PHIBRO ANIMAL HEALTH CORP
Form 10-Q
November 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 September 30, 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.

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PHIBRO ANIMAL HEALTH CORPORATION

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This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the Company's Annual Report on Form 10-K for its fiscal year ended June 30, 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)

	September 30 2003	June 30, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,917	$ 11,179
Trade receivables, less allowance for doubtful accounts of $1,466 at September 30, 2003 and $1,445 at June 30, 2003	54,324	55,671
Other receivables	4,541	3,642
Inventories	94,389	88,767
Prepaid expenses and other current assets	9,117	10,188
Current assets from discontinued operations	--	4,942
TOTAL CURRENT ASSETS	189,288	174,389
PROPERTY, PLANT AND EQUIPMENT, net	65,317	66,440
INTANGIBLES	8,080	8,669
OTHER ASSETS	13,531	14,199
OTHER ASSETS FROM DISCONTINUED OPERATIONS	--	10,650
	$ 276,216	$ 274,347
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash overdraft	$ 2,417	$ 1,686
Loans payable to banks	38,750	38,914
Current portion of long-term debt	23,828	24,124
Accounts payable	59,235	56,915
Accrued expenses and other current liabilities	48,965	41,609
Current liabilities from discontinued operations	--	2,051
TOTAL CURRENT LIABILITIES	173,195	165,299
LONG-TERM DEBT	102,880	102,391
OTHER LIABILITIES	15,057	22,088
OTHER LIABILITIES FROM DISCONTINUED OPERATIONS	--	198
TOTAL LIABILITIES	291,132	289,976
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	69,868	68,881

STOCKHOLDERS' DEFICIT:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	860	860
Accumulated deficit	(79,221)	(79,489)
Accumulated other comprehensive income (loss):		
Gain on derivative instruments	398	81
Cumulative currency translation adjustment	(7,344)	(6,485)
TOTAL STOCKHOLDERS' DEFICIT	(84,784)	(84,510)
	$ 276,216	$ 274,347

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)
For the Three Months Ended September 30, 2003 and 2002
(In Thousands)

	2003	2002
NET SALES	$ 87,170	$ 86,282
COST OF GOODS SOLD	66,006	64,134
GROSS PROFIT	21,164	22,148
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	16,161	15,850
OPERATING INCOME	5,003	6,298
OTHER:		
Interest expense	3,949	4,504
Interest (income)	(242)	(126)
Other (income) expense, net	(635)	1,186
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,931	734
PROVISION FOR INCOME TAXES	783	432
INCOME FROM CONTINUING OPERATIONS	1,148	302
DISCONTINUED OPERATIONS:		
(Loss) from discontinued operations (net of income taxes)	(124)	(459)
Gain on disposal of discontinued operations (net of income taxes)	231	--
NET INCOME (LOSS)	1,255	(157)
OTHER COMPREHENSIVE INCOME (LOSS):		

Derivative instruments	317	(1,083)
Currency translation adjustment	(859)	(2,827)
COMPREHENSIVE INCOME (LOSS)	$ 713	$ (4,067)

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 Ended September 30, 2003 and 2002
(In Thousands)

	Preferred Stock Series A	Common Stock Class A	Common Stock Class B	Paid-in Capital	Accumulated Deficit	A Co I
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)	

See notes to unaudited Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Three Months Ended September 30, 2003 and 2002
(In Thousands)

	2003	2002
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,255	$ (157)

Adjustment for discontinued operations	(107)	459
Income from continuing operations	1,148	302
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,268	3,256
Deferred income taxes	53	373
Unrealized foreign currency (gains) losses and other	(1,262)	1,225
Changes in operating assets and liabilities:		
Accounts receivable	2,136	3,380
Inventories	(4,932)	(2,890)
Prepaid expenses and other current assets	(41)	550
Other assets	(375)	(63)
Accounts payable	(5,775)	9,899
Accrued expenses and other liabilities	7,469	5,100
Cash provided (used) by discontinued operations	(421)	2,442
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,268	23,574
INVESTING ACTIVITIES:		
Capital expenditures	(891)	(2,681)
Proceeds from sale of assets	12	6
Discontinued operations	14,088	(1,022)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13,209	(3,697)
FINANCING ACTIVITIES:		
Cash overdraft	731	(5,800)
Net (decrease) in short-term debt	(188)	(10,387)
Proceeds from long-term debt	1,500	-
Payments of long-term debt	(950)	(1,468)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	1,093	(17,655)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	168	12
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,738	2,234
CASH AND CASH EQUIVALENTS at beginning of period	11,179	6,419
CASH AND CASH EQUIVALENTS at end of period	$ 26,917	$ 8,653

See notes to unaudited Condensed Consolidated Financial Statements

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

1. General

Principles of Consolidation and Basis of Presentation

In the opinion of Phibro Animal Health Corporation ("PAHC"), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly its financial position as of September 30, 2003 and its results of operations and cash flows for the three months ended September 30, 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 5. These footnotes present information only for continuing operations, unless otherwise indicated.

