PHIBRO ANIMAL HEALTH CORP
Form 10-Q
February 18, 2005

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, 2004

OR

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

For the transition period from _________ to __________.

Commission File Number 333-64641

PHIBRO ANIMAL HEALTH CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

New York	13-1840497
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

65 Challenger Road, Ridgefield Park, New Jersey 07660
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(201) 329-7300
(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, 2004:

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

* By virtue of Section 15(d) of the Securities Act of 1934, the Registrant is

not subject to such filing requirements and not required to file this Quarterly Report, but has provided all such reports as if so required during the preceding 12 months.

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PHIBRO ANIMAL HEALTH CORPORATION

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

PART I -- FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	DECEMBER 31, 2004	JUNE 30, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,170	$ 5,568
Trade receivables, less allowance for doubtful accounts of $1,307 at December 31, 2004 and $1,358 at June 30, 2004	56,875	57,658
Other receivables	4,470	2,766
Inventories	97,604	79,910
Prepaid expenses and other current assets	6,914	8,688
TOTAL CURRENT ASSETS	176,033	154,590
PROPERTY, PLANT AND EQUIPMENT, net	61,111	58,786
INTANGIBLES	11,116	11,695
OTHER ASSETS	16,790	16,298
	$ 265,050	$ 241,369
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash overdraft	$ 1,787	$ 891
Loans payable to banks	297	10,996
Current portion of long-term debt	4,082	1,351
Accounts payable	46,368	46,972
Accrued expenses and other current liabilities	47,809	40,010
TOTAL CURRENT LIABILITIES	100,343	100,220
LONG-TERM DEBT	178,630	158,018
OTHER LIABILITIES	23,340	22,286
TOTAL LIABILITIES	302,313	280,524
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series C preferred stock	22,817	24,678
STOCKHOLDERS' DEFICIT:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	860	860
Accumulated deficit	(62,844)	(57,964)
Accumulated other comprehensive income (loss):		
Gain on derivative instruments	331	9
Cumulative currency translation adjustment	1,050	(7,261)
TOTAL STOCKHOLDERS' DEFICIT	(60,080)	(63,833)
	$ 265,050	$ 241,369

See notes to unaudited Condensed Consolidated Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In Thousands)

	THREE MONTHS ENDED DECEMBER 31,		SIX D
	2004	2003	2004
NET SALES	$ 93,060	$ 92,540	$ 181,
COST OF GOODS SOLD (includes Belgium Plant Transactions costs of $9,536 for the three months and six months ended December 31, 2004)	79,191	69,991	144,
GROSS PROFIT	13,869	22,549	36,
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	17,759	16,824	34,
OPERATING INCOME (LOSS)	(3,890)	5,725	2,
OTHER:			
Interest expense	5,389	4,549	10,
Interest (income)	(33)	168	
Other (income) expense, net	(791)	127	(
Net (gain) on extinguishment of debt	--	(23,226)	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(8,455)	24,107	(7,
PROVISION (BENEFIT) FOR INCOME TAXES	(884)	2,880	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(7,571)	21,227	(7,
DISCONTINUED OPERATIONS:			
Gain (loss) from discontinued operations (net of income taxes)	--	59	
Gain on disposal of discontinued operations (net of income taxes)	--	--	
NET INCOME (LOSS)	(7,571)	21,286	(7,
OTHER COMPREHENSIVE INCOME:			
Change in derivative instruments, net of tax	247	102	
Change in currency translation adjustment	5,304	3,031	8,
COMPREHENSIVE INCOME (LOSS)	$ (2,020)	$ 24,419	$
NET INCOME (LOSS)	(7,571)	21,286	(7,
Excess of the reduction of redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions	973	20,138	
Dividends and equity value accreted on Series B and C redeemable preferred stock	2,541	(2,864)	1,
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ (4,057)	$ 38,560	$ (4,

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)
For the Three Months and Six Months Ended December 31, 2004
(In Thousands)

	PREFERRED STOCK SERIES A	COMMON STOCK CLASS A	COMMON STOCK CLASS B	PAID-IN CAPITAL	ACCUMULATED DEFICIT	AC COM INC
Balance, June 30, 2004	$ 521	$ 1	$ 1	$ 860	$ (57,964)	$
Dividends on Series C redeemable preferred stock					(668)	
Equity value accreted on Series C redeemable preferred stock					(14)	
Change in derivative instruments, net of tax						
Foreign currency translation adjustment						
Net (loss)					(141)	
Balance, September 30, 2004	$ 521	$ 1	$ 1	$ 860	$ (58,787)	$
Excess of the reduction in redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions					973	
Dividends on Series C redeemable preferred stock					(667)	
Equity value accreted on Series C redeemable preferred stock					3,208	
Change in derivative instruments, net of tax						
Foreign currency translation adjustment						
Net (loss)					(7,571)	
Balance, December 31, 2004	$ 521	$ 1	$ 1	$ 860	$ (62,844)	$

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	SI 200
OPERATING ACTIVITIES:	
Net income (loss)	$ (7
Adjustment for discontinued operations	
Income (loss) from continuing operations	(7
Adjustments to reconcile income (loss) from continuing operations to net cash used by operating activities:	
Depreciation and amortization (includes accelerated depreciation from the Belgium Plant Transactions of $533 for the six months ended December 31, 2004)	7
Deferred income taxes	
Net gain on extinguishment of debt	
Effects of changes in foreign currency	(1
Other	
Changes in operating assets and liabilities:	
Accounts receivable	1
Inventories	(11
Prepaid expenses and other current assets	1
Other assets	
Accounts payable	(1
Accrued expenses and other liabilities	
Accrued costs of non-completed transaction	(1
Accrued costs of the Belgium Plant Transactions	9
Cash used by discontinued operations	
NET CASH USED BY OPERATING ACTIVITIES	(5
INVESTING ACTIVITIES:	
Capital expenditures	(3
Proceeds from sale of assets	
Discontinued operations	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3
FINANCING ACTIVITIES:	
Net increase in cash overdraft	
Net decrease in short-term debt	(10
Proceeds from long-term debt	26
Payments of long-term debt	(1
Payment of Pfizer obligations	
Payments relating to the Prince Transactions and transaction costs	
Debt refinancing costs	(1
Discontinued operations	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	12
EFFECT OF EXCHANGE RATE CHANGES ON CASH	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4
CASH AND CASH EQUIVALENTS at beginning of period	5

CASH AND CASH EQUIVALENTS at end of period	$ 10

See notes to unaudited Condensed Consolidated Financial Statements

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

1. GENERAL

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:

In the opinion of Phibro Animal Health Corporation (the "Company" or "PAHC"), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly its financial position as of December 31, 2004 and its results of operations and cash flows for the three months and six months ended December 31, 2004 and 2003.

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

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

The results of operations for all interim periods presented may not be indicative of results for the full year.

NEW ACCOUNTING PRONOUNCEMENTS:

The Company will adopt the following new accounting pronouncements during 2005:

Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment to Accounting Research Bulletin No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing" to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges....". SFAS No. 151 requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal". In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 30, 2005 and the provisions of this statement shall be applied prospectively. The Company is currently assessing the impact of this statement.

Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29" ("SFAS No. 153"). SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after December 2004. The provisions of this statement shall be applied prospectively. The Company is currently assessing the impact of this statement.

Statement of Financial Accounting Standards No. 123, "Share-Based Payment (revised 2004)" ("SFAS No. 123"). This Statement is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" and supercedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS No. 123 as originally issued, and it does not address the accounting for employee share ownership plans. This Statement applies to all awards granted after the effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date. SFAS No. 123, as revised, is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently assessing the impact of this statement.

2. RISKS, UNCERTAINTIES, AND LIQUIDITY

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its domestic senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the domestic senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company expects adequate liquidity throughout 2005, with periods of reduced availability around the dates of the semi-annual interest payments due June 1 and December 1 related to its Senior Secured Notes and Senior Subordinated Notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. There can be no assurance the Company will be successful in any of the above-noted actions.

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

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

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

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

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

3. REFINANCING

ISSUANCE OF ADDITIONAL 13% SENIOR SECURED NOTES:

On December 21, 2004, the Company completed a private placement pursuant to which the Company and Philipp Brothers Netherlands III B.V., an indirect wholly-owned subsidiary of the Company (the "Dutch Issuer" and together with the Company, the "Issuers") issued and sold 22,491 additional units consisting of $18,207 13% Senior Secured Notes due 2007 of the Company (the "U.S. Notes") and $4,284 13% Senior Secured Notes due 2007 of the Dutch Issuer (the "Dutch Notes" and together with the U.S. Notes, the "Additional Notes"), from which they received gross proceeds of $23,391. The proceeds were used to refinance indebtedness outstanding under the Company's domestic senior credit facility. The Company incurred financing costs of $2,275 in connection with the issuance of the Additional Notes. The Additional Notes were issued under the Indenture dated October 21, 2003, as amended and supplemented (the "Indenture") under which the Issuers previously issued 105,000 units consisting of $85,000 aggregate principal amount of U.S. Notes and $20,000 aggregate principal amount of Dutch Notes.

