PHIBRO ANIMAL HEALTH CORP
Form 10-Q
February 18, 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 December 31, 2003

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 December 31, 2003:

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.

PHIBRO ANIMAL HEALTH CORPORATION

TABLE OF CONTENTS

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, 2003 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)

	December 2003
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 8,68
Trade receivables, less allowance for doubtful accounts of $1,431 at December 31, 2003 and $1,445 at June 30, 2003	56,77
Other receivables	3,89
Inventories	87,94
Prepaid expenses and other current assets	8,71
Current assets from discontinued operations	-
TOTAL CURRENT ASSETS	166,01
PROPERTY, PLANT AND EQUIPMENT, net	63,32
INTANGIBLES	7,77
OTHER ASSETS	17,81
OTHER ASSETS FROM DISCONTINUED OPERATIONS	-
	$ 254,93
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Cash overdraft	$ 3,89
Loans payable to banks	9,14
Current portion of long-term debt	2,36
Accounts payable	45,45
Accrued expenses and other current liabilities	44,80
Current liabilities from discontinued operations	-
TOTAL CURRENT LIABILITIES	105,65
LONG-TERM DEBT	156,41
OTHER LIABILITIES	18,89
OTHER LIABILITIES FROM DISCONTINUED OPERATIONS	-
TOTAL LIABILITIES	280,96
COMMITMENTS AND CONTINGENCIES	

REDEEMABLE SECURITIES:	
Series B and C preferred stock	17,06
STOCKHOLDERS' DEFICIT:	
Series A preferred stock	52
Common stock	
Paid-in capital	86
Accumulated deficit	(40,66
Accumulated other comprehensive income (loss):	
Gain on derivative instruments	50
Cumulative currency translation adjustment	(4,31
TOTAL STOCKHOLDERS' DEFICIT	(43,09
	$ 254,93

See notes to unaudited Condensed Consolidated Financial Statements

4

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In Thousands)

	Three Months Ended December 31, 2003	2002
NET SALES	$ 96,043	$ 90,1
COST OF GOODS SOLD	73,190	66,0
GROSS PROFIT	22,853	24,0
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	17,236	16,2
OPERATING INCOME	5,617	7,8
OTHER:		
Interest expense	4,575	3,6
Interest (income)	168	
Other (income) expense, net	(66)	
Net (gain) on extinguishment of debt	(23,226)	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	24,166	4,1

PROVISION FOR INCOME TAXES	2,880	1,4
INCOME FROM CONTINUING OPERATIONS	21,286	2,7
DISCONTINUED OPERATIONS:		
(Loss) from discontinued operations (net of income taxes)	--	(10,5
Gain on disposal of discontinued operations (net of income taxes)	--	
NET INCOME (LOSS)	21,286	(7,8
OTHER COMPREHENSIVE INCOME (LOSS):		
Derivative instruments	102	(1
Currency translation adjustment	3,031	(8
COMPREHENSIVE INCOME (LOSS)	$ 24,419	$ (8,8
NET INCOME (LOSS)	21,286	(7,8
Excess of the reduction of redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions	20,138	
Preferred dividends	(2,864)	(2,1
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 38,560	$ (9,9

See notes to unaudited Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)

For the Three Months and Six Months Ended December 31, 2003

(In Thousands)

	Preferred Stock Series A	Common Stock Class A	Common Stock Class B	Paid-in Capital	Accumulated Deficit
Balance, June 30, 2003	$ 521	$ 1	$ 1	$ 860	$(79,489)

Dividends on Series B and C redeemable preferred stock					(2,453)
Equity value accreted on Series B and C redeemable preferred stock					1,466
Derivative instruments					
Foreign currency translation adjustment					
Net income					1,255
Balance, September 30, 2003	$ 521	$ 1	$ 1	$ 860	$(79,221)
Excess of the reduction in redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions					20,138
Dividends on Series B and C redeemable preferred stock					(2,348)
Equity value accreted on Series B and C redeemable preferred stock					(516)
Derivative instruments					
Foreign currency translation adjustment					
Net income					21,286
Balance, December 31, 2003	$ 521	$ 1	$ 1	$ 860	$(40,661)

6

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Six Months Ended December 31, 2003 and 2002

(In Thousands)

	2003
OPERATING ACTIVITIES:	
Net income (loss)	$ 22,54

Adjustment for discontinued operations	(10
Income from continuing operations	22,43
Adjustments to reconcile income from continuing operations to net cash provided (used) by operating activities:	
Depreciation and amortization	6,74
Deferred income taxes	9
Net (gain) on extinguishment of debt	(23,22
Unrealized foreign currency (gains) and other	(82
Changes in operating assets and liabilities:	
Accounts receivable	(2,10
Inventories	(1,98
Prepaid expenses and other current assets	57
Other assets	60
Accounts payable	(7,07
Accrued expenses and other liabilities	4,50
Cash provided (used) by discontinued operations	(42
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(67
INVESTING ACTIVITIES:	
Capital expenditures	(2,33
Proceeds from sale of assets	2
Discontinued operations	14,44
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	12,14
FINANCING ACTIVITIES:	
Cash overdraft	2,20
Net (decrease) in short-term debt	(30,04
Proceeds from long-term debt	107,50
Payments of long-term debt	(34,03
Payment of Pfizer obligations	(28,30
Payments relating to the Prince Transactions and transaction costs	(19,97
Debt refinancing costs	(11,49
NET CASH (USED) BY FINANCING ACTIVITIES	(14,15
EFFECT OF EXCHANGE RATE CHANGES ON CASH	18
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,49
CASH AND CASH EQUIVALENTS at beginning of period	11,17
CASH AND CASH EQUIVALENTS at end of period	$ 8,68

See notes to unaudited Condensed Consolidated Financial Statements

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 ("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 December 31, 2003 and its results of operations and cash flows for the three months and six months ended December 31, 2003 and 2002. PAHC and/or its subsidiaries are referred to as the "Company".

The condensed consolidated balance sheet as of June 30, 2003 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States. Additionally, it should be noted that 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 with the Company's audited consolidated financial statements for the year ended June 30, 2003.

The Company's Odda, Carbide, and MRT businesses have been classified as discontinued operations, as discussed in Note 7. These footnotes present information only for continuing operations, unless otherwise indicated.

The results of operations for the three months and six months ended December 31, 2003 may not be indicative of results for the full year.

New Accounting Pronouncements

The Company adopted the following new accounting pronouncements in fiscal 2004:

Statement of Financial Accounting Standards No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The adoption of SFAS No. 149 did not result in a material impact on the Company's financial statements.

Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 requires that an issuer classify a financial instrument, that is within its scope, as a liability (or an asset in some circumstances). SFAS No. 150 also revises the definition of liabilities to encompass certain obligations that can, or must, be settled by issuing equity shares, depending on the nature of the relationship established between the holder and the issuer. The adoption of SFAS No. 150 did not result in an impact on the Company's financial statements.

The Company will adopt the following new accounting pronouncement in fiscal 2004:

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)" ("SFAS No. 132"). This revision to SFAS No. 132 relates to employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 now requires additional disclosures to describe the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. SFAS No. 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by SFAS No. 132 are effective for interim periods beginning after December 15, 2003. The adoption of this revision to SFAS No. 132 will not result in a material impact on the Company's financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)" ("FIN No. 46"). This revision to FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN No. 46 is effective for financial statements for periods ending after March 15, 2004. The adoption of FIN No. 46 will not result in an impact on the Company's financial statements.

2. 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.

3. Refinancing

On October 21, 2003, the Company issued 105,000 units consisting of $85,000 of 13% Senior Secured Notes due 2007 of PAHC (the "US Senior Notes") and $20,000 13% Senior Secured Notes due 2007 of Philipp Brothers Netherlands III B.V. (the "Dutch Senior Notes" and, together with the US Senior Notes, the "Senior Secured Notes"), an indirect wholly-owned subsidiary of PAHC (the "Dutch issuer"). The Company used the proceeds from the issuance to: (i) repurchase $51,971 of its 9 7/8% Senior Subordinated Notes due 2008 at a price equal to 60% of the principal amount thereof, plus accrued and unpaid interest; (ii) repay its senior credit facility of $34,888 outstanding at the repayment date; (iii) satisfy, for a payment of approximately $29,315, certain of its outstanding obligations to Pfizer Inc., including: (a) $20,075 aggregate principal amount of its promissory note plus accrued and unpaid interest, (b) $9,748 of accounts payable, (c) $9,040 of accrued expenses, and (d) future contingent purchase price obligations under its agreements with Pfizer Inc. by which the Company acquired Pfizer's medicated feed additive business; and (iv) pay fees and expenses relating to the above transactions.

