PHIBRO ANIMAL HEALTH CORP
Form 10-K
September 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2004

OR

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

Commission File Number 333-64641

Phibro Animal Health Corporation

(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: none
Securities registered pursuant to Section 12(g) of the Act: none

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes | | No |X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the price at which such voting stock was sold was $0 as of June 30, 2004.

The number of shares outstanding of the Registrant's Common Stock as of June 30, 2004: 24,488.50

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 required to file this Annual Report pursuant thereto, but has filed all reports as if so required during the preceding 12 months.

PHIBRO ANIMAL HEALTH CORPORATION

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PART I

Item 1. Business

General

We are 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 we sell throughout the world predominantly to the poultry, swine and cattle markets. MFAs are used preventively and therapeutically in animal feed to produce healthy livestock. We believe we are the third largest manufacturer and marketer of MFAs in the world, and we believe that certain of our MFA products have leading positions in the marketplace. We are also a specialty chemicals manufacturer and marketer, serving primarily the United States pressure-treated wood and chemical industries. We have several proprietary products, and many of our products provide critical performance attributes to our customers' products, while representing a relatively small percentage of total end-product cost. We operate in over 17 countries around the world and sell our animal health and nutrition products and specialty chemicals products into over 40 countries. Approximately 76% of our fiscal 2004 net sales were from our Animal Health and Nutrition business, and approximately 24% of our fiscal 2004 net sales were from our Specialty Chemicals business.

Our Animal Health and Nutrition segment manufactures and markets more than 500 formulations and concentrations of medicated and nutritional feed additives, including antibiotics, antibacterials, anticoccidials, anthelmintics, trace minerals, vitamins, vitamin premixes and other animal health and nutrition products, to the livestock and pet food industries. Our MFA products are internationally recognized for quality and efficacy in the prevention and treatment of diseases in livestock, such as coccidiosis in poultry, dysentery in swine and acidosis in cattle. We market our Animal Health and Nutrition products under approximately 450 governmental product registrations, approving our MFA products with respect to animal drug safety and effectiveness.

Our Specialty Chemicals business manufactures and markets a number of specialty chemicals for use in the pressure-treated wood, chemical catalyst, semiconductor, automotive, aerospace and agricultural industries. We anticipate that our proprietary manufacturing process to produce a copper-based solution for one of the leading new products for manufacturing pressure-treated wood will represent our largest growth opportunity in our Specialty Chemicals business. Over 39% of our fiscal 2004 net sales in our Specialty Chemicals business was derived from copper-based compounds, solutions or mixes.

We have in recent years focused our business on animal health and nutrition products. As a result of the rapid decline of the printed circuit board industry in the United States, we have substantially exited that business, including our etchant recycling operations, and re-directed our productive capacity in niche markets. We have also sold other non-strategic businesses, such as our Agtrol copper fungicide business and our subsidiaries, Mineral Resource Technologies, Inc. ("MRT") and The Prince Manufacturing Company ("PMC"). In addition, we closed our operations in Odda, Norway ("Odda") and Bordeaux, France ("La Cornubia").

In August 2003, the Company completed the sale of MRT for net proceeds after transaction costs of approximately $13.8 million. MRT managed and sold coal

combustion by-products, including fly ash.

Effective December 26, 2003, the Company completed the divestiture of substantially all of the business and assets of The Prince Manufacturing Company ("PMC") to a company 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. PMC manufactured and marketed various mineral oxides, including iron compounds and manganese compounds (see Item 7 "Prince Transactions"). Unless otherwise indicated, the information in this Item 1 does not include PMC.

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.

Our Animal Health and Nutrition Business -- Medicated Feed Additives

We manufacture and market a broad range of medicated feed additive products to the global livestock industry, either directly to large integrated producers or through a network of independent distributors. Feed additives provide both therapeutic benefits and increased conversion efficiency -- key drivers of profitability for livestock producers.

Our MFA products can be grouped into five principal categories: antibiotics, antibacterials, anticoccidials, anthelmintics and other medicated feed additives. In fiscal 2004, antibiotics and antibacterials generated sales for us of approximately $79 million, anticoccidials generated sales for us of approximately $44 million, and anthelmintics and other medicated feed additives generated sales for us of approximately $9 million.

Our core MFA products are listed in the table below:

Brand	Active/Antigen	Market Entry	Comment
Terramycin(R)/Neo-Terramycin(R)/Neo-TM(R)	oxytetracycline, neomycin	1951	Antibiotic with multiple applications for a wide number of species
CLTC(R)	chlortetracycline	1954	Antibiotic with multiple applications for a wide number of species
Nicarb(R)	nicarbazin	1955	Anticoccidial for poultry
Amprol(R)	amprolium	1960	Anticoccidial for poultry and cattle
Bloatguard(R)	poloxalene	1966	Anti-bloat treatment for c
Banminth(R)	pyrantel tartrate	1969	Anthelmintic for livestock
Mecadox(R)	carbadox	1971	Antibacterial used in swin feeds to control salmonellosis and dysenter
Stafac(R)/Eskalin(R)/V-Max(R)	virginiamycin	1972	Antibiotic with multiple applications for a wide number of species

Coxistac(R)/Posistac(R)	salinomycin	1979	Anticoccidial for poultry; disease preventative in sw
Rumatel(R)	morantel tartrate	1981	Anthelmintic for livestock
Oxibendazole(R)	oxibendazole	1982	Anthelmintic for livestock
Aviax(R)	semduramicin	1995	Anticoccidial for poultry

Antibiotics

Antibiotics are natural products produced by fermentation and are used to treat or to prevent diseases, thereby promoting more efficient growth. Several factors contribute to limit the efficiency, the weight gain and feed conversions of livestock production, including poor nutrition, environmental and management problems, heat stress and subclinical disease.

Virginiamycin. Virginiamycin is an antibiotic marketed under our brand names Stafac(R) for treating swine, cows, broilers and turkeys, Eskalin(R) for dairy cows and V-Max(R) for feed lot cattle. We formulate virginiamycin to improve health in poultry, swine and cattle and prevent necrotic enteritis in poultry, dysentery in swine and liver abscesses in cattle. The product is sold to large poultry and swine producers and feed companies in North America, Latin America and Asia.

First discovered in Belgium in 1954, virginiamycin is an antimicrobial produced from the streptomyces virginiae fungus. Virginiamycin has been successful due to a number of strong product features. For example, no withdrawal period is required since it is virtually unabsorbed from the digestive tract. It is excreted in very low concentrations and rapidly degraded. It alleviates some of the production limiting effects of certain diseases of livestock and poultry. To date, no generic competition has been introduced due to our proprietary virginiamycin manufacturing technology.

Terramycin and Neo-Terramycin. Terramycin(R) and Neo-Terramycin(R), which are derived from the active ingredient oxytetracycline, are effective against a range of diseases including:

- fowl cholera in chickens,
- airsacculitis in turkeys,
- pneumonia and enteritis in swine, and
- pneumonia, enteritis and liver abscesses in cattle.

We sell Terramycin(R) and Neo-Terramycin(R) feed additive products in various concentrations. Terramycin(R) is approved for use for poultry, swine, cattle and sheep. Neo-Terramycin(R) combines the active ingredients oxytetracycline and neomycin to prevent and treat a wide range of diseases caused by gram positive and gram negative organisms, including bacterial enteritis in chickens and turkeys, baby pig diarrhea in swine and calf diarrhea. These Terramycin products are sold mostly in the United States to livestock producers, feed companies and distributors. Limited quantities are sold in selected countries in Latin America and Asia.

Antibacterials

Antibacterials are produced through chemistry and are used to treat and prevent diseases.

Carbadox. We market carbadox under the brand name Mecadox(R). Carbadox is an antibacterial compound recommended for use in swine feeds to promote and to control swine salmonellosis and swine dysentry. In swine production, the primary objective of producers is the rapid and efficient development of swine at minimal cost. Since 1970, Mecadox(R) has been a leader in reducing livestock production costs through meaningful performance enhancement. Mecadox(R) is a leading product for starter/grower swine in the United States. In addition to its antimicrobial properties, it also improves nitrogen retention and increases the efficiency of amino acid metabolism, two critical factors in the development of young swine. Mecadox(R) is chemically unrelated to any other antibacterial that is used in animals or humans. Mecadox(R) is sold primarily in North America to feed companies and large integrated swine producers.

Anticoccidials

Anticoccidials are produced through fermentation and chemistry, and are primarily used to prevent and control the disease coccidiosis in poultry and in cattle. Coccidiosis is a disease of the digestive tract that is of great concern to animal producers. Caused by protozoan parasites such as Eimeria spp., coccidiosis is one of the most destructive diseases facing the world's poultry producers. Common effects of this disease (such as weight loss, wet droppings, poor feed utilization and higher mortality rates) rapidly affect an entire flock of poultry, resulting in annual losses of hundreds of millions of dollars for the poultry industry.

Modern, large scale poultry production is based on intensive animal management practices. This type of animal production requires routine preventive medications in order to prevent health problems. Coccidiosis is one of the critical disease challenges which poultry producers face globally. We sell our anticoccidials globally, primarily to integrated poultry producers and feed companies in North America, the Middle East, Latin America and Asia, and to international animal health companies.

Nicarbazin and Amprolium. We produce nicarbazin and amprolium for distribution to the world-wide poultry industry through major multinational life science and veterinary companies. Nicarbazin is a broad-spectrum anticoccidial which works by interfering with mitochondrial metabolism. It is classified as an oxidative phosphorylation uncoupler and is used for coccidiosis prevention in broiler chickens.

We believe that we are the largest volume world-wide producer of amprolium, and the largest volume world-wide producer of nicarbazin. We are also the sole Latin American producer of nicarbazin. Nicarbazin and amprolium, along with salinomycin and semduramicin, are among the most effective medications for the prevention of coccidiosis in chickens when used in rotation with other anticoccidials. In the United States, we market nicarbazin under the trademark Nicarb(R).

Other Anticoccidials. From a class of compounds known as ionophores, we developed Aviax(R) and Coxistac(R) to combat coccidiosis. These two products have demonstrated increased feed efficiency, the ability to suppress coccidial lesions, and provide reliable reserve potency with minimal side-effects. Through a third product, Posistac(R), we have extended the application of the active ingredient in Coxistac(R) to swine.

Aviax(R) contains the ionophore semduramicin which provides protection for poultry against all major coccidial parasites. The product can be incorporated into virtually any type of feed, and provided to broilers of any production stage. We have received regulatory approval to sell Aviax(R) in the EU and have applied in the United States for the sale of Aviax(R) in mycelial dosage form. This dosage form is significantly more cost-effective and may improve

profitability significantly.

Coxistac(R) contains the ionophore salinomycin. The product acts early in the coccidial life cycle by killing sporozoites, trophozoites and early developing schizonts before poultry can be severely damaged. Coxistac(R) has proven to be effective and safe with minimal resistance development evident in commercial studies. The recommended dosage provides a high level of protection against coccidiosis even through temporary periods of low feed intake caused by disease or adverse climatic conditions. No withdrawal period is required for poultry before slaughter. Coxistac(R) is a leading anticoccidial in Asia, Latin America, the Middle East and Canada.

Posistac(R) contains salinomycin which acts as a productivity enhancer for grower/finisher swine. The compound increases the utilization and digestion of feed ingredients by mature swine thereby allowing swine to reach market weight earlier and at less cost than swine fed conventional feed additives. Posistac(R) can be used up to the slaughter phase without the need for withdrawal.

Anthelmintics

Anthelmintics protect against internal parasites. Our anthelmintic products are marketed under the Rumatel(R) and Banminth(R) brand names.

Rumatel(R). Rumatel(R) is a potent broad-spectrum anthelmintic that effectively eliminates the major internal nematode parasites in cattle. Unlike other single-dose dewormers, Rumatel(R) may be administered to lactating dairy cattle with no milk withdrawal. Dairy cattle may be treated with Rumatel(R) at any time during their production cycle, whether dry, pregnant or lactating.

Banminth(R). Banminth(R) is an anthelmintic compound, a member of the class of synthetic compounds called tetra-hydropyrimidines. Banminth(R) has a mode of action that works effectively in protecting swine against the two major internal parasites, large roundworms (Ascaris suum) and nodular worms (Oesophagostomum spp.). Banminth(R) kills adult parasites and prevents roundworm larval migration, preventing damage to the liver and lungs of swine. When used continuously in feeds, Banminth(R) prevents re-infection of swine raised on dirt.

Other Medicated Feed Additives

Our other medicated feed additives include a range of products sold under the Bloat Guard(R) brand name. Bloat Guard(R) controls legume or wheat pasture bloat in cattle. The products control bloat for at least 12 hours after a single dose with no adverse effect on reproduction, rumen function or milk production.

We manufacture bulk active ingredients for our MFA products primarily in four modern facilities located in:

- Guarulhos, Brazil (salinomycin and semduramicin),
- Rixensart, Belgium (virginiamycin and semduramicin),
- Ramat Hovav, Israel (nicarbazin and amprolium), and
- Braganca Paulista, Brazil (nicarbazin).

Active ingredients are further processed in our facilities and in contract premix facilities located in each major region of the world.

We have established sales and technical offices for our MFA products in 14 countries including: the United States, Canada, Mexico, Venezuela, Brazil, Argentina, Chile, Australia, China, Thailand, Malaysia, South Africa, Belgium and Israel. The business is not dependent on any one customer.

The use of MFAs is controlled by regulatory authorities that are specific to each country (e.g., the Food and Drug Administration ("FDA") in the United States, Health Canada in Canada, EFSA/EMEA authorities in Europe, etc.), responsible for the safety and wholesomeness of the human food supply, including feed additives for animals from which human foods are derived. Each product is registered separately in each country where it is sold. The appropriate registration files pertaining to such regulations and approvals are continuously monitored, maintained and updated by us. In certain countries where we are working with a third party distributor, local regulatory requirements may require registration in the name of such distributor.

Animal Health and Nutrition -- Nutritional Feed Additives

We manufacture and market trace minerals, trace mineral premixes, vitamins and other nutritional ingredients to the livestock feed and pet food industries, predominantly in the United States and Israel. These products generally fortify, enhance or make more nutritious or palatable the livestock feeds and pet foods with which they are mixed. The majority of the other ingredients that we sell are nutrients that are used as supplements for animal feed. We serve customers in major feed segments, including swine, dairy, poultry and beef. We customize trace mineral premixes at our blending facilities in Marion, Iowa, Bremen, Indiana and Petach Tikva, Israel, and market a diverse line of other trace minerals and macro-minerals. Our major customers for these products are medium-to-large feed companies, co-ops, blenders, integrated poultry operations and pet food companies. We sell other ingredients, such as buffers, yeast, palatants, vitamin K and amino acids, including lysine, tryptophan and threonine. We also market copper sulfate as an animal feed supplement.

Our Specialty Chemicals Business

We manufacture and market a number of specialty chemicals for use in the wood treatment, chemical catalyst, semiconductor, automotive, aerospace and agricultural industries. Our manufacturing customers incorporate our specialty chemicals products into their finished products in various industrial markets. We seek to take advantage of opportunistic niche markets where we believe that our expertise and capabilities can be leveraged.

Copper Wood Treatment Products

For many years, we were a major supplier of an important ingredient (copper oxide) used in the manufacture of CCA (chromated-copper-arsenic) wood treating solutions for the pressure-treated wood industry. Pursuant to a United States Environmental Protection Agency ("EPA") ruling, since December 31, 2003, all pressure-treated wood for the residential and recreational markets can no longer be treated using the standard chromated-copper-arsenic (CCA) solution. A leading replacement solution for CCA pressure-treated wood is a copper carbonate compound. We currently estimate that the total potential size of this copper solution to the pressure-treated wood market is approximately $120 million annually. We have already signed a multi-year, take-or-pay contract with a major chemicals supplier to the pressure-treated wood industry to provide it with this new product, which we estimate will increase our sales by approximately $30 million over the life of the contract, based on existing forecasts. A patent

with respect to the manufacturing process of our solution, and the claims in our patent application was granted and issued on November 11, 2003. We believe that our manufacturing process allows us to operate in this market with a lower cost of capital and higher factory through-put than our competition. To take advantage of this potential new market, we have constructed and are operating commercial production facilities in Sumter, South Carolina and in Joliet, Illinois. In addition, we have filed a provisional patent for a new, large molecule pressure-treated wood copper compound product. We believe that this new product may be the next generation in copper-based wood treatment products, with the potential to substantially increase the duration of protection for treated wood.

Other Copper Products

We manufacture on a contract basis copper compounds for use primarily in agricultural fungicides from our Sumter, South Carolina facility. This contract was part of the sale by us of our Agtrol business to Nufarm, Inc. in the fourth quarter of fiscal 2001. Utilizing our over fifty-year history in producing copper chemicals, we supply various metal-based chemicals to the catalyst and electronics industries. We also manufacture copper compounds for a broad variety of industrial customers.

Other Specialty Chemicals Products

We market and distribute fine and specialty chemicals to manufacturers of health and personal care products and chemical coating products to customers in the automotive, metal finishing and chemical intermediate markets. Among our products for such applications are sodium fluoride and stannous fluoride, DL Panthenol and selenium disulfide. Sodium fluoride is the active anti-cavity ingredient in fluoride toothpaste, powders and mouthwashes. Selenium disulfide is used as a dandricide in shampoo and hair care preparations.

Sales, Marketing and Distribution

We have approximately 2,800 customers. Sales to our top ten customers represented approximately 22% of our fiscal 2004 net sales and no single customer represented more than 5% of our fiscal 2004 net sales.

Our world-wide sales and marketing network consists of approximately 118 employees, 5 independent agents and 125 distributors who specialize in particular markets.

Our products are often critical to the performance of our customers' products, while representing a relatively small percentage of the total end-product cost. We believe the three key factors to marketing our products successfully are high quality products, a highly trained and technical sales force, and customer service.

Most of our plants have chemists and technicians on staff involved in product development, quality assurance, quality control and also providing technical services to customers. Technical assurance is an important aspect of our overall sales effort. We field Animal Health and Nutrition technical service people throughout the world, with capabilities to interface with all key customers on a marketing, sales training and technical (product) basis, and who work directly with commercial feed manufacturers and integrated

poultry, swine and cattle producers to promote animal health. Our MFA and NFA field personnel are skilled in the area of product differentiation and have

extensive application knowledge so as to work closely with customers in determining optimum benefits from product usage. As agricultural food production will continue to intensify and will adopt evolving technologies, our MFA and NFA personnel are constantly working with customers to better understand their needs in order to best utilize the products existing within our portfolio. This commercial knowledge also plays a pivotal role within the research and development function to ensure that research results are applicable to customer needs and concerns.

Product Registrations, Patents and Trademarks

We own certain product registrations, patents, tradenames and trademarks, and use know-how, trade secrets, formulae and manufacturing techniques which assist in maintaining the competitive positions of certain of our products. Product registrations are required to manufacture and sell medicated feed additives. Formulae and know-how are of particular importance in the manufacture of a number of the products sold in our specialty chemicals business. We believe that no single patent or trademark is of material importance to our business and, accordingly, that the expiration or termination thereof would not materially affect our business. See "Government Regulation."

The following trademarks and service marks used throughout this Report belong to, are licensed to, or are otherwise used by us in our medicated feed additives business: Stafac(R); Eskalin(R); V-Max(R); Terramycin(R); Neo-Terramycin(R); CLTC(R); Mecadox(R); Nicarb(R); Amprol(R); Bloatguard(R); Aviax(R); Coxistac(R); Posistac(R); Banminth(R); Oxibendazole(R); Rumatel(R).

Raw Materials

The raw materials used in our business include certain active drug ingredients, a wide variety of chemicals, mineral ores and copper metal that are purchased from manufacturers and suppliers in the United States, Europe and Asia. In fiscal 2004, no single raw material accounted for more than 5% of our cost of goods sold. Total raw materials cost was approximately $133 million or 38% of net sales in fiscal 2004. We believe that for most of our raw materials, alternate sources of supply are available to us at competitive prices.

Research and Development

Research, development and technical service efforts are conducted at our various facilities. We operate research and development facilities in Rixensart, Belgium, Sumter, South Carolina, Ramat Hovav, Israel and Stradishall, England. These facilities provide research and development services relating to fermentation development in the areas of micro-biological strain improvement as well as: process scale-up; wood treatment products; and organic chemical intermediates.

Technology is an important component of our competitive position, providing us unique and low cost positions enabling us to produce high quality products. Patents protect some of our technology, but a great deal of our competitive advantage revolves around know-how built up over many years of commercial operation.

Customers

We do not consider our business to be dependent on a single customer or a few customers, and the loss of any of our customers would not have a material adverse effect on our results. No single customer accounted for more than 5% of our fiscal 2004 net sales. We typically do not enter into long-term contracts with our customers.

Competition

We are engaged in highly competitive industries and, with respect to all of our major products, we face competition from a substantial number of global and regional competitors. Some of our competitors have greater financial, research and development, production and other resources than we do. Our competitive position is based principally on customer service and support, product quality, manufacturing technology, facility location and price. We have competitors in every market in which we participate. Many of our products face competition from products that may be used as an alternative or substitute.

Employees

As of June 30, 2004, we had 1,051 employees worldwide. Of these, 210 employees were in management and administration, 118 were in sales and marketing, 132 were chemists, technicians or quality control personnel, and 591 were in production. Certain

employees are covered by individual employment agreements. Our Israeli operations continue to operate under the terms of Israel's national collective bargaining agreement, portions of which expired in 1994. We consider our relations with both our union and non-union employees to be good.

Environmental Matters

We and our 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 manufacture, sale and use of pesticides and the health and safety of employees. Pursuant to environmental laws, our subsidiaries are required to obtain and retain numerous governmental permits and approvals to conduct various aspects of their operations, any of which may be subject to revocation, modification or denial under certain circumstances. Under certain circumstances, we or any of our 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 budgets. 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 we establish 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.

Our subsidiaries have, from time to time, implemented procedures at their facilities designed to respond to obligations to comply with environmental laws. We believe that our operations are currently in material compliance with such environmental laws, although at various sites our subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with their historic operations. As many environmental laws impose a strict liability standard, however, we can provide no assurance that future environmental liability will not arise.

In addition, we cannot predict the extent to which any future environmental laws may affect any market for our products or services or our costs of doing business. Alternatively, changes in environmental laws might increase the cost of our products and services by imposing additional requirements on us. States that have received authorization to administer their own hazardous waste

management programs may also amend their applicable statutes or regulations, and may impose requirements which are stricter than those imposed by the EPA. We can provide no assurance that such changes will not adversely affect our ability to provide products and services at competitive prices and thereby reduce the market for our products and services.

The nature of our and our subsidiaries' current and former operations exposes us and our subsidiaries to the risk of claims with respect to environmental matters and we can provide no assurance that we will not incur material costs and liabilities in connection with such claims. Based upon our experience to date, we believe 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 us. Based upon information available, we estimate the cost of further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, (including the litigation referred to under "-- Legal Proceedings") to be approximately $2.9 million, which is included in current and long-term liabilities in our June 30, 2004 consolidated balance sheet. However, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of regulatory agencies, may give rise to additional expenditures or liabilities that could be material. For all purposes of the discussion under this caption, under Item 3, Legal Proceedings and elsewhere in this Report, it should be noted that we take and have taken the position that neither Phibro Animal Health Corporation, nor any of our subsidiaries is liable for environmental or other claims made against one or more of our other subsidiaries or for which any of such other subsidiaries may ultimately be responsible.

Federal Regulation

The following summarizes the principal federal environmental laws affecting our business:

Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). Congress enacted RCRA to regulate, among other things, the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. RCRA required the EPA to promulgate regulations governing the management of hazardous wastes, and to allow individual states to administer and enforce their own hazardous waste management programs as long as such programs were equivalent to and no less stringent than the federal program. Such facilities are also subject to closure and post-closure requirements.

The EPA's regulations, and most state regulations in authorized states, establish categories of regulated entities and set standards and procedures those entities must follow in their handling of hazardous wastes. The three general categories of waste handlers governed by the regulations are hazardous waste generators, hazardous waste transporters, and owners and operators of hazardous waste treatment, storage and/or disposal facilities. Generators are required, among other things, to obtain identification numbers and to

arrange for the proper treatment and/or disposal of their wastes by licensed or permitted operators and all three categories of waste handlers are required to utilize a document tracking system to maintain records of their activities. Transporters must obtain permits, transport hazardous waste only to properly permitted treatment, storage or disposal facilities, and maintain required records of their activities. Treatment, storage and disposal facilities are subject to extensive regulations concerning their location, design and construction, as well as the operating methods, techniques and practices they

may use. Such facilities are also required to demonstrate their financial responsibility with respect to compliance with RCRA, including closure and post-closure requirements.

The Federal Water Pollution Control Act, as amended (the "Clean Water Act"). The Clean Water Act prohibits the discharge of pollutants to the waters of the United States without governmental authorization. Like RCRA, the Clean Water Act provides that states with programs approved by the EPA may administer and enforce their own water pollution control programs. Pursuant to the mandate of the Clean Water Act, the EPA has promulgated "pre-treatment" regulations, which establish standards and limitations for the introduction of pollutants into publicly-owned treatment works.

Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA" or "Superfund"). Under CERCLA and similar state laws, we and our subsidiaries may have strict and, under certain circumstances, joint and several liability for the investigation and remediation of environmental pollution and natural resource damages associated with real property currently and formerly-owned or operated by us or a subsidiary and at third-party sites at which our subsidiaries disposed of or treated, or arranged for the disposal of or treatment of, hazardous substances.

Federal Insecticide, Fungicide and Rodenticide Act, as amended ("FIFRA"). FIFRA governs the manufacture, sale and use of pesticides, including the copper-based fungicides sold by us. FIFRA requires such products and the facilities at which they are formulated to be registered with the EPA before they may be sold. If the product in question is generic in nature (i.e., chemically identical or substantially similar to a previously registered product), the new applicant for registration is entitled to cite and rely on the test data supporting the original registrant's product in lieu of submitting data of its own. Should the generic applicant choose this citation option, it must offer monetary compensation to the original registrant and must agree to binding arbitration if the parties are unable to agree on the terms and amount of compensation. We have elected this citation option in the past and may use the citation option in the future should we conclude it is, in some instances, economically desirable to do so. While there are cost savings associated with the opportunity to avoid one's own testing and demonstration to the EPA of test data, there is, in each instance, a risk that the level of compensation ultimately required to be paid to the original registrant will be substantial.

Under FIFRA, the EPA also has the right to "call in" additional data from existing registrants of a pesticide, should the EPA determine, for example, that the data already in the file need to be updated or that a specific issue or concern needs to be addressed. The existing registrants have the option of submitting data separately or by joint agreement. Alternatively, if one registrant agrees to generate and submit the data, the other(s) may meet their obligations under the statute by making a statutory offer to jointly develop or share in the costs of developing the data. In that event, the offering party must, again, agree to binding arbitration to resolve any dispute as to the terms of the data development arrangement.

The Clean Air Act. The Federal Clean Air Act of 1970 ("Clean Air Act") and amendments to the Clean Air Act, and corresponding state laws regulate the emissions of materials into the air. Such laws affect the coal industry both directly and indirectly and, therefore, the operations of MRT, which was divested in August 2003. Phibro-Tech is also impacted by the Clean Air Act and has various air quality permits, including a Title V operating air permit at its Sumter, South Carolina facility.

State and Local Regulation

In addition to those federal programs described above, a number of states

and some local governments have also enacted laws and regulations similar to the federal laws described above governing hazardous waste generation, handling and disposal, emissions to the water and air and the design, operation and maintenance of recycling facilities.

Foreign Regulation

Our foreign subsidiaries are subject to a variety of foreign environmental laws relating to pollution and protection of the environment, including the generation, handling, storage, management, transportation, treatment and disposal of solid and hazardous materials and wastes, the manufacture and processing of pesticides and animal feed additives, emissions to the air, discharges to land, surface water and subsurface water, human exposure to hazardous and toxic materials and the remediation of environmental pollution relating to their past and present properties and operations.

Regulation of Recycling Activities

We have substantially reduced our recycling activities at our Joliet, Illinois; Garland, Texas; Sumter, South Carolina; and Sewaren, New Jersey sites. Our recycling activities may be broken down into the following segments for purposes of regulation under RCRA or

equivalent state programs: (i) transport of wastes to our facilities; (ii) storage of wastes prior to processing; (iii) treatment and/or recycling of wastes; (iv) corrective action at our RCRA facilities; and (v) management of wastes and residues from the recycling process. Although all aspects of the treatment and recycling of waste at our recycling facilities are not currently the subject of federal RCRA regulation, our subsidiaries decided to permit our recycling facilities as RCRA regulated facilities. Final RCRA "Part B" permits to operate as hazardous waste treatment and storage facilities have been issued at our facilities in Santa Fe Springs, California; Garland, Texas; Joliet, Illinois; Sumter, South Carolina; and Sewaren, New Jersey (expired August 2003, see "Particular Facilities - Sewaren, NJ" below). Part B renewal applications have been submitted for the Santa Fe Springs, Garland and Joliet sites. The applications are being reviewed.