On January 14, 2005, the Company and its domestic subsidiaries filed a registration statement with the Securities and Exchange Commission (the "SEC") on Form S-4 with respect to an exchange offer for all its senior secured notes, comprised of 105,000 units sold on October 21, 2003 and 22,491 additional units sold on December 21, 2004. On February 4, 2005, such registration statement was declared effective.

AMENDMENT TO THE DOMESTIC SENIOR CREDIT FACILITY:

On December 21, 2004, concurrent with the completion of the offering of the Additional Notes, the Company amended its domestic senior credit facility to: (i) amend the EBITDA definition to exclude charges and expenses related to the sale of the Belgium Plant in an aggregate amount not to exceed $26,800 for purposes of calculating a certain financial covenant; (ii) amend the Indenture reserve definition to include scheduled payments of interest due on the Additional Notes; (iii) amend the maximum aggregate amount of borrowing available under the working capital facility to permit a temporary increase to $22,500 and for its reduction to $17,500 on such borrowings being refinanced by the proceeds of the Additional Notes; (iv) amend the Permitted Investments definition to include investments in connection with the sale of the Belgium Plant and transfer of certain equipment, together with other assets and rights related to the production of virginiamycin, to Philipp Brothers Brasil Holdings Ltda, ("PAH Brazil") or in connection with alternative production arrangements; and (v) provide for the issuance of the Additional Notes and the sale of the Belgium Plant and related transactions.

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

4. BELGIUM PLANT TRANSACTIONS

On December 16, 2004, Phibro Animal Health SA, ("PAH Belgium") entered into an agreement with GlaxoSmithKline Biologicals ("GSK") to sell to GSK substantially all of PAH Belgium's facilities in Rixensart, Belgium (the "Belgium Plant"). Such sale, when completed (the "Belgium Plant Transactions"), will include the following elements (U.S. dollar amounts at the December 31, 2004 exchange rate): (i) the transfer of substantially all of the land and buildings and certain equipment of PAH Belgium at the Belgium Plant, as well as the industrial activities and intellectual property relating to certain solvent technology of PAH Belgium for a purchase price of EUR 6,200 ($8,394), payable at closing; (ii) the transfer to GSK of a majority of the employees of the Belgium Plant and the corresponding responsibility for statutory severance obligations; (iii) GSK agreeing to be responsible cleaning-up, by demolition or otherwise, certain buildings not to be used by it, but for PAH Belgium to reimburse GSK up to a maximum of EUR 700 ($948) for such cleaning-up costs; (iv) in recognition of the benefits to PAHC from the proposed transaction, PAH Belgium agreeing to pay to GSK EUR 1,500 ($2,031) within six months from the closing date, EUR 1,500 ($2,031) within eighteen months from the closing date, EUR 1,500 ($2,031) within thirty months from the closing date, and EUR 500 ($677) within forty-two months from the closing date; (v) PAH Belgium retaining certain excess land (valued at approximately EUR 400 ($542)) and being able to sell such land for its own account; (vi) PAH Belgium being responsible for certain plant closure costs and legally required severance indemnities in connection with workforce reductions, estimated in total to be EUR 9,100 ($12,320), of which an amount estimated to be approximately EUR 4,600 ($6,227) would be payable at or around the closing and an aggregate amount so estimated to be approximately EUR 4,500 ($6,092) would be payable over periods up to thirteen years; and (vii) PAH Belgium retaining any or all equipment at the Belgium Plant, and being able to sell such equipment for the account of PAH Belgium or transfer such equipment, together with other assets and rights related to the production of virginiamycin, to PAH Brazil which owns a facility in Guarulhos, Brazil or in connection with alternative production arrangements.

The foregoing transactions and agreements are subject to a closing that is expected to occur on November 30, 2005, but in no event earlier than July 1, 2005 or later than June 30, 2006.

The Dutch Notes and related guarantees are collateralized by a mortgage on the Belgium Plant which will be released in connection with the closing of the sale of the Belgium Plant to GSK.

As a result of the above agreement, the Company will depreciate the Belgium plant to its estimated salvage value of EUR 2,470 ($3,344) as of the projected closing date of November 30, 2005. The Company recorded incremental depreciation expense of EUR 394 ($533) in December 2004 and will record an additional EUR 8,662 ($11,727) of incremental depreciation expense ratably through November 2005. The Company recorded severance expense of EUR 6,650 ($9,003) in December 2004 for the estimated minimum severance amounts indicated by law, contract, and/or past practice. The Company estimates it will record additional expense of EUR 2,450 ($3,317) ratably through November 2005 for severance, retention agreements and other costs. The incremental depreciation expense of $533 and severance expense of $9,003 recorded in December 2004 are included in cost of goods sold on the Company's condensed consolidated statements of operations and comprehensive income (loss).

The Company has determined that the carrying amount of the Belgium Plant at December 31, 2004 is recoverable based on the estimated future cash flows arising from the use of the assets.

In anticipation of transferring production of virginiamycin from the Belgium plant to an alternative production location, the Company has been increasing inventory levels of virginiamycin to ensure adequate supplies during the transfer period. At December 31, 2004 virginiamycin inventories were approximately $40,000 and are expected to continue to increase through November 2005, based on current production rates.

5. HOLDING COMPANY AND HOLDCO NOTES

During January 2005, PAHC Holdings Corporation ("PAHC Holdings") was formed to hold the capital stock of the Company, except for its Series C Preferred Stock. On February 10, 2005, PAHC Holdings issued $29,000 of its 15% Senior Secured Notes due 2010 (the "HoldCo Notes") in a private placement. Interest is payable at the option of PAHC Holdings in cash or pay-in-kind HoldCo Notes. The Company is not obligated for the HoldCo Notes. The Company's ability to make payments to PAHC Holdings is subject to the terms of the Company's Senior Secured Notes, its Senior Subordinated Notes, and its domestic senior credit facility, and to applicable law.

The proceeds from the sale of the HoldCo Notes, upon release from escrow, will be used, directly or indirectly, to redeem the Company's Series C Preferred Stock either by PAHC Holdings (i) making a capital contribution to the Company to contemporaneously finance the redemption of the Company's Series C Preferred Stock, or (ii) purchasing a new series of the Company's preferred stock, referred to as Series D Preferred Stock, that may be issued by the Company to finance the redemption of the Company's Series C Preferred Stock. It is contemplated that such redemption will occur on or before February 28, 2005. On March 1, 2005, the applicable percentage for determining the equity value component of the redemption price increases, as currently provided in the Company's certificate of incorporation, from 18% to 22%. If on March 1, 2005, the Company has not redeemed its Series C Preferred Stock from escrow, PAHC Holdings will be required to redeem the HoldCo Notes, primarily with the proceeds of the HoldCo Notes placed in escrow.

PAHC Holdings was formed by the holders of all of the Company's capital stock, other than the holders of Series C Preferred Stock. In particular, Jack Bendheim, Marvin Sussman and trusts for the benefit of Mr. Bendheim and his family exchanged all of their shares of Series A Preferred Stock and Class B Common Stock and Mr. Bendheim exchanged fifty percent (50%) of his shares of Class A Common Stock, for the same number and class of shares of PAHC Holdings, having the same designations, relative rights, privileges and limitations as the Company's shares of such class (except to the extent that PAHC Holdings is a Delaware corporation and the Company is a New York corporation).

The HoldCo Notes are to be secured by all of PAHC Holdings' assets (now consisting solely of the Company's capital stock and, until disbursed, the proceeds of the HoldCo Notes in escrow). Currently, such pledge covers all of the Company's Series A Preferred Stock and Class B Common Stock, the Company's non-voting classes of stock. In connection with the release of the proceeds of the HoldCo Notes from escrow and following the redemption of the Company's Series C Preferred Stock, Mr. Bendheim will contribute to PAHC Holdings the balance of the Company's outstanding Class A Common Stock, and all of the Company's outstanding Class A Common Stock, the Company's voting stock, will be pledged as security for the HoldCo Notes.

6. PRINCE TRANSACTIONS

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

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

On December 29, 2004, the Company and the Buyer reached agreement regarding the post-closing working capital adjustment, which resulted in a final $227 payment to the Company from the Buyer. The Company reassessed the accruals relating to the Prince Transactions and adjusted the accruals accordingly. The adjustments resulted in a net gain of $973 which was recorded as a decrease to accumulated deficit on the Company's condensed consolidated balance sheet as of December 31, 2004.

