PHIBRO ANIMAL HEALTH CORP
Form 10-K
September 29, 2003

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, 2003

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, 2003.

The number of shares outstanding of the Registrant's Common Stock as of June 30, 2003: 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 75% of our fiscal 2003 net sales were from our Animal Health and Nutrition business, and approximately 25% of our fiscal 2003 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 for one of the leading new products for manufacturing pressure-treated wood will represent our largest growth opportunity in our Specialty Chemicals business. Over 40% of our fiscal 2003 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 closed our facility in Odda, Norway, and we are in the process of selling our subsidiary, The Prince Manufacturing Company ("PMC") to Palladium Equity Partners II, LP and certain of its affiliates (the "Palladium Investors"). Unless otherwise indicated, the information in this Item 1 does not include PMC or Mineral Resource Technologies, Inc.

RECENT DEVELOPMENTS

On August 28, 2003, we sold our subsidiary, Mineral Resource Technologies, Inc. ("MRT"), to Cemex, Inc. for a net value after payment of transaction expenses of approximately $14 million in cash, subject to certain escrow arrangements and post closing adjustments. MRT managed and sold coal combustion by-products, including fly ash.

We recently changed our name to Phibro Animal Health Corporation. We were formerly known as Philipp Brothers Chemicals, Inc. The new name reflects our

core focus and strategic direction.

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 2003, antibiotics and antibacterials generated sales for us of approximately $80 million, anticoccidials generated sales for us of approximately $53 million, and anthelmintics and other medicated feed additives generated sales for us of approximately $7 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 multip applications for a wid number of species
CLTC(R)	chlortetracycline	1954	Antibiotic with multip applications for a wid number of species
Nicarb(R)	nicarbazin	1955	Anticoccidial for poul
Amprol(R)	amprolium	1960	Anticoccidial for poul and cattle
Bloatguard(R)	poloxalene	1966	Anti-bloat treatment f
Banminth(R)	pyrantel tartrate	1969	Anthelmintic for lives
Mecadox(R)	carbadox	1971	Antibacterial used in feeds to control salmonellosis and dyse
Stafac(R)/Eskalin(R)/V-Max(R)	virginiamycin	1972	Antibiotic with multip applications for a wid number of species
Coxistac(R)/Posistac(R)	salinomycin	1979	Anticoccidial for poul disease preventative i
Rumatel(R)	morantel tartrate	1981	Anthelmintic for lives
Oxibendazole(R)	oxibendazole	1982	Anthelmintic for lives
Aviax(R)	semduramycin	1995	Anticoccidial for poul

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. The antibiotic inhibits the bacterial destruction and degradation of nutrients such as carbohydrates and amino acids, resulting in more energy and nutrients and less production of harmful waste products such as lactic acid, volatile fatty acids and ammonia.

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. And it alleviates some of the effects of heat stress and crowding on performance and improves nutrient utilization. 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 sole 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 semduramycin, 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) and amprolium under the trademark Amprol(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 semduramycin 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. Commercial studies to date show that Aviax(R) significantly improves feed conversion. 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 crystaline dosage form. This dosage form is significantly more cost-effective and may improve profitability significantly. Regulatory approvals are expected in the United

States in the last quarter of fiscal 2004.

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 and can be tolerated at levels up to six times the recommended use level without adverse effects on swine performance.

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 semduramycin),
- Rixensart, Belgium (virginiamycin and semduramycin),
- 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 15 countries including: the United States, Canada, Mexico, Venezuela, Brazil, Argentina, Chile, Australia, Japan, 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, EU/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. In most countries, our MFA registrations have already been transferred from Pfizer to us, however transfers are continuing in several countries and under our purchase agreement with Pfizer, Pfizer agreed to continue to support the registration transfer effort.

Currently, our new MFA product development is focused on geographical expansion of the present product line, new label claims and applications for existing active ingredients and new formulations. This effort is coordinated by product development personnel located in Belgium, Brazil, and the United States. We also have an active program to identify and license new products and new technologies.