In connection with RCRA Part B permits for the waste storage and treatment units of various facilities, our subsidiaries have been required to perform extensive site investigations at such facilities to identify possible contamination and to provide regulatory authorities with plans and schedules for remediation. Soil and groundwater contamination has been identified at several plant sites and has required and will continue to require corrective action and monitoring over future years. In order to maintain compliance with RCRA Part B permits, which are subject to suspension, revocation, modification or denial under certain circumstances, we have been, and in the future may be, required to undertake additional capital improvements or corrective action.

Our subsidiaries involved in recycling activities are required by the RCRA and their Part B permits to develop and incorporate in their Part B permits estimates of the cost of closure and post-closure monitoring for their operating facilities. In general, in order to close a facility which has been the subject of a RCRA Part B permit, a RCRA Part B closure permit is required which approves the investigation, remediation and monitoring closure plan, and requires post-closure monitoring and maintenance for up to 30 years. Accordingly, we incur additional costs in connection with any such closure. These cost estimates are updated annually for inflation, developments in available technology and corrective actions already undertaken. We have, in most instances, chosen to

provide the regulatory guarantees required in connection with these matters by means of our coverage under an environmental impairment liability insurance policy. We can provide no assurance that such policy will continue to be available in the future at economically acceptable rates, in which event other methods of financial assurance will be necessary.

In addition to certain operating facilities, we or our subsidiaries have been and will be required to investigate and remediate certain environmental contamination at shutdown plant sites. We or our subsidiaries are also required to monitor such sites and continue to develop controls to manage these sites within the requirements of RCRA corrective action programs.

Waste Byproducts

In connection with our subsidiaries' production of finished chemical products, limited quantities of waste by-products are generated. Depending on the composition of the by-product, our subsidiaries either sell it, send it to smelters for metal recovery or send it for treatment or disposal to regulated facilities.

Particular Facilities

The following is a description of certain environmental matters relating to certain facilities of certain of our subsidiaries. References to "we" or "us" throughout this section is intended to refer only to the applicable subsidiary unless the context otherwise requires. These matters should be read in conjunction with the description of Legal Proceedings in Item 3 below, certain of which involve such facilities, and Note 15 to our Consolidated Financial Statements.

In 1984, Congress enacted certain amendments to RCRA under which facilities with RCRA permits were required to have RCRA facility assessments ("RFA") by the EPA or the authorized state agency. Following an RFA, a RCRA facility investigation, a corrective measures study, and corrective measure implementation must, if warranted, be developed and implemented. As indicated below, certain of our subsidiaries are in the process of developing or completing various actions associated with these regulatory phases at certain of their facilities.

Sumter, SC. In 2003, the South Carolina Department of Health and Environmental Control ("DHEC") ordered Phibro-Tech, Inc., a subsidiary ("Phibro-Tech"), to prepare a RCRA Facility Investigation ("RFI") and to prepare and propose Corrective Action Plans. Phibro-Tech has done so, and such proposed investigatory activities and Corrective Action Plans are being reviewed by the State. Additional Corrective Action is also being undertaken by Phibro-Tech pursuant to prior agreements with DHEC to remedy certain deficiencies in the plant's hazardous waste closure, storage and management system.

Santa Fe Springs, CA. Phibro-Tech submitted an application for renewal of the Part B Permit for the Santa Fe Springs, California facility. Such application is presently under review by the State of California and may require certain corrective actions including, but not limited to, a pump and treat system utilizing existing water treatment facilities. Phibro-Tech has submitted a report to the State recommending that soil be remediated instead of groundwater. This recommendation is also under review by the State.

Joliet, IL. Phibro-Tech has submitted an application for renewal of the Part B Permit for the Joliet, Illinois facility. In connection with this application,

Phibro-Tech completed an initial investigation and determined that certain minor corrective action was required. The application for renewal is presently pending and the corrective action is being done.

Garland, TX. The renewal application for the Part B Permit at the Garland, Texas facility has been granted effective September 12, 2003. As part of an earlier site investigation, certain corrective action was required including upgrading of pollution control equipment and additional site characterization. Both of these are presently underway.

Powder Springs, Georgia. Phibro-Tech's facility in Powder Springs, Georgia has been operationally closed since 1985. Phibro-Tech retains environmental compliance responsibility for this facility and has effected a RCRA closure of the regulated portion of the facility, a surface impoundment. Post-closure monitoring and corrective action are required pursuant to a state-issued permit. As required by the permit, corrective action for groundwater has begun, and Phibro-Tech has submitted and received approval from the state for a remedial investigation plan.

Sewaren, NJ. Operations at the Sewaren facility were curtailed on or about September 30, 1999. In June, 2000, CP Chemicals, Inc., a subsidiary ("CP"), transferred title to the Sewaren property to Woodbridge Township while, at the same time, entering into a 10-year lease with the Township providing for lease payments aggregating $2 million, and covering certain areas of the property, including those areas of the property relating to the existing hazardous waste storage, treatment and transfer permit, loading docks and pads, and a building, as well as access, parking, scale use and office space.

The property is the subject of an Administrative Consent Order executed in March 1991 between the New Jersey Department of Environmental Protection and CP. CP has ongoing obligations under that Administrative Consent Order. CP is required to complete the implementation of the Remedial Action Work Plan approved by the Department of Environmental Protection. Although some of the obligations have been assumed by the Township under the Lease, for example, the maintenance of the groundwater recovery system, CP remains responsible to the Department of Environmental Protection under the Administrative Consent Order. CP has posted financial assurance, based on the estimated costs of implementation, under the Administrative Consent Order.

The property is also regulated under the Corrective Action Program administered by the United States Environmental Protection Agency pursuant to the Resource Conservation and Recovery Act. The property has been designated as a RCRA facility for which achieving the Environmental Indicators is a priority. Currently, CP is interfacing with the Department of Environmental Protection and the Environmental Protection Agency to coordinate its efforts under this program and the Administrative Consent Order discussed above. Much of the effort required by CP in this program is already being conducted as part of the requirements of the Administrative Consent Order discussed above.

The hazardous waste facility permit issued to CP for this facility expired in August 2003. CP has commenced the implementation of its approved closure plan. Based on a formula established by the Department of Environmental Protection, those closure costs were estimated at $292,823 and submitted to the Department in April 2003. CP has also advised the New Jersey Division of Law of its intent to withdraw from the licensing program governing facilities.

Union City, CA. Closure of the Union City, California facility has been completed.

Union, IL. The facility in Union, Illinois, has been closed since 1986. A revised remedial action plan ("RAP") has been submitted to the Illinois Environmental Protection Agency (the "IEPA") and is presently under review. The

work contemplated in the RAP is the result of negotiations between the IEPA and Phibro-Tech as part of a resolution of Phibro-Tech's appeal of the IEPA's initial closure requirements. That appeal is currently pending before the Illinois Pollution Control Board.

Ramat Hovav, Israel. Koffolk (1949) Ltd's ("Koffolk Israel") Ramat Hovav plant produces a wide range of organic chemical intermediates for the animal health, chemical, pharmaceutical and veterinary industries. Israeli legislation enacted in 1997 amended certain environmental laws by authorizing the relevant administrative and regulatory agencies to impose certain sanctions, including issuing an order against any person that violates such environmental laws to remove the environmental hazard. In addition, this legislation imposes criminal liability on the officers and directors of a corporation that violates such environmental laws, and increases the monetary sanctions that such officers, directors and corporations may be ordered to pay as a result of such violations. The Ramat Hovav plant operates under the regulation of the Ministry of Environment of the State of Israel. The sewage system of the plant is connected to the Ramat Hovav Local Industrial Council's central installation, where Koffolk Israel's sewage is treated together with sewage of other local plants. Owners of the plants in the area, including Koffolk Israel, have been required by the Israeli Ministry of Environment to build facilities for pre-treatment of their sewage.

Government Regulation

Most of our Animal Health and Nutrition Group products require licensing by a governmental agency before marketing. In the

United States, governmental oversight of animal nutrition and health products is shared primarily by the United States Department of Agriculture ("USDA") and the Food and Drug Administration. A third agency, the Environmental Protection Agency, has jurisdiction over certain products applied topically to animals or to premises to control external parasites.

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 restrictions on the sale of such products, it could have a material adverse impact on our financial position, results of operations and cash flows.

The FDA is responsible for the safety and wholesomeness of the human food supply. It regulates foods intended for human consumption and, through The Center for Veterinary Medicine, regulates the manufacture and distribution of animal drugs, including feed additives and drugs that will be given to animals from which human foods are derived, as well as feed additives and drugs for pet (or companion) animals.

To protect the food and drug supply for animals, the FDA develops technical standards for animal drug safety and effectiveness and evaluates data bases necessary to support approvals of veterinary drugs. The USDA monitors the food supply for animal drug residues.

FDA approval is based on satisfactory demonstration of safety and efficacy. Efficacy requirements are based on the desired label claim and encompass all species for which label indication is desired. Safety requirements include

target animal safety and, in the case of food animals, drug residues and the safety of those residues must be considered. In addition to the safety and efficacy requirements for animal drugs used in food producing animals, the environmental impact must be determined. Depending on the compound, the environmental studies may be quite extensive and expensive. In many instances the regulatory hurdles for a drug which will be used in food producing animals are at least as stringent if not more so than those required for a drug used in humans. For FDA approval of a new animal drug it is estimated the cost is $100 million to $150 million and time for approval could be 8 to 10 years.

The Office of New Animal Drug Evaluation ("NADE") is responsible for reviewing information submitted by drug sponsors who wish to obtain approval to manufacture and sell animal drugs. A new animal drug is deemed unsafe unless there is an approved new animal drug application ("NADA"). Virtually all animal drugs are "new animal drugs" within the meaning of the term in the Federal Food, Drug, and Cosmetic Act. Although the procedures for licensing products by the FDA are formalized, the acceptance standards of performance for any product are agreed upon between the manufacturer and the NADE. A NADA in animal health is analogous to a New Drug Application ("NDA") in human pharmaceuticals. Both are administered by the FDA. The drug development process for human therapeutics can be more involved than that for animal drugs. However, for food-producing animals, food safety residue levels are an issue, making the approval process longer than for animal drugs for non-food producing animals, such as pets.

The FDA may deny a NADA if applicable regulatory criteria are not satisfied, require additional testing or information, or require postmarketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurances that FDA approval of any NADA will be granted on a timely basis or at all. Moreover, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Finally, product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. Among the conditions for NADA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to Current Good Manufacturing Practice ("cGMP"). The plant must be inspected biannually by the FDA for determination of compliance with cGMP after an initial preapproval inspection. After FDA approval, any manufacturing changes that may have an impact on the safety and/or efficacy must be approved by the FDA prior to implementation. In complying with standards set forth in these regulations, manufacturers must continue to expend time, monies and effort in the area of production and quality control to ensure compliance.

For clinical investigation and marketing outside the United States, we are also subject to foreign regulatory requirements governing investigation, clinical trials and marketing approval for animal drugs. The foreign regulatory approval process includes all of the risks associated with FDA approval set forth above. Currently, in the EU, feed additives which are successfully sponsored by a manufacturer are assigned to an Annex. Initially, they are assigned to Annex II. During this period, member states may approve the feed additive for local use. After five years or earlier, the product passes to Annex I if no adverse reactions or trends develop over the probationary period.

The EU is in the process of centralizing the regulatory process for animal drugs for member states. In 1997, the EU drafted new regulations requiring the re-registration of feed additives, including coccidiostats. Part of these regulations include a provision for manufacturers to submit quality data for their own formulation, in effect adopting a Product License procedure similar to that of the FDA. The provision is known as Brand Specific Approval ("BSA"), and provides manufacturers with the opportunity to register their own unique brands, instead of simply the generic compound. The BSA process is being implemented over time. The new system is more like the U.S. system, where regulatory approval is for the formulated product or "brand." A number of manufacturers,

including

us, have completed dossiers in order to re-register various anticoccidials for the purpose of obtaining regulatory approval from the European Commission. As a result of its review of said dossiers, the Commission withdrew marketing authorization of a number of anticoccidials, including nicarbazin, as the Commission did not consider the submissions to be in full compliance with its new regulations. We have subsequently completed the necessary data and resubmitted its nicarbazin dossier. Feasibility and timetable for new registration will depend on the nature of demands and remarks from the Commission. Notwithstanding the Commission's actions with respect to our nicarbazin dossier, we are able to sell, and do sell, nicarbazin as an active ingredient for another MFA marketer's product which has obtained a BSA and is sold in the EU.

Miscellaneous

Market Share, Ranking And Other Industry Data

The market share, ranking and other industry data contained in this Report, including our position and the position of our competitors within these markets, are based either on our management's knowledge of, and experience in, the markets in which we operate, or derived from industry data or third-party sources and, in each case, we believe these estimates are reasonable as of the date of this Report or, if an earlier date is specified, as of such earlier date. However, this information may prove to be inaccurate because of the method by which we obtained some of the data for our estimates or because this information is subject to change and cannot always be verified due to limits on the availability and reliability of independent sources, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. In addition, purchasing patterns and consumer preferences can and do change. As a result, market share, ranking and other similar data set forth herein, and estimates and beliefs based on such data, may not be reliable.

CONDITIONS IN ISRAEL

The following information discusses certain conditions in Israel that could affect our Israeli subsidiary, Koffolk Israel. As of June 30, 2004 and for the year then ended, Israeli operations (excluding Koffolk Israel's non-Israeli subsidiaries) accounted for approximately 14% of our consolidated assets and approximately 12% of our consolidated net sales. We are, therefore, directly affected by the political, military and economic conditions in Israel.

Political and Military Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, since October 2000 there has been a significant increase in violence and terrorist activity in Israel. In April 2002, and from time to time thereafter, Israel undertook military operations in several Palestinian cities and towns. We

cannot predict whether the current violence and unrest will continue and to what extent it will have an adverse impact on Israel's economic development or on Koffolk Israel's or our results of operations. We also cannot predict whether or not any further hostilities will erupt in Israel and the Middle East and to what extent such hostilities, if they do occur, will have an adverse impact on Israel's economic development or on Koffolk Israel's or our results of operations.

Certain countries, companies and organizations continue to participate in a boycott of Israeli firms and other companies doing business in Israel or with Israel companies. We do not believe that the boycott has had a material adverse effect on us, but we can not provide assurance that restrictive laws, policies or practices directed toward Israel or Israeli businesses will not have an adverse impact on our operations or expansion of the our business.

Generally, male adult citizens who are permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform certain military duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances and since April 2002 some reservists have been called to active duty. Some of the employees of Koffolk Israel currently are obligated to perform annual reserve duty. While Koffolk Israel has operated effectively under these and similar requirements in the past, we cannot assess the full impact of such requirements on Koffolk Israel and us in the future, particularly if emergency circumstances occur and employees of Koffolk Israel are called to active duty.

Economic Conditions

Israel is currently experiencing the longest recession since the establishment of Israel in 1948. Factors affecting Israel's economy include the Intifada, which began in September 2000, the slowdown in world trade and the global slump in the high-tech industry. In addition, Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980's, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and security incidents. Further disruptions to the Israeli economy as a result of these or other factors could have a material adverse affect on Koffolk Israel's and our results of operations.

Koffolk Israel receives a portion of its revenues in U.S. dollars while its expenses are principally payable in New Israeli Shekels. Dramatic changes in the currency rates could have an adverse effect on Koffolk Israel's results of operations.

Investment Incentives

Certain of our Israeli production facilities have been granted Approved Enterprise status pursuant to the Law for the Encouragement of Capital Investments, 1959, and consequently may enjoy certain tax benefits and investment grants. Taxable income of Koffolk Israel derived from these production facilities is subject to a lower rate of company tax than the normal rate applicable in Israel. Dividends distributed by Koffolk Israel out of the same income are subject to lower rates of withholding tax than the rate normally applicable to dividends distributed by an Israeli company to a non-resident corporate shareholder. The grant available to newly Approved Enterprises was decreased throughout recent years. Certain of our Israeli production facilities further enjoyed accelerated depreciation under regulation extended from time to time and other deductions. We cannot provide assurance that we will, in the future, be eligible for or receive such or similar grants.

Item 2 Properties

We maintain our principal executive offices and a sales office in 23,500 square feet of leased space in Fort Lee, New Jersey. We operate company-owned manufacturing facilities and utilize third party toll manufacturers. The chart below sets forth the locations and sizes of the principal manufacturing and other facilities operated by us and uses of such facilities, all of which are owned, except as noted.

Location	Approximate Square Footage	Uses
Animal Health and Nutrition		
Bangkok, Thailand(a)	500	Sales
Braganca Paulista, Brazil	35,000	Sales, Manufacturing and Administrative
Bremen, Indiana	50,000	Sales, Premixing and Warehouse
Buenos Aires, Argentina(a)	900	Sales and Administrative
Fairfield, New Jersey(a)	9,600	Administrative
Guarulhos, Brazil(b)	1,234,000	Sales, Premixing, Manufacturing and Administrative
Hong Kong, China(a)	750	Sales and Administrative
Kuala Lumpur, Malaysia(a)	7,300	Sales, Premixing and Warehouse
Ladora, Iowa	9,500	Warehouse
Lee's Summit, Missouri(a)	1,500	Sales
Marion, Iowa	32,500	Premixing and Warehouse
Petach Tikva, Israel	60,000	Sales, Premixing, Warehouse and Administrative
Pretoria, South Africa(a)	3,200	Sales and Administrative
Quincy, Illinois(c)	50,000	Sales, Warehouse, Research and Administrative
Rixensart, Belgium(d)	865,000	Sales, Manufacturing, Research and Administrative
Ramat Hovav, Israel	140,000	Manufacturing and Research
Regina, Canada(a)	1,000	Sales and Administrative
Queretaro, Mexico(a)	3,500	Sales and Administrative
Santiago, Chile(a)	6,500	Sales and Administrative
Sydney, Australia(a)	3,500	Sales and Administrative
Valencia, Venezuela(a)	1,100	Sales and Administrative
Specialty Chemicals		
Garland, Texas	20,000	Manufacturing
Joliet, Illinois	34,500	Manufacturing
Reading, United Kingdom(a)	3,100	Sales and Administrative
Santa Fe Springs, California(e)	90,000	Manufacturing
Stradishall, United Kingdom	20,000	Sales, Manufacturing and Administrati
Sumter, South Carolina	123,000	Manufacturing and Research

(a) This facility is leased. Our leases expire through 2027. For information concerning our rental obligations, see Note 15 to our Consolidated Financial Statements included herein.

(b) Our Guarulhos, Brazil plant utilizes fermentation processes to produce the active ingredients semduramicin-mycelial and salinomycin. The plant also

produces Aviax(R), Terramycin(R), Stafac(R) and Coxistac(R) Granular formulations. The plant is cGMP compliant and is FDA approved.

(c) Comprises three facilities, including a warehouse, laboratory and office facility.

(d) Our Rixensart, Belgium plant utilizes fermentation processes to produce the active ingredients semduramicin-crystalline and virginiamycin. The plant also produces Stafac(R) formulations and is responsible for all of our fermentation development activities. The plant has been approved by the FDA and is cGMP compliant.

(e) We lease the land under this facility from a partnership owned by Jack Bendheim, Marvin Sussman and James Herlands. See "Certain Relationships and Related Transactions."

Our subsidiary, CP Chemicals, Inc., leases portions of a previously owned inactive, former manufacturing facility in Sewaren, New Jersey, and another of our subsidiaries owns inactive, former manufacturing facilities in Powder Springs, Georgia, Union, Illinois, Union City, California and Wilmington, Illinois.

We believe that our existing and planned facilities are and will be adequate for the conduct of our business as currently conducted and as currently contemplated to be conducted.

We and our subsidiaries are subject to extensive regulation by numerous governmental authorities, including the FDA and corresponding state and foreign agencies, and to various domestic and foreign safety standards. Our manufacturing facilities in Ramat Hovav, Israel, Rixensart, Belgium and Guarulhos, Brazil manufacture products that conform to the FDA's cGMP regulations. Three domestic facilities involved with recycling have final RCRA Part B hazardous waste storage and treatment permits. Our regulatory compliance programs include plans to achieve compliance with international quality standards known as ISO 9000 standards, which became mandatory in Europe in 1999 and environmental standards known as ISO 14000. The FDA is in the process of adopting the ISO 9000 standards as regulatory standards for the United States, and it is anticipated that these standards will be phased in for U.S. manufacturers over a period of time. Our plant in Petach Tikva, Israel has achieved ISO 9000 certification. We do not believe that adoption of the ISO 9000 standards by the FDA will have a material effect on our financial condition, results of operations or cash flows.

Item 3. Legal Proceedings

Reference is made to the discussion above under "Item 1. Business - Environmental Matters" for information as to various environmental investigation and remediation obligations of our subsidiaries associated principally with their recycling and production facilities and to certain legal proceedings associated with such facilities.

In addition to such matters, we or certain of our subsidiaries are subject to certain litigation described below.

On or about April 17, 1997, CP and we 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 we, as the parent

of CP, are 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. Our portion of the settlement for past costs and expenses through the entry of the Consent Order was $495,000 and is included in selling, general and administrative expenses in the June 30, 2002 statement of operations and comprehensive income. Such amount was paid in July 2002. 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, Phibro Animal Health Corporation 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. We also have 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, we believe 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 CERCLA by the EPA, involving a former third-party fertilizer manufacturing site in Jericho, South Carolina. An agreement has been reached under which we have agreed to contribute up to $900,000 of which $634,596 has been paid as of June 30, 2004. Some recovery from insurance and other sources is expected. We have also accrued our best estimate of any future costs.

Phibro-Tech, Inc. has resolved certain alleged technical permit violations with the California Department of Toxic Substance Control ("DTSC") and has reached an agreement to pay $425,000 over six (6) years as a result. The annual payments required under this agreement are not expected to have any material adverse impact on us.

In February 2000, the EPA notified numerous parties of potential liability for waste disposed of at a licensed Casmalia, California disposal site, including a business, assets of which were originally acquired by a subsidiary of ours in 1984. A settlement has been reached in this matter and we have paid $171,103 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 is investigating the matter, which relates to events in the 1950's and 1960's, but management does not believe that the Company has any liability in this matter.

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, there is a low probability of liability associated with this matter.

We and our 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. We believe that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year ended June 30, 2004.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

(a) Market Information. There is no public trading market for our common equity securities.

(b) Holders. As of June 30, 2004, there was one holder of our Class A Common Stock and two holders of our Class B Common Stock.

(c) Dividends. We did not declare dividends on any of our common stock during the two years ended June 30, 2004.

Item 6. Selected Financial Data

The following selected consolidated financial data as of and for fiscal years ended June 30, 2000, 2001, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements. The selected consolidated financial data reflect our Odda, Carbide, MRT and La Cornubia businesses as discontinued operations for all periods presented. You should read the information set forth below in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Report.

	Fiscal Years Ended June 30,			
	2000	2001	2002	2003
	(Dollars in thousands, except			
Results of Operations:				
Net sales	$ 261,769	$ 302,328	$ 328,676	$ 341,746
Cost of goods sold	201,320	234,784	247,411	251,200
Gross profit	60,449	67,544	81,265	90,546
Selling, general and administrative expenses	47,528	61,624	70,636	65,050
Curtailment of operations at manufacturing facility	(1,481)	--	--	--
Costs of non-completed transaction	--	--	--	--
Operating income	14,402	5,920	10,629	25,496
Interest expense	14,520	17,919	18,070	16,281
Interest (income)	(600)	(566)	(346)	(85)

Other expense (income), net	(1,452)	(1,463)	3,349	1,539
Net (gain) on extinguishment of debt	--	--	--	--
Income (loss) from continuing operations before income taxes	1,934	(9,970)	(10,444)	7,761
Provision (benefit) for income taxes	1,143	(24)	14,767	10,060
Income (loss) from continuing operations	791	(9,946)	(25,211)	(2,299)
Income (loss) from discontinued operations	9,262	(4,949)	(26,559)	(14,577)
(Loss) on disposal of discontinued operations	--	--	--	(683)
Net income (loss)	10,053	(14,895)	(51,770)	(17,559)
Change in derivative instruments	--	--	1,062	(981)
Change in foreign currency translation adjustment	55	(5,146)	(6,125)	7,377
Comprehensive income (loss)	$ 10,108	$ (20,041)	$ (56,833)	$ (11,163)

	Fiscal Years Ended June 30,			
	2000	2001	2002	2003
Net income (loss)	$ 10,053	$ (14,895)	$ (51,770)	$ (17,55
Excess of the reduction of redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions	--	--	--	-
Dividends and equity value accreted on Series B and C redeemable preferred stock	--	(8,172)	(7,623)	(12,27
Net income (loss) available to common shareholders	$ 10,053	$ (23,067)	$ (59,393)	$ (29,83
Balance Sheet Data:				
Cash and cash equivalents	$ 2,403	$ 14,845	$ 6,419	$ 11,17
Total assets	258,450	330,019	296,444	274,34
Long-term debt	139,685	139,455	136,641	102,26
Series B and C redeemable preferred stock	--	48,980	56,602	68,88
Total stockholders' equity (deficit)	31,618	3,405	(61,189)	(84,51

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the consolidated financial statements and related notes contained in this Report. The Company's Odda, Carbide, 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 consolidated financial statements on the basis of its fiscal year ending June 30. All references to years 2004, 2003, and 2002 in this discussion refer to the fiscal year ended June 30 of that year.

General

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

In August 2003, the Company completed the sale of MRT for net proceeds after transaction costs of approximately $13.8 million. In December 2003, the Company completed the divestiture of substantially all of the assets of The Prince Manufacturing Company (see discussion below under "Prince Transactions").

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.

During 2004, the Company incurred $5.3 million of costs in connection with a potential acquisition transaction that was not completed. The Company has charged the costs to expense in its 2004 results. The costs primarily consisted of professional fees for services in connection with the transaction.

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

Refinancing

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

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

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

The US Senior Notes and the Dutch Senior Notes are senior secured obligations of each of the Company (the "US Issuer") and the Dutch issuer, respectively. The US Senior Notes and the Dutch Senior Notes are guaranteed on a senior secured basis by all the US Issuer's domestic restricted subsidiaries, and the Dutch Senior Notes are guaranteed on a senior secured basis by the US Issuer and by the restricted subsidiaries of the Dutch issuer, presently consisting of Phibro Animal Health SA. The US Senior Notes and related guarantees are collateralized by substantially all of the US Issuer's assets and the assets of its domestic restricted subsidiaries, other than real property and interests therein, including a pledge of all the capital stock of such domestic restricted subsidiaries. The Dutch Senior Notes and related guarantees are collateralized by a pledge of all the accounts receivable, a security interest or floating charge on the inventory to the extent permitted by applicable law,

and a mortgage on substantially all of the real property of the Dutch issuer and each of its restricted subsidiaries, a pledge of 100% of the capital stock of each subsidiary of the Dutch issuer, a pledge of the intercompany loans made by the Dutch issuer to its restricted subsidiaries and substantially all of the assets of the U.S. guarantors, other than real property and interests therein. The indenture governing the Senior Secured Notes provides for optional make-whole redemptions at any time prior to June 1, 2005, optional redemption on or after June 1, 2005, and requires the Company to make certain offers to purchase Senior Secured Notes upon a change of control, upon certain asset sales and from fifty percent (50%) of excess cash flow (as such terms are defined in the indenture).

The Company timely filed a registration statement with the SEC on Form S-4 with respect to an exchange offer for the Senior Secured Notes, but due to pending confidential acquisition negotiations, such registration statement has not become effective.

Also, on October 21, 2003, the Company entered into a new replacement domestic senior credit facility ("senior credit facility") with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities initially could not exceed $25.0 million including aggregate borrowings under the working capital facility up to $15.0 million. On April 29, 2004, the Company amended the senior credit facility to increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $25.0 million to $27.5 million and to increase the amount of aggregate borrowings available under the working capital facility from $15.0 million to $17.5 million. As of September 24, 2004, the Company amended the senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $27.5 million 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 all other items.