The results of operations for the three months ended September 30, 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.

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) $9,681 of accounts payable, (c) $9,257 of accrued expenses; and (d) future contingent purchase price obligations under its agreements with Pfizer by which the Company acquired Pfizer's medicated feed additive business, and; (iv) pay fees and expenses relating to the above transactions.

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, including Phibro Animal Health (Belgium) SPRL. 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. 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, 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 working capital credit facility with Wells Fargo Foothill, Inc., providing for a working capital line 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, and the aggregate amount of borrowings under the working capital facility may not exceed $15,000.

Borrowings under the replacement domestic senior credit facility are subject to a borrowing base formula based on percentages of eligible domestic receivables and domestic inventory. Under the replacement 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 replacement 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 replacement credit facility, a

monthly servicing fee and standard letter of credit fees to issuing banks. Borrowings under the replacement 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 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 are subordinated to a lien securing the replacement domestic 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 bank credit facility and its note payable to Pfizer were to mature in November 2003 and March 2004, respectively. The effect of the above refinancing transactions will be included in the December 31, 2003 financial statements.

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 sale of certain business operations and other assets) and the continued availability of borrowings under its replacement senior working capital facility. The Company believes that it will be able to comply with the terms of its covenants under the replacement 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.

(In Thousands)

The Company intends to sell the assets and business of its subsidiary, The Prince Manufacturing Company ("PMC"), to Palladium Equity Partners II, LP and certain of its affiliates (the "Palladium Investors"). The material elements of the transactions relating to this sale include: (i) the transfer of ownership to the Palladium Investors of PMC's assets; (ii) the reduction of the preferred stock of the Palladium Investors from $69,868 (as of September 30, 2003) to $15,200 (as of September 30, 2003); (iii) the termination of any obligation of the Company or any subsidiaries of the Company in respect of the $2,250 annual management advisory fee; (iv) a separate cash payment to the Palladium Investors of $10,000 (derived from the recent sale of the Company's subsidiary, Mineral Resource Technologies, Inc. ("MRT"); (v) payments by PMC to the Company for central support services for the next three years of $1,000, $500 and $200, respectively; and (vi) supply arrangements between the Company and PMC with respect to manganous oxide and red iron oxide. The PMC transactions are subject to definitive documentation that is expected to include customary representations, warranties and indemnities of the Company, provisions for working capital adjustments and settlement of intercompany accounts, a closing fee payable to Palladium and the agreement of the Company to pay or reimburse the Palladium Investors for their reasonable out-of-pocket transaction expenses. The economic terms set forth above are subject to the terms upon which intercompany accounts would be settled, the amount of minimum working capital of PMC to be agreed upon and the amount of the closing fee payable to Palladium. The Company also expects that it will establish a $1,000 escrow or other credit support for two years to secure its net working capital and indemnification obligations, and indemnify the Palladium Investors, payable after the maturity of the Company's Senior Subordinated Notes due 2008, for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of the PMC business less than $21,000, up to a maximum payment by the Company of $4,000. Under the indenture for the Senior Secured Notes, the transaction must be completed on or before December 31, 2003.

4. 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 use 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:

	September 30, 2003	June 30, 2003
Raw materials	$ 24,415	$ 22,277
Work-in-process	2,198	1,765
Finished goods	68,408	65,357
Excess of FIFO cost over LIFO cost	(632)	(632)

(In Thousands)

Total inventory	$ 94,389	$ 88,767
	========	========

5. Intangibles

Product intangibles cost arising from the MFA acquisition was $10,449 at September 30, 2003 and June 30, 2003 and accumulated amortization was $2,369 and $1,780 at September 30, 2003 and June 30, 2003, respectively. Amortization expense was $304 and $320 for the three month periods ended September 30, 2003 and 2002, respectively. Amortization expense from the MFA acquisition for each of the next five years from 2004 to 2008 will be $1,045 per year.