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, Bowmanstown, Pennsylvania 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, brick, semiconductor, automotive, aerospace, glass 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. The United States Environmental Protection Agency ("EPA") has ruled that by 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 $9 million in fiscal 2004 and by approximately $30 million over the life of the contract, based on existing forecasts. We have applied for a patent with respect to the manufacturing process of our solution, and the claims in our patent application were recently allowed by the United States Patent and Trademark Office. 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 commercially a production facility in Sumter, South Carolina which is supplying this market, and we have begun construction on a similar plant 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 and Bordeaux, France facilities. These contracts were part of the sale by us of our Agtrol business, consisting of inventory of and intangible assets related to, copper fungicides and other crop protection products, 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

Through our subsidiary, PMC, which we are in the process of selling to the Palladium Investors, we manufacture and market various mineral oxides, including iron compounds and manganese compounds. Iron compounds include red iron oxide (Hematite) (sold to the brick, masonry, glass, foundry, electrode, abrasive, feed, and other chemical industries); black iron oxide (Magnetite) (sold under the Magna Float brand name to the heavy media, coal, steel foundry, electrode, abrasive, colorant, fertilizer, and various other chemical industries); iron chromite (sold under the Chromox brand as a colorant or additive to the glass industry). Manganese compounds include manganese dioxide (sold under the Brickox brand name, which is considered a standard color in many applications to the brick, masonry, glass, and other chemical industries); and manganous oxide (sold to customers requiring an acid soluble form of manganese, such as animal feed, fertilizer and chemical manufacturers).

We also 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 2,700 customers, and sales to our top ten customers represented approximately 23% of our fiscal 2003 net sales and no single customer represented more than 5% of our fiscal 2003 net sales.

Our world-wide sales and marketing network consists of approximately 126 employees, 3 independent agents and 134 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 approximately 50 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."

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 2003, no single raw material accounted for more than 5% of our cost of goods sold. Total raw materials cost was approximately $116 million or 35% of net sales in fiscal 2003. 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 by 60

chemists and technicians at our various facilities. We operate research and development facilities in Rixensart, Belgium, Sumter, South Carolina, Ramat Hovav, Israel and at 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 2003 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, 2003, we had 1,018 employees worldwide (which does not include 108 employees dedicated to PMC). Of these, 185 employees were in management and administration, 126 were in sales and marketing, 60 were chemists or technicians, and 647 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 Jericho litigation referred to under Item 3, Legal Proceedings) to be approximately $2.0 million, which is included in current and long-term liabilities in our June 30, 2003 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.

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. Phibro-Tech is 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; and (iv) corrective action at its RCRA facilities. 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. 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 14 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. Separately, as part of an earlier investigation, Phibro-Tech has submitted a report to the State recommending no further action in connection with that matter. 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 submitted to the State and is pending. 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, C P 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 will commence the implementation of its approved closure

plan. Based on a formula established by the Department of Environmental Protection, those closure costs were estimated at $292,822.92 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. The closure plan for the Union City, California facility was approved by the State of California and closure activities have been substantially completed. Certain additional soil sampling is being conducted and the Company does not expect any material additional work to be required at this site.

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. The Ramat Hovav plant of our Israeli subsidiary, Koffolk (1949) Ltd. ("Koffolk Israel") 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 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 our 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. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - General - Other Risks and Uncertainties.

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.

TRADEMARKS

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).

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 Item 7 and also 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.

CONDITIONS IN ISRAEL

The following information discusses certain conditions in Israel that could affect our Israeli subsidiary, Koffolk Israel. As of June 30, 2003 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 13% 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 provide no 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 assure 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
Bowmanstown, Pennsylvania.....	56,500	Premixing and War
Braganca Paulista, Brazil.....	35,000	Sales, Manufactur Administrative
Bremen, Indiana.....	50,000	Sales, Premixing
Buenos Aires, Argentina(a).....	900	Sales and Adminis