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

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

Prince Transactions

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

Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements: (i) the transfer of substantially all of the business and assets of PMC to Buyer; (ii) the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72.2 million to $16.5 million (accreted through the Closing Date) by means of the redemption of all of its shares of Series B Preferred Stock and a portion of its Series C Preferred Stock; (iii) the termination of $2.2 million in annual management advisory fees payable by the Company to Palladium; (iv) a cash payment of $10.0 million to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; (v) the agreement of the Buyer to pay the Company for advisory fees for the next three years of $1.0 million, $0.5 million, and $0.2 million, respectively (which were pre-paid at closing by the Buyer and satisfied for $1.3 million, the net present value of such payments); and (vi) the Buyer agreed to supply manganous oxide and red iron oxide products and to provide certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri"). Prince Agri agreed to continue to provide the Buyer with certain laboratory, MIS and telephone services, all on terms substantially consistent with the historic relationship between Prince Agri and PMC, and to lease to Buyer office space used by PMC in Quincy, Illinois. The Company has an agreement to receive certain treasury services from Palladium for $0.1 million per year. Pursuant to definitive agreements, the Company made customary representations, warranties and environmental and other indemnities, agreed to a post-closing working capital adjustment, paid $4.0 million in full satisfaction of all intercompany debt owed to PMC, paid a closing fee to Palladium of $0.5 million, made certain capital expenditure adjustments included as part of the intercompany settlement amount, and agreed to pay for certain out-of-pocket transaction expenses. PMC retained $0.4 million of its accounts receivable. The Company established a $1.0 million letter of credit escrow for two years to secure its working capital adjustment and certain indemnification obligations. The Company agreed to indemnify the Palladium Investors for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of Buyer for less than $21.0 million up to a maximum payment by the Company of $4.0 million (the "Backstop Indemnification Amount"). The Backstop Indemnification Amount would be payable on the earlier to occur of July 1, 2008 or six months after the redemption date of all of the Company's Senior Secured Notes due 2007 if such a disposition closes prior to such redemption and six months after the closing of any such disposition if the disposition closes after any such redemption. The Company's obligations with respect to the Backstop Indemnification Amount will cease if the Palladium Investors do not close the disposition of Buyer by January 1, 2009. The definition of "Equity Value" in the Company's Certificate of

Incorporation was amended to reduce the multiple of trailing EBITDA payable in

connection with any future redemption of Series C Preferred to 6.0 from 7.5. The amount of consideration paid and payable in connection with the Prince Transactions and all matters in connection therewith were determined pursuant to arm's length negotiations.

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

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

PMC is included in the Company's Industrial Chemicals segment. The divestiture of PMC has not been reflected as a discontinued operation due to the existence of the Backstop Indemnification and continuing supply and service agreements.

Other Risks and Uncertainties

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

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

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

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

hostilities or otherwise, could have a material adverse effect on the Company.

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

Summary Consolidated Results of Continuing Operations

	Year Ended June 30,		
	2004	2003	2002
		(Thousands)	
Net sales	$ 358,274	$ 341,746	$ 328,676
Gross margin	90,403	90,546	81,265
Selling, general and administrative expenses	66,128	65,050	70,636
Costs of non-completed transaction	5,261	--	--
Operating income	19,014	25,496	10,629
Interest expense, net	18,488	16,196	17,724
Other expense (income), net	(781)	1,539	3,349
Net (gain) on extinguishment of debt	(23,226)	--	--
Income (loss) from continuing operations	$ 24,533	$ 7,761	$ (10,444)

2004 Compared with 2003

Net Sales of $358.3 million increased $16.5 million, or 5%. Animal Health and Nutrition sales of $265.4 million grew $14.7 million, or 6%, due to volume increases. Specialty Chemical group sales (comprised of the Industrial Chemicals, Distribution and All Other segments) of $92.9 million increased $1.8 million, or 2%, primarily due to volume increases in all segments, offset by a decrease in PMC sales. The Specialty Chemical group included PMC sales of $11.1 million and $22.3 million for 2004 and 2003, respectively.

Gross Profit of $90.4 million decreased $0.1 million to 25.2% of net sales, compared with 26.5% in 2003. Animal Health and Nutrition gross profit decreased due to lower average selling prices and unfavorable currency related to the effect of the Euro on Belgium manufacturing costs. Improvements in the Specialty Chemical group partially offset the Animal Health and Nutrition decline. The Specialty Chemical group included PMC gross profit of $3.6 million and $6.2 million, respectively, for the fiscal 2004 and 2003 periods.

Gross profit increased $2.0 million in the fourth quarter of 2004 due to an agreement related to the production and sale of amprolium, an anticoccidial MFA. The Company acquired the rights to sell amprolium in most international markets. In payment for the acquired rights, the Company relinquished its claims against the seller for certain purchase order commitments, and will make $2.1

million of cash payments to the seller over the next five years. The present value of these payments is $1.9 million and was recorded as a liability. The $2.4 million value of the purchase order commitments was recorded as a reduction in cost of goods sold and inventory, and an intangible asset of $4.3 million was recorded representing the fair value of the acquired rights and is included on the Company's balance sheet at June 30, 2004. The Company will amortize this intangible over a 10 year period. No amortization was recorded in 2004. Amortization expense for each of the next five years from 2005 to 2009 is expected to be $0.4 million per year.

Selling, General and Administrative Expenses of $66.1 million increased $1.1 million. Expenses in the operating segments, excluding PMC, approximated the prior year primarily due to lower environmental and severance accruals offset in part by unfavorable foreign exchange rates. Corporate expenses in the current fiscal year reflect the elimination of the Palladium annual management fee of $2.25 million as of December 31, 2003 and income of $0.5 million from the PMC Advisory fee. Corporate expenses increased in fiscal 2004 due to higher depreciation and amortization charges and insurance costs offset by lower benefit charges. Corporate expenses in fiscal 2003 included vitamin settlement income of $3.0 million. PMC expenses were $1.3 million and $2.6 million for 2004 and 2003, respectively.

Costs of non-completed transaction. During 2004, the Company incurred $5.3 million of costs in connection with a potential acquisition transaction that was not completed. The Company has charged the costs to expense in its 2004 results. The costs primarily consisted of professional fees for services in connection with the transaction.

Net gain on extinguishment of debt. The Company recorded a net gain on the extinguishment of debt of $23.2 million due to the repurchase of senior subordinated notes ($16.7 million), and the repayment of Pfizer obligations ($7.6 million) offset in part by a loss on repayment of the senior credit facility ($1.0 million).

Operating Income of $19.0 million decreased $6.5 million to 5.3% of sales. The decrease was primarily due to the non-completed transaction costs described above. In addition, gross profit declined in the Animal Health and Nutrition segment but was offset in part by improved operating performance of the Specialty Chemical group. PMC contributed $2.3 million and $3.6 million for 2004 and 2003, respectively.

Interest Expense, Net of $18.5 million increased $2.3 million from the prior year, primarily due to higher borrowing levels and also higher average interest rates associated with the issuance of the Company's Senior Secured Notes.

Other (Income) Expense, Net of ($0.8) million improved in comparison with $1.5 million of expense last year. During 2004, the Company's Phibro-Tech subsidiary received $1.0 million in exchange for the sale of certain assets related to the manufacture and sale of ferric chloride from its plant in Joliet, Illinois and recognized a net gain of $0.7 million. The balance of other (income) expense principally reflects foreign currency transaction net (gains) losses related to short-term inter-company balances and foreign currency translation (gains) losses.

Income Taxes of $8.0 million were 32% of consolidated pre-tax income of $24.5 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.

2003 Compared with 2002

Net Sales of $341.7 million increased $13.1 million, or 4%. Animal Health and Nutrition sales of $250.7 million grew $11.1 million, or 5%, due to volume increases. Specialty Chemical sales of $91.0 million increased $2.0 million, or 2%, primarily due to volume increases in the Distribution and All Other businesses.

Gross Profit of $90.5 million improved $9.3 million to 26.5% of net sales, compared with 24.7% in 2002. Animal Health and Nutrition gross profit improvements were responsible for the overall increase. Purchase accounting adjustments related to the MFA acquisition resulted in a $3.3 million increase to cost of goods sold in 2002. Excluding the purchase accounting adjustment, the gross profit ratio would have been 25.7% in 2002.

Selling, General and Administrative Expenses of $65.1 million decreased $5.6 million, or 8%. Expenses declined $6.5 million in the Specialty Chemicals businesses due to downsizing and restructuring of the Industrial Chemicals segment, reflecting the decline in the printed circuit board market. Industrial Chemicals included expense for additional environmental reserves and write-offs of unamortized permit fees at closed facilities of $1.0 million and $1.6 million for 2003 and 2002, respectively. Animal Health and Nutrition expenses decreased by approximately $0.4 million. Corporate expenses increased $1.3 million, primarily due to increased staff levels. Corporate expenses included a vitamin settlement income of $3.0 million and $0.7 million in 2003 and 2002, respectively, from the settlement of class action litigation against European vitamin manufacturers. Debt restructuring costs of $0.8 million,

severance of $0.4 million, and expense related to a divested business of $0.2 million were also recorded in 2003. Included in 2002 was $0.4 million non-cash income to reflect the decrease in value of redeemable common stock; no amount was recorded in 2003.

Operating Income of $25.5 million increased $14.9 million to 7.5% of sales. The improvement was due to sales growth, gross margin improvements in Animal Health and Nutrition, and operating expense reductions.

Interest Expense, Net of $16.2 million decreased $1.5 million, compared with $17.7 million in 2002, primarily due to lower average interest rates and reduced average borrowing levels.

Other Expense, Net of $1.5 million in fiscal 2003 improved in comparison with $3.4 million in the prior year. The expense principally reflects foreign currency transaction and translation net losses related to short-term inter-company balances.

Income Taxes of $10.1 million were primarily due to a $5.6 million increase in valuation allowances for deferred tax assets in foreign jurisdictions where future profitability is not currently considered more likely than not, and income tax provisions in profitable foreign jurisdictions. 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 Israel, and Planalquimica, Brazil. The Industrial Chemicals segment manufacturers and market specialty chemicals for use in the pressure treated wood, brick, glass, and chemical industries, and includes Phibro-Tech and PMC. The Distribution segment markets a variety of specialty chemicals, and includes PhibroChem and Ferro operations. The All Other segment includes contract manufacturing of crop protection chemicals, Wychem and all other operations. Due to the divestiture of PMC in December 2003, PMC's results are shown separately for comparability.

	Year Ended June 30,		
	2004	2003	2002
	(Thousands)		
Net Sales			
Animal Health & Nutrition	$ 265,421	$ 250,706	$ 239,602
Industrial Chemicals - ex PMC	31,135	26,465	29,403
Industrial Chemicals - PMC	11,118	22,332	21,451
Distribution	30,861	30,072	27,852
All other	19,739	12,171	10,368
	$ 358,274	$ 341,746	$ 328,676

	Year Ended June 30,		
	2004	2003	2002
	(Thousands)		
Operating Income			
Animal Health & Nutrition	$ 33,307	$ 38,472	$ 28,298
Industrial Chemicals - ex PMC	621	(5,434)	(10,964)
Industrial Chemicals - PMC	2,278	3,579	3,640
Distribution	2,900	3,207	2,345
All other	2,301	620	1,164
Corporate expenses and adjustments	(22,393)	(14,948)	(13,854)
	$ 19,014	$ 25,496	$ 10,629

Operating Segments 2004 Compared to 2003

Animal Health and Nutrition

Net Sales of $265.4 million increased $14.7 million, or 6%. Medicated Feed Additives net sales decreased by $7.8 million. Revenues were lower primarily for anticoccidials but were offset in part by higher sales of other medicated feed additives. Sales of anticcoccidial products were $7.1 million lower due to contract negotiations with a major customer that were completed in the fourth quarter of 2004. The decrease in MFA revenues also was due to lower average selling prices offset in part by favorable currency effect on international sales. Nutritional Feed Additives net sales increased by $22.5 million, principally due to volume increases in core inorganic minerals, trace mineral premixes and other ingredients.

Operating Income of $33.3 million decreased $5.2 million, or 13%. Operating income declined due to product mix, higher cost of goods reflecting the stronger Euro's effect on Belgian manufacturing cost and unfavorable currency effects on international selling, general and administrative expense. Lower average selling prices also contributed to the decrease. Operating income increased $2.0 million in the fourth quarter of 2004 due to an agreement related to the production and sale of amprolium, an anticoccidial MFA.

Specialty Chemicals

Industrial Chemicals net sales of $31.1 million, excluding PMC, increased $4.7 million, or 18%. Sales of copper related products to the wood treatment markets increased due to the introduction of new copper based wood treatment chemicals which offset the divestiture of the Company's Eastern United States etchant business in mid 2003. The Company continues its existing etchant business at one remaining facility. PMC, divested in December 2003, generated revenues of $11.1 million and $22.3 million for 2004 and 2003, respectively. Operating income of $0.6 million improved by $6.1 million from the prior year. This improvement was due to new product introductions and savings from headcount reductions and facility restructurings in Phibro-Tech operations. PMC provided operating income of $2.3 million and $3.6 million for 2004 and 2003, respectively.

Distribution net sales of $30.9 million increased $0.8 million, or 3%. Higher sales volumes in Europe were offset in part by lower domestic unit volumes and lower average selling prices. Distribution operating income of $2.9 million decreased $0.3 million from the prior year. As a percentage of sales, operating income was 9% and 11% in 2004 and 2003, respectively.

All Other net sales of $19.7 million increased $7.6 million, or 62%. Revenues for contract manufacturing increased $7.6 million due to increased volumes and average selling prices. Specialized lab projects and formulations approximated the prior year. Operating income of $2.3 million improved by $1.7 million from the prior year due to higher revenues and increased margins on contract manufacturing.

Operating Segments 2003 Compared to 2002

Animal Health and Nutrition

Net Sales of $250.7 million increased $11.1 million, or 5%. Medicated Feed Additives net sales increased by $6.7 million. Revenues were higher for antibacterials, antibiotics and anticoccidials but were offset in part by lower sales of anthelmintics and other medicated feed additives. The increased revenues were due to volume increases offset in part by lower average selling prices, including the effect of currency devaluations in Latin America. Nutritional Feed Additives net sales increased by $4.4 million, principally due to volume increases in core inorganic minerals, trace mineral premixes and other ingredients.

Operating Income of $38.5 million increased $10.2 million, or 36%. Purchase accounting adjustments relating to inventory in the MFA acquisition resulted in a $3.3 million increase to 2002 cost of goods sold. The operating income ratio increased to 15% in 2003 from 13% in 2002 (excluding the purchase accounting adjustments). The improvement in operating income resulted from increased sales of higher margin products and close control of operating expenses.

Specialty Chemicals

Industrial Chemicals net sales of $26.5 million, excluding PMC, decreased $2.9 million, or 10%. Industrial Chemicals net sales decreased due to the divestiture of the Company's Eastern United States etchant business in

mid-fiscal 2003 and reduced sales of etchants to the printed circuit board market. PMC, divested in December 2003, generated revenues of $22.3 million and $21.5 million for fiscal periods 2003 and 2002, respectively. Industrial Chemicals operating loss of $5.4 million improved by $5.5 million from the year earlier loss. The improvement principally was due to the partial disposal during 2003 of the ammoniacal etchant business and savings from headcount reductions and facility restructurings. The gain on the transaction was not material. PMC provided operating income of $3.6 million in each of the 2003 and 2002 fiscal periods.

Distribution net sales of $30.1 million increased $2.2 million, or 8%. Higher sales volumes in Europe and improved product mix in domestic operations accounted for the increase. Distribution operating income of $3.2 million increased $0.9 million, or 37%. As a percentage of sales, operating income increased to 11% in 2003 from 8% in 2002. The improvement in operating income margins resulted principally from increased sales of higher margin products.

All Other net sales of $12.2 million increased $1.8 million, or 17%. Revenues for contract manufacturing increased $2.4 million due to increased volumes. Revenues from specialized lab projects and formulations declined $0.6 million. Operating income of $0.6 million decreased primarily due to specialized lab projects and formulations.

Discontinued Operations

During 2004, the Company shutdown its operations at La Cornubia. During 2003, the Company shutdown or divested Odda Smelteverk (Norway), Carbide Industries (U.K.), and Mineral Resource Technologies, Inc. These businesses have been classified as discontinued operations. The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position, and cash flows of the discontinued operations. Prior year financial statements have been reclassified to conform to the 2004 presentation.

	Year Ended June 30, 2004			
	La Cornubia	Odda/Carbide	MRT	Total
Net Sales	$ 13,918	$ --	$ 3,327	$ 17,245
Operating Loss	$ (1,491)	$ --	$ (124)	$ (1,615)
Interest Expense, net	94			94
Other Expense (Income), net	(102)	--	--	(102)
Provision (benefit) for income tax	18	--	--	18
Net Income (loss) from discontinued operations	$ (1,501)	$ --	$ (124)	$ (1,625)
Depreciation and Amortization	$ 400	$ --	$ --	$ 400

	Year Ended June 30, 2003

	La Cornubia	Odda/Carbide	MRT	Total
Net Sales	$ 13,479	$ 11,217	$ 18,671	$ 43,367
Operating Loss	$ (359)	$(13,462)	$ (3,454)	$(17,275)
Interest Expense, net	60			60
Other Expense (Income), net	(389)	(2,327)	--	(2,716)
Provision (benefit) for income tax	16	(58)	--	(42)
Net Income (loss) from discontinued operations	$ (46)	$(11,077)	$ (3,454)	$(14,577)
Depreciation and Amortization	$ 359	$ 894	$ 1,309	$ 2,562

	Year Ended June 30, 2002			
	La Cornubia	Odda/Carbide	MRT	Total
Net Sales	$ 11,873	$ 31,219	$ 17,045	$ 60,137
Interest Expense, net				
Operating Loss	(912)	$(27,709)	$ (2,930)	$(31,551)
Interest Expense, net	78			78
Other Expense (Income), net	(263)	(3,699)		(3,962)
Provision (benefit) for income tax	62	(1,170)	--	(1,108)
Net Income (loss) from discontinued operations	$ (789)	$(22,840)	$ (2,930)	$(26,559)
Depreciation and Amortization	$ 325	$ 17,676	$ 1,192	$ 19,193

Odda and Carbide. During 2003, the Company determined that it would permanently shutdown and no longer fund the operations of Odda. On February 28, 2003, Odda filed for bankruptcy in Norway. The bankruptcy is proceeding in accordance with Norwegian law. The Company removed all assets, liabilities (except as noted below), and cumulative translation adjustments related to Odda from the Company's consolidated balance sheet as of June 30, 2003, and recorded the net result as a loss on disposal of discontinued operations. The Company has been advised that, as a result of the bankruptcy, the creditors of Odda have recourse only to the assets of Odda, except in the case of certain debt guaranteed by the Company. During 2004, the Company paid the remaining guaranteed debt of $5.7 million. The Company has been advised by Norwegian counsel that it has obtained the benefit of the banks' position as a secured creditor upon payment pursuant to the guarantees. During 2003, the Company sold Carbide, previously a distributor for one of Odda's product lines. Proceeds from the divestiture were not material. Odda was included in the Company's Industrial Chemicals segment and Carbide was included in the Company's Distribution segment.

The Company recorded a $0.7 million loss on disposal of Odda and Carbide. The loss primarily related to the write-off of Odda's remaining net assets, including the related cumulative currency translation adjustment.

Mineral Resource Technologies, Inc. ("MRT"). During 2003, the Company decided to pursue a sale of MRT. MRT provides management and recycling of coal combustion residues, principally fly ash. The sale was completed in August 2003 for net proceeds, after transaction costs, of approximately $13.8 million. MRT was included in the Company's All Other segment.

La Cornubia. On June 30, 2004, one of the Company's French subsidiaries, La Cornubia SA ("La Cornubia"), filed for bankruptcy under the insolvency laws of France. The Company believes that, as a result of the bankruptcy filing by La Cornubia, it is possible that LC Holding S.A. ("LC Holding"), La Cornubia's parent, a holding Company with no assets except for its investment in La Cornubia, may also file for bankruptcy in France. The Company does not believe that La Cornubia's bankruptcy filing, nor the possible bankruptcy filing by LC Holding, will have a material adverse effect on its financial condition or results of operations.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for 2004 and 2003 was $2.9 million and $34.7 million, respectively. Cash provided in 2004 was due to income from continuing operations offset in part by working capital requirements. In addition, payment of the Pfizer obligations (shown in financing activities) eliminated additional working capital requirements that otherwise would have been necessary. Cash provided in 2003 was due to improved income from continuing operations and aggressive working capital management. The Company incurred $5.3 million of costs for a non-completed acquisition transaction and paid approximately $1.4 million of these charges in 2004.

Net Cash Provided (Used) by Investing Activities. Net cash provided (used) by investing activities for 2004 and 2003 was $9.1 million and ($4.0) million, respectively. Discontinued operations, primarily from the sale of MRT, provided funds of $14.9 million in 2004. Discontinued operations provided $1.4 million in 2003. Capital expenditures of $6.2 million and $8.6 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. Proceeds from sales of fixed assets and other investing activities accounted for the remainder of cash provided by investing activities in 2004.

Net Cash Provided (Used) by Financing Activities. Net cash (used) by financing activities for 2004 and 2003 was ($17.8) million and ($26.4) million, respectively. Short-term debt decreased due to the reduction of the senior credit facility of $21.2 million, debt payments related to Odda of $5.7 million and by other increases of $0.1 million. Proceeds from long-term debt reflect the issuance of $105.0 million Senior Secured Notes and an increase of $4.6 million in foreign bank loans. Payments of long-term debt primarily reflect the retirement of Senior Subordinated Notes. Payments of the Pfizer obligations, the Prince transactions and costs related to the refinancing account for the remainder of funds used by financing activities.

Working Capital and Capital Expenditures. Working capital as of June 30, 2004 was $54.4 million compared to $9.1 million at fiscal year end June 30, 2003, an increase of $45.3 million. The increase in working capital was due to reduced current debt, accounts payable and accrued expense levels, principally as a result of the Company's refinancing and satisfaction of its obligations due Pfizer.

The Company anticipates spending approximately $8.0 million for capital expenditures in 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 June 30, 2004, the amount of credit extended under the Company's senior credit facility totaled $11.0 million under the revolving credit facility and $9.3 million under the letter of credit facility, and the Company had $6.5 million available under the borrowing base formula in effect. In addition, certain of the Company's foreign subsidiaries also had availability totaling $4.8 million under their respective loan agreements. On April 29, 2004, the Company amended the senior credit facility to increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $25.0 million to $27.5 million and to increase the amount of aggregate borrowings available under the working capital facility from $15.0 million to $17.5 million. As of September 24, 2004, the Company amended the senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $27.5 million 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 all other items.

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

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

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

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

	Years			
	Within 1	Over 1 to 3	Over 3 to 5	Total
	(Dollars in thousands)			
Loans payable to banks	$ 11.0	$ --	$ --	$ 11.0
Lease commitments	1.6	1.4	0.6	3.6
Long-term debt (including current portion)	1.4	4.1	153.9	159.4
Interest payments	19.2	38.4	11.8	69.4
Acquisition of rights	0.7	1.2	0.2	2.1
Total contractual obligations	$ 33.9	$ 45.1	$166.5	$245.5

Supplemental Information (Unaudited)

The Company shutdown Odda and divested Carbide during 2003, sold MRT in August 2003, and shutdown La Cornubia in June 2004. These businesses have been classified as discontinued operations. The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position, and cash flows of the discontinued operations. In addition, the Company completed the Prince Transactions in December 2003, including the divestiture of PMC and the termination of management fees to the Palladium Investors.

To facilitate quarterly comparisons, the following unaudited statements present the quarterly operating results of continuing operations, for the years ended June 30, 2004, 2003 and 2002. Amounts are in thousands.

	Quarters ended			
	Sept 30, 2003	Dec 31, 2003	March 31, 2004	June 30, 2004
Net sales:				
Animal Health & Nutrition	$ 59,841	$ 68,687	$ 64,819	$ 72,074
Industrial Chemicals - ex PMC	6,299	6,244	10,000	8,592
Industrial Chemicals - PMC	5,683	5,435	--	--
Distribution	7,939	7,656	7,916	7,350
All Other	5,188	4,518	4,302	5,731
Total net sales	84,950	92,540	87,037	93,747
Cost of goods sold	63,790	69,991	63,843	70,247
Gross profit	21,160	22,549	23,194	23,500
Selling, general and administrative expenses	15,785	16,824	16,165	17,354
Costs of non-completed transaction	--	--	--	5,261

Operating income (loss):				
Animal Health & Nutrition	6,900	7,655	8,370	10,382
Industrial Chemicals - ex PMC	(391)	(287)	1,136	163
Industrial Chemicals - PMC	1,213	1,065	--	--
Distribution	841	692	789	578
All Other	669	657	557	418
Corporate Expenses	(3,377)	(4,132)	(4,116)	(9,729)
Eliminations	82	638	293	(927)
Palladium management fee	(562)	(563)	--	--
Total operating income (loss)	5,375	5,725	7,029	885
Other:				
Interest expense	3,933	4,549	4,918	5,218
Interest (income)	(242)	168	(43)	(13)
Other expense, net	(585)	127	(131)	(192)
Net (gain) on extinguishment of debt	--	(23,226)	--	--
Income (loss) from continuing operations before income taxes	2,269	24,107	2,285	(4,128)
Provision for income taxes	783	2,880	2,209	2,097
Income/(loss) from continuing operations	1,486	21,227	76	(6,225)
Discontinued operations:				
Income (loss) from operations	(462)	59	(471)	(751)
Gain (loss) on disposal	231	--	--	(2,320)
Net income/(loss)	$ 1,255	$ 21,286	$ (395)	$ (9,296)
Depreciation and amortization from continuing operations:				
Animal Health & Nutrition	$ 2,029	$ 2,059	$ 2,086	$ 2,089
Industrial Chemicals - ex PMC	406	395	403	432
Industrial Chemicals - PMC	243	244	--	--
Distribution	3	4	3	1
All Other	115	98	105	101
Corporate Expenses	372	576	660	759
Total depreciation and amortization	$ 3,168	$ 3,376	$ 3,257	$ 3,382

	Quarters ended			
	Sept 30, 2002	Dec 31, 2002	March 31, 2003	June 30, 2003
Net sales:				
Animal Health & Nutrition	$ 59,976	$ 66,650	$ 62,675	$ 61,405
Industrial Chemicals - ex PMC	8,138	5,946	6,449	5,932
Industrial Chemicals - PMC	5,756	5,285	5,743	5,548
Distribution	8,096	7,197	7,612	7,167
All Other	1,711	2,190	3,793	4,477

Total net sales	83,677	87,268	86,272	84,529
Cost of goods sold	61,638	63,366	63,306	62,890
Gross profit	22,039	23,902	22,966	21,639
Selling, general and administrative expenses	15,544	15,874	17,496	16,136
Operating income (loss):				
Animal Health & Nutrition	9,420	11,593	8,902	8,557
Industrial Chemicals - ex PMC	(1,035)	(1,815)	(1,555)	(1,029)
Industrial Chemicals - PMC	1,127	901	839	712
Distribution	750	802	900	755
All Other	13	245	356	6
Corporate Expenses	(3,051)	(3,440)	(3,324)	(2,905)
Eliminations	(167)	305	(86)	(30)
Palladium management fee	(562)	(563)	(562)	(563)
Total operating income (loss)	6,495	8,028	5,470	5,503
Other:				
Interest expense	4,489	3,641	3,958	4,193
Interest (income)	(126)	31	(39)	49
Other expense, net	1,155	235	201	(52)
Income (loss) from continuing operations before income taxes	977	4,121	1,350	1,313
Provision for income taxes	432	1,409	599	7,620
Income/(loss) from continuing operations	545	2,712	751	(6,307)
Discontinued operations:				
Income (loss) from operations	(702)	(10,547)	(1,681)	(1,647)
Gain (loss) on disposal	--	--	(1,342)	659
Net income/(loss)	$ (157)	$ (7,835)	$ (2,272)	$ (7,295)
Depreciation and amortization from continuing operations:				
Animal Health & Nutrition	$ 1,892	$ 1,920	$ 1,890	$ 1,988
Industrial Chemicals - ex PMC	587	699	498	164
Industrial Chemicals - PMC	232	239	240	245
Distribution	3	3	2	4
All Other	87	90	94	93
Corporate Expenses	355	395	405	399
Total depreciation and amortization	$ 3,156	$ 3,346	$ 3,129	$ 2,893

	Quarters ended			
	Sept 30, 2001	Dec 31, 2001	March 31, 2002	June 30, 2002
Net sales:				
Animal Health & Nutrition	$ 57,943	$ 63,156	$ 59,378	$ 59,125

Industrial Chemicals - ex PMC	6,591	6,253	7,258	9,301
Industrial Chemicals - PMC	5,062	5,218	5,418	5,753
Distribution	7,590	6,640	6,753	6,869
All Other	2,377	2,448	2,595	2,948
Total net sales	79,563	83,715	81,402	83,996
Cost of goods sold	59,592	60,128	60,885	66,806
Gross profit	19,971	23,587	20,517	17,190
Selling, general and administrative expenses	16,431	17,614	17,577	19,014
Operating income (loss):				
Animal Health & Nutrition	7,365	10,259	6,246	4,428
Industrial Chemicals - ex PMC	(2,759)	(2,160)	(1,175)	(4,870)
Industrial Chemicals - PMC	821	588	1,058	1,173
Distribution	612	544	496	693
All Other	214	367	108	475
Corporate Expenses	(2,204)	(2,708)	(2,733)	(3,746)
Eliminations	53	(354)	(498)	586
Palladium management fee	(562)	(563)	(562)	(563)
Total operating income (loss)	3,540	5,973	2,940	(1,824)
Other:				
Interest expense	4,596	4,660	4,590	4,224
Interest (income)	(65)	(231)	(6)	(44)
Other expense, net	1,263	753	368	965
Income (loss) from continuing operations before income taxes	(2,254)	791	(2,012)	(6,969)
Provision for income taxes	(197)	1,203	1,264	12,497
Income/(loss) from continuing operations	(2,057)	(412)	(3,276)	(19,466)
Discontinued operations:				
Income (loss) from operations	(308)	(1,287)	(5,796)	(19,168)
Gain (loss) on disposal	--	--	--	
Net income/(loss)	$ (2,365)	$ (1,699)	$ (9,072)	$ (38,634)
Depreciation and amortization from continuing operations:				
Animal Health & Nutrition	$ 1,810	$ 1,589	$ 1,996	$ 2,043
Industrial Chemicals - ex PMC	633	579	609	748
Industrial Chemicals - PMC	242	240	242	242
Distribution	7	(1)	3	3
All Other	81	78	80	82
Corporate Expenses	264	268	263	254
Total depreciation and amortization	$ 3,037	$ 2,753	$ 3,193	$ 3,372

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.