6. 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 September 30, 2002
OPERATING RESULTS:	
Net sales	$ 4,905
Cost of goods sold	6,037
Selling, general and administrative expenses	1,077
Other income	1,496
Loss before income taxes	(713)
Provision for income taxes	15
Loss from discontinued operations	$ (728)
Depreciation and amortization	$ 372

Mineral Resource Technologies, Inc. ("MRT"):

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 September 30,	
	2003	2002

OPERATING RESULTS:		
Net sales	$ 3,327	$ 5,854
Cost of goods sold	3,135	5,066
Selling, general and administrative expenses	316	519
Income (loss) before income taxes	(124)	269
Provision for income taxes	--	--
Income (loss) from discontinued operations	$ (124)	$ 269
Depreciation and amortization	$ --	$ 309

GAIN ON SALE:	Three Months Ended September 30, 2003
Current assets	$ 5,813
Net property, plant & equipment and other assets	10,703
Current liabilities	(2,511)
Other liabilities	(400)
Net proceeds of sale	(13,836)
(Gain) on sale	$ (231)

7. Contingencies

(a) 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.

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.

(b) 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 $2,518, which is included in current and long-term liabilities in the September 30, 2003 condensed consolidated balance sheet (approximately $2,791 at June 30, 2003).

8. 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.

	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor

(In Thousands)

Three Months Ended September 30, 2003					
Net sales	$59,841	$11,982	$ 7,939	$ 7,408	$
Operating income (loss)	6,900	822	841	297	(
Depreciation and amortization	2,029	649	3	215	

	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor
Three Months Ended September 30, 2002					
Net sales	$59,976	$13,894	$ 8,096	$ 4,316	$
Operating income (loss)	9,420	92	750	(184)	
Depreciation and amortization	1,892	819	3	187	

Identifiable Assets of Continuing Operations	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Cor
At September 30, 2003	$206,024	$ 36,867	$ 9,366	$ 11,355	$
At June 30, 2003	190,864	33,191	9,154	12,735	

9. Consolidating Financial Statements

The Senior Subordinated Notes due 2008 (the "Notes") are guaranteed by certain subsidiaries. The Company's U.S. subsidiaries fully and unconditionally guaranteed such Notes on a joint and several basis. Foreign subsidiaries do not presently guarantee the Notes.

The following consolidating financial data summarizes the assets, liabilities and results of operations and cash flows of the Parent, Guarantors and Non-Guarantor Subsidiaries. The Company is the Parent. The Guarantor Subsidiaries include all domestic subsidiaries of the Company including: CP Chemicals, Inc.; Phibro-Tech, Inc.; Prince Agriproducts, Inc.; The Prince Manufacturing Company; Phibrochem, Inc.; Phibro Chemicals, Inc.; Western Magnesium Corp.; Phibro Animal Health Holdings, Inc.; and Phibro Animal Health U.S., Inc. The Guarantor Subsidiaries and Non-Guarantor Subsidiaries are directly or indirectly wholly owned as to voting stock by the Company.

Investments in subsidiaries are accounted for by the Parent 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.

PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
As of September 30, 2003
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	C
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 43	$ 949	$ 25,925	
Trade receivables	2,637	25,747	25,940	
Other receivables	1,370	1,380	1,791	
Inventory	3,390	58,172	32,827	
Prepaid expenses and other	2,441	1,348	5,328	
TOTAL CURRENT ASSETS	9,881	87,596	91,811	
Property, plant & equipment, net	122	16,158	49,037	
Intangibles	--	--	8,080	
Investment in subsidiaries	125,741	3,619	--	
Intercompany	9,879	66,047	(124)	
Other assets	11,057	1,687	787	
	$ 156,680	$ 175,107	$ 149,591	
LIABILITIES AND STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES:				
Cash overdraft	$ 368	$ 1,969	$ 80	
Loan payable to banks	31,598	--	7,152	
Current portion of long-term debt	21,368	382	2,078	
Accounts payable	2,128	34,886	22,221	
Accrued expenses and other	11,886	10,588	26,491	
TOTAL CURRENT LIABILITIES	67,348	47,825	58,022	
Long-term debt	100,000	6	2,874	
Intercompany debt	--	--	75,802	
Other liabilities	4,248	6,167	4,642	
TOTAL LIABILITIES	171,596	53,998	141,340	
REDEEMABLE SECURITIES:				
Series B and C preferred stock	69,868	--	--	
STOCKHOLDERS' DEFICIT:				
Series A preferred stock	521	--	--	
Common stock	2	32	--	
Paid-in capital	860	110,863	5,199	
Accumulated deficit	(79,221)	10,001	10,210	
Accumulated other comprehensive income (loss):				
gain on derivative instruments	398	398	--	
cumulative currency translation adjustment	(7,344)	(185)	(7,158)	