(IN THOUSANDS)

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

	THREE MONTHS ENDED DECEMBER 31, 2003	SIX MONTHS ENDED DECEMBER 31, 2003
Net sales	$5,435	$11,118
Operating income	1,065	2,278
Depreciation and amortization	244	487

7. INVENTORIES

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

	AS OF	
	DECEMBER 31, 2004	JUNE 30, 2004
Raw materials	$21,349	$16,313
Work-in-process	1,782	1,764
Finished goods	74,473	61,833
Total inventory	$97,604	$79,910

8. INTANGIBLES

Product intangible cost arising from the acquisition of the medicated feed additive business of Pfizer, Inc. and the acquisition of the rights to sell amprolium was $15,033 and $14,925 at December 31, 2004 and June 30, 2004, respectively, with related accumulated amortization of $3,917 and $3,230 at December 31, 2004 and June 30, 2004, respectively. Amortization expense was $375 and $304 for the three months ended December 31, 2004 and 2003, respectively, and $746 and $608 for the six months ended December 31, 2004 and 2003, respectively.

9. DISCONTINUED OPERATIONS

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

Operating results and gain on sale of MRT were:

	SIX MONTHS ENDED DECEMBER 31, 2003

OPERATING RESULTS:	
Net sales	$ 3,327
Cost of goods sold	3,135
Selling, general and administrative expenses	316
Loss before income taxes	(124)
Provision for income taxes	-
Loss from operations	$ (124)

GAIN ON SALE:	
Current assets	$ (5,813)
Property, plant & equipment - net and other assets	(10,703)
Current liabilities	2,911
Net proceeds of sale	13,836
Gain on sale	$ 231

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

Operating results of La Cornubia were:

	THREE MONTHS ENDED DECEMBER 31, 2003	SIX MONTHS ENDED DECEMBER 31, 2003
OPERATING RESULTS:		
Net sales	$ 3,503	$ 5,723
Cost of goods sold	3,199	5,415
Selling, general and administrative expenses	412	788
Other (income)	(193)	(243)
Interest expense	26	42
Income (loss) before income taxes	59	(279)
Provision for income taxes	-	-
Income (loss) from operations	$ 59	$ (279)
Depreciation and amortization	$ 101	$ 201

10. DEBT

LOANS PAYABLE TO BANKS

At December 31, 2004, loans payable to banks included $297 under the domestic senior credit facility with Wells Fargo Foothill, Inc. The weighted average interest rate at December 31, 2004 was 5.75%. At December 31, 2004, the Company had $17,203 of borrowings available under the working capital facility that is provided under the domestic senior credit facility.

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

On December 21, 2004, concurrent with the completion of the offering of the Additional Notes, the Company amended its domestic senior credit facility to: (i) amend the EBITDA definition to exclude charges and expenses related to the sale of the Belgium Plant in an aggregate amount not to exceed $26,800 for purposes of calculating a certain financial covenant; (ii) amend the Indenture reserve definition to include scheduled payments of interest due on the Additional Notes; (iii) amend the maximum aggregate amount of borrowing available under the working capital facility to permit a temporary increase to $22,500 and for its reduction to $17,500 on such borrowings being refinanced by the proceeds of the Additional Notes; (iv) amend the Permitted Investments definition to include investments in connection with the sale of the Belgium Plant and transfer of certain equipment, together with other assets and rights related to the production of virginiamycin, to Philipp Brothers Brasil Holdings Ltda, ("PAH Brazil") or in connection with alternative production arrangements; and (v) provide for the issuance of the Additional Notes and the sale of the Belgium Plant and related transactions.

As of December 31, 2004, the Company was in compliance with the financial covenants of its domestic senior credit facility. The domestic senior credit facility requires, among other things, the maintenance of certain levels of trailing consolidated and domestic EBITDA (earnings before interest, taxes, depreciation and amortization) calculated on a monthly basis, and an acceleration clause should an event of default (as defined in the agreement) occur. In addition, there are certain restrictions on additional borrowings, additional liens on the Company's assets, guarantees, dividend payments, redemption or purchase of the Company's stock, sale of subsidiaries' stock, disposition of assets, investments, and mergers and acquisitions.

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

LONG-TERM DEBT

	As of	
	December 31, 2004	June 30, 2004
Senior secured notes due December 1, 2007	$127,491	$105,000
Senior subordinated notes due June 1, 2008	48,029	48,029
Foreign bank loans	7,192	6,237
Capitalized lease obligations and other	-	103
	182,712	159,369
Less: current maturities	$ 4,082	$ 1,351
	178,630	158,018

The Company's foreign subsidiaries have aggregate credit lines of $11,075. At December 31, 2004, the Company had $3,883 of borrowings available under these credit lines.

11. EMPLOYEE BENEFIT PLANS

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

Components of net periodic pension expense were:

	Three Months Ended December 31,		S
DOMESTIC PENSION EXPENSE	2004	2003	200
Service cost - benefits earned during the year	$ 337	$ 321	$ 62
Interest cost on benefit obligation	315	226	47
Expected return on plan assets	(308)	(210)	(45
Amortization of initial unrecognized net transition (asset)	(2)	(1)	(
Amortization of prior service costs	(55)	(41)	(7
Amortization of net actuarial loss (gain)	(2)	5	
Curtailment Benefit	-	(64)	
NET PERIODIC PENSION COST - DOMESTIC	$ 285	$ 236	$ 57

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

INTERNATIONAL PENSION EXPENSE	THREE MONTHS ENDED DECEMBER 31, 2004	THREE MONTHS ENDED DECEMBER 31, 2003	SIX MONTHS ENDED DECEMBER 31, 2004	SIX MONTHS ENDED DECEMBER 31, 2003
Service cost - benefits earned during the year	$ 114	$ 117	$ 236	$ 227
Interest cost on benefit obligation	111	94	209	182
Expected return on plan assets	(100)	(75)	(179)	(146
Amortization of net actuarial loss (gain)	(5)	5	1	11
NET PERIODIC PENSION COST - INTERNATIONAL	$ 120	$ 141	$ 267	$ 274

12. CONTINGENCIES

LITIGATION:

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

The Company's Phibro-Tech subsidiary was named in 1993 as a potentially responsible party ("PRP") in connection with an action commenced under the Federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") by the United States Environmental Protection Agency ("the EPA"), involving a former third-party fertilizer manufacturing site in Jericho, South Carolina. An agreement has been reached under which such subsidiary agreed to contribute up to $900 of which $635 has been paid as of December 31, 2004. Some recovery from insurance and other sources is expected but has not been recorded. The Company also has accrued its best estimate of any future costs.

Phibro-Tech, Inc. has resolved certain alleged technical permit violations with the California Department of Toxic Substances Control ("DTSC") and has reached an agreement to pay $425 over a six year period ending October 2008. The annual payments required under this agreement are not expected to have any material adverse impact on the Company.

Phibro-Tech, Inc. and the DTSC are currently negotiating the settlement of certain alleged technical permit violations from 2003. Phibro-Tech, Inc. believes most, if not all, of the alleged violations will be withdrawn. In the event penalties are assessed, they are not expected to exceed $50.

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

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

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

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

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 $2,777, which is included in current and long-term liabilities in the December 31, 2004 condensed consolidated balance sheet (approximately $2,933 at June 30, 2004).

13. GUARANTEES

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

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

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

14. 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, 2004	ANIMAL HEALTH & NUTRITION	INDUSTRIAL CHEMICALS	DISTRIBUTION	ALL OTHER	CO
Net sales	$ 70,708	$7,686	$8,104	$ 6,562	$
Operating income (loss)	(1,520)	655	796	455	
Depreciation and amortization	2,705	413	6	104	

The Animal Health and Nutrition segment includes Belgium Plant Transactions costs of $9,003 of severance expense and $533 of depreciation expense.

THREE MONTHS ENDED DECEMBER 31, 2003	ANIMAL HEALTH & NUTRITION	INDUSTRIAL CHEMICALS	DISTRIBUTION	ALL OTHER
Net sales	$68,687	$11,679	$7,656	$4,518
Operating income (loss)	7,655	778	692	657
Depreciation and amortization	2,059	639	4	98

SIX MONTHS ENDED DECEMBER 31, 2004	ANIMAL HEALTH & NUTRITION	INDUSTRIAL CHEMICALS	DISTRIBUTION	ALL OTHER	CORPORATE OTHER

Net sales	$136,514	$16,079	$15,765	$ 12,977	$ -
Operating income/(loss)	6,295	1,428	1,660	1,160	(8,405)
Depreciation and amortization	4,900	816	8	204	1,380

The Animal Health and Nutrition segment includes Belgium Plant Transactions costs of $9,003 of severance expense and $533 of depreciation expense.

