the Board required by Rule 15d-14(a) of the Act.
31.3	Certification of Richard G. Johnson, Chief Financial Officer required by Rule 15d-14(a) of the Act.

Since the Company does not have securities registered under Section 12 of the Securities Exchange Act of 1934 and is not required to file periodic reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company is not an "issuer" as defined in the Sarbanes-Oxley Act of 2002, and therefore the Company is not filing the written certification statement pursuant to Section 906 of such Act. The Company submits periodic reports with the Securities and Exchange Commission because it is required to do so by the terms of the indenture governing its 9 7/8% Senior Subordinated Notes due 2008.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHIBRO ANIMAL HEALTH CORPORATION.

Date: November 12, 2004

By: /s/ JACK C. BENDHEIM

Jack C. Bendheim
Chairman of the Board

Date: November 12, 2004

By: /S/ GERALD K. CARLSON

Gerald K. Carlson
Chief Executive Officer

Date: November 12, 2004

By: /s/ RICHARD G. JOHNSON

Richard G. Johnson
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

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Exhibit Index

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