TOTAL STOCKHOLDERS' DEFICIT	(84,784)	121,109	8,251
	$ 156,680	$ 175,107	$ 149,591

PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Three Months Ended September 30, 2003
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
NET SALES	$ 5,742	$ 53,811	$ 28,465
COST OF GOODS SOLD	4,508	39,512	22,834
GROSS PROFIT	1,234	14,299	5,631
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,673	6,896	4,592
OPERATING INCOME (LOSS)	(3,439)	7,403	1,039
OTHER:			
Interest expense	3,713	11	225
Interest (income)	--	--	(242)
Other (income) expense, net	228	(242)	(621)
Intercompany interest and other	(5,993)	3,621	2,372
Loss (profit) relating to subsidiaries	(2,536)	--	--
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,149	4,013	(695)
PROVISION FOR INCOME TAXES	1	234	548
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,148	3,779	(1,243)
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)	$ 1,255	$ 3,655	$ (1,243)

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PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the Three Months Ended September 30, 2003
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Conso Adju
OPERATING ACTIVITIES:				
Net income (loss)	$ 1,255	$ 3,655	$ (1,243)	$ (
Adjustment for discontinued operation	(107)	124	--	
Income (loss) from continuing operations	1,148	3,779	(1,243)	(
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:				
Depreciation and amortization	372	873	2,023	
Deferred income taxes	--	--	53	
Unrealized foreign currency (gains) losses and other	126	155	(1,543)	
Changes in operating assets and liabilities:				
Accounts receivable	119	(1,268)	3,285	
Inventory	(778)	(11,300)	7,146	
Prepaid expenses and other	433	(551)	77	
Other assets	(530)	79	76	
Intercompany	(11,283)	8,267	480	
Accounts payable	(1,176)	(707)	(3,892)	
Accrued expenses and other	4,015	(183)	3,637	
Cash provided (used) by discontinued operations	231	(652)	--	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(7,323)	(1,508)	10,099	
INVESTING ACTIVITIES:				
Capital expenditures	--	(318)	(573)	
Proceeds from sale of assets	--	--	12	
Discontinued operations	13,788	--	300	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13,788	(318)	(261)	
FINANCING ACTIVITIES:				
Cash overdraft	18	642	71	
Net increase (decrease) in short-term debt	(6,280)	--	6,092	
Proceeds from long-term debt	--	--	1,500	
Payments of long-term debt	(203)	(155)	(592)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(6,465)	487	7,071	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	2	166	

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	--	(1,337)	17,075
CASH AND CASH EQUIVALENTS at beginning of period	43	2,286	8,850
CASH AND CASH EQUIVALENTS at end of period	$ 43	$ 949	$ 25,925

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PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
As of June 30, 2003
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 43	$ 2,286	$ 8,850
Trade receivables	2,759	24,523	28,389
Other receivables	957	736	1,949
Inventory	2,612	45,544	40,611
Prepaid expenses and other	3,267	1,439	5,482
Current assets from discontinued operations	--	4,942	--
TOTAL CURRENT ASSETS	9,638	79,470	85,281
Property, plant & equipment, net	153	16,566	49,721
Intangibles	--	--	8,669
Investment in subsidiaries	96,672	3,621	--
Intercompany	35,186	40,334	(2,537)
Other assets	11,516	1,832	851
Other assets from discontinued operations	--	10,650	--
	$ 153,165	$ 152,473	$ 141,985
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES:			
Cash overdraft	$ 350	$ 1,327	$ 9
Loan payable to banks	32,147	--	6,767
Current portion of long-term debt	21,599	447	2,078
Accounts payable	3,304	28,276	25,335
Accrued expenses and other	6,924	11,082	23,603
Current liabilities from discontinued operations	--	2,051	--
TOTAL CURRENT LIABILITIES	64,324	43,183	57,792

Long-term debt	100,073	362	1,956
Intercompany debt	--	--	72,983
Other liabilities	4,397	13,403	4,288
Other liabilities from discontinued operations	--	198	--
TOTAL LIABILITIES	168,794	57,146	137,019
REDEEMABLE SECURITIES:			
Series B and C preferred stock	68,881	--	--
STOCKHOLDERS' DEFICIT:			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid-in capital	860	110,885	5,179
Accumulated deficit	(79,489)	(15,479)	6,079
Accumulated other comprehensive income (loss):			
gain on derivative instruments	81	81	--
cumulative currency translation adjustment	(6,485)	(192)	(6,292)
TOTAL STOCKHOLDERS' DEFICIT	(84,510)	95,327	4,966
	$ 153,165	$ 152,473	$ 141,985

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PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Three Months Ended September 30, 2002
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantors Subsidiaries
NET SALES	$ 7,108	$ 50,363	$ 30,665
COST OF GOODS SOLD	5,787	37,747	22,454
GROSS PROFIT	1,321	12,616	8,211
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,358	6,955	4,537
OPERATING INCOME (LOSS)	(3,037)	5,661	3,674
OTHER:			
Interest expense	3,764	30	710
Interest (income)	(1)	--	(125)
Other expense, net	97	139	950
Intercompany interest and other	(7,546)	4,950	2,596