Fairfield, New Jersey(a).....	9,600	Administrative
Guarulhos, Brazil(b).....	1,234,000	Sales, Premixing, Administrative
Hong Kong, China(a).....	750	Sales and Adminis
Kuala Lumpur, Malaysia(a).....	7,300	Sales, Premixing
Ladora, Iowa.....	9,500	Premixing and War
Lee's Summit, Missouri(a).....	1,500	Sales
Marion, Iowa.....	32,500	Premixing and War
Petach Tikva, Israel.....	60,000	Sales, Premixing, Administrative
Pretoria, South Africa(a).....	3,200	Sales and Adminis
Quincy, Illinois(c).....	187,000	Sales, Warehouse, Administrative
Rixensart, Belgium(d).....	865,000	Sales, Manufactur Administrative
Ramat Hovav, Israel.....	140,000	Manufacturing and
Regina, Canada(a).....	1,000	Sales
Queretaro, Mexico(a).....	3,500	Sales
Santiago, Chile(a).....	6,500	Sales and Adminis
Sydney, Australia(a).....	3,500	Sales
Tokyo, Japan(a).....	2,100	Sales and Adminis
Valencia, Venezuela(a).....	1,100	Sales and Adminis
SPECIALTY CHEMICALS		
Bordeaux, France.....	141,000	Sales, Manufactur Administrative
Garland, Texas.....	20,000	Manufacturing
Joliet, Illinois.....	34,500	Manufacturing
Phenix City, Alabama.....	6,000	Manufacturing
Reading, United Kingdom(a).....	3,100	Sales and Adminis
Santa Fe Springs, California(e).....	90,000	Manufacturing
Stradishall, United Kingdom.....	20,000	Sales, Manufactur Administrative
Sumter, South Carolina.....	123,000	Manufacturing and

(a) This facility is leased. Our leases expire through 2027. For information concerning our rental obligations, see Note 14 to our Consolidated Financial Statements included herein.

(b) Our Guarulhos, Brazil plant utilizes fermentation processes to produce the active ingredients semduramycin-mycelial and salinomycin. The plant also produces Aviax(R), Terramycin(R), and Stafac(R) formulations as well as the new Coxistac(R) Granular product. The plant is cGMP compliant and is in the process of obtaining an FDA approval.

(c) Comprises six facilities, including three warehouses, two manufacturing and one sales facility.

(d) Our Rixensart, Belgium plant utilizes fermentation processes to produce the active ingredients semduramycin-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, 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 and Brazil manufacture products that conform to the FDA's cGMP regulations. Four 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 plants in Bowmanstown, Pennsylvania and Petach Tikva, Israel have 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. The third member of the limited liability company will be Vulcan Materials Company. 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.

Our 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, 2003. Some recovery from insurance and other sources is expected. We have also accrued our best estimate of any future costs.

By notice dated August 14, 2003, our Phibro-Tech subsidiary's Santa Fe Springs, California facility was notified by the California Department of Toxic Substances Control that it could be a potentially responsible party in connection with a third-party site in Wilmington, California. We are investigating this matter but believe it relates to matters that took place before Phibro-Tech acquired the assets and began operating at its Santa Fe Springs, California site. In any event, we do not believe that Phibro-Tech will have any material liability in this matter.

Phibro-Tech, Inc. has resolved certain alleged technical permit violations with the California Department of Toxic Substance Control ("DTSC") and has reached on oral 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 of the settlement amount.

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, 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

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

(b) Holders. As of June 30, 2003, 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, 2003.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data as of and for fiscal years ended June 30, 1999, 2000, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements. The selected consolidated financial data reflect our Odda, Carbide and MRT businesses as discontinued operations for all periods presented. Results of operations include the PAH business from the November 30, 2000 acquisition date. 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 offering circular.

	FISCAL YEAR ENDED		
	1999	2000	2001
		(DOLLARS IN THOUSANDS, E	
RESULTS OF OPERATIONS:			
Net sales	$ 267,234	$ 280,618	$ 319,664
Cost of goods sold	210,800	216,510	250,305
Gross profit	56,434	64,108	69,359
Selling, general and administrative expenses	46,896	50,454	63,925
Curtailment of operations at manufacturing facility	(500)	(1,481)	--
Operating income	10,038	15,135	5,434
Interest expense	13,142	14,754	18,297
Interest (income)	(628)	(600)	(566
Other expense (income), net	1,828	(506)	855
(Gain) from property damage claim	(3,701)	(946)	--
(Gain) from sale of assets	--	--	(1,457
Income (loss) from continuing operations before income taxes	(603)	2,433	(11,695
Provision (benefit) for income taxes	773	1,188	(381
Income (loss) from continuing operations	(1,376)	1,245	(11,314
Income (loss) from discontinued operations	910	8,808	(3,581
(Loss) on disposal of discontinued operations	--	--	--
Net income (loss)	(466)	10,053	(14,895
Change in derivative instruments	--	--	--
Change in foreign currency translation adjustments	(2,043)	55	(5,146
Comprehensive income (loss)	$ (2,509)	$ 10,108	$ (20,041
BALANCE SHEET DATA:			
Cash and cash equivalents	$ 3,022	$ 2,403	$ 14,845
Total assets	238,779	258,451	330,019
Long-term debt	134,088	139,722	139,464
Series B and C redeemable preferred stock	--	--	48,980
Total stockholders' equity (deficit)	21,448	31,618	3,405