SIX MONTHS ENDED DECEMBER 31, 2003	ANIMAL HEALTH & NUTRITION	INDUSTRIAL CHEMICALS	DISTRIBUTION	ALL OTHER	CORPOR OTH
Net sales	$128,528	$23,661	$15,595	$ 9,706	$
Operating income/(loss)	14,555	1,600	1,533	1,326	(7,
Depreciation and amortization	4,088	1,288	7	213	

IDENTIFIABLE ASSETS OF CONTINUING OPERATIONS	ANIMAL HEALTH & NUTRITION	INDUSTRIAL CHEMICALS	DISTRIBUTION	ALL OTHER	CORPORATE & OTHER	
At December 30, 2004	$209,126	$26,123	$7,775	$5,946	$16,080	$2
At June 30, 2004	185,601	26,146	7,715	5,696	16,211	2

15. CONSOLIDATING FINANCIAL STATEMENTS

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

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

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

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

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

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 13	$ --	$ 968	$ 2	$ 5,369	$
Trade receivables	2,821	--	28,004	--	2,170	2
Other receivables	693	--	2,066	--	766	
Inventory	2,867	--	35,276	--	34,888	2
Prepaid expenses and other	1,360	--	64	--	1,516	
TOTAL CURRENT ASSETS	7,754	--	66,378	2	44,709	5
Property, plant & equipment, net	743	--	13,821	--	17,743	2
Intangibles	--	--	4,039	--	1,621	

Investment in subsidiaries	108,057	--	--	(3,728)	--	
Intercompany	9,366	--	68,136	26,903	(5,194)	(1
Other assets	15,191	--	1,142	--	--	
	$141,111	$ --	$153,516	$ 23,177	$ 58,879	$ 8
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Cash overdraft	$ --	$ --	$ 1,787	$ --	$ --	$
Loan payable to banks	297	--	--	--	--	
Current portion of long-term debt	--	--	--	--	--	
Accounts payable	4,011	--	28,077	--	2,561	1
Accrued expenses and other	9,397	--	9,071	217	21,734	
TOTAL CURRENT LIABILITIES	13,705	--	38,935	217	24,295	2
Long-term debt	151,236	--	--	24,284	--	
Intercompany debt	--	--	--	2,411	37,881	4
Other liabilities	13,433	--	5,522	--	431	
TOTAL LIABILITIES	178,374	--	44,457	26,912	62,607	7
REDEEMABLE SECURITIES:						
Series C preferred stock	22,817	--	--	--	--	
STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	--	33	--	--	
Paid-in capital	860	--	108,383	21	52	
Retained earnings (accumulated deficit)	(62,844)	--	610	(10,906)	(10,930)	
Accumulated other comprehensive income (loss):						
Gain on derivative instruments	331	--	331	--	--	
Cumulative currency translation adjustment	1,050	--	(298)	7,150	7,150	(
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(60,080)	--	109,059	(3,735)	(3,728)	
	$141,111	$ --	$153,516	$ 23,177	$ 58,879	$ 8

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
NET SALES	$ 6,247	$--	$ 57,791	$ --	$ 2,560	$ 2
NET SALES - INTERCOMPANY	37	--	38	--	4,456	
COST OF GOODS SOLD (includes Belgium Plant Transactions costs of $9,536)	5,034	--	43,358	--	16,085	2
GROSS PROFIT	1,250	--	14,471	--	(9,069)	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,315	--	7,393	--	813	
OPERATING INCOME (LOSS)	(4,065)	--	7,078	--	(9,882)	
OTHER:						
Interest expense	4,585	--	2	649	12	
Interest (income)	(1)	--	(4)	--	--	
Other (income) expense, net	3	--	(146)	--	(152)	
Intercompany interest and other	(6,407)	--	4,937	(656)	942	
(Profit) loss relating to subsidiaries	5,122	--	--	9,071	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(7,367)	--	2,289	(9,064)	(10,684)	
PROVISION (BENEFIT) FOR INCOME TAXES	204	--	195	--	(1,613)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(7,571)	--	2,094	(9,064)	(9,071)	
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	--	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	--	--	--	--	
Gain (loss) from disposal of discontinued operations (net of income taxes)	--	--	--	--	--	
NET INCOME (LOSS)	$ (7,571)	$--	$ 2,094	$ (9,064)	$ (9,071)	$

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Guar Subsidi
NET SALES	$ 12,176	$--	$ 114,466	$ --	$ 4,228	$ 50
NET SALES - INTERCOMPANY	93	--	131	--	10,660	3
COST OF GOODS SOLD (includes Belgium Plant Transactions costs of $8,287)	9,654	--	84,992	--	20,784	43
GROSS PROFIT	2,615	--	29,605	--	(5,896)	10
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,218	--	14,349	6	1,366	8
OPERATING INCOME (LOSS)	(7,603)	--	15,256	(6)	(7,262)	1
OTHER:						
Interest expense	8,937	--	--	1,299	23	
Interest (income)	(2)	--	(4)	--	--	
Other (income) expense, net	4	--	(374)	--	(211)	
Intercompany interest and other	(13,934)	--	10,386	(1,316)	1,881	2
(Profit) loss relating to subsidiaries	4,590	--	--	7,504	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(7,198)	--	5,248	(7,493)	(8,955)	(1
PROVISION (BENEFIT) FOR INCOME TAXES	514	--	299	--	(1,451)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(7,712)	--	4,949	(7,493)	(7,504)	(2
DISCONTINUED OPERATIONS:						

Profit (loss) relating to discontinued operations	--	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	--	--	--	--	
Gain (loss) from disposal of discontinued operations (net of income taxes)	--	--	--	--	--	
NET INCOME (LOSS)	$ (7,712)	$--	$ 4,949	$(7,493)	$ (7,504)	$ (2

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
OPERATING ACTIVITIES:						
Net income (loss)	$ (7,712)	$ --	$ 4,949	$ (7,493)	$ (7,504)	$ (2
Adjustment for discontinued operations	--	--	--	--	--	
Income (loss) from continuing operations	(7,712)	--	4,949	(7,493)	(7,504)	(2
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization (includes accelerated depreciation from the Belgium Plant Transactions of $533)	1,380	--	1,435	--	2,008	2
Deferred income taxes	--	--	--	--	--	
Effects of changes in foreign currency	--	--	(411)	--	(211)	
Other	286	--	85	--	--	
Changes in operating assets and liabilities:	--					
Accounts receivable	(156)	--	(857)	--	660	1

Inventory	(873)	--	3,580	--	(8,513)	(5
Prepaid expenses and other	1,512	--	233	--	(1,029)	
Other assets	255	--	(189)	--	--	
Intercompany	1,276	5	(9,084)	3,193	11,918	4
Accounts payable	(1,171)	6	(386)	--	47	
Accrued expenses and other	801	(1)	1,170	1	(965)	(1
Accrued costs of non-completed transaction	(1,893)	--	--	--	--	
Accrued costs of the Belgium Plant Transactions	--	--	--	--	9,003	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(6,295)	10	525	(4,299)	5,414	
INVESTING ACTIVITIES:						
Capital expenditures	(686)	--	(1,184)	--	(459)	(1
Proceeds from sale of assets	--	--	16	--	--	
Other investing	--	--	--	--	(182)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(686)	--	(1,168)	--	(641)	(1
FINANCING ACTIVITIES:						
Net increase (decrease) in cash overdraft	--	(10)	906	--	--	
Net (decrease) in short-term debt	(10,699)	--	--	--	--	
Proceeds from long-term debt	19,107	--	--	4,284	--	2
Payments of long-term debt	--	--	(103)	--	--	(1
Debt refinancing costs	(1,550)	--	--	--	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	6,858	(10)	803	4,284	--	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	7	--	384	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(123)	--	167	(15)	5,157	
CASH AND CASH EQUIVALENTS at beginning of period	136	--	801	17	212	4
CASH AND CASH EQUIVALENTS at end of period	$ 13	$ --	$ 968	$ 2	$ 5,369	$ 3

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsid
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 136	$ --	$ 801	$ 17	$ 212	$
Trade receivables	2,670	--	26,996	--	2,592	
Other receivables	317	414	1,195	--	72	
Inventory	1,994	--	37,890	--	23,159	
Prepaid expenses and other	3,195	110	565	--	1,018	
TOTAL CURRENT ASSETS	8,312	524	67,447	17	27,053	
Property, plant & equipment, net	105	--	13,730	--	17,321	
Intangibles	--	--	4,252	--	1,569	
Investment in subsidiaries	125,355	--	--	1,604	--	
Intercompany	(14,995)	20,995	60,030	20,181	1,630	(
Other assets	14,506	--	1,056	--	--	
	$ 133,283	$21,519	$146,515	$21,802	$47,573	$
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Cash overdraft	$ --	$ 10	$ 881	$ --	$ --	$
Loan payable to banks	10,996	--	--	--	--	
Current portion of long-term debt	--	--	101	--	--	
Accounts payable	4,734	9	28,434	--	2,258	
Accrued expenses and other	11,857	159	8,306	216	12,022	
TOTAL CURRENT LIABILITIES	27,587	178	37,722	216	14,280	
Long-term debt	133,029	--	2	20,000	--	
Intercompany debt	--	--	--	--	30,553	
Other liabilities	11,822	--	4,897	--	1,136	
TOTAL LIABILITIES	172,438	178	42,621	20,216	45,969	
REDEEMABLE SECURITIES:						
Series C preferred stock	24,678	--	--	--	--	

STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	33	--	--	
Paid-in capital	860	--	108,383	21	52	
Retained earnings (accumulated deficit)	(57,964)	21,340	(4,339)	(2,744)	(2,757)	
Accumulated other comprehensive income (loss):						
Gain on derivative instruments	9	--	9	--	--	
Cumulative currency translation adjustment	(7,261)	--	(192)	4,309	4,309	(
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(63,833)	21,341	103,894	1,586	1,604	
	$ 133,283	$21,519	$146,515	$21,802	$47,573	$

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

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-Guar Subsidi
NET SALES	$ 5,425	$ 5,435	$54,601	$ --	$ 1,248	$ 25,
NET SALES - INTERCOMPANY	52	1,259	184	--	3,727	1,
COST OF GOODS SOLD	4,311	5,005	41,326	--	4,774	21,
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	4,029	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	(5,753)	810	2,949	(510)	750	1,
(Profit) loss relating to subsidiaries	(2,753)	--	--	1,052	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	23,177	248	4,390	(1,050)	(1,725)	
PROVISION (BENEFIT) FOR INCOME TAXES	1,950	80	454	--	(673)	1,
INCOME (LOSS) FROM CONTINUING OPERATIONS	21,227	168	3,936	(1,050)	(1,052)	(
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	59	--	--	--	--	
Profit 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)	$ (

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

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-Guar Subsidi
NET SALES	$ 11,122	$ 11,118	$ 102,696	$ --	$ 2,240	$ 5
NET SALES - INTERCOMPANY	97	2,598	393	--	12,996	
COST OF GOODS SOLD	8,819	10,139	77,219	--	13,971	4
GROSS PROFIT	2,400	3,577	25,870	--	1,265	1
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,068	1,299	12,375	2	1,084	

OPERATING INCOME (LOSS)	(7,668)	2,278	13,495	(2)	181	
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	
(Profit) loss relating to subsidiaries	(5,627)	--	--	532	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	24,664	368	8,283	(530)	(872)	
PROVISION (BENEFIT) FOR INCOME TAXES	1,951	96	672	--	(340)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	22,713	272	7,611	(530)	(532)	(
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(403)	--	--	--	--	
(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)	$ (

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS)

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)	$ (
Adjustment for						

discontinued operations	172	124	--	--	--	
Income (loss) from continuing operations	22,713	272	7,611	(530)	(532)	(
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	
Deferred income taxes	--	--	--	--	--	
Net gain on extinguishment of debt	(23,226)	--	--	--	--	
Effects of changes in foreign currency	--	--	(198)	--	(1,380)	
Other	259	--	423	--	--	
Changes in operating assets and liabilities:						
Accounts receivable	185	329	(3,590)	--	308	
Inventory	(330)	(543)	25	--	(2,250)	
Prepaid expenses and other	1,340	273	(892)	--	289	
Other assets	605	--	(4)	--	--	
Intercompany	2,179	16,879	(13,879)	(19,955)	9,912	
Accounts payable	(2,414)	(337)	366	--	(2,647)	(
Accrued expenses and other	2,076	(128)	5,515	506	3,647	(
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	(
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:						
Net increase (decrease) in cash overdraft	(350)	(286)	2,849	--	--	
Net increase (decrease) in short-term debt	(32,194)	--	--	--	--	
Proceeds from long-term debt	85,000	--	--	20,000	--	
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)	--	--	--	--	
Discontinued operations	--	--	--	--	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(15,461)	(16,611)	1,982	20,000	(8,225)	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	--	--	42	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,954	(93)	(2,041)	21	362	(
CASH AND CASH EQUIVALENTS at beginning of period	43	119	2,167	--	185	
CASH AND CASH EQUIVALENTS at end of period	$ 2,997	$ 26	$ 126	$ 21	$ 547	$

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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 MRT and LaCornubia businesses have been classified as discontinued operations. This discussion presents information only for continuing operations, unless otherwise indicated. The Company presents its annual consolidated financial statements on the basis of its fiscal year ending June 30.

GENERAL

The Company is a leading diversified global manufacturer and marketer of a broad range of animal health and nutrition products, specifically medicated feed additives (MFAs) and nutritional feed additives (NFAs), which are sold throughout the world predominantly to the poultry, swine and cattle markets. MFAs are used preventatively and therapeutically in animal feed 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.

On December 16, 2004, Phibro Animal Health SA ("PAH Belgium") entered into an agreement with GlaxoSmithKline Biologicals ("GSK") to sell to GSK substantially all of PAH Belgium's facilities in Rixensart, Belgium (the "Belgium Plant"). Such sale, when completed, (the "Belgium Plant Transactions") will include the following elements (U.S. dollar amounts as of December 31, 2004 exchange rate): (i) the transfer of substantially all of the land and buildings and certain equipment of PAH Belgium at the Belgium Plant, as well as the industrial activities and intellectual property relating to certain solvent technology of PAH Belgium, for a purchase price of EUR 6.2 million ($8.4 million), payable at closing; (ii) the transfer to GSK of a majority of the employees of PAH Belgium and the corresponding responsibility for statutory severance obligations; (iii) GSK agreeing to be responsible for cleaning-up, by demolition or otherwise, certain buildings not to be used by it, but for PAH Belgium to reimburse GSK up to a maximum of EUR 0.7 million ($0.9 million) for such clean-up costs; (iv) in recognition of the benefits to the Company from the proposed transaction, PAH Belgium agreeing to pay to GSK EUR 1.5 million ($2.0 million) within six months from the closing date, EUR 1.5 million ($2.0 million) within eighteen months from the closing date, EUR 1.5 million ($2.0 million) within thirty months from the closing date, and EUR 0.5 million ($0.7 million) within forty-two months from the closing date; (v) PAH Belgium retaining certain excess land (valued at approximately EUR 0.4 million ($0.5 million)) and being able to sell such land for its own account; (vi) PAH Belgium being responsible for certain plant closure costs and legally required severance indemnities in connection with workforce reductions, estimated in total to be EUR 9.1 million ($12.3 million), of which an amount estimated to be approximately EUR 4.6 million ($6.2 million) would be payable at or around the closing and an aggregate amount so estimated to be approximately EUR 4.5 million ($6.1 million) would be payable over periods up to thirteen years; and (vii) PAH Belgium retaining certain equipment at the Belgium Plant, and being able to sell such equipment for the account of PAH Belgium or transfer such equipment, together with other assets and rights related to the production of virginiamycin, to Philipp Brothers Brasil Holdings Ltda. ("PAH Brazil") which owns a facility in Guarulhos, Brazil or in connection with alternative production arrangements.

The foregoing transactions and agreements are subject to a closing that is expected to occur on November 30, 2005, but in no event earlier than July 1, 2005 or later than June 30, 2006.

The Dutch Notes and related guarantees are collateralized by a mortgage on the Belgium Plant which will be released in connection with the closing of the sale of the Belgium Plant to GSK.

As a result of the above agreement, the Company will depreciate the Belgium plant to its estimated salvage value of EUR 2.5 million ($3.3 million) as of the projected closing date of November 30, 2005. The Company recorded incremental depreciation expense of EUR 0.4 million ($0.5 million) in December 2004 and will record an additional EUR 8.7 million ($11.7 million) of incremental depreciation expense ratably through November 2005. The Company recorded severance expense of EUR 6.7 million ($9.0 million) in December 2004 for the estimated

minimum severance amounts indicated by law, contract, and/or past practice. The Company estimates it will record additional expense of EUR 2.4 million ($3.2 million) ratably through November 2005 for severance, retention agreements and other costs. The incremental depreciation expense of $0.5 million and severance expense of $9.0 million recorded in December 2004 are included in cost of goods sold on the Company's condensed consolidated statements of operations and comprehensive income (loss).

The Company has determined that the carrying amount of the Belgium Plant at December 31, 2004 is recoverable based on the estimated future cash flows arising from the use of the assets.

In anticipation of transferring production of virginiamycin from the Belgium Plant to an alternative production location, the Company has been increasing inventory levels of virginiamycin to ensure adequate supplies during the transfer period. At December 31, 2004 virginiamycin inventories were approximately $40.0 million and are expected to continue to increase through November 2005, based on current production rates.