Loss (profit) relating to subsidiaries	347	--	--
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	302	542	(457)
PROVISION FOR INCOME TAXES	--	77	355
INCOME (LOSS) FROM CONTINUING OPERATIONS	302	465	(812)
DISCONTINUED OPERATIONS:			
Profit (loss) relating to discontinued operations	(459)	--	--
Profit (loss) from discontinued operations (net of income taxes)	--	269	(728)
NET INCOME (LOSS)	$ (157)	$ 734	$ (1,540)

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PHIBRO ANIMAL HEALTH CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the Three Months Ended September 30, 2002
(In Thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
OPERATING ACTIVITIES:			
Net income (loss)	$ (157)	$ 734	$ (1,540)
Adjustment for discontinued operation	459	(269)	728
Income (loss) from continuing operations	302	465	(812)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	355	1,052	1,849
Deferred income taxes	--	--	373
Unrealized foreign currency (gains) losses and other	95	(523)	1,653
Changes in operating assets and liabilities:			
Accounts receivable	(306)	2,243	1,443
Inventory	(65)	(3,832)	1,007
Prepaid expenses and other	1,285	1,705	(2,440)
Other assets	(154)	566	(475)
Intercompany	5,541	(273)	(4,921)
Accounts payable	536	7,524	1,839
Accrued expenses and other	2,322	(1,614)	4,392
Cash provided by discontinued operations	--	(85)	2,527

NET CASH PROVIDED BY OPERATING ACTIVITIES	9,911	7,228	6,435
INVESTING ACTIVITIES:			
Capital expenditures	(172)	(1,395)	(1,114)
Proceeds from sale of assets	--	--	6
Discontinued operations	--	(177)	(845)
NET CASH (USED) BY INVESTING ACTIVITIES	(172)	(1,572)	(1,953)
FINANCING ACTIVITIES:			
Cash overdraft	(226)	(3,885)	(1,689)
Net (decrease) in short-term debt	(9,927)	--	(460)
Payments of long-term debt	--	(136)	(1,332)
NET CASH (USED) BY FINANCING ACTIVITIES	(10,153)	(4,021)	(3,481)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	(7)	19
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(414)	1,628	1,020
CASH AND CASH EQUIVALENTS at beginning of period	457	130	5,832
CASH AND CASH EQUIVALENTS at end of period	$ 43	$ 1,758	$ 6,852

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

This information should be read in conjunction with the 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.

The Company recently changed its name to Phibro Animal Health Corporation. The Company was formerly known as Philipp Brothers Chemicals, Inc. The new name reflects the core focus and strategic direction of the Company.

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 and escrow requirements.

Refinancing

On October 21, 2003 the Company issued 105,000 units consisting of $85,000,000 of 13% Senior Secured Notes due 2007 of Phibro Animal Health Corporation ("PAHC") (the "US Senior Notes") and $20,000,000 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 $51,971,000 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 $34,888,000 outstanding at the repayment date; (iii) satisfy, for a payment of approximately $29,315,000, certain of its outstanding obligations to Pfizer Inc., including: (a) $20,075,000 aggregate principal amount of its promissory note plus accrued and unpaid interest; (b) $9,681,000 of accounts payable, (c) $9,257,000 of accrued expenses; and (d) future contingent purchase price obligations under its agreements with Pfizer by which the Company acquired Pfizer's medicated feed additive business, and; (iv) pay fees and expenses relating to the above transactions.

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, including Phibro Animal Health (Belgium) SPRL. 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. 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, 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 working capital credit facility with Wells Fargo Foothill, Inc., providing for a working capital line plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities may not exceed $25,000,000, and the aggregate amount of borrowings under the working capital facility may not exceed $15,000,000.

Borrowings under the replacement domestic senior credit facility are subject to a borrowing base formula based on percentages of eligible domestic receivables and domestic inventory. Under the replacement 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 replacement 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 replacement credit facility, a monthly servicing fee and standard letter of credit fees to issuing banks. Borrowings under the replacement 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 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 replacement domestic 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 bank credit facility and its note payable to Pfizer were to mature in November 2003 and March 2004, respectively. The effect of the above refinancing transactions will be included in the December 31, 2003 financial statements.