A net gain on extinguishment of debt is included in the Company's condensed consolidated statement of operations, calculated as follows:

Net Gain on Repurchase of 9 7/8% Senior Subordinated Notes due 2008:	
Principal amount of repurchased notes	$ 51,971
Repurchased at 60% of principal amount	(31,183)
Transaction costs	(4,107)
Net gain on repurchase of notes	16,681
Loss on repayment of senior credit facility	(1,018)
Net Gain on Payment of Pfizer Obligations:	
Obligations paid:	
-promissory note	20,075
-accrued interest on promissory note	1,015
-accounts payable and accrued expenses	18,788
Total obligations paid	39,878
Cash payment to Pfizer	(29,315)
Transaction costs	(3,000)
Net gain on payment of Pfizer obligations	7,563
Net gain on extinguishment of debt	$ 23,226

The US Senior Notes and the Dutch Senior Notes are senior secured obligations of each of PAHC (the "US Issuer") and the Dutch issuer, respectively. The US Senior Notes and the Dutch Senior Notes are guaranteed on a senior secured basis by all PAHC's domestic restricted subsidiaries, and the Dutch Senior Notes are guaranteed on a senior secured basis by PAHC and by the restricted subsidiaries of the Dutch issuer, presently consisting of Phibro Animal Health SA. The US Senior Notes and related guarantees are secured by substantially all of PAHC's assets and the assets of its domestic restricted subsidiaries, other than real property and interests therein, including a pledge of all the capital stock of such domestic restricted subsidiaries. The Dutch Senior Notes and related guarantees are secured by a pledge of all the accounts receivable, a security interest or floating charge on the inventory to the extent permitted by applicable law, and a mortgage on substantially all of the real property of the Dutch issuer and each of its restricted subsidiaries, a pledge of 100% of the capital stock of each subsidiary of the Dutch issuer, a pledge of the intercompany loans made by the Dutch issuer to its restricted subsidiaries and substantially all of the assets of the U.S. guarantors, other than real property and interests therein. The indenture governing the Senior Secured Notes provides for optional make-whole redemptions at any time prior to June 1, 2005, optional redemption on or after June 1, 2005, and requires the Company to make certain offers to purchase Senior Secured Notes upon a change of control, upon certain asset sales and from fifty percent (50%) of excess cash flow (as such terms are defined in the indenture).

Also, on October 21, 2003, the Company entered into a new replacement domestic senior credit facility ("senior credit facility") with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities may not exceed $25,000, including aggregate borrowings under the working capital facility up to $15,000.

Borrowings under the senior credit facility are subject to a borrowing base formula based on percentages of eligible domestic receivables and domestic inventory. Under the senior credit facility, the Company may choose between two interest rate options: (i) the applicable base rate as defined plus 0.50% and (ii) the LIBOR rate as defined plus 2.75%. Indebtedness under the senior credit facility is secured by a first priority lien on substantially all of the Company's assets and assets of substantially all of the Company's domestic subsidiaries. The Company is required to pay an unused line fee of 0.375% on the unused portion of the senior credit facility, a monthly servicing fee and standard letter of credit fees to issuing banks. Borrowings under the senior credit facility are available until, and are repayable no later than, October 31, 2007, although borrowings must be repaid by June 30, 2007 if the maturity of the Senior Secured Notes has not been extended, as required by the senior credit facility, by that date.

Pursuant to the terms of an intercreditor agreement, the security interest securing the Senior Secured Notes and the guarantees made by the Company's domestic restricted subsidiaries is subordinated to a lien securing the senior credit facility.

The Company believes that, through the refinancings referred to above, the liquidity issues mentioned in the Company's June 30, 2003 consolidated financial statements have been resolved. The Company's replaced senior credit facility and its note payable to Pfizer were to mature in November 2003 and March 2004, respectively.

The Company's ability to fund its operating plan relies upon its ability to continue to successfully implement its efforts to improve its overall liquidity (through cost reduction activities, working capital improvement plans, shutdown of unprofitable operations and sales of certain business operations and other assets) and the continued availability of borrowing under the 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 consents on favorable terms, if at all.

4. Prince Transactions

Effective December 26, 2003 (the "Closing Date"), the Company completed the divestiture of substantially all of the business and assets of 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").

Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements: (i) the transfer of substantially all of the business and assets of PMC to Buyer; (ii) the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72,184 to $16,517 (accreted through the Closing Date) by means of the redemption of all of its shares of Series B Preferred Stock and a portion of its Series C Preferred Stock; (iii) the termination of $2,250 in annual management advisory fees payable by the Company to Palladium; (iv) a cash payment of $10,000 to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; (v) the agreement of the Buyer to pay the Company for advisory fees for the next three years of $1,000, $500, and $200, respectively (which were pre-paid at closing by the Buyer and satisfied for $1,300, the net present value of such payments); and (vi) the Buyer agreed to supply manganous oxide and red iron oxide products and to provide certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri"). Prince Agri agreed to continue to provide the Buyer with certain laboratory, MIS and telephone services, all on terms substantially consistent with the historic relationship between Prince Agri and PMC, and to lease to Buyer office space used by PMC in Quincy, Illinois. The Company has an understanding to receive certain treasury services from Palladium for $100 per year. Pursuant to definitive agreements, the Company made customary representations, warranties and environmental and other indemnities, agreed to a post-closing working capital adjustment, paid $3,958 in full satisfaction of all intercompany debt owed to PMC, paid a closing fee to Palladium of $500, made certain capital expenditure adjustments included as part of the intercompany settlement amount, and agreed to pay for certain out-of-pocket transaction expenses. PMC retained $414 of its accounts receivable. The Company established a $1,000 letter of credit escrow for two years to secure its working capital adjustment and certain indemnification obligations. 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 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 Buyer by January 1, 2009. The definition of "Equity Value" in the Company's Certificate of Incorporation was amended to reduce the multiple of trailing EBITDA payable in connection with any future redemption of Series C Preferred to 6.0 from 7.5. The amount of consideration paid and payable in connection with the Prince Transactions and all matters in connection therewith were determined pursuant to arm's length negotiations.

The excess of the reduction in redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions was recorded as a decrease to accumulated deficit on the Company's condensed consolidated balance sheet at December 31, 2003, and was calculated as follows:

Series B & C Redeemable Preferred Stock:	
Accreted value pre-transaction	$72,184
Accreted value post-transaction	16,517
Reduction in redeemable preferred stock	55,667
Assets Divested and Costs Incurred:	
PMC net assets divested	7,430
Cash paid to Palladium Investors for:	
-reduction of redeemable preferred stock	10,000
-settlement of PMC intercompany debt	3,958
-working capital adjustment	1,331
-closing fee	500
Transaction costs	8,310
Contingent Backstop Indemnification Amount accrued	4,000
Total assets divested and costs and liabilities incurred	35,529
Excess amount recorded as a decrease to accumulated deficit	$20,138

PMC is included in the Company's Industrial Chemicals segment. The results of operations of PMC for the three months and six months ended December 31, 2003 and 2002 were:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Net sales	$ 5,435	$ 5,285	$11,118	$11,041
Operating income	1,065	901	2,278	2,028
Depreciation and amortization	244	239	487	471

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

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

5. 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; however certain of the Company's subsidiaries used the last-in, first-out (LIFO) method of valuing inventories. Obsolete and unsaleable inventories are reflected at estimated net realizable value. Inventory costs include materials, direct labor and manufacturing overhead. Inventories consisted of the following as of:

	December 31, 2003	June 30, 2003
Raw materials	$ 20,959	$ 22,277
Work-in-process	1,768	1,765
Finished goods	65,222	65,357
Excess of FIFO cost over LIFO cost	--	(632)
Total inventory	$ 87,949	$ 88,767

5. Intangibles

Product intangibles cost arising from the acquisition of the medicated feed additives business of Pfizer Inc. was $10,163 and $10,449 at December 31, 2003 and June 30, 2003, respectively and accumulated amortization was $2,387 and $1,780 at December 31, 2003 and June 30, 2003, respectively. Amortization expense was $304 for each of the three months ended December 31, 2003 and 2002, and $608 and $624 for the six months ended December 31, 2003 and 2002, respectively.

6. Debt

Loans Payable to Banks

At December 31, 2003, loans payable to banks included $5,684 under the senior credit facility with Wells Fargo Foothill, Inc., and $3,461 under foreign revolving lines of credit.

On October 21, 2003, the Company entered into a new senior credit facility with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities may not exceed $25,000, including aggregate borrowings under the working capital facility of up to $15,000.