The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements. 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. Following are some of the Company's critical accounting policies impacted by judgments, assumptions and estimates.

Revenue Recognition

Revenues are recognized when title to products and risk of loss are transferred to customers. Additional conditions for recognition of revenue are that collection of sales proceeds is reasonably assured and the Company has no further performance obligations. Net sales are comprised of total sales billed, less reductions for returned goods, trade discounts and customer allowances.

Litigation

The Company is subject to legal proceedings and claims arising out of the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable losses. A determination of the amount of the reserves required for these contingencies is based on an analysis of the various issues, historical experience, other third party judgments and outside specialists, where required. The required reserves may change in the future due to new developments in each matter. For further discussion, see Note 15 to the Consolidated Financial Statements.

Environmental Matters

The Company determines the costs of environmental remediation of its facilities and formerly owned properties on the basis of current law and existing technologies. Uncertainties exist in these evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. The liabilities are adjusted periodically as remediation efforts progress or as additional information becomes available. The Company has recorded liabilities of $2.9 million at June 30, 2004 for such activities.

Long Lived Assets

Long-lived assets, including plant and equipment, and other intangible assets are reviewed for impairment when events or circumstances indicate that a diminution in value may have occurred, based on a comparison of undiscounted future cash flows to the carrying amount of the long-lived asset. If the carrying amount exceeds undiscounted future cash flows, an impairment charge is recorded based on the difference between the carrying amount of the asset and its fair value.

The assessment of potential impairment for a particular asset or set of assets requires certain judgments and estimates by the Company, including the determination of an event indicating impairment; the future cash flows to be generated by the asset, including the estimated life of the asset and likelihood

of alternative courses of action; the risk associated with those cash flows; and the Company's cost of capital or discount rate to be utilized.

Useful Lives of Long-Lived Assets

Useful lives of long-lived assets, including plant and equipment and other intangible assets are based on management's estimates of the periods that the assets will be productively utilized in the revenue-generation process. Factors that affect the determination of lives include prior experience with similar assets and product life expectations and management's estimate of the period that the assets will generate revenue.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) and average methods for most inventories. The determination of market value to compare to cost involves assessment of numerous factors, including costs to

dispose of inventory and estimated selling prices. Reserves are recorded for inventory determined to be damaged, obsolete, or otherwise unsaleable.

Income Taxes

Deferred tax assets and liabilities are determined using enacted tax rates for the effects of net operating losses and temporary differences between the book and tax bases of assets and liabilities. The Company records a valuation allowance on deferred tax assets when appropriate to reflect the expected future tax benefits to be realized. In determining the appropriate valuation allowance, certain judgments are made relating to recoverability of deferred tax assets, use of tax loss carryforwards, level of expected future taxable income and available tax planning strategies. These judgments are routinely reviewed by management. For further discussion, see Note 14 to the Consolidated Financial Statements.

New Accounting Pronouncements

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

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

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

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures

about Pensions and Other Postretirement Benefits, an amendment to FASB Statements No. 87, 88, and 106 (revised 2003)" ("SFAS No. 132"). This revision to SFAS No. 132 relates to employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 now requires additional disclosures to describe the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods of defined pension plans and other defined postretirement plans. The additional disclosures required by this revision to SFAS No. 132 have been provided.

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

Effect of Inflation; Foreign Currency Exchange Rates

Inflation generally affects the Company by increasing the cost of labor, equipment and raw materials. The Company does not believe that inflation has had any material effect on the Company's business over the last two years.

The Company's substantial foreign operations expose it to risk of exchange rate fluctuations. Financial position and results of operations of the Company's international subsidiaries generally are measured using local currencies as the functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect at each fiscal year end. The translation adjustments related to assets and liabilities that arise from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss in shareholders' equity. Income statement accounts are translated at the average rates of exchange prevailing during the year.

A business unit of Koffolk and all of Planalquimica operate primarily in U.S. dollars. The U.S. dollar is designated as the functional currency for these businesses and translation gains and losses are included in determining net income or loss.

Foreign currency transaction gains and losses primarily arise from short-term intercompany balances. Net foreign currency transaction and translation (gains) losses were ($116), $789 and $3,385 for 2004, 2003 and 2002, respectively, and were included in other expense, net in the consolidated statements of operations.

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.

Interest Rate Risk

The Company uses sensitivity analysis to assess the market risk of its debt-related financial instruments and derivatives. Market risk is defined for these purposes as the potential change in the fair value resulting from an adverse movement in interest rates.

The Company's debt portfolio is comprised of fixed rate and variable rate debt of approximately $170.4 million as of June 30, 2004. Approximately 10% of the debt is variable and would be interest rate sensitive. For further details, see Note 9, to the Consolidated Financial Statements of the Company appearing elsewhere herein.

For the purposes of the sensitivity analysis, an immediate 10% change in interest rates would not have a material impact on the Company's cash flows and earnings over a one year period.

As of June 30, 2004, the fair value of the Company's senior secured and subordinated notes are estimated based on quoted market rates at $158 million and the related carrying amount is $153 million.

Foreign Currency Exchange Rate Risk

A significant portion of the financial results of the Company is derived from activities conducted outside the U.S. and denominated in currencies other than the U.S. dollar. Because the financial results of the Company are reported in U.S. dollars, they are affected by changes in the value of the various foreign currencies in relation to the U.S. dollar. Exchange rate risks are reduced, however, by the diversity of the Company's foreign operations and the fact that international activities are not concentrated in any single non-U.S. currency. Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. From time to time, the Company may cover known and anticipated operating exposures by using purchased foreign currency exchange option and forward contracts. The primary currencies for which the Company has foreign currency exchange rate exposure are the Euro, the Brazilian Real, and Japanese yen.

The Company uses sensitivity analysis to assess the market risk associated with its foreign currency transactions. Market risk is defined for these purposes as the potential change in fair value resulting from an adverse movement in foreign currency exchange rates. The fair value associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date. Based on the limited amount of foreign currency contracts at June 30, 2004, the Company does not believe that an instantaneous 10% adverse movement in foreign currency rates from their levels at June 30, 2004, with all other variables held constant, would have a material effect on the Company's results of operations, financial position or cash flows.

Commodity Price Risk

The Company purchases certain raw materials, such as copper, under short-term supply contracts. The purchase prices thereunder are generally determined based on prevailing market conditions. The Company uses commodity derivative instruments to modify some of the commodity price risks. Assuming a 10% change in the underlying commodity price, the potential change in the fair value of commodity derivative contracts held at June 30, 2004 would not be material when compared to the Company's operating results and financial

position.

The foregoing market risk discussion and the estimated amounts presented are Forward-Looking Statements that assume certain market conditions. Actual results in the future may differ materially from these projected results due to developments in relevant financial markets and commodity markets. The methods used above to assess risk should not be considered projections of expected future events or results.

Certain Factors Affecting Future Operating Results

Forward-Looking Statements

This Report on Form 10-K 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 "Other Risks and Uncertainties" in Note 2 of our 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 7A. Quantitative and Qualitative Disclosures about Market Risk

Information regarding quantitative and qualitative disclosures about market risk is set forth in Item 7 of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

The financial statements are set forth commencing on page F-1 hereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No response required.

Item 9A. 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 not effective for gathering, analyzing and disclosing information we are required to disclose in periodic reports that we furnish to the Securities and Exchange Commission, for the specific reasons noted in paragraph (b) below. The corrective actions we are taking are also noted in paragraph (b).

(b) As of the end of the period covered by this report, 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. During September 2004, as part of the audit of the financial statements for the year ended June 30, 2004, the Company's auditors determined and communicated to the Company's management significant deficiencies in internal control that, when viewed collectively, constituted a material weakness in the Company's internal control. A material weakness is defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The significant deficiencies noted related to the failure to perform timely review, substantiation and evaluation of certain general ledger account balances, principally related to bank account reconciliations and accrued pension liabilities. The Company is addressing the material weakness by completing a review of significant balance sheet accounts and enhancing the review process by requiring supervisory review and sign-off on bank account reconciliations and other balance sheet account analyses. Additionally, the Company plans to remediate the matters discussed above through further improvements in processes and procedures related to the review, substantiation and evaluation of general ledger account balances.

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.

Item 9B. Other Information

No response required.

PART III

Item 10. Directors and Executive Officers of the Registrant

The following table sets forth information regarding our executive officers and directors:

Name	Age	Position
Jack C. Bendheim.....	57	Chairman of the Board of Directors; President
Gerald K. Carlson.....	61	Chief Executive Officer
Marvin S. Sussman.....	57	Vice Chairman of the Board of Directors and President, Prince Agri
James O. Herlands.....	62	Director and Executive Vice President
Richard G. Johnson.....	55	Chief Financial Officer
Daniel M. Bendheim.....	32	President, Specialty Chemicals Group*
Steven L. Cohen.....	60	Vice President, General Counsel and Assistant Secretary
David G. McBeath.....	57	President, Animal Health Group
Daniel A. Welch.....	54	Senior Vice President, Human Resources
Sam Gejdenson	56	Director, Noteholder Representative
Peter A. Joseph.....	52	Director
Mary Lou Malanoski.....	47	Director

Marcos Rodriguez..... 43 Director

* William A. Mathison, the former President, Specialty Chemicals Group, retired in August 2004.

Jack C. Bendheim Chairman of the Board of Directors and President. Mr. Bendheim has been President since 1988. He was Chief Operating Officer from 1988 to 1998, and was Chief Executive Officer from 1998 to May 2002. He has been a director since 1984. Mr. Bendheim joined us in 1969 and served as Executive Vice President and Treasurer from 1983 to 1988 and as Vice President and Treasurer from 1975 to 1983. Mr. Bendheim is also a director of The Berkshire Bank in New York, New York, and Empire Resources, Inc., a metals trading company in Fort Lee, New Jersey.

Gerald K. Carlson Chief Executive Officer. Mr. Carlson joined us in May 2002 and has served as our Chief Executive Officer since then. Prior to joining us, Mr. Carlson served as the Commissioner of Trade and Development for the State of Minnesota from January 1999 to March 2001. Mr. Carlson served as Senior Vice President-- Corporate Planning and Development from June 1996 to his retirement in October 1998 from Ecolab, Inc. During his thirty-two year career at Ecolab, Mr. Carlson also served as Senior Vice President of International as well as Senior Vice President and General Manager-- Institutional North America.

Marvin S. Sussman Vice Chairman of the Board of Directors and President of our Prince Agri subsidiary. He has been a director since 1988 and was Chief Operating Officer from 1998 to 2002. Mr. Sussman joined us in 1971. Since then, he has served in various executive positions with us. Mr. Sussman was President of our Prince Group from 1988 to 2002. Mr. Sussman is the brother-in-law of Jack Bendheim.

James O. Herlands Director; Executive Vice President. Mr. Herlands joined us in 1964. Since then, he has served in various capacities in sales/marketing and purchasing. He has been a director since 1988 and served as President of our CP/PhibroChem division since 1992. In addition, Mr. Herlands has served as our Executive Vice President since 1988. Mr. Herlands is the first cousin of Jack Bendheim.

Richard G. Johnson Chief Financial Officer. Mr. Johnson joined us in September 2002 and has served as our Chief Financial Officer since then. Prior to joining us, Mr. Johnson served as Director of Financial Management for Laserdyne Prima, Inc. from 2001 to 2002 and as Vice President-- Planning and Control, Latin America for Ecolab, Inc. from 1992 to 1999. In addition, Mr. Johnson served in various senior financial positions at Ecolab over a fifteen year period.

Daniel M. Bendheim President, Specialty Chemicals Group. Mr. Bendheim joined the Company in 1998. In 2001 he was appointed Vice President of Business Development, and was appointed to his current position of President, Specialty Chemicals Group in September, 2004. Prior to joining the Company Mr. Bendheim worked as an analyst at SouthCoast Capital. Mr. Bendheim received a JD from Harvard Law School in 1996 and a BA from Yeshiva University in 1993. Mr. Bendheim is a son of Jack Bendheim.

Steven L. Cohen Vice President and General Counsel. Mr. Cohen joined us in October 2000 and has served as our Vice President-- Regulatory and General Counsel since then. Prior to joining us, Mr. Cohen was, from 1997 to 2000, General Counsel of Troy Corporation, a multi-national chemical company. From 1994 to 1997, Mr. Cohen was in the private practice of law.

David G. McBeath President Animal Health Group. Dr. McBeath joined us on August 1, 2003. Prior to joining us, he was CEO of Scottish Health Innovations Ltd., a company created to identify and exploit intellectual property arising from research carried out within the National Health Service in Scotland. From March 2001 to December 2002, he served on the Management Committee of Merial as Head of the Production Animal business; and prior to this was on the Board of Hoechst Roussel Vet GmbH, with direct responsibility for R&D and Regulatory Affairs.

Daniel A. Welch Senior Vice President Human Resources. Mr. Welch joined us on August 9, 2004. Prior to joining us, he was Director of Human Resources of Pfizer Inc. since 2001. From 1998 to 2001, Mr. Welch was the President of Value Growth Dynamics, LLC, a consulting firm focused on strategic change.

Sam Gejdenson Director, From 1981 to 2000, Congressman Sam Gejdenson served eastern Connecticut in the U.S. House of Representatives. Mr. Gejdenson was the senior Democrat on the House International Relations Committee. He received an A.S. degree from Mitchell College in New London, Connecticut in 1968 and a B.A. from the University of Connecticut in Storrs, Connecticut in 1970. In 1974, he was elected to the Connecticut House of Representatives, serving two terms before accepting a post in the administration of Connecticut Governor Ella T. Grasso. Mr. Gejdenson is now involved in international trade in his own company Sam Gejdenson International.

Peter A. Joseph Director. Mr. Joseph has served as one of our Directors since February 2001. From 1998 to present, he has been a member of Palladium Equity Partners, LLC. From 1986 to 1997, Mr. Joseph was a general partner of Joseph Littlejohn & Levy, a buyout firm.

Mary Lou Malanoski Director. Ms. Malanoski currently serves as a managing director at Morgan Joseph, Inc. From 1994 until June 2001, Ms. Malanoski served as Managing Director and Chief Financial Officer of New Street Advisors LP, a private equity firm that she co-founded. Ms.Malanoski began her career at Drexel Burnham Lambert in 1980 in the Corporate Finance Department. She subsequently served in various positions, finally serving as Managing Director in the Mergers and Acquisitions Department and Chair of the Corporate Finance Underwriting Commitment Committee. Following Drexel's bankruptcy filing in 1990, Ms. Malanoski was responsible for formulating the firm's plan of reorganization, which was successfully consummated in 1992. She remained at the reorganized firm, which was renamed New Street Capital Corp., as a Managing Director responsible for many of the firm's merchant banking investments. Following New Street Capital's sale in 1994, Ms. Malanoski co-founded New Street Advisors. She is a Trustee of Rosemont College, from which she received a B.A. degree in Mathematics, and she also received an MBA from the Johnson School of Cornell University.

Marcos A. Rodriguez Director. Mr. Rodriguez founded Palladium Equity Partners in 1997 and serves as Managing Member. Prior to forming Palladium, Mr. Rodriguez was a partner of Joseph Littlejohn & Levy (JLL), a buyout firm which he joined in 1989. He was responsible for spearheading a number of JLL's major investments. Before launching his private equity career 14 years ago, Mr. Rodriguez worked in operations for General Electric Company in the U.S., Mexico and France and graduated from GE's Manufacturing Management Program. Mr. Rodriguez serves on the Board of Directors of portfolio companies Haden International, The Hilsinger Company and Wise Foods. In addition, Mr. Rodriguez serves as Chairman of the Development Committee and Treasurer of the Board of Directors of The Robert Toigo Foundation, a not-for-profit organization that supports the advancement of exceptional minority business degree students and alumni within the finance industry through scholarships, mentoring, internships and job placement. He is also a member of the New America Alliance. Mr. Rodriguez earned a B.S. in Mechanical Engineering from Columbia University, an

M.B.A from the Wharton School and an M.A. in International Studies from the Lauder Institute of the University of Pennsylvania.

Board Composition

Our entire Board of Directors consists of 7 members, all of whom are currently designated and serving as directors. Our board of directors is elected annually, and our directors hold office until the next annual meeting of shareholders or until their successors are elected and qualified. Each officer serves at the discretion of the Board of Directors.

Compensation of Directors

Except for the payment of $50,000 annually to Mr. Sam Gejdenson, the director designated by the holders of the Senior Secured Notes, our directors do not receive any cash compensation for service on our Board of Directors. Directors may be reimbursed for certain expenses in connection with attendance at board meetings, however. We have entered into certain transactions with certain of the directors. See "Certain Relationships and Related Transactions."

Code of Ethics

Our Board of Directors has not adopted a code of ethics applicable to our principal executive, financial or accounting officers. The Board of Directors believes that our current internal control procedures and business practices are adequate to promote honest and ethical conduct and to deter wrongdoing by these executives.

Committees of the Board of Directors

Audit Committee

We are not a "listed issuer" as defined under Section 10A-3 of the Exchange Act and are therefore not required to have an audit committee comprised of independent directors. We currently do not have an audit committee and our Board of Directors has determined that we do not have an audit committee financial expert. The Board of Directors believes that each of its members has the requisite financial background, experience, and knowledge to fulfill the duties and obligations that an audit committee would have, and therefore does not believe that it is necessary at this time to search for a person who would qualify as an audit committee financial expert.

Our Board of Directors has not created any committees other than the compensation committee.

The duties of the Compensation Committee are to recommend to the Board of Directors a compensation program, including incentives, for the Chief Executive Officer and other senior officers of the Company, for approval by the full Board of Directors.

The current members of the Compensation Committee are Mr. Jack C. Bendheim, Mr. Joseph and Mr. Gejdenson.

Item 11. Executive Compensation

The following table sets forth the cash compensation paid by us and our subsidiaries for services during fiscal 2004, 2003, and 2002 to our Chief Executive Officer and to the next four most highly compensated executive

officers:

Name and Principal Position	Year	Annual Compensation Salary	Bonus	Other Annual Compensation	A Comp
Jack C. Bendheim	2004	$ 1,650,000	$ --	$ --	$
Chairman of the Board; President	2003	1,650,000	--	150,000(2)	
	2002	1,500,000	265,000	--	
Gerald K. Carlson(3)	2004	500,000	575,000	24,000	
Chief Executive Officer	2003	500,000	--	24,000	
	2002	49,350	--	--	
Marvin S. Sussman(4)	2004	1,000,000	101,372	--	
Vice Chairman of the Board;	2003	1,000,000	--	--	
President of Prince Agri	2002	1,000,000	--	--	
James O. Herlands	2004	400,000	95,519	--	
Executive Vice President	2003	400,000	150,000	--	
	2002	400,000	150,000	--	
Richard G. Johnson(5)	2004	268,750	200,000	13,500	
Chief Financial Officer	2003	192,308	--	39,000	

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(1) Represents contributions by us under our 401(k) Retirement and Savings Plan. See "Compensation Pursuant to Plans."

(2) In fiscal 2003, Mr. Bendheim was paid $150,000 for temporary deferral of fiscal 2002 compensation.

(3) 2002 salary is for a partial year commencing May 2002. In fiscal 2004 and 2003, Mr. Carlson received $24,000 for relocation and housing assistance.

(4) Pursuant to a Stockholders Agreement between us and Mr. Sussman, we are required to purchase, at book value, all shares of our Class B Common Stock owned by Mr. Sussman in the event of his retirement, death, disability or the termination of his employment by us. Should Mr. Sussman elect to sell his shares, we have a right of first offer and an option to purchase the shares.

See "Certain Relationships and Related Transactions." As a result, each year, we are required to record as compensation expense (income) in our results of operations the change in our book value attributable to Mr. Sussman's shares. For 2004, 2003 and 2002, the expense (income) attributable to Mr. Sussman's shares was $0, $0 and ($378,000), respectively. No distributions have been made to Mr. Sussman under this agreement.

(5) Salary is since date of employment for 2003. In fiscal 2004 and 2003, Mr. Johnson received $13,500 and $39,000, respectively, for relocation and

housing assistance.

(6) Of such amount, $18,000 represents the cost of the term portion of a life insurance policy purchased by the Company in the face amount of $10 million on the life of Mr. Sussman, with a required premium of $252,000 per year. The policy commenced in April 2002.

In fiscal 2004, no options were granted to the named executive officers and no options were held or exercised by any of the named executive officers.

Employment and Severance Agreements

We entered into an employment agreement with Gerald K. Carlson in May 2002, whereby Mr. Carlson will serve as our Chief Executive Officer. The agreement provides for a base salary of $500,000 during the first year of its term. Mr. Carlson is eligible to receive an annual bonus of up to 150% of his base salary based on our achievement of certain specified EBITDA growth targets. If Mr. Carlson is terminated without Cause (as defined) or he voluntarily terminates the agreement with Good Reason (as defined), he is entitled to receive the accrued portion of the target annual bonus, as well as an amount ranging from two to eight months of base salary depending on when such termination occurs. If, within six months after a Change of Control (as defined), Mr. Carlson is terminated without cause or he voluntarily terminates the agreement with Good Reason, he will be entitled to receive a lump sum payment equal to the amount of annual target bonus accrued to the date of termination, plus 100% of base salary and 50% of annual target bonus. We are obligated under the agreement to provide separate indemnification insurance to Mr. Carlson in the amount of the current coverage provided to our current board of directors.

We entered into an employment agreement with Marvin S. Sussman in December 1987. The term of employment is from year-to-year, unless terminated by us at any time or by his death or permanent disability.

Our UK subsidiary, PAH Management Company Ltd., entered into an employment agreement with David McBeath in May 2003, commencing August 1, 2003, whereby Mr. McBeath will serve as President of our Animal Health Group. The agreement provides for a base salary of $250,000. The agreement also provides for additional payments to Mr. McBeath of $100,000 upon commencement of his employment and $130,000 upon completion of his term of employment (the "Completion Fee"). If Mr. McBeath dies during the term of the agreement or the agreement is terminated because of his disability or Mr. McBeath is terminated other than for cause, he, or his estate, as the case may be, would be entitled to receive, in lieu of severance, a prorated portion of the Completion Fee.

In 1995, James O. Herlands purchased stock in Phibro-Tech. In connection therewith, we entered into a severance agreement with him. The agreement provides that, upon his Actual or Constructive Termination or a Change in Control Event (as such terms are defined), he is entitled to receive a cash Severance Amount (as defined therein), based upon a multiple of Phibro-Tech's pre-tax earnings (as defined therein). In addition, if an Extraordinary Event (as defined) occurs within 12 months after the occurrence of an Actual or Constructive Termination, the executive is entitled to receive an additional Catch-up Payment (as defined). At June 30, 2004, no severance payments would have been due to Mr. Herlands if he were terminated. See "Certain Relationships and Related Transactions."

Compensation Pursuant to Plans

401(k) Plan. We maintain for the benefit of our employees a 401(k) Retirement and Savings Plan (the "Plan"), which is a defined contribution, profit sharing plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). Our employees are eligible for participation

in the Plan once they have attained age 21 and completed a year of service (in which the employee completed 1,000 hours of service). Up to $200,000 (indexed for inflation) of an employee's base salary may be taken into account for Plan purposes. Under the Plan, employees may make pre-tax contributions of up to 60.0% of such employee's base salary, and we will make non-matching contributions equal to 1% of an employee's base salary and matching contribution equal to 50.0% of an employee's pre-tax contribution up to 3.0% of such employee's base salary and 25.0% of such employee's pre-tax contribution from 3.0% to 6.0% of base salary. Participants are vested in employer contributions in 20% increments beginning after completion of the second year of service and become fully vested after five years of service. Distributions are generally payable in a lump sum after termination of employment, retirement, death, disability, plan termination, attainment of age 59 1/2, disposition of substantially all of our assets or upon financial hardship. The Plan also provides for Plan loans to participants.

The accounts of Messrs. Bendheim, Carlson, Sussman, Herlands, and Johnson were credited with employer contributions of $2,050, $1,458, $6,581, $6,581, and $6,703, respectively, for fiscal 2004.

Retirement Plan. We have adopted The Retirement Plan of Phibro Animal Health Corporation and Subsidiaries and Affiliates, which is a defined benefit pension plan (the "Retirement Plan"). Our employees are eligible for participation in the Retirement Plan once they have attained age 21 and completed a year of service (which is a Plan Year in which the employee completes 1,000 hours of service). The Retirement Plan provides benefits equal to the sum of (a) 1.0% of an employee's "average salary" plus 0.5% of the employee's "average salary" in excess of the average of the employee's social security taxable wage base, times years of service after July 1, 1989, plus (b) the employee's frozen accrued benefit, if any, as of June 30, 1989 calculated under the Retirement Plan formula in effect at that time. For purposes of calculating the portion of the benefit based on "average salary" in excess of the average wage base, years of service shall not exceed 35. "Average salary" for these purposes means the employee's salary over the consecutive five year period in the last ten years preceding retirement or other termination of employment which produces the highest average; or, if an employee has fewer than five years of service, all such years of service. An employee becomes vested in his plan benefit once he completes five years of service with us. In general, benefits are payable after retirement or disability in the form of a 50%, 75% or 100% joint or survivor annuity, life annuity or life annuity with a five or ten year term. In some cases benefits may also be payable under the Retirement Plan in the event of an employee's death.

The following table shows estimated annual benefits payable upon retirement in specified compensation and years of service classifications, assuming a life annuity with a ten year term.

	Years of Service				
Average Compensation	15	20	25	30	35
$ 25,000	$ 3,750	$ 5,000	$ 6,250	$ 7,500	$ 8,750
$ 50,000	$ 7,500	$ 10,000	$ 12,500	$ 15,000	$ 17,500
$ 75,000	$ 11,420	$ 15,000	$ 18,750	$ 22,500	$ 26,250
$ 100,000	$ 17,040	$ 22,000	$ 26,980	$ 31,990	$ 37,280
$ 150,000	$ 28,290	$ 37,000	$ 45,730	$ 54,490	$ 63,530
$ 200,000	$ 39,540	$ 52,000	$ 64,480	$ 76,990	$ 89,780

As of June 30, 2004, Messrs. Bendheim, Carlson, Sussman, Herlands, and Johnson had 35, 2, 33, 40 and 2 estimated credited years of service, respectively, under the Retirement Plan. The compensation covered by the Retirement Plan for each of these officers as of June 30, 2004 is $205,000. Such individuals, at normal retirement age 65, will have 43, 6, 41, 43 and 12 credited years of service, respectively. The annual expected benefit after normal retirement at age 65 for each of these individuals, based on the compensation taken into account as of June 30, 2004, is $118,200, $16,580, $134,110, $129,240, and $32,000, respectively.

Most of our foreign subsidiaries have retirement plans covering substantially all employees. Contributions to these plans are generally deposited under fiduciary-type arrangements. Benefits under these plans are primarily based on levels of compensation. Funding policies are based on applicable legal requirements and local practices.