The Company intends to sell the assets and business of its subsidiary, The Prince Manufacturing Company ("PMC"), to Palladium Equity Partners II, LP and certain of its affiliates (the "Palladium Investors"). The material elements of the transactions relating to this sale include: (i) the transfer of ownership to the Palladium Investors of PMC's assets; (ii) the reduction of the preferred stock of the Palladium Investors from $69,868,000 (as of September 30, 2003) to $15,200,000 (as of September 30, 2003); (iii) the termination of any obligation of the Company or any subsidiaries of the Company in respect of the $2,250,000 annual management advisory fee; (iv) a separate cash payment to the Palladium Investors of $10,000,000 (derived from the recent sale of the Company's subsidiary, Mineral Resource Technologies, Inc. ("MRT"); (v) payments by PMC to the Company for central support services for the next three years of $1,000,000, $500,000 and $200,000, respectively; and (vi) supply arrangements between the Company and PMC with respect to manganous oxide and red iron oxide. The PMC transactions are subject to definitive documentation that is expected to include customary representations, warranties and indemnities of the Company, provisions for working capital adjustments and settlement of intercompany accounts, a closing fee payable to Palladium and the agreement of the Company to pay or reimburse the Palladium Investors for their reasonable out-of-pocket transaction expenses. The economic terms set forth above are subject to the terms upon which intercompany accounts would be settled, the amount of minimum working capital of PMC to be agreed upon and the amount of the closing fee payable to Palladium. The Company also expects that it will establish a $1,000,000 escrow or other credit support for two years to secure its net working capital and indemnification obligations, and indemnify the Palladium Investors, payable after the maturity of the Company's Senior Subordinated Notes due 2008, for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of the PMC business less than $21,000,000, up to a maximum payment by the Company of $4,000,000. Under the indenture for the Senior Secured Notes, the transaction must be completed on or before December 31, 2003.

Summary Consolidated Results of Continuing Operations

	Three Months Ended September 30,	
	2003	2002

	----	----
	(Thousands)	
Net sales	$ 87,170	$ 86,282
Gross profit	21,164	22,148
Selling, general and administrative	16,161	15,850
Operating income	5,003	6,298
Interest expense, net	3,707	4,378
Other (income) expense, net	(635)	1,186
Provision for income taxes	783	432
Income from continuing operations	$ 1,148	$ 302

Comparison of Three Months Ended September 30, 2003 and 2002

Net Sales of $87.2 million increased $0.9 million, or 1%. Animal Health and Nutrition sales of $59.8 million declined slightly from the prior year. Specialty Chemicals sales of $27.4 million increased $1.0 million, or 4%, primarily due to volume increases in the All Other segment.

Gross Profit of $21.2 million decreased $1.0 million to 24.3% of net sales, compared with 25.7% in 2002. Unfavorable sales mix in Animal Health and Nutrition was responsible for the overall decrease.

Selling, General and Administrative Expenses of $16.2 million increased $0.3 million, or 2%. Operating segment expenses approximated the prior year. Corporate expenses increased $0.3 million due to higher staffing levels that began in mid-fiscal 2003.

Operating Income of $5.0 million decreased $1.3 million to 5.7% 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 Chemicals group.

Interest Expense, Net of $3.7 million decreased $0.7 million, compared with $4.4 million in 2002, primarily due to lower average borrowing levels.

Other (Income) Expense, Net of ($0.6) million improved compared 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 $0.8 million on a consolidated pre-tax income of $1.9 million were primarily due to income tax provisions in profitable foreign jurisdictions and also for state income taxes.

Operating Segments

	Three Months Ended September 30,	
	2003	2002
	----	----
	(Thousands)	
Net Sales		
Animal Health & Nutrition	$59,841	$59,976
Specialty Chemicals:		
Industrial Chemicals	11,982	13,894
Distribution	7,939	8,096
All Other	7,408	4,316

	$87,170	$86,282

	Three Months Ended September 30,	
	2003	2002
	(Thousands)	
Operating Income		
Animal Health & Nutrition	$ 6,900	$ 9,420
Specialty Chemicals:		
Industrial Chemicals	822	92
Distribution	841	750
All Other	297	(184)
Corporate	(3,857)	(3,780)
	$ 5,003	$ 6,298

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 manufactures and markets specialty chemicals for use in the pressure treated wood, brick, glass, and chemical industries, and includes Phibro-Tech and PMC. The Distribution segment markets a variety of specialty chemicals, and includes PhibroChem and Ferro operations. The All Other segment includes contract manufacturing of crop protection chemicals, Wychem and all other operations.

Operating Segments Comparison of Three Months Ended September 30, 2003 and 2002

Animal Health and Nutrition

Net Sales of $59.8 million decreased $0.1 million. Medicated Feed Additives net sales decreased by $2.8 million. Revenues were lower for antibacterials, antibiotics and anticoccidials but were offset in part by higher sales of anthelmintics and other medicated feed additives. The decreased revenues primarily were due to unit volume decreases. Nutritional Feed Additives net sales increased by $2.7 million, principally due to volume increases in core inorganic minerals, trace mineral premixes and other ingredients.