Borrowings under the senior credit facility are subject to a borrowing base formula based on percentages of eligible domestic receivables and domestic inventory. Under the senior credit facility, the Company may choose between two interest rate options: (i) the applicable base rate as defined plus 0.50% and (ii) the LIBOR rate as defined plus 2.75%. Indebtedness under the senior credit facility is secured by a first priority lien on substantially all of the Company's assets and assets of substantially all of the Company's domestic subsidiaries. The Company is required to pay an unused line fee of 0.375% on the unused portion of the senior credit facility, a monthly servicing fee and standard letter of credit fees to issuing banks. Borrowings under the senior credit facility are available until, and are repayable no later than, October 31, 2007, although borrowings must be repaid by June 30, 2007 if the maturity of the Senior Secured Notes has not been extended, as required by the senior credit facility, by that date.

As of December 31, 2003, the Company was in compliance with the financial covenants of the 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.

13

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

The senior credit facility contains a lock-box requirement and an acceleration 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.

Long-Term Debt

	As of	
	December, 31, 2003	June 30, 2003
Senior secured notes due December 1, 2007	$105,000	$ --
Senior subordinated notes due June 1, 2008	48,029	100,000
Foreign bank loans	5,328	3,750
Pfizer promissory note	--	20,075
Bank capital expenditure facility	--	1,496
Capitalized lease obligations and other	418	1,194
	158,775	126,515
Less: current maturities	2,365	24,124
	$156,410	$102,391

Senior Secured Notes due 2007

In October 2003 the Company issued 105,000 units, consisting of $85,000 of 13% Senior Secured Notes due 2007 of PAHC (the "US Senior Notes") and $20,000 of 13% Senior Secured Notes due 2007 of Philipp Brothers Netherlands III B.V. (the "Dutch Senior Notes" and, together with the US Senior Notes, the "Senior Secured Notes"), an indirect wholly-owned subsidiary of PAHC (the "Dutch issuer").

The US Senior Notes and the Dutch Senior Notes are senior secured obligations of each of PAHC and the Dutch issuer, respectively. The US Senior Notes and the Dutch Senior Notes are guaranteed on a senior secured basis by all PAHC's domestic restricted subsidiaries, and the Dutch Senior Notes are guaranteed on a senior secured basis by PAHC and by the restricted subsidiaries of the Dutch issuer, presently consisting of Phibro Animal Health (Belgium) SA. The US Senior Notes and related guarantees are secured by substantially all of PAHC's assets and the assets of its domestic restricted subsidiaries, other than real property and interests therein, including a pledge of all the capital stock of such domestic restricted subsidiaries. The Dutch Senior Notes and related guarantees are secured by a pledge of all the accounts receivable, a security interest or floating charge on the inventory to the extent permitted by applicable law, and a mortgage on substantially all of the real property of the Dutch issuer and each of its restricted subsidiaries, a pledge of 100% of the capital stock of each subsidiary of the Dutch issuer, a pledge of the intercompany loans made by the Dutch issuer to its restricted subsidiaries and substantially all of the assets of the U.S. guarantors, other than real property and interests therein. The indenture governing the Senior Secured Notes provides for optional make-whole redemptions at any time prior to June 1, 2005, optional redemption on or after June 1, 2005, and requires the Company to make certain offers to purchase Senior Secured Notes upon a change of control, upon certain asset sales and from fifty percent (50%) of excess cash flow (as such terms are defined in the indenture).

The indenture contains certain covenants with respect to the Company and the guarantors, which restrict, among other things, (a) the incurrence of additional indebtedness, (b) the payment of dividends and other restricted payments, (c) the creation of certain liens, (d) the sale of assets, (e) certain payment restrictions affecting subsidiaries, and (f) transactions with affiliates. The indenture restricts the Company's ability to consolidate, or merge with or into, or to transfer all or substantially all of its assets to, another person.

Senior Subordinated Notes due 2008

The Company issued $100 million aggregate principal amount of 9-7/8% Senior Subordinated Notes due 2008 ("Senior Subordinated Notes") of which $51,971 principal amount was repurchased with proceeds of the Senior Secured Notes. The Senior Subordinated Notes are general unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt (as defined in the indenture agreement of the Company) and rank pari passu in right of payment with all other existing and future senior subordinated indebtedness of the Company. The Senior Subordinated Notes are unconditionally guaranteed on a senior subordinated basis by the domestic restricted subsidiaries of the Company. Additional future domestic subsidiaries may become guarantors under certain circumstances.

The indenture contains certain covenants with respect to the Company and the Guarantors, which restrict, among other things, (a) the incurrence of additional indebtedness, (b) the payment of dividends and other restricted payments, (c) the creation of certain liens, (d) the sale of assets, (e) certain payment restrictions affecting subsidiaries, and (f) transactions with affiliates. The indenture restricts the Company's ability to consolidate, or merge with or into, or to transfer all or substantially all of its assets to, another person.

Foreign Bank Loans

The bank loans of the Company's Koffolk Ltd. (Israel) subsidiary are collateralized by its receivables and inventory, accrue interest at LIBOR plus 1.25%, and are repayable in equal quarterly payments through 2005.

(In Thousands)

7. Discontinued Operations

The Company shutdown Odda Smelteverk (Norway) ("Odda") and divested Carbide Industries (U.K.) ("Carbide"), during the 2003 fiscal year, and sold Mineral Resource Technologies, Inc. ("MRT") in August 2003. These businesses have been classified as discontinued operations. The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position and cash flows of the discontinued operations.

Odda and Carbide

Operating results of Odda and Carbide were:

	Three Months Ended December 31, 2002	Six Months Ended December 31, 2002
OPERATING RESULTS:		
Net sales	$ 4,379	$ 9,284
Cost of goods sold	6,063	12,100
Selling, general and administrative expenses	1,215	2,292
Asset writedown	7,781	7,781
Other income	890	2,386
Loss before income taxes	(9,790)	(10,503)
Provision for income taxes	11	26
Loss from operations	$ (9,801)	$(10,529)
Depreciation and amortization	$ 330	$ 702

Mineral Resource Technologies, Inc.

The Company sold MRT on August 28, 2003 for net proceeds, after transaction costs, of approximately $13,836, subject to certain post-closing adjustments and escrow requirements. Based upon its assessment of likely outcomes, the Company does not anticipate a material effect from post-closing adjustments. Operating results and gain on sale of MRT were:

	Three Months Ended December 31, 2002	Six Months Ended December 31, 2003	Six Months Ended December 31, 2002
OPERATING RESULTS:			
Net sales	$ 4,605	$ 3,327	$ 10,459
Cost of goods sold	4,828	3,135	9,894
Selling, general and administrative expenses	534	316	1,053

Loss before income taxes	(757)	(124)	(488)
Provision for income taxes	--	--	--
Income (loss) from operations	$ (757)	$ (124)	$ (488)
Depreciation and amortization	$ 327	$ --	$ 636

	Six Months Ended December 31, 2003
GAIN ON SALE:	
Current assets	$ 5,813
Property, plant & equipment - net and other assets	10,703
Current liabilities	(2,511)
Other liabilities	(400)
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)

Balance sheet items of MRT were:

	As of June 30, 2003
BALANCE SHEET:	
Trade receivables	$ 2,633
Other receivables	304
Inventories	1,643
Prepaid expenses and other current assets	362
Current assets from discontinued operations	$ 4,942
Property, plant and equipment - net	$ 9,999
Other assets	651
Other assets from discontinued operations	$10,650
Accounts payable	$ 1,466
Accrued expenses and other current liabilities	585
Current liabilities from discontinued operations	$ 2,051
Other liabilities	$ 198
Other liabilities from discontinued operations	$ 198

8. 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. The third member of the limited liability company will be Vulcan Materials Company. 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 June 30, 2003. Some recovery from insurance and other sources is expected. 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 oral agreement to pay $425 over six years.

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 of the settlement amount.

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 is investigating the matter, which relates to events in the 1950's and 1960's, but management does not believe that the Company has any liability in this matter.

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 $2,193, which is included in current and long-term liabilities in the December 31, 2003 condensed consolidated balance sheet (approximately $2,791 at June 30, 2003).

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

9. Guarantees

As part of the Prince Transaction, 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 indemnifications 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 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 Buyer by January 1, 2009. The maximum potential Backstop Indemnification Amount is included in other liabilities on the Company's condensed consolidated balance sheet at December 31, 2003.

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

10. 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.