On December 21, 2004, the Company completed a private placement pursuant to which the Company and Philipp Brothers Netherlands III B.V., an indirect wholly-owned subsidiary of the Company (the "Dutch Issuer" and together with the Company, the "Issuers") issued and sold 22,491 additional units consisting of $18.2 million 13% Senior Secured Notes due 2007 of the Company (the "U.S. Notes") and $4.3 million 13% Senior Secured Notes due 2007 of the Dutch Issuer (the "Dutch Notes" and together with the U.S. Notes, the "Additional Notes"), from which they received gross proceeds of $23.4 million. The proceeds were used to refinance indebtedness outstanding under the Company's domestic senior credit facility. The Company incurred financing costs of $2.3 million in connection with the issuance of the Additional Notes. The Additional Notes were issued under the Indenture dated October 21, 2003, as amended and supplemented (the "Indenture") under which the Issuers previously issued 105,000 units consisting of $85.0 million aggregate principal amount of U.S. Notes and $20.0 million aggregate principal amount of Dutch Notes.

On January 14, 2005, the Company and its domestic subsidiaries filed a registration statement with the Securities and Exchange Commission (the "SEC") on Form S-4 with respect to an exchange offer for all its Senior Secured Notes, comprised of 105,000 units sold on October 21, 2003 and 22,491 additional units sold on December 21, 2004. On February 4, 2005, such registration statement was declared effective.

On December 21, 2004, concurrent with the completion of the offering of the Additional Notes, the Company amended its domestic senior credit facility to: (i) amend the EBITDA definition to exclude charges and expenses related to the sale of the Belgium Plant in an aggregate amount not to exceed $26.8 million for purposes of calculating a certain financial covenant; (ii) amend the Indenture reserve definition to include scheduled payments of interest due on the Additional Notes; (iii) amend the maximum aggregate amount of borrowing available under the working capital facility to permit a temporary increase to $22.5 million and for its reduction to $17.5 million on such borrowings being refinanced by the proceeds of the Additional Notes; (iv) amend the Permitted Investments definition to include investments in connection with the sale of the Belgium Plant and transfer of certain equipment, together with other assets and rights related to the production of virginiamycin, to PAH Brazil or in connection with alternative production arrangements; and (v) provide for the issuance of the Additional Notes and the sale of the Belgium Plant and related transactions.

During January 2005, PAHC Holdings Corporation ("PAHC Holdings") was formed to hold the capital stock of the Company, except for its Series C Preferred Stock. On February 10, 2005, PAHC Holdings issued $29.0 million of its 15% Senior Secured Notes due 2010 (the "HoldCo Notes") in a private placement. Interest is payable at the option of PAHC Holdings in cash or pay-in-kind HoldCo Notes. The Company is not obligated for the HoldCo Notes. The Company's ability to make payments to PAHC Holdings is subject to the terms of the Company's Senior Secured Notes, its Senior Subordinated Notes, and its domestic senior credit facility, and to applicable law.

The proceeds from the sale of the HoldCo Notes, upon release from escrow, will be used, directly or indirectly, to redeem the Company's Series C Preferred Stock either by PAHC Holdings (i) making a capital contribution to the Company to contemporaneously finance the redemption of the Company's Series C Preferred Stock, or (ii) purchasing a new series of the Company's preferred stock, referred to as Series D Preferred Stock, that may be issued by the Company to finance the redemption of the Company's Series C Preferred Stock. It is contemplated

that such redemption will occur on or before February 28, 2005. On March 1, 2005, the applicable percentage for determining the equity value component of the redemption price increases, as currently provided in the Company's certificate of incorporation, from 18% to 22%. If on March 1, 2005, the Company has not redeemed its Series C Preferred Stock from escrow, PAHC Holdings will be required to redeem the HoldCo Notes, primarily with the proceeds of the HoldCo Notes placed in escrow.

PAHC Holdings was formed by the holders of all of the Company's capital stock, other than the holders of Series C Preferred Stock. In particular, Jack Bendheim, Marvin Sussman and trusts for the benefit of Mr. Bendheim and his family exchanged all of their shares of Series A Preferred Stock and Class B Common Stock and Mr. Bendheim exchanged fifty percent (50%) of his shares of Class A Common Stock, for the same number and class of shares of PAHC Holdings, having the same designations, relative rights, privileges and limitations as the Company's shares of such class (except to the extent that PAHC Holdings is a Delaware corporation and the Company is a New York corporation).

The HoldCo Notes are to be secured by all of PAHC Holdings' assets (now consisting solely of the Company's capital stock and, until disbursed, the proceeds of the HoldCo Notes in escrow). Currently, such pledge covers all of the Company's Series A Preferred Stock and Class B Common Stock, the Company's non-voting classes of stock. In connection with the release of the proceeds of the HoldCo Notes from escrow and following the redemption of the Company's Series C Preferred Stock, Mr. Bendheim will contribute to PAHC Holdings the balance of the Company's outstanding Class A Common Stock, and all of the Company's outstanding Class A Common Stock, the Company's voting stock, will be pledged as security for the HoldCo Notes.

OTHER RISKS AND UNCERTAINTIES

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its domestic senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the domestic senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company expects adequate liquidity throughout 2005, with periods of reduced availability around the dates of the semi-annual interest payments due June 1 and December 1 related to its Senior Secured Notes and Senior Subordinated Notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. There can be no assurance the Company will be successful in any of the above-noted actions.

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

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

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

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

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

SUMMARY CONSOLIDATED RESULTS OF CONTINUING OPERATIONS

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER	
	2004	2003	2004	2003
	(THOUSANDS)		(THOUSANDS)	
Net sales	$ 93,060	$ 92,540	$ 181,335	$ 177,4
Gross profit	13,869	22,549	36,491	43,7
Selling, general and administrative	17,759	16,824	34,353	32,6
Operating income	(3,890)	5,725	2,138	11,1
Interest expense, net	5,356	4,717	10,577	8,4
Other expense (income), net	(791)	127	(767)	(4
Net (gain) on extinguishment of debt	-	(23,226)	-	(23,2
Provision (benefit) for income taxes	(884)	2,880	40	3,6
Income from continuing operations	$ (7,571)	$ 21,227	$ (7,712)	$ 22,7

COMPARISON OF THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003

Net Sales of $93.1 million increased $0.5 million, or 1%. Animal Health and Nutrition sales of $70.7 million grew $2.0 million, or 3%, due to volume increases offset in part by lower average selling prices. Specialty Chemical Group (comprised of the Industrial Chemicals, Distribution and All Other segments) sales of $22.4 million decreased $1.5 million. Excluding The Prince Manufacturing Company ("PMC"), which was divested effective December 26, 2003, Specialty Chemical Group sales increased by $3.9 million due to volume increases in Industrial Chemicals and All Other segments. The Specialty Chemical Group included PMC sales of $5.4 million for the 2003 quarter.

Gross Profit of $13.9 million decreased $8.7 million to 14.9% of net sales. The Belgium Plant Transactions increased costs by $9.5 million for the current quarter. Excluding this charge, Animal Health and Nutrition gross profit increased due to higher unit volumes and lower unit costs offset in part by lower average selling prices. The Specialty Chemical Group also contributed to the improvement due to expanded sales of the Company's new copper-based wood treatment product. The Specialty Chemical Group included PMC gross profit of $1.7 million for the 2003 quarter.

Selling, General and Administrative Expenses of $17.8 million increased $0.9 million. Expenses in the operating segments, excluding PMC, increased over the prior year due to higher research and development costs associated with registration trials, unfavorable foreign exchange rates, costs associated with the relocation of the Company's corporate office, higher depreciation and amortization charges and severance costs. Corporate expenses decreased due to the elimination of the Palladium management fee of $0.6 million in 2003 and income of $0.3 million from the PMC advisory fee. In addition, the Company recognized additional gains of $0.4 million from the previous sale of its etchant business. PMC expenses were $0.6 million for the 2003 quarter.

Operating Income (Loss) of ($3.9) million decreased $9.6 million from the 2003 quarter. Operating income, excluding the Belgium Plant Transactions and PMC, improved in both the Animal Health and Nutrition and Specialty Chemical Group with increased gross profit offset in part by higher selling, general and administrative

expenses. PMC contributed $1.1 million for the 2003 quarter offset in part by the elimination of the $0.6 million Palladium management fee.

Interest Expense, Net of $5.4 million increased $0.6 million from the 2003 quarter, primarily due to higher average interest rates and also higher borrowing levels associated with the issuance of the Company's Senior Secured Notes.

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

Income Tax (Benefit) of ($0.9) million were recorded on a consolidated pre-tax loss of $7.6 million. The tax rate reflects income tax provisions in profitable foreign jurisdictions and for state income taxes. A provision for U.S. federal income taxes has not been recorded due to the utilization of net operating loss carryforwards. The Company has recorded valuation allowances related to substantially all deferred tax assets. The Company will continue to evaluate the likelihood of recoverability of these deferred tax assets based upon actual and expected operating performance.