Operating Income of $6.9 million decreased $2.5 million, or 27%. Operating income declined due to higher cost of goods reflecting the stronger Euro's effect on Belgium manufacturing costs, lower unit volumes and changes in product mix to lower margin items. This was offset in part by higher average selling prices, including favorable currency effect on international sales.

Specialty Chemicals

Industrial Chemicals net sales of $12.0 million decreased $1.9 million, or 14%. Sales of etchants and related products to the printed circuit board market decreased $1.8 million due to the divesture 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 decreased $0.1 million primarily due to lower unit volumes. Industrial Chemicals operating income of $0.8 million improved $0.7 million. The improvement principally was due to savings from headcount reductions and facility restructurings.

Distribution net sales of $7.9 million decreased $0.2 million, or 2%. Lower unit sales volumes in the U.S. were partially offset by higher sales volumes in Europe. Distribution operating income of $0.8 million increased $0.1 million, or 12%. As a percentage of sales, operating income increased to 11% in 2003 from 9% in 2002. The improvement in operating income margins resulted principally from increased sales of higher margin products.

All Other net sales of $7.4 million increased $3.1 million, or 72%. Revenues for contract manufacturing increased $3.0 million and specialized lab projects and formulations increased $0.1 million. All Other operating income of $0.3 million improved from the prior year loss of $0.2 million due to increased unit volumes and higher average selling prices.

Discontinued Operations

The Company shutdown Odda Smelteverk (Norway) ("Odda"), and divested Carbide Industries (U.K.) ("Carbide") and Mineral Resource Technologies, Inc. ("MRT"). 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.

	Three Months Ended September 30, 2003 (Thousands)
	MRT
Net sales	$ 3,327
Pre-tax income (loss) from discontinued operations	$ (124)
Provision (benefit) for income tax	$ --
Income (loss) from discontinued operations	$ (124)
Depreciation and Amortization	$ --

	Three Months Ended September 30, 2002 (Thousands)			
	Odda	Carbide	MRT	Total
Net sales	$ 3,428	$ 1,477	$ 5,854	$ 10,759
Pre-tax income (loss) from discontinued operations	$ (805)	$ 92	$ 269	$ (444)
Provision (benefit) for income tax	$ --	$ 15	$ --	$ 15

Income (loss) from discontinued operations	$ (805)	$ 77	$ 269	$ (459)
Depreciation and Amortization	$ 318	$ 54	$ 309	$ 681

Odda and Carbide. During 2003, the Company determined that it would permanently shutdown and no longer fund the operations of Odda. On February 28, 2003, Odda filed for bankruptcy in Norway. The bankruptcy is proceeding in accordance with Norwegian law. The Company has been advised that, as a result of the bankruptcy, the creditors of Odda have recourse only to the assets of Odda, except in the case of certain debt guaranteed by the Company. The Company is the guarantor of certain debt of Odda. As of September 30, 2003, debt of Norwegian Krone (NOK) 23.8 million ($3.4 million) was outstanding and was included in loans payable to banks on the Company's consolidated balance sheet. The outstanding balance is payable November 30, 2003. The Company has been advised by Norwegian counsel that it will obtain the benefit of the banks' position as a secured creditor upon payment pursuant to the guarantees. During 2003, the Company sold Carbide, previously a distributor for one of Odda's product lines. Proceeds from the divestiture were not material.

Mineral Resource Technologies, Inc. ("MRT"). The Company sold MRT on August 28, 2003 for net proceeds, after transaction costs, of approximately $13.8 million, subject to post-closing adjustments and escrow requirements. The Company recorded a gain of approximately $0.2 million on disposal. Based upon its assessment of likely outcomes, the Company does not anticipate a material effect from post-closing adjustments.

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Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the three months ended September 30, 2003 and 2002 was $0.7 million and $23.6 million, respectively. Cash provided in 2003 was attributable to income from operations offset by unrealized foreign currency losses and increased working capital requirements. Cash provided in 2002 was due to aggressive working capital management.

Net Cash Provided (Used) by Investing Activities. Net cash provided (used) by investing activities for the three months ended September 30, 2003 and 2002 was $13.2 million and ($3.7) million, respectively. Discontinued operations provided (used) $14.1 million and ($1.0) million in 2003 and 2002, respectively. Capital expenditures of $.9 million and $2.7 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 Provided (Used) by Financing Activities. Net cash provided (used) by financing activities for the three months ended September 30, 2003 and 2002 was $1.1 million and ($17.7) million, respectively. Short-term debt decreased due to a $4.0 million reduction in the domestic credit facility and related capital expenditure line and a $2.3 million payment related to Norwegian bank debt, offset by a $6.0 million increase in foreign borrowings. Payments of long-term debt and changes in cash overdraft accounted for the remainder of net cash provided by financing activities.