Three Months Ended December 31, 2003	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Net sales	$ 68,687	$ 11,679	$ 7,656	$ 8
Operating income (loss)	7,655	778	692	
Depreciation and amortization	2,059	639	4	

	Animal Health &	Industrial		Al

Three Months Ended December 31, 2002	Nutrition	Chemicals	Distribution	Oth
Net Sales	$ 66,650	$ 11,231	$ 7,197	$ 5
Operating income (loss)	11,593	(914)	802	
Depreciation and amortization	1,920	938	3	

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

Six Months Ended December 31, 2003	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Net sales	$128,528	$ 23,661	$ 15,595	$ 15,
Operating income/(loss)	14,555	1,600	1,533	
Depreciation and amortization	4,088	1,288	7	

Six Months Ended December 31, 2002	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Net sales	$126,626	$ 25,125	$ 15,293	$ 9,
Operating income/(loss)	21,013	(822)	1,552	(
Depreciation and amortization	3,812	1,757	6	

Identifiable Assets of Continuing Operations	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
At December 31, 2003	$192,030	$ 24,504	$ 8,414	$ 13,
At June 30, 2003	190,864	33,191	9,154	12,

11. 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 The Prince Manufacturing Company, Prince MFG, LLC and Mineral Resource Technologies, Inc. (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 Company (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., The Prince Manufacturing Company, Prince MFG, LLC, Mineral Resource Technologies, Inc. (until divested), Phibrochem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc., and Phibro Animal Health U.S., Inc.

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.

20

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

Investments in subsidiaries are accounted for by the Parent 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. Separate financial statements of the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries are not presented because management has determined that such financial statements would not be material to investors.

21

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
				ASSETS		
CURRENT ASSETS:						
Cash and cash equivalents	$ 2,997	$ 26	$ 126	$ 21	$ 547	$ 4
Trade receivables	2,569	7	26,043	--	1,358	26
Other receivables	835	414	1,017	--	112	1
Inventory	2,942	--	41,701	--	16,995	26
Prepaid expenses and other	1,569	32	1,293	--	303	5
TOTAL CURRENT ASSETS	10,912	479	70,180	21	19,315	65
Property, plant & equipment, net	98	197	12,815	--	18,067	32
Intangibles	--	--	--	--	1,208	6
Investment in subsidiaries	129,186	--	3,619	(270)	--	
Intercompany	(21,433)	22,343	64,604	20,510	6,810	(14
Other assets	15,990	--	954	--	--	
	$ 134,753	$ 23,019	$ 152,172	$ 20,261	$ 45,400	$ 90
				LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:						
Cash overdraft	$ --	$ --	$ 3,890	$ --	$ --	$
Loan payable to banks	5,684	--	--	--	--	3
Current portion of long-term debt	--	--	287	--	--	2
Accounts payable	890	--	31,171	--	1,537	11
Accrued expenses and other	12,809	1,553	9,484	506	10,372	10
TOTAL CURRENT LIABILITIES	19,383	1,553	44,832	506	11,909	27
Long-term debt	133,029	--	4	20,000	--	3
Intercompany debt	--	--	--	57	32,385	46
Other liabilities	8,367	--	6,036	--	1,376	3
TOTAL LIABILITIES	160,779	1,553	50,872	20,563	45,670	80
REDEEMABLE SECURITIES:						
Series C preferred stock	17,065	--	--	--	--	
STOCKHOLDERS' (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	31	--	--	
Paid-in capital	860	--	108,363	23	57	5

Accumulated (deficit)	(40,661)	21,465	(7,360)	(5,448)	(5,450)	14
Accumulated other comprehensive income (loss):						
Gain on derivative instruments	500	--	500	--	--	
Cumulative currency translation adjustment	(4,313)	--	(234)	5,123	5,123	(9
TOTAL STOCKHOLDERS' (DEFICIT)	(43,091)	21,466	101,300	(302)	(270)	10
	$ 134,753	$ 23,019	$ 152,172	$ 20,261	$ 45,400	$ 90

22

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For The Three Months Ended December 31, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 5,425	$ 5,435	$ 54,601	$ --	$ 1,248	$ 29
NET SALES - INTERCOMPANY	52	1,259	184	--	3,727	1
COST OF GOODS SOLD	4,311	5,005	41,326	--	4,774	24
GROSS PROFIT	1,166	1,689	13,459	--	201	6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,395	624	6,154	2	561	4
OPERATING INCOME (LOSS)	(4,229)	1,065	7,305	(2)	(360)	1
OTHER:						
Interest expense	4,028	7	--	506	19	
Interest (income)	(3)	--	--	--	30	
Other (income) expense, net	300	--	(34)	--	566	
Net (gain) on extinguishment of debt	(23,226)	--	--	--	--	
Intercompany interest and other	(5,752)	810	2,949	(510)	750	1,
Loss (profit) relating to						

subsidiaries	(2,812)	--	--	1,052	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	23,236	248	4,390	(1,050)	(1,725)	
PROVISION (BENEFIT) FOR INCOME TAXES	1,950	80	454	--	(673)	1,
INCOME (LOSS) FROM CONTINUING OPERATIONS	21,286	168	3,936	(1,050)	(1,052)	(
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	--	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	--	--	--	--	
Gain from disposal of discontinued operations (net of income taxes)	--	--	--	--	--	
NET INCOME (LOSS)	$ 21,286	$ 168	$ 3,936	$ (1,050)	$ (1,052)	$ (

23

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For The Six Months Ended December 31, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 11,122	$ 11,118	$ 102,696	$ --	$ 2,240	$ 56
NET SALES - INTERCOMPANY	97	2,598	393	--	12,996	2
COST OF GOODS SOLD	8,819	10,139	77,219	--	13,971	47
GROSS PROFIT	2,400	3,577	25,870	--	1,265	10
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,068	1,299	12,375	2	1,084	8
OPERATING INCOME (LOSS)	(7,668)	2,278	13,495	(2)	181	2

OTHER:						
Interest expense	7,741	18	--	506	19	
Interest (income)	(3)	--	--	--	--	
Other (income) expense, net	528	--	(276)	--	(412)	
Net (gain) on extinguishment of debt	(23,226)	--	--	--	--	
Intercompany interest and other	(11,745)	1,892	5,488	(510)	1,446	3
Loss (profit) relating to subsidiaries	(5,348)			532		
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	24,385	368	8,283	(530)	(872)	(
PROVISION (BENEFIT) FOR INCOME TAXES	1,951	96	672	--	(340)	1
INCOME (LOSS) FROM CONTINUING OPERATIONS	22,434	272	7,611	(530)	(532)	(2
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(124)	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	(124)	--	--	--	
Gain from disposal of discontinued operations (net of income taxes)	231	--	--	--	--	
NET INCOME (LOSS)	$ 22,541	$ 148	$ 7,611	$ (530)	$ (532)	$ (2,

24

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended December 31, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
OPERATING ACTIVITIES:						
Net income (loss)	$ 22,541	$ 148	$ 7,611	$ (530)	$ (532)	$ (2
Adjustment for discontinued operation	(107)	124	--	--	--	

Income (loss) from continuing operations	22,434	272	7,611	(530)	(532)	(2
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	948	487	1,248	--	1,857	2
Deferred income taxes	--	--	--	--	--	
Net (gain) on extinguishment of debt	(23,226)	--	--	--	--	
Unrealized foreign currency (gains)	--					
losses and other	259	--	225	--	(1,380)	
Changes in operating assets and liabilities:						
Accounts receivable	185	329	(3,590)	--	308	
Inventory	(330)	(543)	25	--	(2,250)	1
Prepaid expenses and other	1,340	273	(892)	--	289	
Other assets	605	--	(4)	--	--	
Intercompany	2,458	16,879	(13,879)	(19,955)	9,912	
Accounts payable	(2,414)	(337)	366	--	(2,647)	(2
Accrued expenses and other	2,076	(128)	5,515	506	3,647	(7
Cash provided (used) by discontinued operations	231	(652)	--	--	--	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,566	16,580	(3,375)	(19,979)	9,204	(7
INVESTING ACTIVITIES:						
Capital expenditures	--	(62)	(648)	--	(659)	
Proceeds from sale of assets	--	--	--	--	--	
Discontinued operations	13,849	--	--	--	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13,849	(62)	(648)	--	(659)	
FINANCING ACTIVITIES:						
Cash overdraft	(350)	(286)	2,849	--	--	
Net increase (decrease) in short-term debt	(32,194)	--	--	--	--	2
Proceeds from long-term debt	85,000	--	--	20,000	--	2
Payments of long-term debt	(32,679)	(13)	(867)	--	--	
Payment of Pfizer obligations	(20,075)	--	--	--	(8,225)	
Payments relating to the Prince Transactions and transaction costs	(3,667)	(16,312)	--	--	--	
Debt refinancing costs	(11,496)	--	--	--	--	