Deferred Compensation Plan. In 1994, we adopted a non-qualified Deferred Compensation Plan and Trust, as an incentive for certain executives. The plan provides for (i) a Retirement Income Benefit (as defined), (ii) a Survivor's Income Benefit (as defined), and (iii) Deferred Compensation Benefit (as defined). Three employees currently participate in this plan. A trust has been established to provide the benefits described above.

The following table shows the estimated benefits from this plan as of June 30, 2004.

	Annual Retirement Income Benefit	Survivor's Income Benefit	Deferred Compensation Benefit
Jack C. Bendheim.....	$35,309	$1,500,000	$386,368
Marvin S. Sussman.....	$35,309	$1,000,000	$128,451
James O. Herlands.....	$35,085	$ 400,000	$347,104

We determine the Retirement Income Benefit based upon the employee's salary, years of service and age at retirement. At present, it is contemplated that a benefit of 1% of each participant's eligible compensation will be accrued each year. The benefit is payable upon retirement (after age 65 with at least 10 years of service) in monthly installments over a 15 year period to the participant or his named beneficiary. The Survivor's Income Benefit for the current participants is one times annualized compensation at the time of death, capped at $1,500,000, payable in 24 equal monthly installments. The Deferred Compensation Benefit is substantially funded by compensation deferred by the participants. Such benefit is based upon a participant making an election to defer no less than $3,000 and no more than $20,000 of his compensation in excess of $150,000, payable in a lump sum or in monthly installments for up to 15 years. We make a matching contribution of $3,000. Participants have no claim against us other than as unsecured creditors. We intend to fund the payments using the cash value or the death benefit from the life insurance policies insuring each Executive's life.

Executive Income Program. On March 1, 1990, we entered into an Executive Income Program to provide a pre-retirement death benefit and a retirement benefit to certain of our executives. The Program consists of a Split-Dollar Agreement and a Deferred Compensation Agreement with Jack Bendheim, Marvin S. Sussman and James O. Herlands (the "Executives"). The Split Dollar Agreement provides for us to own a whole life insurance policy in the amount of $1,000,000

(plus additions) on the life of each Executive.

Each policy also contains additional paid-up insurance and extended term insurance. On the death of the Executive prior to his 60th birthday or his actual retirement date, whichever is later: (i) the first $1,000,000 of the death benefit is payable to the Executive's spouse, or issue; (ii) the excess is payable to us up to the aggregate amount of premiums paid by us; and (iii) any balance is payable to the Executive's spouse or issue. The Split-Dollar Agreement terminates and no benefit is payable if the Executive dies after his retirement. The Deferred Compensation Agreement provides that upon the Executive's retirement, at or after attaining age 65, we will make retirement payments to the Executive during his life for 10 years or until he or his beneficiaries have received a total of 120 monthly payments. Participants have no claim against us other than as unsecured creditors. We intend to fund the payments using the cash value or the death benefit from the life insurance policies insuring each Executive's life. The retirement benefits are as follows: Jack Bendheim $30,000; Marvin S. Sussman $30,000; and James O. Herlands $20,000.

1993 Split Dollar Agreement. On August 12, 1993, we entered into a Split Dollar Agreement with David Butler and Gail Bendheim, as trustees under an Indenture of Trust dated August 12, 1993 (the "Trust"). This Agreement provides for the Trust to purchase and own life insurance policies on the life of Jack C. Bendheim in the aggregate face amount of $5,000,000 (plus additions). The premiums for such insurance are paid in part by the Trust (to the extent of the lesser of the P.S. 58 rates, or the insurers' current published premium rate for annually renewable term insurance for standard risks) and in part by us (we pay the balance of the premiums not paid by the Trust). Upon the death of Jack C. Bendheim or upon the cancellation of the policies or the termination of the Agreement, we have the right to be repaid the total amount we advanced toward payment of premiums. To secure our right to be repaid, the Trust has assigned each policy to us as collateral. After repayment of the amount due to us, the remaining cash surrender value or the remaining death benefit is payable to the Trust, the beneficiaries of which are the wife and issue of Jack C. Bendheim.

Meetings of Directors

During fiscal 2004, the Board of Directors took certain actions by both written consent and at regular meetings. Directors are elected annually and serve until the next annual meeting of Shareholders or until their successors are elected and qualified.

Report of the Compensation Committee

The compensation committee was established during fiscal 2004. The responsibility of the compensation committee is to recommend to the Board of Directors a compensation program, including incentives, for the Chief Executive Officer and other senior officers, for approval by the full Board of Directors. The compensation committee will prepare recommendations to the Board of Directors for the 2005 fiscal year. Executive compensation for the 2004 fiscal year was determined by the Board as a whole. During fiscal 2004 the directors participated in deliberations regarding compensation of our officers.

Compensation Committee Interlocks and Insider Participation

Jack Bendheim, Marvin S. Sussman and James O. Herlands are members of our Board of Directors and are executive officers. Jack Bendheim, Peter Joseph and Sam Gejdenson are members of the compensation committee. None of our executive officers serve as a member of the Board of Directors of any other non-Company entity which has one or more members serving as a member of our Board of Directors, except that Jack Bendheim and Peter Joseph serve as directors of Penick Holding Company. Messrs. Bendheim, Sussman, Herlands, Joseph and Rodriguez have participated in certain transactions with us and our subsidiaries

and affiliates. See Item 13, Certain Relationships and Related Transactions.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The table sets forth certain information as of June 30, 2004 regarding beneficial ownership of our capital stock by each of our directors and named executive officers, each beneficial owner of 5% or more of the outstanding shares of capital stock and all directors and officers as a group.

	Number of Common Shares (Percentage of Class)	
Name	Class A Voting(1)	Class B Voting(2)
Jack Bendheim(3).....	12,600 (100)%	10,699.65(90%)(4)
Marvin S. Sussman.....	--	1,188.85(10%)
All other officers and directors(5)....	--	--
All officers and directors as a group..	12,600 (100)%	11,888.50(100%)

(1) The entire voting power is exercised by the holders of Class A Common Stock, except that the holders of Class A Common Stock currently are entitled to elect all but three of the directors. The holders of Class B Common Stock are entitled to elect one and the holders of Series C Preferred Stock are entitled to elect two directors but do not vote on any other matters. In addition, the holders of the units of senior secured notes have the right to designate one member of the Board of Directors.

(2) Class B Common shareholders will receive the entire equity upon our liquidation, after payment of preferences to holders of all classes of preferred stock and Class A Common Stock.

(3) Jack Bendheim also owns 5,207 (100%) shares of Series A Preferred Stock.

(4) Includes 6,308.527 shares owned by trusts for the benefit of Jack Bendheim, his spouse, his children and their spouses and his grandchildren.

(5) Peter A. Joseph and Marcos Rodriguez have been designated as directors of the Company by Palladium Equity Partners II, LP ("Palladium") which beneficially owns 10,591 shares of our Series C Preferred Stock. Palladium has the right to designate two directors to the Board of Directors. See "Certain Relationships and Related Transactions."

Item 13. Certain Relationships and Related Transactions

Our Phibro-Tech subsidiary leases the property underlying its Santa Fe Springs, California facility from First Dice Road Company, a California limited partnership ("First Dice"), in which Jack Bendheim, our President and principal stockholder, Marvin S. Sussman and James O. Herlands, directors, own 39.0%, 40.0% and 20.0% limited partnership interests, respectively. The general partner, having a 1% interest in the partnership, is Western Magnesium Corp., a wholly-owned subsidiary of ours, of which Jack Bendheim is the president. The lease expires on June 30, 2008. The annual rent is $250,000. Phibro-Tech is also required to pay all real property taxes, personal property taxes and liability and property insurance premiums. In June 2001, Jack Bendheim entered into a secured $1.4 million revolving credit arrangement with First Union National Bank, which replaced a prior loan from Fleet Bank. Mr. Bendheim reloans borrowings under the First Union credit line to First Dice on the same terms as his borrowing from First Union. We believe that the terms of such lease and loan

are on terms no less favorable to Phibro-Tech than those that reasonably could be obtained at such time in a comparable arm's-length transaction from an unrelated third-party.

Pursuant to a Shareholders Agreement dated December 29, 1987 between Marvin S. Sussman and us, we are required to purchase, at book value, all shares of our Class B Common Stock owned by Mr. Sussman, in the event of his retirement, death, permanent disability or the termination of his employment by us. Should Mr. Sussman elect to sell his shares, we have a right of first offer and an option to purchase the shares.

A Shareholders Agreement initially entered into by Phibro-Tech and three executives of Phibro-Tech, including James O. Herlands (the "Executives") provides, among other things, for restrictions on their shares as to voting, dividends, liquidation and transfer rights. The Shareholders Agreement also provides that upon the death of an Executive or termination of an Executive's employment, Phibro-Tech must purchase the Executive's shares at their fair market value, as determined by a qualified appraiser. In the event of a Change of Control (as defined), the Executive has the option to sell his shares to Phibro-Tech at such value. The Shareholders Agreement provides, that, upon the consent of Phibro-Tech, the Executives and us, the Executives' shares of Phibro-Tech Common Stock may be exchanged for a number of shares of our Common Stock, which may be non-voting Common Stock, having an equivalent value, and upon any such exchange such shares of our Common Stock will become subject to the Shareholders Agreement. We and Phibro-Tech also entered into Severance Agreements with the Executives which provide, among other things, for certain severance payments. See Item 11, Executive Compensation -- Employment and Severance Agreements.

We advanced $200,000 to Marvin Sussman and his wife in 1987, pursuant to a secured promissory note that is payable on demand and bears interest at the annual rate of 9%.

Certain relatives of Jack Bendheim, other than Mr. Sussman and Mr. Herlands named above, provide services to us, in one case through a consulting firm controlled by a relative, and in other cases as employees, and received directly or through such consulting firm annual aggregate payments of approximately $650,000 for the fiscal year ended June 30, 2004.

On January 5, 2000, the United States Bankruptcy Court for the Eastern District of New York confirmed a Plan of Reorganization for Penick Corporation and Penick Pharmaceutical, Inc. (collectively, "Penick") which prior to such confirmation were debtors in proceedings in such Court for reorganization under Chapter 11 of the Bankruptcy Code, and awarded Penick to Penick Holding Company ("PHC"). PHC is a corporation formed to effect such acquisition by the Company, PBCI LLC, a limited liability company controlled by Mr. Bendheim, and several other investors, including Peter A. Joseph, a director of the Company. Pursuant to a Shareholders' Agreement among the shareholders of PHC, Messrs. Bendheim and Joseph have been designated as two of three directors of PHC, and Mr. Katzenstein, our Secretary, has been designated as Secretary and Treasurer of PHC. The Company has invested approximately $2,300,000 for shares of Series A Preferred Stock of PHC bearing an 8.5 percent annual cumulative dividend, and PBCI LLC invested approximately $500,000 for approximately 15 percent of the Common Stock of PHC. Mr. Joseph owns or controls approximately 12 percent of the Common Stock of PHC.

In connection with the sale of our Series B and Series C Preferred Stock to

the Palladium Investors, we and Jack Bendheim entered into a Stockholders Agreement (the "Palladium Stockholders Agreement") dated November 30, 2000 with the Palladium Investors. The Palladium Stockholders Agreement provides for our Board to include two directors to be designated by the Palladium Investors. Peter A. Joseph and Marcos Rodriguez are currently the two designees of the Palladium Investors serving as directors. If and for so long as we fail to redeem any share of Series B or Series C Preferred Stock requested for redemption by a Palladium Investor after the earliest to occur of June 1, 2008 (the maturity date of our 9 7/8% Senior Subordinated Notes due 2008), the redemption of such Notes in full prior thereto or a change in control of us, then (x) the Palladium Investors may take control of our Board of Directors, and (y) Jack C. Bendheim has agreed to cause all equity securities owned by him to be voted in the manner directed by the Palladium Investors; provided, that, we must pay Jack Bendheim and Marvin Sussman, whether or not employed by us, an amount not less than their respective annual base salaries in effect immediately prior to such assumption of control, until the earlier to occur of the expiration of control by the Palladium Investors and the fifth anniversary of their assumption of control.

The Palladium Stockholders Agreement contains covenants which restrict, without the consent of at least one director designated by the Palladium Investors (or, if no such director is then serving on the Board, at least one Palladium Investor), among other things, certain (a) issuances of any equity securities, unless the purchaser agrees to be bound by the Palladium Stockholders Agreement, (b) sales of assets in excess of $10 million, (c) purchases of businesses and other investments in excess of $10 million, (d) the incurrence of indebtedness for borrowed money, including guarantees, in excess of $12.5 million, (e) redemptions, acquisitions or other purchases of equity securities, (f) transactions with officers, directors, stockholders or employees or any family member or affiliate thereof in excess of $500,000, (g) compensation and benefits of certain officers, and (h) transactions involving a change of control. The Palladium Stockholders Agreement also provides that we shall furnish the Palladium Investors certain financial reporting and environmental information each year and grant to the Palladium Investors registration rights comparable to any such rights granted to any third party, and requires us to maintain certain key man life insurance on Jack C. Bendheim for the benefit of the Palladium Investors. The Palladium Stockholders Agreement provides certain limitations on the ability of Jack C. Bendheim to transfer voting shares, and certain limitations on the ability of the Palladium Investors to transfer their shares, including a right of first refusal in favor of us and Mr. Bendheim.

Pursuant to the Management and Advisory Services Agreement dated November 30, 2000 between us and the Palladium Investors, we agreed to pay, on a quarterly basis, the Palladium Investors an annual management advisory fee of $2.25 million until such time as all shares of Series B and Series C Preferred Stock are redeemed. Pursuant to the sale of PMC described below, our obligations for this fee have been terminated.

Our policy with respect to the sale, lease or purchase of assets or property of any related party is that such transaction should be on terms that are no less favorable to us or our subsidiary, as the case may be, than those that could reasonably be obtainable at such time in a comparable arm's length transaction from an unrelated third party. The indenture and the new domestic senior credit facility both include a similar restriction on us and our domestic subsidiaries with respect to the sale, purchase, exchange or lease of assets, property or services, subject to certain limitations as to the applicability thereof.

Effective December 26, 2003 (the "Closing Date"), the Company completed the divestiture of substantially all of the business and assets of The Prince Manufacturing Company ("PMC") to a company ("Buyer") formed by Palladium Equity

Partners II, LP and certain of its affiliates (the "Palladium Investors"), and the related reduction of the Company's preferred stock held by the Palladium Investors (collectively the "Prince Transactions").

Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements: (i) the transfer of substantially all of the business and assets of PMC to Buyer; (ii) the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72.2 million to $16.5 million (accreted through the Closing Date) by means of the redemption of all of its shares of Series B Preferred Stock and a portion of its Series C Preferred Stock; (iii) the termination of $2.2 million in annual management advisory fees payable by the Company to Palladium; (iv) a cash payment of $10.0 million to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; (v) the agreement of the Buyer to pay the Company for advisory fees for the next

three years of $1.0 million, $0.5 million, and $0.2 million, respectively (which were pre-paid at closing by the Buyer and satisfied for $1.3 million, the net present value of such payments); and (vi) the Buyer agreed to supply manganous oxide and red iron oxide products and to provide certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri"). Prince Agri agreed to continue to provide the Buyer with certain laboratory, MIS and telephone services, all on terms substantially consistent with the historic relationship between Prince Agri and PMC, and to lease to Buyer office space used by PMC in Quincy, Illinois. The Company has an agreement to receive certain treasury services from Palladium for $0.1 million per year. Pursuant to definitive agreements, the Company made customary representations, warranties and environmental and other indemnities, agreed to a post-closing working capital adjustment, paid $4.0 million in full satisfaction of all intercompany debt owed to PMC, paid a closing fee to Palladium of $0.5 million, made certain capital expenditure adjustments included as part of the intercompany settlement amount, and agreed to pay for certain out-of-pocket transaction expenses. PMC retained $0.4 million of its accounts receivable. The Company established a $1.0 million letter of credit escrow for two years to secure its working capital adjustment and certain indemnification obligations. The Company agreed to indemnify the Palladium Investors for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of Buyer for less than $21.0 million up to a maximum payment by the Company of $4.0 million (the "Backstop Indemnification Amount"). The Backstop Indemnification Amount would be payable on the earlier to occur of July 1, 2008 or six months after the redemption date of all of the Company's Senior Secured Notes due 2007 if such a disposition closes prior to such redemption and six months after the closing of any such disposition if the disposition closes after any such redemption. The Company's obligations with respect to the Backstop Indemnification Amount will cease if the Palladium Investors do not close the disposition of Buyer by January 1, 2009. The definition of "Equity Value" in the Company's Certificate of Incorporation was amended to reduce the multiple of trailing EBITDA payable in connection with any future redemption of Series C Preferred to 6.0 from 7.5. The amount of consideration paid and payable in connection with the Prince Transactions and all matters in connection therewith were determined pursuant to arm's length negotiations.

Item 14. Principal Accountant Fees and Services

Aggregate fees for professional services rendered for us by PricewaterhouseCoopers LLP ("PwC"), our independent registered public accounting firm, for the fiscal years ended June 30, 2004 and 2003 were:

	2004	2003
Audit	$1,629,000	$ 795,000
Audit Related	1,328,000	--
Tax		
Tax Planning	180,000	123,000
Tax Compliance and Other		29,000
Total Tax	180,000	152,000
All Other	--	--
Total	$3,137,000	$ 947,000

Our Board of Directors pre-approves audit and non-audit services performed for us by PwC.

Our Board of Directors has considered whether the provision of non-audit services by PwC to us is compatible with maintaining PwC's independence. PwC advised our Board of Directors that PwC was and continues to be independent with respect to us.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description of Exhibit
3.1	Composite Certificate of Incorporation of Registrant (15)
3.2	By-laws of Registrant (1)
4.1	Indenture, dated as of June 11, 1998, among Registrant, the Guarantors named therein and The Chase Manhattan Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant, and exhibits thereto, including Form of 9 7/8% Senior Subordinated Note due 2008 of Company (1)
4.1.1	First Supplemental Indenture, dated as of January 15, 1999, among Registrant, the Guarantors named therein and The Chase Manhattan Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)
4.1.2	Second Supplemental Indenture, dated as of March 19, 2003, among

Registrant, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)

4.1.3 Third Supplemental Indenture, dated as of June 10, 2003, among Registrant, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)

4.1.4 Fourth Supplemental Indenture, dated as of October 1, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (11)

4.1.5 Fifth Supplemental Indenture, dated as of October 21, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (12)

4.1.6 Sixth Supplemental Indenture, dated as of June 25, 2004, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (16)

4.2 Indenture, dated as of October 21, 2003, by and among Phibro Animal Health Corporation and Philipp Brothers Netherlands III B.V., as Issuers, the Guarantors named therein, and HSBC Bank USA, as Trustee and Collateral Agent. (13)

4.2.1 First Supplemental Indenture, dated as of June 25, 2004, by and among Phibro Animal Health Corporation and Philipp Brothers Netherlands III B.V., as Issuers, the Guarantors named therein, and HSBC Bank USA, as Trustee and Collateral Agent. (16)

Certain instruments which define the rights of holders of long-term debt of Registrant and its consolidated subsidiaries have not been filed as Exhibits to this Report since the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of Registrant and its subsidiaries on a consolidated basis, as of June 30, 2004. For a description of such indebtedness, see Note 9 of Notes to Consolidated Financial Statements. Registrant hereby agrees to furnish copies of such instruments to the Securities and Exchange Commission upon its request.

10.1 [Reserved]

10.2 Manufacturing Agreement, dated May 15, 1994, by and between Merck & Co., Inc., Koffolk, Ltd., and Registrant (1)+

10.3 Lease, dated July 25, 1986, between Registrant and 400 Kelby Associates, as amended December 1, 1986 and December 30, 1994 (1)

10.4 Lease, dated June 30, 1995, between First Dice Road Co. and Phibro-Tech, Inc., as amended May 1998 (1)

10.5 Lease, dated December 24, 1981, between Koffolk (1949) Ltd. and Israel Land Administration (1)

10.6 Master Lease Agreement, dated February 27, 1998, between General Electric Capital Corp., Registrant and Phibro-Tech, Inc. (1)

10.7 Stockholders Agreement, dated December 29, 1987, by and between Registrant, Charles H. Bendheim, Jack C. Bendheim and Marvin S. Sussman (1)

10.8 Employment Agreement, dated December 29, 1987, by and between Registrant and Marvin S. Sussman (1)++

10.9 Stockholders Agreement, dated February 21, 1995, between James O. Herlands and Phibro-Tech, Inc., as amended as of June 11, 1998(1)

10.10 Form of Severance Agreement, dated as of February 21, 1995, between Registrant and James O. Herlands (1)++

10.11 Agreement of Limited Partnership of First Dice Road Company, dated June 1, 1985, by and among Western Magnesium Corp., Jack Bendheim, Marvin S. Sussman and James O. Herlands, as amended November 1985 (1)

10.12 Philipp Brothers Chemicals, Inc. Retirement Income and Deferred Compensation Plan Trust, dated as of January 1, 1994, by and between Registrant on its own behalf and on behalf of C.P. Chemicals, Inc., Phibro-Tech, Inc. and the Trustee thereunder; Philipp Brothers Chemicals, Inc. Retirement Income and Deferred Compensation Plan, dated March 18, 1994 ("Retirement Income and Deferred Compensation Plan") (1)++

10.12.1 First, Second and Third Amendments to Retirement Income and Deferred Compensation Plan. (2)++

10.13 Form of Executive Income Deferred Compensation Agreement, each dated March 11, 1990, by and between Registrant and each of Jack Bendheim, James Herlands and Marvin Sussman (1)++

10.14 Form of Executive Income Split Dollar Agreement, each dated March 1, 1990, by and between Registrant and each of Jack Bendheim, James Herlands and Marvin Sussman (1)++

10.15 [Reserved]

10.16 Administrative Consent Order, dated March 11, 1991, issued by the State of New Jersey Department of Environmental Protection, Division of Hazardous Waste Management, to C.P. Chemicals, Inc. (1)

10.17 Agreement for Transfer of Ownership, dated as of June 8, 2000, between C. P. Chemicals, Inc. ("CP") and the Township of Woodbridge ("Township"), and related Environmental Indemnification Agreement, between CP and Township, and Lease, between Township and CP (2)

10.18 Stockholders' Agreement, dated as of January 5, 2000, among shareholders of Penick Holding Company ("PHC"), and Certificate of Incorporation of PHC and Certificate of Designation, Preferences and Rights of Series A Redeemable Cumulative Preferred Stock of PHC (2)

10.19 [Reserved]

10.20 [Reserved]

10.21 Asset Purchase Agreement, dated as of September 28, 2000, among Pfizer, Inc., the Asset Selling Corporations (named therein) and Registrant, and various exhibits and certain Schedules thereto (3)+

10.21.1 Amendment, dated August 11, 2003 to Asset Purchase Agreement, dated as of September 28, 2000, among Pfizer, Inc., the Asset Selling Corporations (named therein) and Registrant (10)

10.22 Stock Purchase Agreement, dated as of November 30, 2000, between Registrant and the Purchasers (as defined therein) (4)

10.23 Stockholders' Agreement, dated as of November 30, 2000, among Registrant, the Investor Stockholders (as defined therein) and Jack C. Bendheim (4)

10.24 United States Asset Purchase Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)

10.24.1 Amendment No. 1 to United States Asset Purchase Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of June 14, 2001 (6)

10.25 Supply Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)

10.26 License Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)

10.27 Management and Advisory Services Agreement dated November 30, 2000 between Registrant and Palladium Equity Partners, L.L.C. (7)++

10.27.1 Amended and Restated Management Services Agreement dated as of October 21, 2003 between Registrant and Palladium Capital Management, L.L.C. (15)++

10.28 Employment Agreement, dated May 28, 2002, by and between Registrant and Gerald K. Carlson (8)++

10.29 Agreement dated as of May 2, 2003, by and between PAH Management Company, Ltd. and David McBeath (10) ++

10.30 Stock Purchase Agreement, dated August 14, 2003, by and between Registrant and Cemex, Inc. (9)

10.31 Loan and Security Agreement, dated October 21, 2003, by and among, the lenders identified on the signature pages thereto, Wells Fargo Foothill, Inc., and Phibro Animal Health Corporation ("Parent"), and each of Parent's Subsidiaries identified on the signature pages thereto. (12)

10.31.1 Amendment Number One to Loan and Security Agreement dated November 14, 2003. (12)

10.31.2 Amendment Number Two to Loan and Security Agreement dated April 29, 2004. (14)

10.31.3 Amendment Number Three to Loan and Security Agreement dated as of September 24, 2004. (16)

10.32 Intercreditor and Lien Subordination Agreement, dated as of October 21, 2003, made by and among Wells Fargo Foothill, Inc., HSBC Bank USA, Phibro Animal Health Corporation ("Parent") and those certain subsidiaries of the Parent party thereto. (12)

10.33 Purchase and Sale Agreement dated as of December 26, 2003 by and among Phibro Animal Health Corporation ("PAHC"), Prince MFG, LLC, ("Prince MFG"), The Prince Manufacturing Company ("Prince" and together with PAHC and Prince MFG, the "Phibro Parties"), Palladium Equity Partners II, L.P. ("PEP II"), Palladium Equity Partners II-A, L.P., ("PEP II-A"), Palladium Equity Investors II, L.P., ("PEI II", and together with PEP II and PEP II-A, the "Investor Stockholders"), and Prince Mineral Company, Inc. ("Buyer"). (15)

10.34 Environmental Indemnification Agreement dated as of December 26, 2003 between the Phibro Parties (as defined therein) and Buyer. (15)

10.35 Amendment to Stockholders Agreement dated as of December 26, 2003 between PAHC, the Investor Stockholders and Jack Bendheim (15)

10.36 Advisory Fee Agreement dated as of December 26, 2003 between Buyer and PAHC(15)++

21 List of Subsidiaries (16)

31.1 Certification of Gerald K. Carlson, Chief Executive Officer required by Rule 15d-14(a) of the Act (16)

31.2 Certification of Jack C. Bendheim, Chairman of the Board required by Rule 15d-14(a) of the Act (16)

31.3 Certification of Richard G. Johnson, Chief Financial Officer required by Rule 15d-14(a) of the Act (16)

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1 Filed as an Exhibit to the Registrant's Registration Statement on Form S-4, No. 333-64641.

2 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

3 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000.

4 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated November 30, 2000.

5 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2001.

6 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 14, 2001.

7 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

8 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

9 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 11, 2003, as amended by the Registrant's Form 8-K/A dated June 2, 2004.

10 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

11 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated October 2, 2003.

12 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2003.

13 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated October 31, 2003.

14 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2004.

15 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated January 12, 2004.

16 Filed herewith.

+ A request for confidential treatment has been granted for portions of such document. Confidential portions have been omitted and furnished separately to the SEC in accordance with Rule 406(b).

++ This Exhibit is a management compensatory plan or arrangement.

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 filing the written certification statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company submits periodic reports with the Securities and Exchange Commission because it is required to do so by the terms of the indenture governing its senior subordinated notes.

(b) Financial Statement Schedules

All supplemental schedules are omitted because of the absence of conditions under which they are required or because the information is shown in the financial statements or notes thereto or in other supplemental schedules.

(c) Reports on Form 8-K.