COMPARISON OF SIX MONTHS ENDED DECEMBER 31, 2004 AND 2003

Net Sales of $181.3 million increased $3.8 million, or 2%. Animal Health and Nutrition sales of $136.5 million grew $8.0 million, or 6%, due to volume increases offset in part by lower average selling prices. Specialty Chemical Group (comprised of the Industrial Chemicals, Distribution and All Other segments) sales of $44.8 million decreased $4.2 million. Excluding PMC, Specialty Chemical group sales increased by $7.0 million due to volume increases in Industrial Chemicals and All Other segments. The Specialty Chemical Group included PMC sales of $11.1 million for the 2003 period.

Gross Profit of $36.5 million decreased $7.2 million to 20.1% of net sales. The Belgium Plant Transactions increased costs by $9.5 million for the current period. Excluding this charge, Animal Health and Nutrition gross profit increased due to higher unit volumes and lower unit costs offset in part by lower average selling prices. The Specialty Chemical Group also contributed to the improvement due to expanded sales of the Company's new copper-based wood treatment product and higher unit volumes in its Distribution and All Other businesses. The Specialty Chemical Group included PMC gross profit of $3.6 million for the 2003 period.

Selling, General and Administrative Expenses of $34.4 million increased $1.7 million. Expenses in the operating segments, excluding PMC, increased over the prior year due to higher research and development costs associated with registration trials, unfavorable foreign exchange rates, costs associated with the relocation of the Company's corporate office, higher depreciation and amortization charges and severance costs. Corporate expenses decreased due to the elimination of the Palladium management fee of $1.1 million in 2003 and income of $0.5 million from the PMC advisory fee. In addition, the Company recognized additional gains of $0.7 million from the previous sale of its etchant business. PMC expenses were $1.3 million for the 2003 period.

Operating Income of $2.1 million decreased $9.0 million. Operating income, excluding the Belgium Plant Transactions and PMC, improved in both the Animal Health and Nutrition and Specialty Chemical Group with increased gross profit offset in part by higher selling, general and administrative expenses. PMC contributed $2.3 million for the 2003 period offset in part by the elimination of the $1.1 million Palladium management fee.

Interest Expense, Net of $10.6 million increased $2.2 million from the 2003 period, primarily due to higher average interest rates and also higher borrowing levels associated with the issuance of the Company's senior secured notes.

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

Income Taxes of $0.0 million were recorded on consolidated pre-tax loss of $7.7 million. The tax rate reflects income tax provisions in profitable foreign jurisdictions and for state income taxes. A provision for U.S. federal

income taxes has not been recorded due to the utilization of net operating loss carryforwards. The Company has recorded valuation allowances related to substantially all deferred tax assets. The Company will continue to evaluate the likelihood of recoverability of these deferred tax assets based upon actual and expected operating performance.

OPERATING SEGMENTS

The Animal Health and Nutrition segment manufactures and markets MFAs and NFAs to the poultry, swine and cattle markets, and includes the operations of the Phibro Animal Health business unit, Prince AgriProducts, Koffolk (1949) Ltd. and Planalquimica. The Industrial Chemicals segment manufacturers and markets specialty chemicals for use in the pressure treated wood 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. Due to the divestiture of PMC in December 2003, PMC's results are shown separately for comparability.

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DE
	2004	2003	2004
	(THOUSANDS)		(THOUSANDS)
NET SALES			
Animal Health & Nutrition	$70,708	$ 68,687	$136,514
Industrial Chemicals - ex PMC	7,686	6,244	16,079
Industrial Chemicals - PMC	-	5,435	-
Distribution	8,104	7,656	15,765
All other	6,562	4,518	12,977
	93,060	92,540	$181,335

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DE	
	2004	2003	2004	
OPERATING INCOME	(THOUSANDS)			(TH
Animal Health & Nutrition	$(1,520)	$ 7,655	$ 6,295	$ 1
Industrial Chemicals - ex PMC	655	(287)	1,428	
Industrial Chemicals - PMC	-	1,065	-	
Distribution	796	692	1,660	
All other	455	657	1,160	
Corporate expenses and adjustments	(4,276)	(4,057)	(8,405)	(
	$(3,890)	$ 5,725	$ 2,138	$ 1

OPERATING SEGMENTS COMPARISON OF THREE MONTHS ENDED DECEMBER 2004 AND 2003

ANIMAL HEALTH AND NUTRITION

NET SALES of $70.7 million increased $2.0 million, or 3%. MFA net sales decreased by $0.8 million. Revenues were lower primarily for antibacterials and anticoccidials but were offset in part by higher sales of antibiotics. The decrease in MFA revenues was due to lower average selling prices offset in part by higher unit volumes and favorable currency effect on international sales. NFA net sales increased by $2.8 million principally due to volume increases in trace mineral premixes and other feed ingredients.

OPERATING INCOME (LOSS) of ($1.5) million decreased $9.2 million from the 2003 period. Operating income, excluding costs relating to the Belgium Transactions of $9.5 million, improved due to higher unit volumes and lower unit costs offset in part by lower average selling prices and increased selling, general and administrative expenses.

SPECIALTY CHEMICALS

INDUSTRIAL CHEMICALS net sales of $7.7 million, excluding PMC, increased $1.4 million, or 23%. Sales of copper- related products to the wood treatment markets increased due to the introduction of new copper based wood treatment products. PMC, divested in December 2003, generated revenues of $5.4 million for the 2003 quarter. Operating income, excluding PMC, of $0.7 million improved by $0.9 million from the 2003 quarter. This improvement was due to new product introductions and savings from previously implemented headcount reductions and facility restructurings in Phibro-Tech operations. PMC provided operating income of $1.1 million for the 2003 quarter.

DISTRIBUTION net sales of $8.1 million increased $0.4 million, or 6%. Higher domestic unit volumes and slightly higher average selling prices were offset in part by lower sales volumes in Europe. Distribution operating income of $0.8 million improved by $0.1 million from the 2003 quarter. As a percentage of sales, operating income was 10% and 9% in 2004 and 2003, respectively.

ALL OTHER net sales of $6.6 million increased $2.0 million, or 45%. Revenues for contract manufacturing increased $2.0 million due to increased volumes. Revenues from specialized lab projects and formulations approximated the prior period. Operating income of $0.5 million decreased by $0.2 million from the prior period due to higher manufacturing costs.

OPERATING SEGMENTS COMPARISON OF SIX MONTHS ENDED DECEMBER 2004 AND 2003

ANIMAL HEALTH AND NUTRITION

NET SALES of $136.5 million increased $8.0 million, or 6%. MFA net sales increased by $1.6 million. Revenues were higher primarily for antibacterials and antibiotics but were offset in part by lower sales of anticoccidials. The increase in MFA revenues was due to higher unit volumes and favorable currency effect on international sales offset in part by lower average selling prices. NFA net sales increased by $6.4 million principally due to volume increases in trace mineral premixes and other feed ingredients.

OPERATING INCOME of $6.3 million decreased $8.3 million from the 2003 period. Operating income, excluding costs relating to the Belgium Transactions of $9.5 million, improved due to higher sales unit volumes and lower unit costs offset in part by lower average selling prices and increased selling, general and administrative expenses.

SPECIALTY CHEMICALS

INDUSTRIAL CHEMICALS net sales of $16.1 million, excluding PMC, increased $3.5 million, or 28%. Sales of copper-related products to the wood treatment markets increased due to the introduction of new copper based wood treatment products. PMC, divested in December 2003, generated revenues of $11.1 million for the 2003 period. Operating income, excluding PMC, of $1.4 million improved by $2.1 million from the 2003 period. This improvement was due to new product introductions and savings from previously implemented headcount reductions and facility restructurings in Phibro-Tech operations. PMC provided operating income of $2.3 million for the 2003 period.

DISTRIBUTION net sales of $15.8 million increased $0.2 million, or 1%. Higher domestic unit volumes and slightly higher average selling prices were offset in part by lower sales volumes in Europe. Distribution operating income of $1.7 million improved by $0.1 million from the 2003 period. As a percentage of sales, operating income was 11% and 10% in 2004 and 2003, respectively.

ALL OTHER net sales of $13.0 million increased $3.3 million, or 34%. Revenues for contract manufacturing increased $2.8 million due to increased volumes and average selling prices. Revenues from specialized lab projects and formulations increased $0.5 million over the prior period. Operating income of $1.2 million decreased from the prior period due to higher manufacturing costs.