NET CASH PROVIDED (USED) BY

FINANCING ACTIVITIES	(15,461)	(16,611)	1,982	20,000	(8,225)	4
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	--	--	42	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,954	(93)	(2,041)	21	362	(3
CASH AND CASH EQUIVALENTS at beginning of period	43	119	2,167	--	185	8
CASH AND CASH EQUIVALENTS at end of period	$ 2,997	$ 26	$ 126	$ 21	$ 547	$ 4

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

CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
			ASSETS			
CURRENT ASSETS:						
Cash and cash equivalents	$ 43	$ 119	$ 2,167	$ --	$ 185	$ 8
Trade receivables	2,759	2,452	22,071	--	1,542	26
Other receivables	957	3	733	--	518	1
Inventory	2,612	4,278	41,266	--	13,459	27
Prepaid expenses and other	3,267	458	981	--	(68)	5
Current assets from discontinued operations	--	4,942	--	--	--	
TOTAL CURRENT ASSETS	9,638	12,252	67,218	--	15,636	69
Property, plant & equipment, net	153	3,269	13,297	--	17,049	32
Intangibles	--	--	--	--	1,818	6
Investment in subsidiaries	96,672	--	3,619	--	--	
Intercompany	35,186	(19,431)	59,765	--	6,881	(9
Other assets	11,516	710	1,122	--	--	
Other assets from discontinued operations	--	10,650	--	--	--	
	$ 153,165	$ 7,450	$ 145,021	$ --	$ 41,384	$ 100

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:						
Cash overdraft	$ 350	$ 286	$ 1,041	$ --	$ --	$
Loan payable to banks	32,147	--	--	--	--	6
Current portion of long-term debt	21,599	66	381	--	--	2
Accounts payable	3,304	2,350	25,926	--	12,115	13
Accrued expenses and other	6,924	1,151	9,931	--	6,715	16
Current liabilities from discontinued operations	--	2,051	--	--	--	
TOTAL CURRENT LIABILITIES	64,324	5,904	37,279	--	18,830	38
Long-term debt	100,073	213	149	--	--	1
Intercompany debt	--	--	--	--	22,302	50
Other liabilities	4,397	114	13,289	--	1,256	3
Other liabilities from discontinued operations	--	198	--	--	--	
TOTAL LIABILITIES	168,794	6,429	50,717	--	42,388	94
REDEEMABLE SECURITIES:						
Series B and C preferred stock	68,881	--	--	--	--	
STOCKHOLDERS' (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	31	--	--	
Paid-in capital	860	--	110,883	--	--	5
Accumulated (deficit)	(79,489)	1,020	(16,499)	--	(4,781)	10
Accumulated other comprehensive income (loss):	--					
Gain on derivative instruments	81	--	81	--	--	
Cumulative currency translation adjustment	(6,485)	--	(192)	--	3,777	(10
TOTAL STOCKHOLDERS' (DEFICIT)	(84,510)	1,021	94,304	--	(1,004)	5
	$ 153,165	$ 7,450	$ 145,021	$ --	$ 41,384	$ 100

26

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For The Three Months Ended December 31, 2002

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 5,775	$ 5,285	$ 48,909	$ --	$ 1,876	$ 28,
NET SALES - INTERCOMPANY	260	1,187	139	--	8,390	2,
COST OF GOODS SOLD	4,753	4,929	38,243	--	9,179	21,
GROSS PROFIT	1,282	1,543	10,805	--	1,087	9,
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,825	642	6,271	--	512	3,
OPERATING INCOME (LOSS)	(3,543)	901	4,534	--	575	5,
OTHER:						
Interest expense	3,673	19	--	--	(105)	
Interest (income)	--	--	--	--	(19)	
Other expense, net	212	--	(139)	--	429	(
Intercompany interest and other	(7,860)	1,239	3,584	--	718	2,
Loss (profit) relating to subsidiaries	(2,447)	--	--	--	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,879	(357)	1,089	--	(448)	3,
PROVISION (BENEFIT) FOR INCOME TAXES	156	5	144	--	(179)	1,
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,723	(362)	945	--	(269)	2,
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(10,558)	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	(757)	--	--	--	(9,
NET INCOME (LOSS)	$ (7,835)	$ (1,119)	$ 945	$ --	$ (269)	$ (7,

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For The Six Months Ended December 31, 2002

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 12,666	$ 11,041	$ 93,461	$ --	$ 3,619	$ 55,
NET SALES - INTERCOMPANY	477	2,091	324	--	14,877	4,
COST OF GOODS SOLD	10,540	9,819	72,134	--	15,442	44,
GROSS PROFIT	2,603	3,313	21,651	--	3,054	15,
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,183	1,285	12,583	--	946	8,
OPERATING INCOME (LOSS)	(6,580)	2,028	9,068	--	2,108	7,
OTHER:						
Interest expense	7,437	48	1	--	--	
Interest (income)	(1)	--	--	--	(19)	
Other expense, net	309	--	--	--	522	
Intercompany interest and other	(15,406)	2,477	7,296	--	1,402	4,
Loss (profit) relating to subsidiaries	(2,100)	--	--	--	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,181	(497)	1,771	--	203	2,
PROVISION FOR INCOME TAXES	156	20	206	--	81	1,
INCOME (LOSS) FROM CONTINUING OPERATIONS	3,025	(517)	1,565	--	122	
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(11,017)	--	--	--	--	
(Loss) from discontinued operations (net of						

income taxes)	--	(488)	--	--	--	(10,
NET INCOME (LOSS)	$ (7,992)	$ (1,005)	$ 1,565	$ --	$ 122	$ (9,

28

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended December 31, 2002

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
OPERATING ACTIVITIES:						
Net income (loss)	$ (7,992)	$ (1,005)	$ 1,565	$ --	$ 122	$ (9,
Adjustment for discontinued operation	11,017	488	--	--	--	10,
Income (loss) from continuing operations	3,025	(517)	1,565	--	122	
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:						
Depreciation and amortization	750	471	1,752	--	1,219	2,
Deferred income taxes	--	--	--	--	--	
Unrealized foreign currency (gains) losses and other	189	6	(93)	--	(1,248)	1,
Changes in operating assets and liabilities:						
Accounts receivable	383	577	1,755	--	(906)	1,
Inventory	(723)	(1,017)	(7,945)	--	(2,968)	1,
Prepaid expenses and other	1,500	213	1,342	--	88	(1,
Other assets	(849)	(1)	15	--	--	
Intercompany	4,896	(391)	(6,527)	--	(596)	
Accounts payable	722	1,063	15,143	--	(133)	
Accrued expenses and other	(1,740)	(98)	(1,958)	--	5,617	1,
Cash provided by discontinued operations	--	554	--	--	--	3,
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,153	860	5,049	--	1,195	12,

INVESTING ACTIVITIES:						
Capital expenditures	--	(310)	(1,911)	--	(1,216)	(1,
Proceeds from sale of assets	--	--	2,472	--	--	
Discontinued operations	--	(385)	--	--	--	1,
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	--	(695)	561	--	(1,216)	
FINANCING ACTIVITIES:						
Cash overdraft	479	(96)	(4,045)	--	--	(1,
Net (decrease) in short-term debt	(4,616)	--	--	--	--	1,
Proceeds from long-term debt	--	--	--	--	--	1,
Payments of long-term debt	(4,342)	(70)	(192)	--	--	(7,
NET CASH (USED) BY FINANCING ACTIVITIES	(8,479)	(166)	(4,237)	--	--	(5,
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	(19)	--	38	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(326)	(1)	1,354	--	17	6,
CASH AND CASH EQUIVALENTS at beginning of period	457	52	600	--	618	4,
CASH AND CASH EQUIVALENTS at end of period	$ 131	$ 51	$ 1,954	$ --	$ 635	$ 11,

29

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

This information should be read in conjunction with the condensed consolidated financial statements and related notes contained in this Report. The Company's Odda, Carbide and MRT businesses have been classified as discontinued operations. This discussion presents information only for continuing operations, unless otherwise indicated.

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.

In August 2003, the Company completed the sale of MRT for net proceeds after transaction costs of approximately $13.8 million, subject to certain post-closing adjustments.