The Company filed a Form 8-K/A on June 2, 2004 reporting Item 7 to withdraw its application for confidential treatment of certain portions of a Stock Purchase Agreement. The Company did furnish reports on Form 8-K since then. On July 2, 2004 the Company furnished a report on Form 8-K reporting items 5 to disclose the filing of bankruptcy for La Cornubia.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Phibro Animal Health Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' deficit and cash flows present fairly, in all material respects, the financial position of Phibro Animal Health Corporation and its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
September 27, 2004

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2004 and 2003
(In Thousands)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,568	$ 11,179
Trade receivables, less allowance for doubtful accounts of $1,358 and $1,437		

at June 30, 2004 and 2003, respectively	57,658	52,714
Other receivables	2,766	3,503
Inventories	79,910	87,849
Prepaid expenses and other current assets	8,688	9,868
Current assets from discontinued operations	--	9,276
TOTAL CURRENT ASSETS	154,590	174,389
PROPERTY, PLANT AND EQUIPMENT, net	58,786	63,905
INTANGIBLES	11,695	8,669
OTHER ASSETS	16,298	14,059
OTHER ASSETS FROM DISCONTINUED OPERATIONS	--	13,325
	$ 241,369	$ 274,347

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Cash overdraft	$ 891	$ 1,686
Loans payable to banks	10,996	37,878
Current portion of long-term debt	1,351	24,124
Accounts payable	46,972	55,355
Accrued expenses and other current liabilities	40,010	40,699
Current liabilities from discontinued operations	--	5,557
TOTAL CURRENT LIABILITIES	100,220	165,299
LONG-TERM DEBT	158,018	102,263
OTHER LIABILITIES	22,286	21,241
OTHER LIABILITIES FROM DISCONTINUED OPERATIONS	--	1,173
TOTAL LIABILITIES	280,524	289,976
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	24,678	68,881
STOCKHOLDERS' DEFICIT:		
Preferred stock - $100 par value, 150,543 shares authorized, none issued at June 30, 2004 and 2003; Series A preferred stock - $100 par value, 6% non-cumulative, 5,207 shares authorized, issued and outstanding at June 30, 2004 and 2003	521	521
Common stock - $0.10 par value, 30,300 authorized and 24,488 shares issued and outstanding at June 30, 2004 and 2003	2	2
Paid-in capital	860	860
Accumulated deficit	(57,964)	(79,489)
Accumulated other comprehensive income (loss):		
Gain on derivative instruments, net of tax	9	81
Cumulative foreign currency translation adjustment	(7,261)	(6,485)
TOTAL STOCKHOLDERS' DEFICIT	(63,833)	(84,510)
	$ 241,369	$ 274,347

The accompanying notes are an integral part of the consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Years Ended June 30, 2004, 2003 and 2002
(In Thousands)

	2004	
NET SALES	$ 358,274	$ 3
COST OF GOODS SOLD	267,871	2
GROSS PROFIT	90,403	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (includes litigation income of $3,040 in 2003 and $742 in 2002)	66,128	
COSTS OF NON-COMPLETED TRANSACTION	5,261	
OPERATING INCOME	19,014	
OTHER:		
Interest expense	18,618	
Interest (income)	(130)	
Other (income) expense, net	(781)	
Net (gain) on extinguishment of debt	(23,226)	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	24,533	
PROVISION FOR INCOME TAXES	7,969	
INCOME (LOSS) FROM CONTINUING OPERATIONS	16,564	
DISCONTINUED OPERATIONS:		
(Loss) from discontinued operations (net of income taxes)	(1,625)	(
(Loss) on disposal of discontinued operations (net of income taxes)	(2,089)	
NET INCOME (LOSS)	12,850	(
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in derivative instruments, net of tax	(72)	
Change in currency translation adjustment	(776)	
COMPREHENSIVE INCOME (LOSS)	$ 12,002	$ (
NET INCOME (LOSS)	12,850	(
Excess of the reduction of redeemable preferred stock over total assets divested and costs and liabilities incurred on the Prince Transactions	20,138	
Dividends and equity value accreted on Series B and C redeemable preferred stock	(11,463)	(
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 21,525	$ (

The accompanying notes are an integral part of the consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
For the Years Ended June 30, 2004, 2003 and 2002
(In Thousands)

	Preferred Stock	Common Stock			Retained Earnings	Accumu
	Series A	Class A	Class B	Paid-in Capital	(Accumulated Deficit)	Comp (Los
BALANCE, JUNE 30, 2001	$ 521	$ 1	$ 1	$ 878	$ 9,741	$
Dividends on Series B and C redeemable preferred stock					(7,623)	
Change in derivative instruments, net of tax						
Foreign currency translation adjustment						
Receivable from principal shareholder				(138)		
Net (loss)					(51,770)	
BALANCE, JUNE 30, 2002	$ 521	$ 1	$ 1	$ 740	$ (49,652)	$
Dividends on Series B and C redeemable preferred stock					(8,808)	
Equity value accreted on Series B and C redeemable preferred stock					(3,470)	
Change in derivative instruments, net of tax						
Foreign currency translation adjustment						
Payable to principal shareholder				120		
Net (loss)					(17,559)	
BALANCE, JUNE 30, 2003	$ 521	$ 1	$ 1	$ 860	$ (79,489)	$

Excess of the reduction in redeemable preferred stock over total assets divested and costs and liabilities incurred on

the Prince Transactions					20,138	
Dividends on Series B and C redeemable preferred stock					(6,042)	
Equity value accreted on Series B and C redeemable preferred stock					(5,421)	
Change in derivative instruments, net of tax						
Foreign currency translation adjustment						
Net income					12,850	
BALANCE, JUNE 30, 2004	$ 521	$ 1	$ 1	$ 860	$ (57,964)	$

The accompanying notes are an integral part of the consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004, 2003 and 2002
(In Thousands)

	2004	2003	2002
OPERATING ACTIVITIES:			
Net income (loss)	$ 12,850	$ (17,559)	$ (51,77
Adjustment for discontinued operations	3,714	15,260	26,55
Income (loss) from continuing operations	16,564	(2,299)	(25,21
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:			
Depreciation and amortization	13,183	12,524	12,35
Deferred income taxes	326	6,460	11,23
Net gain from sales of assets	(692)	(127)	(
Net gain on extinguishment of debt	(23,226)	--	-
Change in redemption amount of redeemable common stock	--	--	(37
Effects of changes in foreign currency	(548)	390	2,12
Other	1,114	387	2,41
Changes in operating assets and liabilities:			
Accounts receivable	(7,222)	3,810	6,04
Inventories	3,660	(1,598)	(13,99
Prepaid expenses and other current assets	(314)	(3,122)	(2,81
Other assets	(3,079)	(2,632)	2,66
Accounts payable	(5,650)	20,503	(6,60
Accrued expenses and other liabilities	6,965	(355)	8,51

Accrued costs of non-completed transaction	3,970	--	-
Cash provided (used) by discontinued operations	(2,189)	716	(1,08
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,862	34,657	(4,74
INVESTING ACTIVITIES:			
Capital expenditures	(6,244)	(8,636)	(8,51
Acquisition of a business, net of cash acquired	--	--	(7,18
Proceeds from property damage claim	--	--	41
Proceeds from sale of assets	1,094	2,565	1
Other investing	(655)	737	58
Discontinued operations	14,875	1,363	(2,67
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	9,070	(3,971)	(17,36
FINANCING ACTIVITIES:			
Net increase (decrease) in cash overdraft	(795)	(6,081)	3,43
Net increase (decrease) in short-term debt	(26,954)	(6,660)	14,23
Proceeds from long-term debt	109,661	2,000	2,32
Payments of long-term debt	(35,453)	(16,014)	(4,73
Payment of Pfizer obligations	(28,300)	--	-
Payments relating to the Prince Transactions and related costs	(21,393)	--	-
Debt refinancing costs	(15,548)	--	-
Discontinued operations	1,005	377	(1,59
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(17,777)	(26,378)	13,67
EFFECT OF EXCHANGE RATE CHANGES ON CASH	234	452	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,611)	4,760	(8,42
CASH AND CASH EQUIVALENTS at beginning of period	11,179	6,419	14,84
CASH AND CASH EQUIVALENTS at end of period	$ 5,568	$ 11,179	$ 6,41
Supplemental Cash Flow Information:			
Interest paid	$ 17,578	$ 16,104	$ 17,00
Income taxes paid	4,755	3,046	2,62

The accompanying notes are an integral part of the consolidated financial statements

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

1. Description of Business

Phibro Animal Health Corporation (the "Company" or "PAHC") is a leading diversified global manufacturer and marketer of a broad range of animal health and nutrition products, specifically medicated feed additives ("MFA") and nutritional feed additives ("NFA"), which the Company sells throughout the world predominately to the poultry, swine and cattle markets. The Company is also a specialty chemicals manufacturer and marketer, serving numerous markets.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation:

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The Company consolidates the financial statements of Koffolk (1949) Ltd. (Israel) ("Koffolk") and Planalquimica Industrial Ltda. (Brazil) ("Planalquimica") on the basis of their March 31 fiscal year-ends to facilitate the timely inclusion of such entities in the Company's consolidated financial reporting.

The Company's Odda Smelteverk (Norway) ("Odda"), Carbide Industries (U.K.) ("Carbide"), Mineral Resource Technologies, Inc. ("MRT"), and La Cornubia S.A. (France) ("La Cornubia") businesses have been classified as discontinued operations as discussed in Note 5. The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position and cash flows of the discontinued operations. These footnotes present information only for continuing operations, unless otherwise indicated.

The Company presents its consolidated financial statements on the basis of its fiscal year ending June 30. All references to years 2004, 2003, and 2002 in these financial statements refer to the fiscal year ended June 30 of that year.

Risks, Uncertainties and Liquidity:

The Company's ability to fund its operating plan relies upon the continued availability of borrowing under the senior credit facility. The Company believes that it will be able to comply with the terms of its covenants under the amended senior credit facility based on its forecasted operating plan. In the event of adverse operating results and/or violation of covenants under this facility, there can be no assurance that the Company would be able to obtain waivers or amendments on favorable terms, if at all. The Company's 2005 operating plan projects adequate liquidity throughout the year, with periods of reduced availability around the dates of the semi-annual interest payments due November 1, 2004 and June 1, 2005. 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 would be available as needed. The Company has also undertaken a strategic review of its manufacturing capabilities, and is currently increasing inventory levels of certain products to enhance future flexibility and reduce costs. There can be no assurance the Company will be successful in any of the above-noted actions.

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

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

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

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.

Use of Estimates:

Preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from these estimates. Significant estimates include reserves for bad debts, inventory obsolescence, environmental matters, depreciation and amortization periods of long-lived assets, recoverability of long-lived assets, realizability of deferred tax assets and actuarial assumptions related to the Company's pension plans.

Revenue Recognition:

Revenue is recognized upon transfer of title and when risk of loss passes to the customer, generally at the time of shipment. Net sales reflect total sales billed, less reductions for goods returned, trade discounts and customer allowances.

Cash and Cash Equivalents:

Cash equivalents include highly liquid investments with maturities of three months or less when purchased.

Accounts Receivable and Allowance for Doubtful Accounts:

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the probable credit losses in its existing accounts receivable. The allowance is based on historical write-off experience and is reviewed periodically. Past due balances are reviewed individually for collectibility. Account balances are charged against the allowance when the Company feels that it is probable that the receivable will not be recovered. Receivables consist of the following:

	As of	
	June 30, 2004	June 30, 2003
Trade receivables	$57,658	$52,714
Employee receivables	256	267
Other receivables	2,510	3,236
Total receivables	$60,424	$56,217

The allowance for doubtful accounts was:

	2004	2003	2002
Balance at beginning of period	$ 1,437	$ 1,461	$ 1,760
Provision for bad debts	565	347	979
Bad debt write-offs	(644)	(371)	(1,278)
Balance at end of period	$ 1,358	$ 1,437	$ 1,461

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

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; cost for certain inventories is determined under the last-in, first-out (LIFO) method. Inventories valued at LIFO amounted to $0 and $3,805 at June 30, 2004 and 2003, respectively. 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	
	June 30, 2004	June 30, 2003
Raw materials	$ 16,313	$ 21,668
Work-in-process	1,764	1,565
Finished goods	61,833	65,248
Excess of FIFO cost over LIFO cost	--	(632)
Total inventory	$ 79,910	$ 87,849

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized was $0, $0 and $106 in 2004, 2003 and 2002, respectively.

Depreciation is charged to results of operations using the straight-line method based upon the assets' estimated useful lives ranging from 8 to 20 years for buildings and improvements and 3 to 10 years for machinery and equipment.

The Company capitalizes costs that extend the useful life or productive capacity of an asset. Repair and maintenance costs are expensed as incurred. In the case of disposals, the assets and related accumulated depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in the statements of operations and comprehensive income (loss).

Deferred Financing Costs:

Deferred financing costs related to the senior secured notes and senior subordinated notes are amortized over the respective lives of the notes. Deferred financing costs related to the senior credit facility are amortized over the life of the agreement.

Intangibles:

Product intangibles cost arising from the MFA acquisition was $10,673 and $10,449 at June 30, 2004 and 2003, respectively, and accumulated amortization of $3,230 and $1,780 at June 30, 2004 and 2003, respectively. Amortization expense was $1,229, $964 and $816 for 2004, 2003 and 2002, respectively. Amortization expense from the MFA acquisition for each of the next five years from 2005 to 2009 is expected to be $1,145 per year.

In May 2004 the Company acquired the rights to sell amprolium, an anticoccidial MFA, in most international markets. In payment for the acquired rights, the Company relinquished its claims against the seller for certain purchase order commitments, and will make $2,100 of cash payments to the seller over the next five years. The present value of these payments is $1,898 and was recorded as a liability. The $2,354 value of the purchase order commitments was recorded as a reduction in cost of goods sold and inventory, and an intangible asset of $4,252 was recorded representing the fair value of the acquired rights and is included on the Company's balance sheet at June 30, 2004. The Company will amortize this intangible over a 10 year period. No amortization was recorded in 2004. Amortization expense for each of the next five years from 2005 to 2009 is expected to be $425 per year.

Foreign Currency Translation:

Financial position and results of operations of the Company's international subsidiaries generally are measured using local currencies as the functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect at each fiscal year end. The translation adjustments related to assets and liabilities that arise from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss in stockholders' deficit. Income statement accounts are translated at the average rates of exchange prevailing during the year.

A business unit of Koffolk and all of Planalquimica operate primarily in U.S. dollars. The U.S. dollar is designated as the functional currency for these businesses and translation gains and losses are included in determining net income or loss.

Foreign currency transaction gains and losses primarily arise from

short-term intercompany balances. Net foreign currency transaction and translation (gains) losses were $(116), $789 and $3,385 for 2004, 2003 and 2002, respectively, and were included in other expense, net in the consolidated statements of operations, and comprehensive income (loss).

Derivative Financial Instruments:

The Company records all derivative financial instruments on the consolidated balance sheet at fair value. Changes in the fair value of derivatives are recorded in results of operations or accumulated other comprehensive income, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are included in operations in the periods in which operations are affected by the hedged item.

Recoverability of Long-Lived Assets:

The Company evaluates the recoverability of long-lived assets, including intangible assets, when events or circumstances indicate that a diminution in value may have occurred, using financial indicators such as historical and future ability to generate cash flows from operations. The Company's policy is to record an impairment loss in the period it is determined the carrying amount of the asset may not be recoverable. This determination is based on an evaluation of such factors as the occurrence of a significant event, a significant change in the environment in which the business operates, or if the expected future net cash flows (undiscounted and without interest or income taxes) are less than the carrying amount of the assets.

Environmental Liabilities:

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. The Company capitalizes expenditures made to improve the condition of property, compared with the condition of that property when constructed or acquired. The Company also capitalizes expenditures that prevent future environmental contamination. Other expenditures are expensed as incurred. The Company records the expense and related liability in the period an environmental assessment indicates remedial efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology, and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors. All available evidence is considered, including prior experience in remediation of contaminated sites, other companies' experience, and data released by the U.S. Environmental Protection Agency or other organizations. When such costs will be incurred over a long-term period and can be reliably estimated as to timing, the liabilities are included in the consolidated balance sheet at their discounted amounts.

Income Taxes:

Income tax expense includes U.S. federal, state, and foreign income taxes. The tax effect of certain temporary differences between amounts recognized for financial reporting purposes and amounts recognized for tax purposes are reported as deferred income taxes. Deferred tax balances are adjusted to reflect tax rates, based on current tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. Valuation allowances are established as necessary to reduce deferred tax assets to amounts more likely than not to be realized.

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

Research and Development Expenditures:

Research and development expenditures are expensed as incurred, recorded in selling, general and administrative expenses and were $5,076, $4,634 and $4,251 for 2004, 2003 and 2002, respectively.

New Accounting Pronouncements:

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

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

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

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment to FASB Statements No. 87, 88, and 106 (revised 2003)" ("SFAS No. 132"). This revision to SFAS No. 132 relates to employers' disclosures about pension plans and other postretirement benefit plans. SFAS No. 132 now requires additional disclosures to describe the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods of defined pension plans and other defined postretirement plans. The additional disclosures required by this revision to SFAS No. 132 have been provided in the notes to consolidated financial statements.

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

3. Refinancing

On October 21, 2003, the Company issued 105,000 units consisting of $85,000 of 13% Senior Secured Notes due 2007 (the "US Senior Notes") and $20,000 13% Senior Secured Notes due 2007 of Philipp Brothers Netherlands III B.V. (the "Dutch Senior Notes" and, together with the US Senior Notes, the "Senior Secured Notes"), an indirect wholly-owned subsidiary of the Company (the "Dutch

(In Thousands)

issuer"). The Company used the proceeds from the issuance to: (i) repurchase $51,971 of its 9 7/8% Senior Subordinated Notes due 2008 at a price equal to 60% of the principal amount thereof, plus accrued and unpaid interest; (ii) repay its senior credit facility of $34,888 outstanding at the repayment date; (iii) satisfy, for a payment of approximately $29,315, certain of its outstanding obligations to Pfizer Inc., including: (a) $20,075 aggregate principal amount of its promissory note plus accrued and unpaid interest, (b) $9,748 of accounts payable, (c) $9,040 of accrued expenses, and (d) future contingent purchase price obligations under its agreements with Pfizer Inc. by which the Company acquired Pfizer's medicated feed additive business; and (iv) pay fees and expenses relating to the above transactions.

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

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

The US Senior Notes and the Dutch Senior Notes are senior secured obligations of each of the Company (the "US Issuer") and the Dutch issuer, respectively. The US Senior Notes and the Dutch Senior Notes are guaranteed on a senior secured basis by all the US Issuer's domestic restricted subsidiaries, and the Dutch Senior Notes are guaranteed on a senior secured basis by the US Issuer and by the restricted subsidiaries of the Dutch issuer, presently consisting of Phibro Animal Health SA. The US Senior Notes and related guarantees are collateralized by substantially all of the US Issuer's assets and the assets of its domestic restricted subsidiaries, other than real property and interests therein, including a pledge of all the capital stock of such domestic restricted subsidiaries. The Dutch Senior Notes and related guarantees are collateralized by a pledge of all the accounts receivable, a security interest or floating charge on the inventory to the extent permitted by applicable law, and a mortgage on substantially all of the real property of the Dutch issuer and

each of its restricted subsidiaries, a pledge of 100% of the capital stock of each subsidiary of the Dutch issuer, a pledge of the intercompany loans made by the Dutch issuer to its restricted subsidiaries and substantially all of the assets of the U.S. guarantors, other than real property and interests therein. The indenture governing the Senior Secured Notes provides for optional make-whole redemptions at any time prior to June 1, 2005, optional redemption on or after June 1, 2005, and requires the Company to make certain offers to purchase Senior Secured Notes upon a change of control, upon certain asset sales and from fifty percent (50%) of excess cash flow (as such terms are defined in the indenture).

Also, on October 21, 2003, the Company entered into a new replacement domestic senior credit facility ("senior credit facility") with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities initially could not exceed $25,000, including aggregate borrowings under the working capital facility up to $15,000. On April 29, 2004, the Company amended the senior credit facility to increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $25,000 to $27,500 and to increase the amount of aggregate borrowings available under the working capital facility from $15,000 to $17,500. As of September 24, 2004, the Company amended the senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $27,500 to $32,500; the amount of aggregate borrowings available under the working capital facility remained unchanged at $17,500; (ii) amend the EBITDA definition to exclude charges and expenses related to unsuccessful acquisitions and related financings in an aggregate amount not to exceed $5,300 for the period beginning January 1, 2004 and ending June 30, 2004; (iii) amend the definition of Additional Indebtedness to exclude advances under the working capital facility; (iv) amend the definition of Permitted Investments to allow other investments made during the period from January 1, 2004 through June 30, 2004 in an aggregate amount not to exceed $336; and (v) establish covenant EBITDA levels for the periods 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 all other items.

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

Pursuant to the terms of an intercreditor agreement, the security interest securing the Senior Secured Notes and the guarantees made by the Company's

domestic restricted subsidiaries are subordinated to a lien securing the senior credit facility.

4. Prince Transactions

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

Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements: (i) the transfer of substantially all of the business and assets of PMC to Buyer; (ii) the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72,184 to $16,517 (accreted through the Closing Date) by means of the redemption of all of its shares of Series B Preferred Stock and a portion of its Series C Preferred Stock; (iii) the termination of $2,250 in annual management advisory fees payable by the Company to Palladium; (iv) a cash payment of $10,000 to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; (v) the agreement of the Buyer to pay the Company for advisory fees for the next three years of $1,000, $500, and $200, respectively (which were pre-paid at closing by the Buyer and satisfied for $1,300, the net present value of such payments); and (vi) the Buyer agreed to supply manganous oxide and red iron oxide products and to provide certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri"). Prince Agri agreed to continue to provide the Buyer with certain laboratory, MIS and telephone services, all on terms substantially consistent with the historic relationship between Prince Agri and PMC, and to lease to Buyer office space used by PMC in Quincy, Illinois. The Company has an agreement to receive certain treasury services from Palladium for $100 per year. Pursuant to definitive agreements, the Company made customary representations, warranties and environmental and other

indemnities, agreed to a post-closing working capital adjustment, paid $3,958 in full satisfaction of all intercompany debt owed to PMC, paid a closing fee to Palladium of $500, made certain capital expenditure adjustments included as part of the intercompany settlement amount, and agreed to pay for certain out-of-pocket transaction expenses. PMC retained $414 of its accounts receivable. The Company established a $1,000 letter of credit escrow for two years to secure its working capital adjustment and certain indemnification obligations. The Company agreed to indemnify the Palladium Investors for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of Buyer for less than $21,000, up to a maximum payment by the Company of $4,000 (the "Backstop Indemnification Amount"). The Backstop Indemnification Amount would be payable on the earlier to occur of July 1, 2008 or six months after the redemption date of all of the Company's Senior Secured Notes due 2007 if such a disposition closes prior to such redemption and six months after the closing of any such disposition if the disposition closes after any such redemption. The Company's obligations with respect to the Backstop Indemnification Amount will cease if the Palladium Investors do not close the disposition of Buyer by January 1, 2009. The definition of "Equity

(In Thousands)

Value" in the Company's Certificate of Incorporation was amended to reduce the multiple of trailing EBITDA payable in connection with any future redemption of Series C Preferred to 6.0 from 7.5

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

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

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

	For the Years Ended June 30,		
	2004	2003	2002
Net sales	$11,118	$22,332	$21,451
Operating income	2,278	3,579	3,640
Depreciation and amortization	487	956	966

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

5. Discontinued Operations

The Company shutdown Odda and divested Carbide during 2003, and sold MRT and shutdown La Cornubia during 2004. These businesses have been classified as discontinued operations.

Odda and Carbide

Operating results and loss on disposal of Odda and Carbide were:

	For the Years Ended June 30,	
	2003	2002
OPERATING RESULTS:		
Net sales	$ 11,217	$ 31,219
Cost of goods sold	13,723	46,116
Selling, general and administrative expenses	3,175	12,812
Asset writedowns	7,781	--
Other income	2,327	3,699
(Loss) before income taxes	(11,135)	(24,010)
(Benefit) for income taxes	(58)	(1,170)
(Loss) from operations	$(11,077)	$(22,840)
Depreciation and amortization	$ 894	$ 17,676

LOSS ON DISPOSAL:	
Assets	$ (3,359)
Liabilities	6,432
Unsecured debt	2,488
Currency translation adjustment	(6,244)
(Loss) on disposal	$ (683)

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Mineral Resource Technologies, Inc.

The Company sold MRT on August 28, 2003. Net proceeds, after transaction costs, were approximately $13,836. Operating results, gain on sale and balance sheet items of MRT were:

	For the Years Ended June 30,		
	2004	2003	2002
OPERATING RESULTS:			
Net sales	$ 3,327	$ 18,671	$ 17,045
Cost of goods sold	3,135	19,943	17,676
Selling, general and administrative expenses	316	2,182	2,299
(Loss) before income taxes	(124)	(3,454)	(2,930)
Provision for income taxes	--	--	--
(Loss) from operations	$ (124)	$ (3,454)	$ (2,930)
Depreciation and amortization	$ --	$ 1,309	$ 1,192

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

	As of June 30, 2003
BALANCE SHEET:	
Trade receivables	$ 2,633
Other receivables	304
Inventories	1,643
Prepaid expenses and other current assets	362
Current assets from discontinued operations	$ 4,942
Property, plant and equipment, net	$ 9,999
Intangibles	196
Other assets	455
Other assets from discontinued operations	$10,650
Accounts payable	$ 1,466
Accrued expenses and other current liabilities	585
Current liabilities from discontinued operations	$ 2,051
Other liabilities	$ 198
Other liabilities from discontinued operations	$ 198

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La Cornubia, S.A.

During June 2004 the Company determined that it would no longer fund the operations of La Cornubia. On June 30, 2004, La Cornubia filed for bankruptcy in France. The bankruptcy is proceeding in accordance with French law. The Company has been advised that, as a result of the bankruptcy, the creditors of La Cornubia have recourse only to the assets of La Cornubia. The Company removed all assets, liabilities, and cumulative translation adjustments related to La Cornubia from the Company's consolidated balance sheet as of June 30, 2004, and recorded a loss on disposal of discontinued operations. The Company obtained the consent of a majority of the holders of its senior secured notes due 2007 and its senior subordinated notes due 2008 to amend the indentures governing these notes in such a manner that the bankruptcy of La Cornubia would not create an event of default thereunder. The Company also obtained a waiver under its senior credit facility so that the bankruptcy of La Cornubia would not constitute an event of default under the senior credit facility.

Operating results, loss on disposal and balance sheet items of La Cornubia were:

	For the Years Ended June 30,		
	2004	2003	2002
OPERATING RESULTS:			
Net sales	$ 13,918	$ 13,479	$ 11,873
Cost of goods sold	13,723	12,528	11,144
Selling, general and administrative expenses	1,686	1,310	1,641
Other income	102	389	263
Interest (expense) - net	(94)	(60)	(78)
(Loss) before income taxes	(1,483)	(30)	(727)
Provision for income taxes	18	16	62
(Loss) from operations	$ (1,501)	$ (46)	$ (789)
Depreciation and amortization	$ 400	$ 359	$ 325
LOSS ON DISPOSAL:			
Current Assets	$ (5,085)		
Property, plant & equipment-net and other assets	(2,557)		
Liabilities	3,614		
Unsecured debt	2,167		
Currency translation adjustment	(459)		
(Loss) on disposal	$ (2,320)		

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	As of June 30, 2003
BALANCE SHEET:	
Trade receivables	$2,957
Other receivables	139
Inventories	918
Prepaid expenses and other current assets	348
Current assets from discontinued operations	$4,362
Property, plant and equipment, net	$2,535
Other assets	140
Other assets from discontinued operations	$2,675
Accounts payable	$1,560
Accrued expenses and other current liabilities	910
Unsecured debt	1,036

(In Thousands)

Current liabilities from discontinued operations	$3,506
Other liabilities	$ 975
Other liabilities from discontinued operations	$ 975

6. Property, Plant and Equipment

Property, plant and equipment was:

	As of June 30,	
	2004	2003
Land	$ 5,657	$ 5,816
Buildings and improvements	27,925	29,841
Machinery and equipment	105,308	106,026
	138,890	141,683
Less: accumulated depreciation	80,104	77,778
	$ 58,786	$ 63,905

Certain of the buildings of Koffolk are on land leased for a nominal amount from the Israel Land Authority. The lease expires on July 9, 2027.

Depreciation expense was $9,122, $9,202 and $10,235 for 2004, 2003 and 2002, respectively.

7. Related Party Transactions

The Company owns approximately $2,300 par value of preferred stock of a pharmaceutical company. The principal common stockholder of the Company owns approximately 15% voting common stock interest in the pharmaceutical company, acquired for approximately $500. The preferred stock investment, included in other assets, has a net carrying value of $1,610 at June 30, 2004.

A subsidiary of the Company leases the property underlying its Santa Fe Springs, California plant from a limited partnership controlled by common shareholders of the Company. The lease requires annual base rent of $250 and terminates on December 31, 2008. The Company is responsible under the lease agreement to pay all real property taxes.

In accordance with the terms of the Prince Transactions (Note 4) the Buyer paid the Company advisory fees of $500 for the year ended June 30, 2004. The Buyer also supplied manganous oxide and red iron oxide products, and provided certain mineral blending services to the Company's Prince Agriproducts subsidiary ("Prince Agri") for which Prince Agri paid $2,149 during the year ended June 30, 2004. Prince Agri provided the Buyer with certain laboratory, MIS and telephone services, and leased to Buyer office space in Quincy, Illinois for which the buyer paid Prince Agri $421 during the year ended June 30, 2004. The Company also has an agreement to receive certain treasury services from the Palladium Investors for $100 per year. Prior to the Prince Transactions an

annual management advisory fee of $2,250 was payable to the Palladium Investors. Payments were due quarterly in advance and were charged to general and administrative expense. The management fee was $1,125, $2,250 and $2,250 for 2004, 2003 and 2002, respectively.