Working Capital and Capital Expenditures. Working capital, defined as accounts receivables, inventories and prepaid expenses and other current assets, less accounts payable and accrued expenses and other current liabilities, was $54.2 million and $59.7 million as of September 30, 2003 and June 30, 2003, respectively. The decrease was primarily due to improved management of accounts receivable and increases in accrued expenses.

The Company anticipates spending approximately $10.0 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.

Liquidity. At September 30, 2003, the Company was holding excess cash of approximately $18.0 million, due to the pending status of its refinancing transactions at that date. The cash was substantially from the sale of MRT and additional borrowings under foreign credit facilities.

At September 30, 2003, the Company was in compliance with the financial covenants included in its since replaced domestic senior credit facility with its lending banks. At September 30, 2003, the amount of credit extended under the Company's replaced domestic senior credit facility totaled $28.2 million under the revolving credit facility and $1.3 million under the capital expenditure facility. At November 14, 2003, the amount of borrowings under the Company's new replacement working capital facility was $7.6 million, and the Company had $4.9 million available under that facility, after reduction for a $2.5 million reserve for interest payments due December 1, 2003. In addition, certain of the Company's foreign subsidiaries also had availability totaling $0.6 million under their respective loan agreements.

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 sale of certain business operations and other assets) and the continued availability of borrowings under its replacement senior working capital facility. The Company believes that it will be able to comply with the terms of its covenants under the replacement 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 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.

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 Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 and 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

For financial market risks related to changes in interest rates, foreign currency exchange rates and commodity prices, reference is made to Part II, Item 7, Quantitative and Qualitative Disclosure About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003 and to Note 15 to our Consolidated Financial Statements included therein.

Item 4. Controls and Procedures

(a) Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer, Chairman of the Board and Chief Financial Officer, the effectiveness and design of our disclosure controls and procedures, and have concluded that, as of the end of the period covered by this Report, our disclosure controls and procedures, as defined in Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended, are effective for gathering, analyzing and disclosing information we are required to disclose in reports that we furnish to the Securities and Exchange Commission. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) There have been no changes in our internal control over financial reporting that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II --OTHER INFORMATION

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

(a) Exhibits

Exhibit No.	Description
4.1.4	Fourth Supplemental Indenture, dated as of October 1, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (1)
4.1.5	Fifth Supplemental Indenture, dated as of October 21, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8%

Senior Subordinated Notes due 2008 of Registrant.

4.2	Indenture, dated as of October 21, 2003, by and among Phibro Animal Health Corporation and Philipp Brothers Netherlands III B.V., as Issuers, the Guarantors named therein, and HSBC Bank USA, as Trustee and Collateral Agent. (2)
10.31	Loan and Security Agreement, dated October 21, 2003, by and among, the lenders identified on the signature pages thereto, Wells Fargo Foothill, Inc., and Phibro Animal Health Corporation ("Parent"), and each of Parent's Subsidiaries identified on the signature pages thereto.
10.31.1	Amendment Number One to Loan and Security Agreement dated November 14, 2003.
10.32	Intercreditor and Lien Subordination Agreement, dated as of October 21, 2003, made by and among Wells Fargo Foothill, Inc., HSBC Bank USA, Phibro Animal Health Corporation ("Parent") and those certain subsidiaries of the Parent party thereto.
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.

(1) Filed as an exhibit to the Company's Current Report on Form 8-K dated October 2, 2003.
(2) Filed as an exhibit to the Company's Current Report on Form 8-K dated October 21, 2003.

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

(b) Reports on Form 8-K

On September 12, 2003 the Company furnished a report on Form 8-K reporting items 2 and 7.

On September 24, 2003, the Company furnished a report on Form 8-K reporting items 7 and 9.

Subsequent to the period covered by this Report, on October 7, 2003 the Company furnished a report on Form 8-K reporting items 5 and 7, and on October 31, 2003 the Company furnished a report on Form 8-K reporting items 5 and 7.

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SIGNATURES

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

PHIBRO ANIMAL HEALTH CORPORATION

Date: November 14, 2003

By: /s/ JACK C. BENDHEIM

Jack C. Bendheim
Chairman of the Board

Date: November 14, 2003

By: /S/ GERALD K. CARLSON

Gerald K. Carlson
Chief Executive Officer

Date: November 14, 2003

By: /s/ RICHARD G. JOHNSON

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

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Exhibit Index

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