Refinancing

On October 21, 2003, the Company issued 105,000 units consisting of $85.0 million of 13% Senior Secured Notes due 2007 of PAHC (the "US Senior Notes") and $20.0 million 13% Senior Secured Notes due 2007 of Philipp Brothers Netherlands III B.V. (the "Dutch Senior Notes" and, together with the US Senior Notes, the "Senior Secured Notes"), an indirect wholly-owned subsidiary of PAHC (the "Dutch issuer"). The Company used the proceeds from the issuance to: (i) repurchase $52.0 million of its 9 7/8% Senior Subordinated Notes due 2008 at a price equal to 60% of the principal amount thereof, plus accrued and unpaid interest; (ii) repay its senior credit facility of $34.9 million outstanding at the repayment date; (iii) satisfy, for a payment of approximately $29.3 million certain of its outstanding obligations to Pfizer Inc., including: (a) $20.1 million aggregate principal amount of its promissory note plus accrued and unpaid interest, (b) $9.7 million of accounts payable, (c) $9.0 million of accrued expenses, and (d) future contingent purchase price obligations under its agreements with Pfizer Inc. by which the Company acquired Pfizer's medicated feed additive business; and (iv) pay fees and expenses relating to the above transactions.

A net gain on extinguishment of debt is included in the Company's condensed consolidated statement of operations, calculated as follows (amounts in thousands):

Net Gain on Repurchase of 9 7/8% Senior Subordinated Notes due 2008:	
Principal amount of repurchased notes	$ 51,971
Repurchased at 60% of principal amount	(31,183)
Transaction costs	(4,107)
Net gain on repurchase of notes	16,681
Loss on repayment of senior credit facility	(1,018)
Net Gain on Payment of Pfizer Obligations:	
Obligations paid:	
-promissory note	20,075
-accrued interest on promissory note	1,015
-accounts payable and accrued expenses	18,788
Total obligations paid	39,878
Cash payment to Pfizer	(29,315)
Transaction costs	(3,000)
Net gain on payment of Pfizer obligations	7,563
Net gain on extinguishment of debt	$ 23,226

The US Senior Notes and the Dutch Senior Notes are senior secured obligations of each of PAHC (the "US Issuer") and the Dutch issuer, respectively. The US Senior Notes and the Dutch Senior Notes are guaranteed on a senior secured basis by all PAHC's domestic restricted subsidiaries, and the Dutch Senior Notes are guaranteed on a senior secured basis by PAHC and by the restricted subsidiaries of the Dutch issuer, presently consisting of Phibro Animal Health SA. The US Senior Notes and related guarantees are secured by substantially all of PAHC's assets and the assets of its domestic restricted subsidiaries, other than real property and interests therein, including a pledge of all the capital stock of such domestic restricted subsidiaries. The Dutch Senior Notes and related guarantees are secured by a pledge of all the accounts receivable, a security interest or floating charge on the inventory to the extent permitted by applicable law, and a mortgage on substantially all of the real property of the Dutch issuer and each of its restricted subsidiaries, a pledge of 100% of the capital stock of each subsidiary of the Dutch issuer, a pledge of the intercompany loans made by the Dutch issuer to its restricted subsidiaries and substantially all of the assets of the U.S. guarantors, other than real property and interests therein. The indenture governing the Senior Secured Notes provides for optional make-whole redemptions at any time prior to June 1, 2005, optional redemption on or after June 1, 2005, and requires the Company to make certain offers to purchase Senior Secured Notes upon a change of control, upon certain asset sales and from fifty percent (50%) of excess cash flow (as such terms are defined in the indenture).

Also, on October 21, 2003, the Company entered into a new replacement domestic senior credit facility ("senior credit facility") with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities may not exceed $25.0 million including aggregate borrowings under the working capital facility up to $15.0 million.

Borrowings under the senior credit facility are subject to a borrowing base formula based on percentages of eligible domestic receivables and domestic inventory. Under the senior credit facility, the Company may choose between two interest rate options: (i) the applicable base rate as defined plus 0.50% and (ii) the LIBOR rate as defined plus 2.75%. Indebtedness under the senior credit facility is secured by a first priority lien on substantially all of the Company's assets and assets of substantially all of the Company's domestic subsidiaries. The Company is required to pay an unused line fee of 0.375% on the unused portion of the senior credit facility, a monthly servicing fee and standard letter of credit fees to issuing banks. Borrowings under the senior credit facility are available until, and are repayable no later than, October 31, 2007, although borrowings must be repaid by June 30, 2007 if the maturity of the Senior Secured Notes has not been extended, as required by the senior credit facility, by that date.

Pursuant to the terms of an intercreditor agreement, the security interest securing the Senior Secured Notes and the guarantees made by the Company's domestic restricted subsidiaries is subordinated to a lien securing the senior credit facility.

The Company believes that, through the refinancings referred to above, the liquidity issues mentioned in the Company's June 30, 2003 consolidated financial statements have been resolved. The Company's replaced senior credit facility and its note payable to Pfizer were to mature in November 2003 and March 2004, respectively.

The Company's ability to fund its operating plan relies upon its ability to continue to successfully implement its efforts to improve its overall liquidity (through cost reduction activities, working capital improvement plans, shutdown of unprofitable operations and sales of certain business operations and other assets) and the continued availability of borrowing under the 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 consents on favorable terms, if at all.

Prince Transactions

Effective December 26, 2003 (the "Closing Date"), the Company completed the divestiture of substantially all of the business and assets of 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").

Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements: (i) the transfer of substantially all of the business and assets of PMC to Buyer; (ii) the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72.2 million to $16.5 million (accreted through the Closing Date) by means of the redemption of all of its shares of Series B Preferred Stock

and a portion of its Series C Preferred Stock; (iii) the termination of $2.2 million in annual management advisory fees payable by the Company to Palladium; (iv) a cash payment of $10.0 million to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; (v) the agreement of the Buyer to pay the Company for advisory fees for the next three years of $1.0 million, $0.5 million, and $0.2 million, respectively (which were pre-paid at closing by the Buyer and satisfied for $1.3 million, the net present value of such payments); and (vi) the Buyer agreed to supply manganous oxide and red iron oxide products and to provide certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri"). Prince Agri agreed to continue to provide the Buyer with certain laboratory, MIS and telephone services, all on terms substantially consistent with the historic relationship between Prince Agri and PMC, and to lease to Buyer office space used by PMC in Quincy, Illinois. The Company has an understanding to receive certain treasury services from Palladium for $0.1 million per year. Pursuant to definitive agreements, the Company made customary representations, warranties and environmental and other indemnities, agreed to a post-closing working capital adjustment, paid $4.0 million in full satisfaction of all intercompany debt owed to PMC, paid a closing fee to Palladium of $0.5 million, made certain capital expenditure adjustments included as part of the intercompany settlement amount, and agreed to pay for certain out-of-pocket transaction expenses. PMC retained $0.4 million of its accounts receivable. The Company established a $1.0 million letter of credit escrow for two years to secure its working capital adjustment and certain indemnification obligations. 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 Buyer for less than $21.0 million up to a maximum payment by the Company of $4.0 million (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 Buyer by January 1, 2009. The definition of "Equity Value" in the Company's Certificate of Incorporation was amended to reduce the multiple of trailing EBITDA payable in connection with any future redemption of Series C Preferred to 6.0 from 7.5. The amount of consideration paid and payable in connection with the Prince Transactions and all matters in connection therewith were determined pursuant to arm's length negotiations.

The excess of the reduction in redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions was recorded as a decrease to accumulated deficit on the Company's condensed consolidated balance sheet at December 31, 2003, and was calculated as follows (amounts in thousands):

Series B & C Redeemable Preferred Stock:	
Accreted value pre-transaction	$72,184
Accreted value post-transaction	16,517
Reduction in redeemable preferred stock	55,667
Assets Divested and Costs Incurred:	
PMC net assets divested	7,430
Cash paid to Palladium Investors for:	
-reduction of redeemable preferred stock	10,000
-settlement of PMC intercompany debt	3,958
-working capital adjustment	1,331
-closing fee	500
Transaction costs	8,310
Contingent Backstop Indemnification Amount accrued	4,000
Total assets divested and costs and liabilities incurred	35,529
Excess amount recorded as a decrease to accumulated deficit	$20,138

PMC is included in the Company's Industrial Chemicals segment. The results of operations of PMC for the three months and six months ended December 31, 2003 and 2002 were:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
	(Thousands)		(Thousands)	
Net sales	$ 5,435	$ 5,285	$11,118	$11,041
Operating income	1,065	901	2,278	2,028
Depreciation and amortization	244	239	487	471

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

Summary Consolidated Results of Continuing Operations

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
	(Thousands)		(Thousands)	
Net sales	$ 96,043	$ 90,134	$ 183,213	$ 176,416
Gross profit	22,853	24,040	44,017	46,188
Selling, general and administrative	17,236	16,203	33,397	32,053
Operating income	5,617	7,837	10,620	14,135
Interest expense, net	4,743	3,686	8,450	8,064
Other expense (income), net	(66)	19	(701)	1,205
Gain on extinguishment of debt	(23,226)		(23,226)	
Provision for income taxes	2,880	1,409	3,663	1,841
Income from continuing operations	$ 21,286	$ 2,723	$ 22,434	$ 3,025

Comparison of Three Months Ended December 31, 2003 and 2002

Net Sales of $96.0 million increased $5.9 million, or 7%. Animal Health and Nutrition sales of $68.7 million increased $2.0 million from the prior year. Specialty Chemical sales of $27.4 million increased $3.9 million, primarily due to volume increases in the All Other businesses.