8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were:

	As of June 30,	
	2004	2003
Employee related expenses	$11,444	$10,003
Payments due to Pfizer	--	9,040
Interest and tax accruals	4,836	9,249
Other accrued liabilities	23,730	12,407
	$40,010	$40,699

9. Debt

Loans Payable to Banks

At June 30, 2004, loans payable to banks included $10,996 under the senior credit facility with Wells Fargo Foothill, Inc. The weighted average interest rate under the senior credit facility from its inception at October 21, 2003 through June 30, 2004 was 8.0%. At June 30, 2004, the Company had $6,504 of borrowings available under the borrowing base formula in effect for the working capital facility that is provided under the senior credit facility.

On October 21, 2003, the Company entered into a new senior credit facility with Wells Fargo Foothill, Inc., providing for a working capital facility plus a letter of credit facility. The aggregate amount of borrowings under such working capital and letter of credit facilities may not exceed $25,000, including aggregate borrowings under the working capital facility of up to $15,000. On April 29, 2004, the Company amended the senior credit facility to increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $25,000 to $27,500 and to increase the amount of aggregate borrowings available under the working capital facility from $15,000 to $17,500. As of September 24, 2004, the Company amended the senior credit facility to: (i) increase the aggregate amount of borrowings available under such working capital and letter of credit facilities from $27,500 to $32,500; the amount of aggregate borrowings available under the working capital facility remained unchanged at $17,500; (ii) amend the EBITDA definition to exclude charges and expenses related to unsuccessful acquisitions and related financings in an aggregate amount not to exceed $5,300 for the period beginning January 1, 2004 and ending June 30, 2004; (iii) amend the definition of Additional Indebtedness to exclude advances under the working capital facility; (iv) amend the definition of Permitted Investments to allow other investments made during the period from January 1, 2004 through June 30, 2004 in an aggregate amount not to exceed $336; and (v) establish covenant EBITDA levels for the periods after June 30, 2004. The amendment was effective June 30, 2004 for items (i), (ii) and (iii); effective January 1, 2004 for item (iv); and effective September 24, 2004 for all other items.

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

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

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

Long-Term Debt

	As of	
	June 30, 2004	June 30, 2003
Senior secured notes due December 1, 2007	$105,000	$ --
Senior subordinated notes due June 1, 2008	48,029	100,000
Foreign bank loans	6,237	3,906
Pfizer promissory note	--	20,075
Bank capital expenditure facility	--	1,496
Capitalized lease obligations and other	103	910
	159,369	126,387
Less: current maturities	1,351	24,124
	$158,018	$102,263

Senior Secured Notes due 2007

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

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

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

Senior Subordinated Notes due 2008

The Company issued $100,000 aggregate principal amount of 9-7/8% Senior Subordinated Notes due 2008 ("Senior Subordinated Notes") of which $51,971 principal amount was repurchased with proceeds of the Senior Secured Notes. The Senior Subordinated Notes are general unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt (as defined in the indenture agreement of the Company) and rank pari passu in right of payment with all other existing and future senior subordinated indebtedness of the Company. The Senior Subordinated Notes are unconditionally guaranteed on a senior subordinated basis by the domestic restricted subsidiaries of the Company. Additional future domestic subsidiaries may become guarantors under certain circumstances.

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

(In Thousands)

Foreign Bank Loans

The bank loans of the Company's Koffolk Ltd. (Israel) subsidiary are collateralized by its receivables and inventory, accrue interest at LIBOR plus 1.25%, and are repayable in equal quarterly payments through 2005. The LIBOR rate was 1.15% at June 30, 2004.

The Company's foreign subsidiaries have aggregate credit lines of $11,044. At June 30, 2004, the Company had $4,807 of borrowings available under these credit lines.

Aggregate Maturities of Long-Term Debt

The aggregate maturities of long-term debt as of June 30, 2004 were:

Year Ended June 30,	
2005	$ 1,351
2006	4,127
2007	--
2008	153,891
2009	--
Total	$159,369

10. Redeemable Common Stock of Subsidiary

A key executive of the Company has a 2.1% ownership interest in the common stock of a subsidiary. The subsidiary's shares are redeemable at fair market value, based on independent appraisal, upon the death, disability or termination of the key executive. The Company and its subsidiary have entered into a severance agreement with the executive for payments based on a multiple of pre-tax earnings (as defined). The payments are subject to certain restrictions pursuant to terms of the senior credit facility. At June 30, 2004 no severance payments would have been due upon termination.

11. Redeemable Preferred Stock

Effective December 26, 2003 (the "Closing Date"), the Company entered into the Prince Transactions with the Palladium Investors (Note 4). Pursuant to definitive purchase and other agreements executed on and effective as of the Closing Date, the Prince Transactions included the following elements which relate to the Company's Redeemable Preferred Stock: the reduction of the value of the Company's Preferred Stock owned by the Palladium Investors from $72,184 (25,000 Series B shares and 20,000 Series C shares) to $16,517 (accreted through the Closing Date) (10,591 Series C shares) by means of the redemption of all of its shares of Series B Preferred Stock and a portion of its Series C Preferred Stock; the termination of $2,250 in annual management advisory fees payable by the Company to Palladium; a cash payment of $10,000 to the Palladium Investors in respect of the portion of the Company's Preferred Stock not exchanged in consideration of the business and assets of PMC; and the agreement of the Palladium Investors to pay the Company for advisory fees for the next three years of $1,000, $500, and $200, respectively (which were pre-paid at closing by

(In Thousands)

the Palladium Investors and satisfied for $1,300, the net present value of such payments). The Company has an agreement to receive certain treasury services from the Palladium Investors for $100 per year.

The redeemable preferred stock is entitled to cumulative cash dividends, payable semi-annually, at 15% per annum of the liquidation value. The redeemable Preferred C stock is entitled to the Liquidation Value plus a percentage of the equity value of the Company, as defined in the amended Certificate of Incorporation. The equity value is calculated as a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA") of the Company's business ("Equity Value").

On the third closing anniversary and on each closing anniversary thereafter, the Company may redeem, for cash only, in whole the Preferred C, at the Liquidation Value plus the Equity Value payment. At any time after the redemption of the Company's Senior Subordinated Notes (due June 2008), Palladium Investors shall have the right to require the Company to redeem, for cash, the Preferred C at the Liquidation Value plus the Equity Value payment.

Dividends of $6,042, $8,808 and $7,623 for the years ended June 30, 2004, 2003 and 2002, respectively, were accrued on the preferred shares and charged to retained earnings. Equity Value of $5,421, $3,470 and $0 for the years ended June 30, 2004, 2003 and 2002, respectively, was accrued and charged to retained earnings.

	As of	
	June 30, 2004	June 30, 2003
Series B		
Value at issuance	$ --	$25,000
Accrued dividends	--	11,339
Series C		
Value at issuance	10,591	20,000
Accrued dividends	7,200	9,072
Accreted equity value	6,887	3,470
Total redeemable preferred stock	$24,678	$68,881

The agreement with the Palladium Investors contains covenants which restrict, without the consent of at least one director designated by the Palladium Investors (or if no such director is then serving on the Board, at least one of the Palladium Investors), certain (a) issuances of equity securities, (b) sales of assets in excess of $10,000, (c) purchases of business and other investments in excess of $10,000, (d) incurrence of indebtedness for borrowed money in excess of $12,500, (e) redemptions, acquisitions or other purchases of equity securities, (f) transactions with officers, directors, stockholders or employees or any family member or affiliate thereof in excess of $500, (g) compensation and benefits of certain officers, and (h) transactions involving a change of control.

12. Common Stock and Paid-in Capital

(In Thousands)

Common Stock:

Common stock at June 30, 2004 and 2003 was:

	Authorized Shares	Issued Shares	Amount at Par
Class A common stock.....	16,200	12,600	$.10
Class B common stock.....	14,100	11,888	$.10
	30,300	24,488	

The entire voting power is vested in the holders of Class A common stock, except the holders of Class A common stock are entitled to elect all but three of the directors. The holders of Class B common stock are entitled to elect one director, and the purchasers of the Preferred B and Preferred C are entitled by contract to elect two directors. No dividends may be paid to common stockholders until all dividends have been paid to preferred stockholders. Thereafter, holders of Class A common stock shall receive dividends, when and as declared by the directors, at the rate of 5.5% of the par value of such stock (non-cumulative). After all declared dividends have been paid to Class A common stockholders, dividends may be declared and paid to the holders of Class B common stock. In the event of any complete liquidation, dissolution, winding-up of the business, or sale of all the assets of the Company, and after the redemption of the preferred stock, the Class A common stockholders are entitled to a distribution equal to the par value of the stock plus declared and unpaid dividends. Thereafter, the remaining assets of the Company shall be distributed to the holders of Class B common stock.

Redeemable Common Stock:

Pursuant to terms of an agreement with a minority shareholder, who is also an officer of the Company, the Company is required to purchase at book value, the Class B shares of such shareholder upon his retirement, death, disability, or the termination of his employment. Should such shareholder elect to sell his shares, the Company has a right of first offer and an option to purchase the shares. The Company records a liability for the redemption amount as calculated at each balance sheet date. No liability was recorded as of June 30, 2004 and 2003. Income of $378 was recorded during 2002 to adjust the shares to redeemable value.

13. 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. The benefits provided by the plans are based upon years of service and the employees' average compensation, as defined. The measurement date for the domestic and international pension plans was June 30, 2004 and 2003, respectively.

Reconciliations of changes in benefit obligations, plan assets, and funded status of the plans were:

(In Thousands)

	Domestic		International	
	2004	2003	2004	2003
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 15,846	$ 11,821	$ 6,595	$ 4,251
Service cost	1,260	1,056	467	310
Employee contributions	--	--	27	100
Interest cost	891	784	374	259
Benefits paid	(595)	(243)	(3)	(29)
Actuarial (gain) or loss	(251)	(663)	(475)	879
Curtailment	(922)	--	--	--
Change in Discount Rate	(786)	3,092	--	--
Exchange rate impact	--	--	338	825
Benefit obligation at end of year	$ 15,443	$ 15,846	$ 7,323	$ 6,595
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 10,387	$ 9,717	$ 4,566	$ 2,882
Actual return on plan assets	1,069	537	435	204
Employer contributions	935	376	558	841
Employee contributions	--	--	27	100
Benefits paid	(595)	(243)	(3)	(29)
Exchange rate impact	--	--	245	568
Fair value of plan assets at end of year	$ 11,795	$ 10,387	$ 5,828	$ 4,566
Funded Status				
Funded status of the plan	$ (3,648)	$ (5,459)	$ (1,495)	$ (2,029)
Unrecognized net actuarial (gain) or loss	152	2,358	368	961
Unrecognized prior service cost	(337)	(554)	--	--
Unrecognized transition obligation/(asset)	(8)	(12)	--	--
(Accrued) pension cost	$ (3,842)	$ (3,666)	$ (1,127)	$ (1,068)

At June 30, 2004 and 2003, the accumulated benefit obligation was $13,075 and $12,458, respectively, for domestic pension plans and $4,383 and $4,248, respectively, for international pension plans.

The Company expects to contribute $990 and $602 to its Domestic and International plans, respectively, during fiscal 2005. The Company's policy is to fund the pension plans in amounts which comply with contribution limits imposed by law.

Components of net periodic pension expense were:

	2004	2003	2002
Domestic Pension Expense			
Service cost - benefits earned during the year	$ 1,260	$ 1,056	$ 879
Interest cost on benefit obligation	891	784	714
Expected return on plan assets	(846)	(756)	(709)
Amortization of initial unrecognized net transition (asset)	(3)	(3)	(3)
Amortization of prior service costs	(153)	(162)	(165)
Amortization of net actuarial loss (gain)	25	(57)	(31)
Curtailment benefit	(64)	--	--
Net periodic pension cost - domestic	$ 1,110	$ 862	$ 685
International Pension Expense			
Service cost - benefits earned during the year	$ 467	$ 310	$ 217
Interest cost on benefit obligation	374	259	164
Expected return on plan assets	(300)	(203)	(123)
Amortization of net actuarial loss	22	--	--
Net periodic pension cost - international	$ 563	$ 366	$ 258

Significant actuarial assumptions for the plans were:

	2004	2003	2002
Domestic Actuarial Assumptions			
Discount rate for service and interest	5.8%	7.1%	7.5%
Expected rate of return on plan assets	7.5%	7.5%	7.5%
Rate of compensation increase	3.0%-4.5%	3.0%-4.5%	3.0%-4.5%
Discount rate for year-end benefit obligation	6.1%	5.8%	7.1%
International Actuarial Assumptions			
Discount rate for service and interest	5.5%	5.8%	5.8%
Expected rate of return on plan assets	6.0%	6.0%	6.0%
Rate of compensation increase	3.0%	3.0%	3.0%
Discount rate for year-end benefit obligation	5.5%	5.5%	5.8%

Estimated future benefit payments, including benefits attributable to future service, are as follows:

	Domestic	International
2005	$ 295	$ 37
2006	301	38
2007	311	40
2008	451	41
2009	508	42
2010-2014	4,500	1,817

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The Company's domestic plan target allocations for fiscal 2005 and the weighted asset allocation of plan assets as of June 30, 2004 and 2003 are as follows:

	2005	2004	2003
Domestic Plan Asset Allocations			
Debt Securities	45% - 55%	50%	59%
Equity Securities	15% - 25%	19%	9%
Other	25% - 35%	31%	32%

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation of each class. Equity securities are expected to return 8% to 10% over the long-term, while debt securities are expected to return 4% to 6%. Based on historical experience, the Committee expects that the Plan's asset managers will provide a modest (1/2% to 1% per annum) premium to their respective market benchmark indices.

The investment policy and strategy is to earn a long-term investment return sufficient to meet the obligations of the Plan, while assuming a moderate amount of risk in order to maximize investment return. In order to achieve this goal, assets are invested in a diversified portfolio consisting of equity securities, debt securities, limited partnerships and other investments in a manner consistent with ERISA's fiduciary requirements.

The Company's international plan target allocations for fiscal 2005 and the weighted asset allocation of plan assets as of June 30, 2004 and 2003 are as follows:

	2005	2004	2003
International Plan Asset Allocations			
Debt Securities	59%	62%	79%
Equity Securities	25%	21%	20%
Other	16%	17%	1%

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the target allocation for each class. Equity securities are expected to return 7.5% over the long-term, while debt securities are expected to return 5.5%.

The Company assumed the liability for the International pension plan during 2002 as part of the MFA acquisition.

In addition to Belgium, most of the Company's foreign subsidiaries have retirement plans covering substantially all employees. Contributions to these plans are generally deposited under fiduciary-type arrangements. Benefits under these plans primarily are based on compensation levels. Funding policies are based on legal requirements and local practices. Expense under these plans was $585, $522 and $534 for 2004, 2003 and 2002, respectively.

The Company and its domestic subsidiaries provide a 401(k) savings plan, under which an employee may make a pre-tax contribution of up to 60% of base compensation. The Company makes a non-matching contribution equal to 1% of the employee's base compensation and a matching contribution equal to 50% of the employee's contribution up to the first 3% of base compensation and 25% of the employee's contribution from 3% to 6% of base compensation. All employee contributions are subject to the maximum amounts permitted for federal income

(In Thousands)

tax purposes. Employees vest in the Company's matching contributions over 5 years. The Company's contribution was $502, $528 and $539 in 2004, 2003 and 2002, respectively.

The Company has a deferred compensation and supplemental retirement plan for certain senior executives. The benefits provided by the plan are based upon years of service and the executives' average compensation, subject to certain limits. The plan also provides for death benefits before retirement. Expense under this plan was $259, $249, and $204 in 2004, 2003 and 2002, respectively. The aggregate liability under this plan amounted to $2,018 and $1,678 at June 30, 2004 and 2003, respectively. To assist in funding the benefits of the plan, the Company invested in corporate-owned life insurance policies, through a trust, which at June 30, 2004 and 2003 had cash surrender values of $1,481 and $1,299, respectively, and are included in other assets.

The Company has an executive income program to provide a pre-retirement death benefit and a supplemental retirement benefit for certain senior executives. The aggregate liability under this plan amounted to $416 and $385 at June 30, 2004 and 2003, respectively. To assist in funding the benefits of the plan, the Company invested in split-dollar life insurance policies, which at June 30, 2004 and 2003 had cash surrender values to the Company of $1,529 and $1,392, respectively, and are included in other assets.

14. Income Taxes

Income (loss) from continuing operations before income taxes was:

	2004	2003	2002
Domestic	$ 27,587	$ 3,855	$ (5,507)
Foreign	(3,054)	3,906	(4,937)
Income (loss) from continuing operations before income taxes	$ 24,533	$ 7,761	$(10,444)

Components of the provision for income taxes were:

	2004	2003	2002
Current tax provision (benefit):			
Federal	$ 563	$ --	$ --
State and local	1,333	516	(256)
Foreign	5,747	3,084	3,785
Total current tax provision	7,643	3,600	3,529
Deferred tax provision (benefit):			
Federal	10,150	1,705	(1,225)
State and local	(1,396)	(345)	(590)
Foreign	(1,671)	850	(1,673)
Change in valuation allowance -domestic	(8,754)	(1,360)	14,726
-foreign	1,997	5,610	--

Total deferred tax provision	326	6,460	11,238
Provision for income taxes	$ 7,969	$ 10,060	$ 14,767

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
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Reconciliations of the Federal statutory rate to the Company's effective tax rate are:

	2004	2003	2002
Federal income tax rate	35.0%	35.0%	(35.0)%
State and local taxes, net of federal income tax effect	3.5	1.4	(4.9)
Foreign tax rate differences and taxes in certain profitable foreign jurisdictions	22.9	33.2	50.8
Change in valuation allowance	(41.4)	55.0	131.8
Gain not taxable for book purposes	10.4	--	--
Expenses with no tax benefit	1.7	4.4	1.0
Other	0.3	0.6	(2.3)
Effective tax rate	32.4%	129.6%	141.4%

Most of the investments in fixed assets of the Company's Israeli subsidiary have been granted "approved enterprise" status under Israeli law. The subsidiary is also a "foreign investors' company" as defined by Israeli law. This status entitles the subsidiary to reduced tax rates. The entitlement of the reduced tax rates is conditional upon the subsidiary fulfilling the conditions stipulated by Israeli law, regulations published there-under and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be canceled and the subsidiary may be required to refund the amount of the benefits, in whole or in part, with the addition of interest. The periods of benefits expire in various years through 2010.

Provision has not been made for United States or additional foreign taxes on undistributed earnings of foreign subsidiaries of approximately $39,200, whose earnings have been or are intended to be reinvested. It is not practicable at this time to determine the amount of income tax liability that would result should such earnings be repatriated.

The tax effects of significant temporary differences that comprise deferred tax assets and liabilities at June 30, 2004 and 2003 were:

	As of June 30,	
	2004	2003
Deferred tax assets:		
Employee benefits	$ 3,274	$ 3,194
Property, plant and equipment	475	686
Insurance	350	341
Receivables allowances	724	770
Inventory	3,441	4,588

(In Thousands)

Environmental remediation	1,322	1,232
Alternative minimum tax	701	163
Net operating loss carry forwards -domestic ...	11,645	20,186
-foreign	10,432	1,290
Other	1,333	2,059
	33,697	34,509
Valuation allowance	(30,045)	(32,954)
	3,652	1,555
Deferred tax liabilities		
Property, plant and equipment	(2,727)	(2,354)
Other	(2,649)	--
	(5,376)	(2,354)
Net deferred tax liability	$ (1,724)	$ (799)

Deferred taxes are included in the following line items in the consolidated balance sheets:

	2004	2003
Prepaid expenses and other current assets	$ 502	$ 543
Accrued expenses and other current liabilities	(138)	(111)
Other assets	669	624
Other liabilities	(2,757)	(1,855)
	$(1,724)	$ (799)

The Company has incurred domestic and foreign losses in recent years and has reassessed the likelihood of recovering net deferred tax assets, resulting in the recording of valuation allowances due to the uncertainty of future profitability. The Company recorded income tax expense and increased the valuation allowances by $5,610 and $11,594 during the fourth quarters of 2003 and 2002, respectively. The Company will continue to evaluate the likelihood of recoverability of these deferred tax assets based upon actual and expected operating performance.

The valuation allowance for deferred tax assets was:

	2004	2003	2002
Balance at beginning of period	$ 32,954	$ 18,495	$ 1,434
Change in valuation allowance	(6,757)	4,250	14,726
Other adjustments	3,848	10,209	2,335
Balance at end of period	$ 30,045	$ 32,954	$ 18,495

The other adjustments in the valuation allowance consist primarily of changes in the valuation allowance attributable to discontinued operations.

(In Thousands)

The Company has domestic federal net operating loss carry forwards of approximately $25,000 that expire in 2019 through 2024, state net operating loss carry forwards of approximately $55,000 that expire over various periods beginning in 2005 and foreign net operating loss carry forwards of approximately $30,000 that expire over various periods beginning in 2010.

15. Commitments and Contingencies

Leases:

The Company leases office, warehouse and manufacturing equipment and facilities for minimum annual rentals (plus certain cost escalations) as follows:

Year Ended June 30	Capital Leases	Non-Cancelable Operating Leases
2005	$ 103	$1,524
2006	2	778
2007	--	568
2008	--	456
2009	--	167
Thereafter	--	72
Total minimum lease payments	$ 105	$3,565
Amounts representing interest	2	
Present value of minimum lease payments	$ 103	

Equipment under capitalized leases included in the consolidated balance sheet at June 30, 2004 was $1,027, net of accumulated depreciation of $440.

Operating lease commitments include $1,125 with a related party controlled by shareholders of the Company, as described in Related Party Transactions.

Rent expense under operating leases for 2004, 2003 and 2002 was $2,441, $2,221 and $2,015, respectively.

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 June 30, 2004. Some recovery from insurance and other sources is expected but has not been recorded. The Company also has accrued its best estimate of any future costs.

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

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

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

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, there is a low probability of liability associated with this matter.

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

individually or in the aggregate, will have a material adverse effect on its financial position.

Environmental Remediation:

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

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

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

Based upon information available, the Company estimates the cost of litigation proceedings described above and the cost of further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites to be approximately $2,933, which is included in current and long-term liabilities in the June 30, 2004 consolidated balance sheet (approximately $2,652 at June 30, 2003). Environmental provisions were $1,511, $1,610 and $2,148 for 2004, 2003 and 2002, respectively, and were included in selling, general and administrative expenses in the consolidated statements of operations.

16. Guarantees

As part of the Prince Transactions (Note 4), as is normal for such transactions, the Company has agreed to indemnify the Palladium Investors for losses arising out of breach of representations, warranties and covenants. The Company's maximum liability under such indemnifications is limited to $15,000.

The Company agreed to indemnify the Palladium Investors for a portion, at the rate of $0.65 for every dollar, of the amount they receive in respect of the disposition of Buyer for less than $21,000, up to a maximum payment by the

Company of $4,000 (the "Backstop Indemnification Amount"). The Backstop Indemnification Amount would be payable on the earlier to occur of July 1, 2008 or six months after the redemption date of all of the Company's Senior Secured Notes due 2007 if such a disposition closes prior to such redemption and six months after the closing of any such disposition if the disposition closes after any such redemption. The Company's obligations with respect to the Backstop Indemnification Amount will cease if the Palladium Investors do not close the disposition of Buyer by January 1, 2009. The maximum potential Backstop Indemnification Amount is included in other liabilities on the Company's condensed consolidated balance sheet at June 30, 2004.

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

17. Financial Instruments

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents and trade receivables. The Company places its cash and cash equivalents with high quality financial institutions in various countries. The Company sells to customers in a variety of industries, markets and countries. Concentrations of credit risk with respect to receivables arising from these sales are limited due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial conditions are performed and, generally, no collateral is required. The Company maintains appropriate reserves for uncollectible receivables.

The carrying amounts of cash and cash equivalents, trade receivables, trade payables and short-term debt is considered to be representative of their fair value because of their short maturities. The fair values of the Company's Senior Secured Notes and Senior Subordinated Notes are estimated based on quoted market prices. At June 30, 2004 the fair values of the Company's Senior Secured Notes and Senior Subordinated Notes were $114,450 and $43,706, respectively, and the related carrying amounts were $105,000 and $48,029, respectively. At June 30, 2003 the fair value of the Company's Senior Subordinated Notes was $40,000 and the related carrying amount was $100,000. The fair value of the Company's other long-term debt does not differ materially from its carrying amount based on the variable interest rate structure of these obligations.

The Company obtains third-party letters of credit in connection with certain inventory purchases and insurance obligations. The contract values of the letters of credit at June 30, 2004 and 2003 were $9,263 and $2,593, respectively. The difference between the carrying values and fair values of these letters of credit was not material.

The Company operates internationally, with manufacturing and sales facilities in various locations around the world and utilizes certain financial instruments to manage its foreign currency and commodity exposures, primarily related to forecasted transactions. To qualify a derivative as a hedge at inception and throughout the hedge period, the Company formally documents the nature and relationships between hedging instruments and hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for

hedges of forecasted transactions, the significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction would occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss would be recognized in operations currently. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. The Company hedges forecasted transactions for periods not exceeding the next twelve months. The Company does not engage in trading or other speculative uses of financial instruments.

From time to time, the Company uses forward contracts and options to mitigate its exposure to changes in foreign currency exchange rates and as a means of hedging forecasted operating costs. When using options as a hedging instrument, the Company excludes the time value from the assessment of effectiveness. Pursuant to SFAS No. 133, all cumulative changes in a foreign currency option's fair value are deferred as a component of accumulated other comprehensive income until the underlying hedged transactions are reported on the Company's consolidated statement of operations and comprehensive income. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing process, to hedge the cost of its anticipated production requirements. The Company's foreign currency options and forward contracts and commodity futures contracts were designated as cash flow hedges and qualified for hedge accounting treatment. The Company deferred $9 and $81 of cumulative gains (net of losses) on various copper futures contracts designated as cash flow hedges as of June 30, 2004 and 2003, respectively.

The fair value of commodity contracts is estimated based on quotes from the market makers of these instruments and represents the estimated amounts that the Company would expect to receive or pay to terminate the agreements as of the reporting date.

18. 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.

2004 Segment Detail	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Corporate Expenses & Adjustments
Net Sales	$265,421	$ 42,253	$ 30,861	$ 19,739	$ --
Operating income/(loss)	33,307	2,899	2,900	2,301	(17,132)
Depreciation and amortization	8,263	2,123	11	419	2,367
Identifiable assets	185,601	26,146	7,715	5,696	16,211
Capital expenditures	3,850	2,216	6	115	57

2003 Segment Detail	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Corporate Expenses & Adjustments
Net Sales	$250,706	$ 48,797	$ 30,072	$ 12,171	$ --
Operating income/(loss)	38,472	(1,855)	3,207	620	(14,948)
Depreciation and amortization	7,690	2,904	12	364	1,554
Identifiable assets	190,864	33,191	9,154	5,726	12,811
Capital expenditures	5,669	2,836	--	129	2

2002 Segment Detail	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Corporate Expenses & Adjustments
Net Sales	$239,602	$ 50,854	$ 27,852	$ 10,368	$ --
Operating income/(loss)	28,298	(7,324)	2,345	1,164	(13,854)
Depreciation and amortization	7,438	3,535	12	321	1,049
Identifiable assets	186,118	38,985	8,059	8,097	10,393
Capital expenditures	5,915	2,328	12	144	119

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19. Geographic Information

The following is information about the Company's geographic operations. Information is attributed to the geographic areas based on the location of the Company's subsidiaries.

	2004	2003	2002
Net Sales:			
United States	$248,577	$233,942	$219,981
Europe	18,605	16,643	12,004
Israel	43,170	44,383	45,266

(In Thousands)

Latin America	26,800	25,235	28,970
Asia/Pacific	21,122	21,543	22,455
Total	$358,274	$341,746	$328,676
Property, Plant and Equipment, net:			
United States	$ 13,836	$ 16,719	$ 19,370
Europe	20,732	20,463	17,451
Israel	9,157	10,990	12,647
Latin America	14,783	15,396	13,772
Asia/Pacific	278	337	258
Total	$ 58,786	$ 63,905	$ 63,498

20. Consolidating Financial Statements

The units of Senior Secured Notes due 2007, consisting of US Senior Notes issued by the Company (the "Parent Issuer") and Dutch Senior Notes issued by Philipp Brothers Netherlands III B.V. (the "Dutch Issuer"), are guaranteed by certain subsidiaries. The Company and its U.S. subsidiaries ("U.S. Guarantor Subsidiaries"), excluding The Prince Manufacturing Company, Prince MFG, LLC and Mineral Resource Technologies, Inc. (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., The Prince Manufacturing Company, Prince MFG, LLC, Mineral Resource Technologies, Inc. (until divested), Phibrochem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc., and Phibro Animal Health U.S., Inc.