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, and MRT 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 our fiscal year ending June 30. All references to years 2003, 2002, and 2001 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. The Company operates in over 17 countries around the world and sells its animal health and nutrition products and specialty chemicals products into over 40 countries. Approximately 71% of 2003 net sales were from the Animal Health and Nutrition business, and approximately 29% of 2003 net sales were from the Specialty Chemicals businesses, included in the Industrial Chemicals, Distribution, and All Other segments.

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

During 2003, the Company took significant steps to refocus on its core business, improve operating results and to reduce debt levels. Operating income improved more than $15 million, and total debt, net of cash, decreased more than $26 million. Actions included the shutdown of the Company's Norwegian subsidiary, Odda Smelteverk and the sale of its Carbide business. Odda and Carbide's operating losses (included in discontinued operations) were $13.5 million, $27.7 million and $3.1 million in 2003, 2002 and 2001, respectively. Actions also included partial disposal of the ammoniacal etchant business related to the printed circuit board market, headcount and other cost reductions, and aggressive working capital management. The Company continues to evaluate its Specialty Chemicals businesses and will continue to restructure, discontinue or sell those businesses that are dilutive to earnings. In August 2003, the Company completed the sale of MRT for net proceeds, after transaction costs, of approximately $14.0 million, the amount dependent upon certain post-closing adjustments. MRT's operating losses (included in discontinued operations) were $3.5 million, $2.9 million and $1.3 million in 2003, 2002 and 2001, respectively.

LIQUIDITY AND REFINANCING RISK

The Company's senior bank credit facility and its note payable to Pfizer mature in November 2003 and March 2004, respectively. It is unlikely the Company will have sufficient cash resources from operations to repay these obligations

as they come due.

In connection with the Company's acquisition in November 2000 of the Medicated Feed Additives business of Pfizer (the "MFA acquisition"), it incurred certain obligations to Pfizer (amounts are shown as of June 30, 2003). By the terms of an agreement with Pfizer which is subject to certain conditions, the following would be terminated and satisfied in full by the payment to Pfizer of approximately $28.5 million, plus accrued interest on the existing promissory note due 2004, from the proceeds of the notes offering described below: (i) approximately $20.1 million aggregate principal amount of such promissory note; (ii) approximately $12.8 million of accounts payable; (iii) approximately $9.2 million of accrued expenses; and (iv) future contingent purchase price obligations under the Pfizer agreements.

The Company is currently pursuing the issuance of $105.0 million of Senior Secured Notes due 2007 ("new notes"). Concurrent with the issuance, the Company intends to purchase through privately negotiated transactions approximately $52.0 million of its 9 7/8% Senior Subordinated Notes due 2008 ("existing notes") at a price equal to 60% of the principal amount thereof, plus accrued and unpaid interest. The issuance will be subject to certain conditions, including, among other things, receiving consents of holders of existing notes that represent more than 50% of the outstanding principal amount of the existing notes. The Company expects to use the proceeds from the new notes to repurchase the existing notes, repay its senior domestic credit facility, and pay certain of its outstanding obligations to Pfizer, including the Pfizer note payable due 2004.