Gross Profit of $22.9 million decreased $1.2 million to 23.8% of net sales, compared with 26.7% in 2002. Animal Health and Nutrition cost of goods sold increased due to unfavorable currency related to the effect of the Euro on Belgium manufacturing costs.

Selling, General and Administrative Expenses of $17.2 million increased $1.0 million, or 6%. Expenses in the operating segments exceeded the prior year primarily due to unfavorable foreign exchange rates. Corporate expenses rose due to increased levels of amortization and higher insurance, bank charges and other general spending increases.

Operating Income of $5.6 million decreased $2.2 million to 5.8% of sales. The decrease was primarily due to gross profit declines in the Animal Health and Nutrition segment offset in part by improved operating performance of the Specialty Chemical group.

Interest Expense, Net of $4.7 million increased $1.1 million from the prior year, primarily due to higher average interest rates associated with the issuance of the Company's Senior Secured Notes.

Income Taxes of $2.9 million on consolidated pre-tax income of $24.2 million primarily were due to 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 previously had 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.

Comparison of Six Months Ended December 31, 2003 and 2002

Net Sales of $183.2 million increased $6.8 million, or 4%. Animal Health and Nutrition sales of $128.5 million increased $1.9 million from the prior year. Specialty Chemical sales of $54.7 million increased $4.9 million, primarily due to volume increases in the All Other businesses.

Gross Profit of $44.0 million decreased $2.2 million to 24.0% of net sales, compared with 26.2% in 2002. Animal Health and Nutrition cost of goods sold increased due to unfavorable currency related to the effect of the Euro on Belgium manufacturing costs. Improvements in the Specialty Chemical group partially offset the Animal Health and Nutrition decline.

Selling, General and Administrative Expenses of $33.4 million increased $1.3 million, or 4%. Expenses in the operating segments increased over the prior year due to unfavorable foreign exchange rates. Corporate expenses rose due to increased levels of amortization and higher insurance, bank charges and other general spending increases.

Operating Income of $10.6 million decreased $3.5 million to 5.8% of sales. The decrease was primarily due to gross profit declines in the Animal Health and Nutrition segment offset in part by improved operating performance of the Specialty Chemical group.

Interest Expense, Net of $8.4 million increased $0.4 million, from the prior year, primarily due to higher average interest rates associated with the issuance of the Company's Senior Secured Notes.

Other(Income) Expense, Net of ($0.7) million improved in comparison with expense of $1.2 million last year. The (income) expense principally reflects foreign currency transaction net (gains) losses related to short-term inter-company balances and foreign currency translation (gains) losses.

Income Taxes of $3.7 million on consolidated pre-tax income of $26.1 million primarily were due to 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 previously had 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 Israel, and Koffolk Brazil. 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, until its divestiture, 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.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
	(Thousands)		(Thousands)	

Net Sales				
Animal Health & Nutrition	$ 68,687	$ 66,650	$ 128,528	$ 126,626
Specialty Chemicals:				
Industrial Chemicals	11,679	11,231	23,661	25,125
Distribution	7,656	7,197	15,595	15,293
All other	8,021	5,056	15,429	9,372
	$ 96,043	$ 90,134	$ 183,213	$ 176,416

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
	(Thousands)		(Thousands)	
Operating Income				
Animal Health & Nutrition	$ 7,655	$ 11,593	$ 14,555	$ 21,013
Specialty Chemicals:				
Industrial Chemicals	778	(914)	1,600	(822)
Distribution	692	802	1,533	1,552
All other	549	54	846	(130)
Corporate	(4,057)	(3,698)	(7,914)	(7,478)
	$ 5,617	$ 7,837	$ 10,620	$ 14,135

Operating Segments Comparison of Three Months Ended December 31, 2003 and 2002

Animal Health and Nutrition

Net Sales of $68.7 million increased $2.0 million. MFA net sales decreased by $0.5 million. MFA revenues were lower for anticoccidials, antibiotics and anthelmintics but were offset in part by higher sales of antibacterials and other medicated feed additives. The decrease in MFA revenues was due to lower average selling prices offset in part by favorable currency effect on international sales. Nutritional Feed Additives net sales increased by $2.5 million, principally due to volume increases in core inorganic minerals, trace mineral premixes and other ingredients.

Operating Income of $8.0 million decreased $3.9 million. Operating income declined due to higher cost of goods reflecting the stronger Euro's effect on Belgian manufacturing cost and unfavorable currency effects on international selling, general and administrative expense. Lower average selling prices also contributed to the decrease.

Specialty Chemicals

Industrial Chemicals net sales of $11.7 million increased $0.4 million, or 4%. Sales of copper related products to the wood treatment markets increased by $0.3 million due to the introduction of new copper based wood treatment chemicals which offset the divestiture of the Company's Eastern United States etchant business in mid-fiscal 2003. The Company continues its existing etchant business at one remaining facility. Sales of iron and manganese compounds to the brick, masonry, glass and other chemical industries increased $0.1 million primarily due to higher unit volumes. Operating income of $0.8 million improved $1.7 million. The improvement was due to new product introductions and savings from headcount reductions and facility restructurings.

Distribution net sales of $7.7 million increased $0.5 million, or 6%. Higher unit sales volumes in Europe were partially offset by lower sales volumes in the U.S. Operating income of $0.7 million decreased $0.1 million. As a percentage of sales, operating income decreased to 9% in 2003 from 11% in 2002. The decline in operating income margins resulted principally from increased sales of lower margin products.

All Other net sales of $8.0 million increased $3.0 million, or 59%. Revenues for contract manufacturing increased $2.9 million due to increased volumes and average selling prices. Specialized lab projects and formulations increased $0.1 million. Other operating income of $0.5 million improved by $0.5 million from the prior year due to increased revenues for contract manufacturing.

Operating Segments Comparison of Six Months Ended December 31, 2003 and 2002

Animal Health and Nutrition

Net Sales of $128.5 million increased $1.9 million. Medicated Feed Additives net sales decreased by $3.3 million. Revenues were lower for antibiotics and anticoccidials but were offset in part by higher sales of antibacterials, anthelmintics and other medicated feed additives. The decrease in MFA revenues was due to lower average selling prices offset in part by favorable currency effect on international sales. Nutritional Feed Additives net sales increased by $5.2 million, principally due to volume increases in core inorganic minerals, trace mineral premixes and other ingredients.

Operating Income of $14.6 million decreased $6.5 million. Operating income declined due to higher cost of goods reflecting the stronger Euro's effect on Belgian manufacturing cost and unfavorable currency effects on international selling, general and administrative expense. Lower average selling prices also contributed to the decrease.

Specialty Chemicals

Industrial Chemicals net sales of $23.7 million decreased $1.5 million, or 6%. Industrial Chemicals net sales decreased $1.6 million principally due to lower sales of etchants and copper related products to the printed circuit board market offset in part by higher sales to the wood treatment industry. Sales of iron and manganese compounds to the brick, masonry, glass and other chemical industries increased $0.1 million primarily due to higher unit volumes. Operating income of $1.6 million improved by $2.4 million from the prior year. The improvement principally was due to the partial disposal during the quarter ended December 31, 2002 of the ammoniacal etchant business and savings from headcount reductions and facility restructurings. The Company continues its existing etchant business at one remaining facility.

Distribution net sales of $15.6 million increased $0.3 million, or 2%. Higher unit sales volumes in Europe were partially offset by lower sales volumes in the U.S. Operating income of $1.5 million approximated the prior year. As a percentage of sales, operating income was 10% in 2003 and 2002.

All Other net sales of $15.4 million increased $6.1 million, or 65%. Revenues for contract manufacturing increased $5.9 million due to increased volumes and average selling prices. Specialized lab projects and formulations increased $0.2 million. Operating income of $0.8 million improved by $1.0 million from the prior year due to higher revenues and increased margins on contract manufacturing.