DISCONTINUED OPERATIONS

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

	THREE MONTHS ENDED DECEMBER 31, 2003		
	MRT	LACORNUBIA	TOTAL
Net Sales	$ -	$3,503	$3,503
Operating Loss	$ -	$ (108)	$ (108)
Interest Expense, net	-	26	26
Other Expense (Income), net	-	(193)	(193)
Provision (benefit) for income tax	-	-	-
Net Income (loss) from discontinued operations	$ -	$59	$ 59
Depreciation and Amortization	$ -	$101	$ 101

SIX MONTHS ENDED DECEMBER 31, 2003

	MRT	LACORNUBIA	TOTAL
Net Sales	$ 3,327	$ 5,723	$ 9,050
Operating Loss	$ (124)	$ (480)	$ (604)
Interest Expense, net	-	42	42
Other Expense (Income), net	-	(243)	(243)
Provision (benefit) for income tax	-	-	-
Net Income (loss) from discontinued operations	$ (124)	$ (279)	$ (403)
Depreciation and Amortization	$ -	$ 201	$ 201

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

La Cornubia. On June 30, 2004, one of the Company's French subsidiaries, La Cornubia SA ("La Cornubia"), filed for bankruptcy under the insolvency laws of France. The Company believes that, as a result of the bankruptcy filing by La Cornubia, it is possible that LC Holding S.A. ("LC Holding"), La Cornubia's parent, a holding company with no assets except for its investment in La Cornubia, may also file for bankruptcy in France. The Company does

not believe that La Cornubia's bankruptcy filing, nor the possible bankruptcy filing by LC Holding, will have a material adverse effect on its financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Net Cash (Used) by Operating Activities. Cash (used) by operations for the six months ended December 31, 2004 and 2003 was ($5.1) million and ($0.7) million, respectively. Cash used was due to higher working capital requirements offset in part by income from continuing operations. The Company is currently increasing inventory levels of virginiamycin to enhance future supply flexibility and reduce cost as part of the planned exit of the Belgium Plant.

Net Cash Provided (Used) by Investing Activities. Net cash provided (used) by investing activities for the six months ended December 31, 2004 and 2003 was ($3.6) million and $12.1 million, respectively. Capital expenditures of $3.7 million and $2.3 million for 2004 and 2003, respectively, were for new product capacity, for maintaining the Company's existing asset base and for environmental, health and safety projects. Discontinued operations, primarily from the sale of MRT, provided funds of $14.4 million in 2003.

Net Cash Provided (Used) by Financing Activities. Net cash provided (used) by financing activities for the six months ended December 31, 2004 and 2003 was $12.9 million and ($14.2) million, respectively. Proceeds from long-term debt reflect the issuance of additional 13% Senior Secured Notes and borrowings of

Koffolk Israel. The decrease in short-term debt is due to the reduction of the senior credit facility. Payments of long-term debt reflect the repayments of Koffolk Israel borrowings.

Working Capital and Capital Expenditures. Working capital as of December 31, 2004 was $75.7 million compared to $54.4 million at June 30, 2004, an increase of $21.3 million. The fiscal 2005 increase in working capital primarily was due to higher inventory levels and higher cash balances related to the issuance of new long-term debt.

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

Liquidity. At December 31, 2004 the amount of credit extended under the Company's domestic senior credit facility totaled $0.3 million under the working capital facility and $9.8 million under the letter of credit facility, and the Company had $17.2 million available under the working capital facility. In addition, certain of the Company's foreign subsidiaries also had availability totaling $3.9 million under their respective loan agreements.

As of September 24, 2004, the Company amended its domestic senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities to $32.5 million; the amount of aggregate borrowings available under the working capital facility remained unchanged at $17.5 million; (ii) amend the EBITDA definition to exclude charges and expenses related to unsuccessful acquisitions and related financings in an aggregate amount not to exceed $5.3 million for the period beginning January 1, 2004 and ending June 30, 2004; (iii) amend the definition of Additional Indebtedness to exclude advances under the working capital facility; (iv) amend the definition of Permitted Investments to allow other investments made during the period from January 1, 2004 through June 30, 2004 in an aggregate amount not to exceed $336,000; and (v) establish covenant EBITDA levels for the periods ending after June 30, 2004. The amendment was effective June 30, 2004 for items (i), (ii) and (iii); effective January 1, 2004 for item (iv); and effective September 24, 2004 for item (v).

On December 21, 2004, concurrent with the completion of the offering of the Additional Notes, the Company amended the domestic senior credit facility to: (i) amend the EBITDA definition to exclude charges and expenses related to the sale of the Belgium Plant in an aggregate amount not to exceed $26.8 million for purposes of calculating a certain financial covenant; (ii) amend the Indenture reserve definition to include scheduled payments of interest due on the Additional Notes; (iii) amend the maximum aggregate amount of borrowing available under the working capital facility to permit a temporary increase to $22.5 million and for its reduction to $17.5 million on such

borrowings being refinanced by the proceeds of the Additional Notes; (iv) amend the Permitted Investments definition to include investments in connection with the sale of the Belgium Plant and transfer of certain equipment, together with other assets and rights related to the production of virginiamycin, to PAH Brazil or in connection with alternative production arrangements; and (v) provide for the issuance of the Additional Notes and the sale of the Belgium Plant and related transactions.

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

The Company's ability to fund its operating plan depends upon the continued availability of borrowing under its domestic senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the domestic senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company expects adequate liquidity throughout 2005, with periods of reduced availability around the dates of the semi-annual interest payments due June 1 and December 1 related to its Senior Secured Notes and Senior Subordinated Notes. The Company is pursuing additional cost reduction activities, working capital improvement plans, and sales of non-strategic assets to ensure additional liquidity. The Company also has availability under foreign credit lines that likely would be available. There can be no assurance the Company will be successful in any of the above-noted actions.

The Company's contractual obligations (in millions) at December 31, 2004 mature as follows:

	YEARS			
	WITHIN 1	OVER 1 TO 3	OVER 3 TO 5	OVER 5
Loans payable to banks	$ 0.3	$ -	$ -	$ -
Long-term debt (including current portion)	4.1	129.8	48.8	-
Interest payments	22.3	44.9	2.4	-
Lease commitments	1.4	2.7	2.0	2.0
Acquisition of rights	0.5	0.7	0.2	-
Total contractual obligations	$ 28.6	$ 178.1	$ 53.4	$ 2.0

CRITICAL ACCOUNTING POLICIES

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

Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates. The accounting policies and related risk described in our Annual Report on Form 10-K for the year ended June 30, 2004 are those that depend most heavily on these judgments and estimates. As of December 31, 2004 there have been no material changes to any of the critical accounting policies contained therein.

NEW ACCOUNTING PRONOUNCEMENTS

During the quarter, the Financial Accounting Standards Board released three new standards. These standards will be adopted by the Company during fiscal 2005 and are discussed in the notes to condensed consolidated financial statements included in this report.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of operations, the Company is exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates, and commodity prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. The Company uses, from time to time, foreign currency forward contracts as a means of hedging exposure to foreign currency risks. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing processes, to hedge the cost of its anticipated purchase requirements. The Company does not utilize derivative instruments for trading purposes. The Company does not hedge its exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values. The Company monitors the financial stability and credit standing of its major counterparties.

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

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

FORWARD-LOOKING STATEMENTS

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

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

- 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, Uncertainties and Liquidity" in Note 2 of our Condensed Consolidated Financial Statements included in this Report.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

(b) During the quarter ended September 30, 2004, the Company remediated the material weakness in internal control (which was comprised of a combination of significant deficiencies) discussed in our Annual Report on Form 10K for the year ended June 30, 2004. The Company completed a review of significant balance sheet accounts related to September 30, 2004 balances and implemented enhanced supervisory reviews of these accounts. Additionally, the Company is implementing improvements in processes and procedures related to the review, substantiation and evaluation of general ledger account balances. As of the end of the period covered by this report,

other than noted above, there have been no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II -- OTHER INFORMATION

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
10.33	Purchase Agreement by and between Phibro Animal Health SA and GlaxoSmithKline Biologicals SA, dated December 16, 2004. *
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.

* A request for confidential treatment has been submitted for portions of such document. Confidential portions have been omitted and furnished separately to the SEC in accordance with Rule 24b-2 of the Securities Exchange Act.

Since the Company does not have securities registered under Section 12 of the Securities Exchange Act of 1934 and is not required to file periodic reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company is not an "issuer" as defined in the Sarbanes-Oxley Act of 2002, and therefore the Company is not filing the written certification statement pursuant to Section 906 of such Act. The Company submits periodic reports with the Securities and Exchange Commission because it is required to do so by the terms of the indentures governing its 13% Senior Secured Notes due 2007 and its 9 7/8% Senior Subordinated Notes due 2008.

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 18, 2005

By: /s/ JACK C. BENDHEIM

JACK C. BENDHEIM
CHAIRMAN OF THE BOARD

Date: February 18, 2005

By: /S/ GERALD K. CARLSON

GERALD K. CARLSON
CHIEF EXECUTIVE OFFICER

Date: February 18, 2005

By: /s/ RICHARD G. JOHNSON

RICHARD G. JOHNSON
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER AND
PRINCIPAL ACCOUNTING OFFICER)