The following consolidating financial data summarizes the assets, liabilities and results of operations and cash flows of the Parent Issuer, Unrestricted Subsidiaries, U.S. Guarantor Subsidiaries, Dutch Issuer, Belgium Guarantor and Non-Guarantor Subsidiaries. The Unrestricted Subsidiaries, U.S.

Guarantor Subsidiaries, Dutch Issuer, Belgium Guarantor and Non-Guarantor Subsidiaries are directly or indirectly wholly owned as to voting stock by the Company.

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
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CONSOLIDATING BALANCE SHEET
As of June 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
			ASSETS			
CURRENT ASSETS:						
Cash and cash equivalents	$ 136	$ --	$ 801	$ 17	$ 212	$ 4
Trade receivables	2,670	--	26,996	--	2,592	25
Other receivables	317	414	1,195	--	72	
Inventory	1,994	--	37,890	--	23,159	16
Prepaid expenses and other	3,195	110	565	--	1,018	3
TOTAL CURRENT ASSETS	8,312	524	67,447	17	27,053	51
Property, plant & equipment, net	105	--	13,730	--	17,321	27
Intangibles	--	--	4,252	--	1,569	5
Investment in subsidiaries	125,355	--	3,619	1,604	--	
Intercompany	(14,995)	20,995	60,030	20,181	1,630	(12
Other assets	14,506	--	1,056	--	--	
	$ 133,283	$ 21,519	$ 150,134	$ 21,802	$ 47,573	$ 72
			LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:						
Cash overdraft	$ --	$ 10	$ 881	$ --	$ --	$
Loan payable to banks	10,996	--	--	--	--	
Current portion of						

long-term debt	--	--	101	--	--	1
Accounts payable	4,734	9	28,434	--	2,258	11
Accrued expenses and other	11,857	159	8,306	216	12,022	7
TOTAL CURRENT LIABILITIES	27,587	178	37,722	216	14,280	20
Long-term debt	133,029	--	2	20,000	--	4
Intercompany debt	--	--	--	--	30,553	44
Other liabilities	11,822	--	4,897	--	1,136	4
TOTAL LIABILITIES	172,438	178	42,621	20,216	45,969	74
REDEEMABLE SECURITIES:						
Series C preferred stock	24,678	--	--	--	--	
STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	31	--	--	
Paid-in capital	860	--	112,004	21	52	1
Retained earnings (accumulated deficit)	(57,964)	21,340	(4,339)	(2,744)	(2,757)	8
Accumulated other comprehensive income (loss):	--					
Gain on derivative instruments	9	--	9	--	--	
Cumulative currency translation adjustment	(7,261)	--	(192)	4,309	4,309	(11
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(63,833)	21,341	107,513	1,586	1,604	(1
	$ 133,283	$ 21,519	$ 150,134	$ 21,802	$ 47,573	$ 72

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

CONSOLIDATING STATEMENT OF OPERATIONS
For The Twelve Months Ended June 30, 2004

	Parent	Unrestricted	U.S. Guarantor	Dutch	Belgium	Non-Gua

	Issuer	Subsidiaries	Subsidiaries	Issuer	Guarantor	Subsidi
NET SALES	$ 21,868	$ 11,118	$ 215,591	$ --	$ 5,742	$ 103
NET SALES - INTERCOMPANY	150	2,598	468	--	28,970	4
COST OF GOODS SOLD	17,318	10,139	160,136	--	25,293	91
GROSS PROFIT	4,700	3,577	55,923	--	9,419	16
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,238	1,299	25,317	4	2,676	16
COSTS OF NON-COMPLETED TRANSACTION	5,261	--	--	--	--	
OPERATING INCOME (LOSS)	(20,799)	2,278	30,606	(4)	6,743	
OTHER:						
Interest expense	16,208	18	--	1,806	95	
Interest (income)	(4)	--	--	--	--	
Other (income) expense, net	578	--	(605)	--	(265)	
Net (gain) on extinguishment of debt	(23,226)	--	--	--	--	
Intercompany interest and other	(26,755)	1,892	16,392	(1,823)	3,335	6
(Profit) loss relating to subsidiaries	(5,349)	--	--	(2,124)	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	17,749	368	14,819	2,137	3,578	(6
PROVISION FOR INCOME TAXES	1,185	221	1,294	--	1,454	3
INCOME (LOSS) FROM CONTINUING OPERATIONS	16,564	147	13,525	2,137	2,124	(10
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(517)	--	--	--	--	

(Loss) from discontinued operations (net of income taxes)	--	(124)	--	--	--	(1
Gain (loss) from disposal of discontinued operations (net of income taxes)	(3,197)	--	(2,735)	--	--	3
NET INCOME (LOSS)	$ 12,850	$ 23	$ 10,790	$ 2,137	$ 2,124	$ (8

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Twelve Months Ended June 30, 2004

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
OPERATING ACTIVITIES:						
Net income (loss)	$ 12,850	$ 23	$ 10,790	$ 2,137	$ 2,124	$ (8
Adjustment for discontinued operation	3,714	124	2,735	--	--	(2
Income (loss) from continuing operations	16,564	147	13,525	2,137	2,124	(10
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	2,367	487	2,542	--	2,669	5
Deferred income taxes	733	--	--	--	--	
Net gain from sales of assets	--	--	(689)	--	--	
Net gain on extinguishment						

of debt	(23,226)	--	--	--	--	
Effects of changes in foreign currency	--	--	84	--	(264)	
Other	525	--	395	--	--	
Changes in operating assets and liabilities:	--					
Accounts receivable	79	336	(4,826)	--	(945)	(1
Inventory	618	(543)	4,143	--	(8,762)	8
Prepaid expenses and other	(268)	188	(479)	--	1,369	(1
Other assets	1,997	--	(4,548)	--	--	
Intercompany	(981)	17,331	(8,706)	(22,336)	13,316	(6
Accounts payable	(370)	(328)	(2,368)	--	(2,395)	
Accrued expenses and other	2,803	(89)	5,089	216	2,742	(3
Accrued costs of non-completed transaction	3,970	--	--	--	--	
Cash provided (used) by discontinued operations	(3,197)	(652)	(2,735)	--	--	4
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,614	16,877	1,427	(19,983)	9,854	(6
INVESTING ACTIVITIES:						
Capital expenditures	(57)	(62)	(2,506)	--	(1,613)	(2
Proceeds from sale of assets	--	--	1,057	--	--	
Other investing	(654)	--	--	--	--	
Discontinued operations	14,343	--	--	--	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13,632	(62)	(1,449)	--	(1,613)	(1
FINANCING ACTIVITIES:						
Net (decrease) in cash overdraft	(350)	(276)	(160)	--	--	
Net (decrease) in short-term debt	(26,882)	--	--	--	--	
Proceeds from long-term debt	85,000	--	--	20,000	--	4
Payments of long-term debt	(32,679)	(13)	(1,055)	--	--	(1
Payment of Pfizer obligations	(20,075)	--	--	--	(8,225)	
Payments relating to the Prince						
Transactions and transaction costs	(4,619)	(16,645)	(129)	--	--	
Debt refinancing costs	(15,548)	--	--	--	--	
Discontinued						

operations	--	--	--	--	--	1
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(15,153)	(16,934)	(1,344)	20,000	(8,225)	3
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	--	--	11	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	93	(119)	(1,366)	17	27	(4
CASH AND CASH EQUIVALENTS at beginning of period	43	119	2,167	--	185	8
CASH AND CASH EQUIVALENTS at end of period	$ 136	$ --	$ 801	$ 17	$ 212	$ 4

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

CONSOLIDATING BALANCE SHEET
As of June 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
			ASSETS			
CURRENT ASSETS:						
Cash and cash equivalents	$ 43	$ 119	$ 2,167	$ --	$ 185	$ 8
Trade receivables	2,759	2,452	22,071	--	1,542	23
Other receivables	957	3	733	--	518	1
Inventory	2,612	4,278	41,266	--	13,460	26
Prepaid expenses and other	3,267	458	981	--	1,866	3
Current assets from discontinued operations	--	4,942	--	--	--	4
TOTAL CURRENT ASSETS	9,638	12,252	67,218	--	17,571	67
Property, plant &						

equipment, net	153	3,269	13,297	--	17,049	30
Intangibles	--	--	--	--	1,818	6
Investment in subsidiaries	103,574	--	3,619	--	--	
Intercompany	35,034	(19,431)	59,765	--	6,731	(9
Other assets	11,516	710	1,122	--	--	
Other assets from discontinued operations	--	10,650	--	--	--	2
	$159,915	$ 7,450	$ 145,021	$ --	$ 43,169	$ 98
			LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
CURRENT LIABILITIES:						
Cash overdraft	$ 350	$ 286	$ 1,041	$ --	$ --	$
Loan payable to banks	37,878	--	--	--	--	
Current portion of long-term debt	21,599	66	381	--	--	2
Accounts payable	3,304	2,350	25,926	--	12,115	11
Accrued expenses and other	7,943	1,151	9,931	--	8,583	13
Current liabilities from discontinued operations	--	2,051	--	--	--	3
TOTAL CURRENT LIABILITIES	71,074	5,904	37,279	--	20,698	30
Long-term debt	100,073	213	149	--	--	1
Intercompany debt	--	--	--	--	22,319	50
Other liabilities	4,397	114	13,289	--	1,256	2
Other liabilities from discontinued operations	--	198	--	--	--	
TOTAL LIABILITIES	175,544	6,429	50,717	--	44,273	85
REDEEMABLE SECURITIES:						
Series B and C preferred stock	68,881	--	--	--	--	
STOCKHOLDERS' EQUITY (DEFICIT):						
Series A preferred stock	521	--	--	--	--	
Common stock	2	1	31	--	--	
Paid-in capital	860	--	110,883	--	--	5
Retained earnings (accumulated deficit)	(79,489)	1,020	(16,499)	--	(4,881)	17
Accumulated other comprehensive income (loss):	--					
Gain on derivative						

instruments	81	--	81	--	--	
Cumulative currency translation adjustment	(6,485)	--	(192)	--	3,777	(10
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(84,510)	1,021	94,304	--	(1,104)	12
	$159,915	$ 7,450	$ 145,021	$ --	$ 43,169	$ 98

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

CONSOLIDATING STATEMENT OF OPERATIONS
For The Twelve Months Ended June 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
NET SALES	$ 23,982	$ 22,332	$ 187,628	$ --	$ 6,625	$ 101
NET SALES - INTERCOMPANY	1,338	4,244	775	--	26,994	6
COST OF GOODS SOLD	20,083	20,422	144,543	--	31,435	74
GROSS PROFIT	5,237	6,154	43,860	--	2,184	33
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	18,064	2,575	26,632	--	1,868	15
OPERATING INCOME (LOSS)	(12,827)	3,579	17,228	--	316	17
OTHER:						
Interest expense	15,050	86	1	--	62	1
Interest (income)	(2)	--	--	--	--	
Other (income) expense, net	3,283	--	(3,481)	--	1,283	
Intercompany interest and other	(33,819)	4,952	18,997	--	2,849	7
(Profit) loss relating to						

subsidiaries	4,036	--	--	--	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(1,375)	(1,459)	1,711	--	(3,878)	8
PROVISION FOR INCOME TAXES	924	52	570	--	572	7
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,299)	(1,511)	1,141	--	(4,450)	
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	14,759	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	(3,454)	--	--	--	(11
Gain (loss) from disposal of discontinued operations (net of income taxes)	(30,019)	--	--	--	--	29
NET INCOME (LOSS)	$(17,559)	$ (4,965)	$ 1,141	$ --	$ (4,450)	$ 18

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Twelve Months Ended June 30, 2003

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
OPERATING ACTIVITIES:						
Net income (loss)	$(17,559)	$ (4,965)	$ 1,141	$ --	$ (4,450)	$ 18
Adjustment for discontinued operation	15,260	3,454	--	--	--	(18

Income (loss) from continuing operations	(2,299)	(1,511)	1,141	--	(4,450)	
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	1,554	956	2,900	--	2,019	5
Deferred income taxes	--	--	--	--	--	6
Net gain from sales of assets	--	--	(118)	--	--	
Effects of changes in foreign currency	--	--	(399)	--	1,268	
Other	218	13	540	--	--	
Changes in operating assets and liabilities:						
Accounts receivable	301	245	1,489	--	(322)	2
Inventory	95	(61)	(3,658)	--	2,270	
Prepaid expenses and other	(702)	(195)	558	--	(1,191)	(1
Other assets	(3,171)	--	1,131	--	--	
Intercompany	12,780	2,717	(12,285)	--	4,989	(4
Accounts payable	2,280	714	12,542	--	3,523	1
Accrued expenses and other	1,415	95	2,326	--	(6,444)	2
Cash provided (used) by discontinued operations	--	(1,928)	--	--	--	2
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	12,471	1,045	6,167	--	1,662	13
INVESTING ACTIVITIES:						
Capital expenditures	(2)	(350)	(2,573)	--	(2,149)	(3
Proceeds from sale of assets	--	--	2,530	--	--	
Other investing	--	--	--	--	--	
Discontinued operations	--	(493)	--	--	--	1
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2)	(843)	(43)	--	(2,149)	
FINANCING ACTIVITIES:						

Net (decrease) in cash overdraft	(226)	(24)	(4,151)	--	--	(1
Net (decrease) in short-term debt	(5,844)	--	--	--	--	
Proceeds from long-term debt	--	--	--	--	--	2
Payments of long-term debt	(6,813)	(111)	(415)	--	--	(8
Discontinued operations	--	--	--	--	--	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(12,883)	(135)	(4,566)	--	--	(8
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	9	--	54	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(414)	67	1,567	--	(433)	3
CASH AND CASH EQUIVALENTS at beginning of period	457	52	600	--	618	4
CASH AND CASH EQUIVALENTS at end of period	$ 43	$ 119	$ 2,167	$ --	$ 185	$ 8

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

CONSOLIDATING STATEMENT OF OPERATIONS
For The Twelve Months Ended June 30, 2002

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
NET SALES	$ 24,578	$ 21,451	$ 173,952	$ --	$ 4,196	$ 104
NET SALES - INTERCOMPANY	1,114	4,212	924	--	21,509	9
COST OF GOODS SOLD	20,837	19,400	135,378	--	21,631	87

(In Thousands)

GROSS PROFIT	4,855	6,263	39,498	--	4,074	26
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	16,786	2,623	32,959	--	1,559	16
OPERATING INCOME (LOSS)	(11,931)	3,640	6,539	--	2,515	9
OTHER:						
Interest expense	15,858	(29)	(172)	--	365	2
Interest (income)	(15)	--	--	--	--	
Other (income) expense, net	(2,001)	--	(839)	--	2,294	3
Intercompany interest and other	(28,534)	5,210	12,467	--	2,486	8
(Profit) loss relating to subsidiaries	17,913	--	--	--	--	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(15,152)	(1,541)	(4,917)	--	(2,630)	(4
PROVISION (BENEFIT) FOR INCOME TAXES	10,059	(407)	4,636	--	(626)	1
INCOME (LOSS) FROM CONTINUING OPERATIONS	(25,211)	(1,134)	(9,553)	--	(2,004)	(5
DISCONTINUED OPERATIONS:						
Profit (loss) relating to discontinued operations	(26,559)	--	--	--	--	
(Loss) from discontinued operations (net of income taxes)	--	(2,930)	--	--	--	(23
NET INCOME (LOSS)	$(51,770)	$ (4,064)	$ (9,553)	$ --	$ (2,004)	$ (28

CONSOLIDATING STATEMENT OF CASH FLOWS
For the Twelve Months Ended June 30, 2002

	Parent Issuer	Unrestricted Subsidiaries	U.S. Guarantor Subsidiaries	Dutch Issuer	Belgium Guarantor	Non-Gua Subsidi
OPERATING ACTIVITIES:						
Net income (loss)	$(51,770)	$ (4,064)	$ (9,553)	$ --	$ (2,004)	$ (28
Adjustment for discontinued operation	26,559	2,930	--	--	--	23
Income (loss) from continuing operations	(25,211)	(1,134)	(9,553)	--	(2,004)	(5
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by operating activities:						
Depreciation and amortization	1,049	966	3,434	--	2,252	4
Deferred income taxes	9,297	(466)	5,356	--	--	(2
Net gain from sales of assets	--	--	--	--	--	
Change in redemption amount of redeemable common stock	(378)	--	--	--	--	
Effects of changes in foreign currency	--	--	(100)	--	1,912	
Other	(43)	12	985	--	--	1
Changes in operating assets and liabilities:						
Accounts receivable	1,299	278	1,932	--	886	1
Inventory	606	1,165	(2,915)	--	(10,325)	(2
Prepaid expenses and other	210	(157)	(1,550)	--	273	(1
Other assets	(1,335)	1	2,519	--	66	1
Intercompany	473	4,753	2,164	--	7,562	2
Accounts payable	(719)	(844)	1,460		1,472	(7
Accrued expenses and other	(119)	(225)	(3,248)	--	3,487	8
Cash provided (used) by discontinued operations	--	(2,437)	--	--	--	1

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(14,871)	1,912	484	--	5,581	2
INVESTING ACTIVITIES:						
Capital expenditures	(119)	(192)	(3,022)	--	(1,939)	(3
Acquisition of a business	--	--	--	--	(4,421)	(2
Proceeds from property damage claim	--	--	411	--	--	
Proceeds from sale of assets	--	--	--	--	--	
Other investing	613	--	--	--	--	
Discontinued operations	--	(1,832)	--	--	--	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	494	(2,024)	(2,611)	--	(6,360)	(6
FINANCING ACTIVITIES:						
Net increase (decrease) in cash overdraft	563	(116)	1,447	--	--	1
Net increase in short-term debt	13,520	--	--	--	--	
Proceeds from long-term debt	2,000	322	--	--	--	
Payments of long-term debt	(2,541)	(98)	(396)	--	--	(1
Discontinued operations	--	--	--	--	--	(1
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	13,542	108	1,051	--	--	(1
EFFECT OF EXCHANGE RATE CHANGES ON CASH	--	--	--	--	128	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(835)	(4)	(1,076)	--	(651)	(5
CASH AND CASH EQUIVALENTS at beginning of period	1,292	56	1,676	--	1,269	10
CASH AND CASH EQUIVALENTS						

at end of period	$ 457	$ 52	$ 600	$ --	$ 618	$ 4

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHIBRO ANIMAL HEALTH CORPORATION

By: /s/ Jack C. Bendheim	By: /s/ Gerald K. Carlson
Jack C. Bendheim	Gerald K. Carlson
Chairman of the Board	Chief Executive Officer
Date: September 28, 2004	Date: September 28, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature and Title	Date
/s/ Gerald K. Carlson Gerald K. Carlson Chief Executive Officer (Principal Executive Officer)	September 28, 2004
/s/ Jack C. Bendheim Jack C. Bendheim Director, Chairman of the Board	September 28, 2004
/s/ Richard G. Johnson Richard G. Johnson Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 28, 2004
/s/ Marvin S. Sussman Marvin S. Sussman Director	September 28, 2004
/s/ James O. Herlands James O. Herlands Director	September 28, 2004
/s/ Sam Gejdenson Sam Gejdenson Director	September 28, 2004

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Composite Certificate of Incorporation of Registrant (15)
3.2	By-laws of Registrant (1)
4.1	Indenture, dated as of June 11, 1998, among Registrant, the Guarantors named therein and The Chase Manhattan Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant, and exhibits thereto, including Form of 9 7/8% Senior Subordinated Note due 2008 of Company (1)
4.1.1	First Supplemental Indenture, dated as of January 15, 1999, among Registrant, the Guarantors named therein and The Chase Manhattan Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)
4.1.2	Second Supplemental Indenture, dated as of March 19, 2003, among Registrant, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)
4.1.3	Third Supplemental Indenture, dated as of June 10, 2003, among Registrant, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant (10)
4.1.4	Fourth Supplemental Indenture, dated as of October 1, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (11)
4.1.5	Fifth Supplemental Indenture, dated as of October 21, 2003, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (12)
4.1.6	Sixth Supplemental Indenture, dated as of June 25, 2004, among Phibro Animal Health Corporation, the Guarantors named therein and JPMorgan Chase Bank, as trustee, relating to the 9 7/8% Senior Subordinated Notes due 2008 of Registrant. (16)
4.2	Indenture, dated as of October 21, 2003, by and among Phibro Animal Health Corporation and Philipp Brothers Netherlands III B.V., as Issuers, the Guarantors named therein, and HSBC Bank USA, as Trustee and Collateral Agent. (13)
4.2.1	First Supplemental Indenture, dated as of June 25, 2004, by and among Phibro Animal Health Corporation and Philipp Brothers Netherlands III B.V., as Issuers, the Guarantors named therein, and HSBC Bank USA, as Trustee and Collateral Agent. (16)
	Certain instruments which define the rights of holders of long-term debt of Registrant and its consolidated subsidiaries

	have not been filed as Exhibits to this Report since the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of Registrant and its subsidiaries on a consolidated basis, as of June 30, 2004. For a description of such indebtedness, see Note 9 of Notes to Consolidated Financial Statements. Registrant hereby agrees to furnish copies of such instruments to the Securities and Exchange Commission upon its request.
10.1	[Reserved]
10.2	Manufacturing Agreement, dated May 15, 1994, by and between Merck & Co., Inc., Koffolk, Ltd., and Registrant (1)+
10.3	Lease, dated July 25, 1986, between Registrant and 400 Kelby Associates, as amended December 1, 1986 and December 30, 1994 (1)
10.4	Lease, dated June 30, 1995, between First Dice Road Co. and Phibro-Tech, Inc., as amended May 1998 (1)
10.5	Lease, dated December 24, 1981, between Koffolk (1949) Ltd. and Israel Land Administration (1)
10.6	Master Lease Agreement, dated February 27, 1998, between General Electric Capital Corp., Registrant and Phibro-Tech, Inc. (1)
10.7	Stockholders Agreement, dated December 29, 1987, by and between Registrant, Charles H. Bendheim, Jack C. Bendheim and Marvin S. Sussman (1)
10.8	Employment Agreement, dated December 29, 1987, by and between Registrant and Marvin S. Sussman (1)++
10.9	Stockholders Agreement, dated February 21, 1995, between James O. Herlands and Phibro-Tech, Inc., as amended as of June 11, 1998(1)
10.10	Form of Severance Agreement, dated as of February 21, 1995, between Registrant and James O. Herlands (1)++
10.11	Agreement of Limited Partnership of First Dice Road Company, dated June 1, 1985, by and among Western Magnesium Corp., Jack Bendheim, Marvin S. Sussman and James O. Herlands, as amended November 1985 (1)
10.12	Philipp Brothers Chemicals, Inc. Retirement Income and Deferred Compensation Plan Trust, dated as of January 1, 1994, by and between Registrant on its own behalf and on behalf of C.P. Chemicals, Inc., Phibro-Tech, Inc. and the Trustee thereunder; Philipp Brothers Chemicals, Inc. Retirement Income and Deferred Compensation Plan, dated March 18, 1994 ("Retirement Income and Deferred Compensation Plan") (1)++
10.12.1	First, Second and Third Amendments to Retirement Income and Deferred Compensation Plan. (2)++
10.13	Form of Executive Income Deferred Compensation Agreement, each dated March 11, 1990, by and between Registrant and each of

	Jack Bendheim, James Herlands and Marvin Sussman (1)++
10.14	Form of Executive Income Split Dollar Agreement, each dated March 1, 1990, by and between Registrant and each of Jack Bendheim, James Herlands and Marvin Sussman (1)++
10.15	[Reserved]
10.16	Administrative Consent Order, dated March 11, 1991, issued by the State of New Jersey Department of Environmental Protection, Division of Hazardous Waste Management, to C.P. Chemicals, Inc. (1)
10.17	Agreement for Transfer of Ownership, dated as of June 8, 2000, between C. P. Chemicals, Inc. ("CP") and the Township of Woodbridge ("Township"), and related Environmental Indemnification Agreement, between CP and Township, and Lease, between Township and CP (2)
10.18	Stockholders' Agreement, dated as of January 5, 2000, among shareholders of Penick Holding Company ("PHC"), and Certificate of Incorporation of PHC and Certificate of Designation, Preferences and Rights of Series A Redeemable Cumulative Preferred Stock of PHC (2)
10.19	[Reserved]
10.20	[Reserved]
10.21	Asset Purchase Agreement, dated as of September 28, 2000, among Pfizer, Inc., the Asset Selling Corporations (named therein) and Registrant, and various exhibits and certain Schedules thereto (3)+
10.21.1	Amendment, dated August 11, 2003 to Asset Purchase Agreement, dated as of September 28, 2000, among Pfizer, Inc., the Asset Selling Corporations (named therein) and Registrant (10)
10.22	Stock Purchase Agreement, dated as of November 30, 2000, between Registrant and the Purchasers (as defined therein) (4)
10.23	Stockholders' Agreement, dated as of November 30, 2000, among Registrant, the Investor Stockholders (as defined therein) and Jack C. Bendheim (4)
10.24	United States Asset Purchase Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)
10.24.1	Amendment No. 1 to United States Asset Purchase Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of June 14, 2001 (6)
10.25	Supply Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)
10.26	License Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001 (5)
10.27	Management and Advisory Services Agreement dated November 30, 2000 between Registrant and Palladium Equity Partners, L.L.C.

	(7)++
10.27.1	Amended and Restated Management Services Agreement dated as of October 21, 2003 between Registrant and Palladium Capital Management, L.L.C. (15)++
10.28	Employment Agreement, dated May 28, 2002, by and between Registrant and Gerald K. Carlson (8)++
10.29	Agreement dated as of May 2, 2003, by and between PAH Management Company, Ltd. and David McBeath (10) ++
10.30	Stock Purchase Agreement, dated August 14, 2003, by and between Registrant and Cemex, Inc. (9)
10.31	Loan and Security Agreement, dated October 21, 2003, by and among, the lenders identified on the signature pages thereto, Wells Fargo Foothill, Inc., and Phibro Animal Health Corporation ("Parent"), and each of Parent's Subsidiaries identified on the signature pages thereto. (12)
10.31.1	Amendment Number One to Loan and Security Agreement dated November 14, 2003. (12)
10.31.2	Amendment Number Two to Loan and Security Agreement dated April 29, 2004. (14)
10.31.3	Amendment Number Three to Loan and Security Agreement dated as of September 24, 2004. (16)
10.32	Intercreditor and Lien Subordination Agreement, dated as of October 21, 2003, made by and among Wells Fargo Foothill, Inc., HSBC Bank USA, Phibro Animal Health Corporation ("Parent") and those certain subsidiaries of the Parent party thereto. (12)
10.33	Purchase and Sale Agreement dated as of December 26, 2003 by and among Phibro Animal Health Corporation ("PAHC"), Prince MFG, LLC, ("Prince MFG"), The Prince Manufacturing Company ("Prince" and together with PAHC and Prince MFG, the "Phibro Parties"), Palladium Equity Partners II, L.P. ("PEP II"), Palladium Equity Partners II-A, L.P., ("PEP II-A"), Palladium Equity Investors II, L.P., ("PEI II", and together with PEP II and PEP II-A, the "Investor Stockholders"), and Prince
	Mineral Company, Inc. ("Buyer"). (15)
10.34	Environmental Indemnification Agreement dated as of December 26, 2003 between the Phibro Parties (as defined therein) and Buyer. (15)
10.35	Amendment to Stockholders Agreement dated as of December 26, 2003 between PAHC, the Investor Stockholders and Jack Bendheim (15)
10.36	Advisory Fee Agreement dated as of December 26, 2003 between Buyer and PAHC(15)++
21	List of Subsidiaries (16)

31.1	Certification of Gerald K. Carlson, Chief Executive Officer required by Rule 15d-14(a) of the Act (16)
31.2	Certification of Jack C. Bendheim, Chairman of the Board required by Rule 15d-14(a) of the Act (16)
31.3	Certification of Richard G. Johnson, Chief Financial Officer required by Rule 15d-14(a) of the Act (16)

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1 Filed as an Exhibit to the Registrant's Registration Statement on Form S-4, No. 333-64641.

2 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

3 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000.

4 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated November 30, 2000.

5 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2001.

6 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 14, 2001.

7 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

8 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

9 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 11, 2003, as amended by the Registrant's Form 8-K/A dated June 2, 2004.

10 Filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

11 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated October 2, 2003.

12 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2003.

13 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated October 31, 2003.

14 Filed as an Exhibit to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2004.

15 Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated January 12, 2004.

16 Filed herewith.

\+ A request for confidential treatment has been granted for portions of such document. Confidential portions have been omitted and furnished separately

to the SEC in accordance with Rule 406(b).

++ This Exhibit is a management compensatory plan or arrangement.

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 filing the written certification statement pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company submits periodic reports with the Securities and Exchange Commission because it is required to do so by the terms of the indenture governing its senior subordinated notes.