Discontinued Operations

During fiscal 2003, the Company decided to shutdown or divest Odda Smelteverk (Norway), Carbide Industries (U.K.) and Mineral Resource Technologies, Inc. These businesses have been classified as discontinued operations. During fiscal 2003, the Company decided to pursue a sale of MRT. The sale was completed on August 28, 2003 for net proceeds, after transaction costs, of approximately $13.8 million. The Company recorded a gain of approximately $.2 million on disposal based upon its assessment of the likely outcomes of the post-closing adjustments. MRT was included in the Company's All Other segment. The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position and cash flows of the discontinued operations. Amounts in thousands.

	Six Months Ended December 31, 2003
	MRT
Net sales	$ 3,327
Pre-tax income (loss) from discontinued operations	$ (124)
Provision (benefit) for income tax	$ --
Net Income (loss) from discontinued operations	$ (124)
Depreciation and Amortization	$ --

	Six Months E	
	Odda	Carbide
Net sales	$ 6,110	$ 3,174
Pre-tax income (loss) from discontinued operations	$ 10,693	$ (190
Provision (benefit) for income tax	$ --	$ (26
Net Income (loss) from discontinued operations	$ 10,693	$ (164
Depreciation and Amortization	$ 643	$ 59

	Three Month	
	Odda	Carbide

Net sales	$ 2,682	$ 1,697
Pre-tax income (loss) from discontinued operations	$ 9,888	$ (98
Provision (benefit) for income tax	$ --	$ (11
Net Income (loss) from discontinued operations	$ 9,888	$ (87
Depreciation and Amortization	$ 325	$ 5

Liquidity and Capital Resources

Net Cash (Used) Provided by Operating Activities. Cash (used) provided by operations for the six months ended December 31, 2003 and 2002 was ($0.7) million and $27.4 million, respectively. Cash used in 2003 was attributable to lower income and increased working capital requirements. Cash provided in 2002 was due to improved income from continuing operations and aggressive working capital management. The increase in cash overdrafts of $2.2 million in 2003 is a partial offset to the decline in working capital in 2003, and is included in the financing activities section of the cash flow statement.

Net Cash Provided (Used) by Investing Activities. Net cash provided (used) by investing activities for the six months ended December 31, 2003 and 2002 was $12.1 million and ($1.4) million, respectively. Discontinued operations provided $14.4 million and $1.5 million in 2003 and 2002, respectively. Capital expenditures of $2.3 million and $5.4 million in the respective 2003 and 2002 periods were for new product capacity, for maintaining the Company's existing asset base and for environmental, health and safety projects.

Net Cash (Used) by Financing Activities. Net cash (used) by financing activities for the six months ended December 31, 2003 and 2002 was ($14.2) million and ($18.9) million, respectively. Short-term debt decreased due to the reduction of the senior credit facility of $26.5 million, debt payments related to Odda of $5.7 million, and offset by other increases of $2.2 million. Proceeds from long-term debt reflects the issuance of the Senior Secured Notes of $105.0 million and an increase of $2.5 million in foreign bank loans. Payments of long-term debt primarily reflect the retirement of senior subordinated debt. Payments of the Pfizer obligations, the Prince transactions and costs related to the refinancing account for the remainder of funds used by financing activities.

Working Capital and Capital Expenditures. Working capital as of December 31, 2003 was $60.4 million compared to $9.1 million at fiscal year end June 30, 2003, an increase of $51.3 million. The increase in working capital was due to reduced current debt, accounts payable and accrued expense levels, principally as a result of the Company's refinancing and satisfaction of its obligations due Pfizer.

The Company anticipates spending approximately $6.0 million for capital expenditures related to continuing operations in fiscal 2004, primarily to cover the Company's asset replacement needs, to improve processes, and for environmental and regulatory compliance, subject to the availability of funds.

37

Liquidity. At December 31, 2003, the Company was in compliance with the financial covenants included in its senior credit facility. At December 31, 2003, the amount of credit extended under the Company's senior credit facility totaled $5.7 million under the revolving credit facility and $10.5 million under the letter of credit facility, and the Company had $9.3 million available under the borrowing base formula in effect. In addition, certain of the Company's foreign subsidiaries also had availability totaling $5.1 million under their respective loan agreements. At February 16, 2004, the amount of credit extended under the Company's senior credit facility totaled $5.8 million under the revolving credit facility and $8.1 million under the letter of credit facility, and the Company had $9.2 million available under the borrowing base formula in effect.

The senior credit facility contains a lock-box requirement and an acceleration 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 relies upon its ability to continue to successfully implement its efforts to improve its overall liquidity (through cost reduction activities, working capital improvement plans, shutdown of unprofitable operations and sales of certain business operations and other assets) and the continued availability of borrowing under the 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 consents on favorable terms, if at all.

The Company anticipates taxable gains on extinguishment of debt and other aspects of the refinancing structure will be substantially offset by existing net operating loss carry forwards, and that the Company will not incur significant cash income tax payments related to these gains.

The Company's contractual obligations (in millions) at December 31, 2003 mature as follows:

	Years			
	Within 1	Over 1 to 3	Over 3 to 5	Total
Loans payable to Banks	$ 9.1	$ --	$ --	$ 9.1
Lease commitments	2.1	1.6	0.7	4.4
Long-term debt (including current portion)	2.4	3.4	153.0	158.8
Total contractual	$ 13.6	$ 5.0	$153.7	$172.3

Critical Accounting Policies

The Company's discussion of results of operations and financial condition relies on consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. The Company believes that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While the Company believes that these accounting policies are based on sound measurement criteria, future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related risk described in our Annual Report on Form 10-K for the year ended June 30, 2003 are those that depend most heavily on these judgments and estimates. As of December 31, 2003 there have been no material changes to any of the critical accounting policies contained therein.

New Accounting Pronouncements

The Company adopted the following new accounting pronouncements in fiscal 2004:

Statement of Financial Accounting Standards No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The adoption of SFAS No. 149 did not result in a material impact on the Company's financial statements.

Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 requires that an issuer classify a financial instrument, that is within its scope, as a liability (or an asset in some circumstances). SFAS No. 150 also revises the definition of liabilities to encompass certain obligations that can, or must, be settled by issuing equity shares, depending on the nature of the relationship established between the holder and the issuer. The adoption of SFAS No. 150 did not result in an impact on the Company's financial statements.

The Company will adopt the following new accounting pronouncement in fiscal 2004:

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)" ("SFAS No. 132"). This revision to SFAS No. 132 relates to employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 now requires additional disclosures to describe the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. SFAS No. 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by SFAS No. 132 are effective for interim periods beginning after December 15, 2003. The adoption of this revision to SFAS No. 132 will not result in a material impact on the Company's financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities (revised December 2003)" ("FIN No. 46"). This revision to FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN No. 46 is effective for financial statements for periods ending after March 15, 2004. The adoption of FIN No. 46 will not result in an impact on the Company's financial statements.

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:

- our substantial leverage and potential inability to service our debt
- our dependence on distributions from our subsidiaries
- risks associated with our international operations and significant foreign assets
- our dependence on our Israeli operations
- competition in each of our markets
- potential environmental liability

- potential legislation affecting the use of medicated feed additives
- extensive regulation by numerous government authorities in the United States and other countries
- our reliance on the continued operation and sufficiency of our manufacturing facilities
- our reliance upon unpatented trade secrets
- the risks of legal proceedings and general litigation expenses
- potential operating hazards and uninsured risks
- the risk of work stoppages
- our dependence on key personnel

See also the discussion under "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

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.

The Company's debt portfolio is comprised of fixed rate and variable rate debt of approximately $167.9 million as of December 31, 2003. Approximately 9% of the debt is variable and would be interest rate sensitive.

Item 4. Control and Procedures

(a) As of the end of the period covered by this report, the Company carried out an evaluation by the Chief Executive Officer, Chairman of the Board and Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 15d-14(c). Based upon that evaluation, the Company's Chief Executive Officer, Chairman of the Board and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed under the Securities Exchange Act of 1934.

(b) Since the date of the most recent evaluation of the Company's internal controls, there have been no significant changes in such internal controls or in other factors that could significantly affect these controls nor were there any corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(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.

(b) Reports on Form 8-K.

On October 7, 2003, the Company furnished a report on Form 8-K reporting items 5 and 7.

On October 31, 2003, the Company furnished a report on Form 8-K reporting items 5 and 7.

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: February 13, 2004

By: /s/ JACK C. BENDHEIM

Jack C. Bendheim
Chairman of the Board

Date: February 13, 2004

By: /S/ GERALD K. CARLSON

Gerald K. Carlson
Chief Executive Officer

Date: February 13, 2004

By: /s/ RICHARD G. JOHNSON

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