If the Company is unable to refinance these obligations on acceptable terms, the creditors could declare the loans to be in default and exercise their rights under the respective agreements, and the Company might be required to take actions outside of the ordinary course of operations to generate cash or otherwise settle these obligations, all of which would have a material adverse impact on the

Company's financial position, results of operations, and cash flows. There can be no assurance the Company will be successful in executing the refinancing plan. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company intends to sell PMC to the Palladium Investors. The material elements of the transactions relating to PMC are expected to include the following: (i) the transfer of ownership to the Palladium Investors of PMC; (ii) the reduction of the preferred stock of the Palladium Investors from $68.9 million (as of June 30, 2003) to $15.2 million (as of September 30, 2003); (iii) the termination of any obligation of the Company or any subsidiary of the Company, other than PMC, in respect of the $2.25 million annual management advisory fee; (iv) a separate cash payment to the Palladium Investors of $10 million (derived from the recent sale of MRT); (v) payments by PMC to the Company for central support services for the next three years of $1 million, $0.5 million and $0.2 million, respectively; and (vi) supply arrangements between the Company and PMC with respect to manganous oxide and red iron oxide. The PMC transactions are subject to definitive documentation that is expected to include customary representations, warranties and indemnities of the Company, and provisions for working capital adjustments and settlement of intercompany accounts. Any transaction with the Palladium Investors is dependent upon successful completion of the refinancing plan. See Item 13, Certain Relationships and Related Transactions.

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,		
	2003	2002	2001
		(THOUSANDS)	
Net sales	$ 355,225	$ 340,549	$ 319,664
Gross profit	91,497	81,994	69,359
Selling, general and administrative	66,360	72,277	63,925
Operating income	25,137	9,717	5,434
Interest expense, net	16,256	17,802	17,731
Other expense (income), net	1,150	3,086	(602)
Provision (benefit) for income taxes	10,076	14,829	(381)
(Loss) from continuing operations	$ (2,345)	$ (26,000)	$ (11,314)

2003 COMPARED WITH 2002

Net Sales of $355.2 million increased $14.7 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 $104.5 million increased $3.6 million, or 4%, primarily due to volume increases in the Distribution and All Other businesses.

Gross Profit of $91.5 million improved $9.5 million to 25.8% of net sales, compared with 24.1% 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 25.0% in 2002.

Selling, General and Administrative Expenses of $66.4 million decreased $5.9 million, or 8%. Expenses declined $6.8 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 also included 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 $25.1 million increased $15.4 million to 7.1% 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 $16.3 million decreased $1.5 million, compared with $17.8 million in 2002, primarily due to lower average interest rates and reduced average borrowing levels.

Other Expense, Net of $1.2 million improved in comparison with $3.1 million last 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.

2002 COMPARED WITH 2001

Net Sales of $340.6 million increased $20.9 million, or 7%. Animal Health and Nutrition sales increased $41.8 million, primarily due to a full year of the MFA acquisition in 2002, compared with 7 months of operations in 2001. Specialty Chemicals net sales decreased $20.9 million due to the divestiture of the Agtrol crop protection business to Nufarm in the fourth quarter of 2001, the continued decline in the sale and recycling of etchant related to the printed circuit board market, and lower sales of the Distribution segment.

Gross Profit of $82.0 million increased $12.6 million to 24.1% of net sales, compared with 21.7% in 2001. Animal Health and Nutrition gross profit increased

$21.4 million due to a full year of the MFA acquisition. Purchase accounting adjustments relating to inventory acquired in the MFA acquisition resulted in an increase to cost of goods sold of $3.3 million and $8.9 million for 2002 and 2001, respectively. Specialty Chemicals gross profit declined $8.8 million due to lower sales volumes and environmental recovery services revenues related to the printed circuit board market, lower unit volume of the Distribution segment and lower margins from contract manufacturing revenues, compared with higher margin 2001 sales of crop protection chemicals to third parties prior to the Agtrol divestiture.

Selling, General and Administrative Expenses of $72.3 million increased $8.4 million, or 13%. Animal Health and Nutrition expenses increased $10.7 million due to a full year of the MFA acquisition versus seven months in 2001. Specialty Chemicals expenses decreased $5.6 million, due to the divestiture of Agtrol, which reduced expenses by $8.0 million. Expenses for 2002 increased by $1.6 million due to the write-off of unamortized permit fees at closed facilities and additional environmental reserves. Corporate expenses increased $3.3 million. The full year 2002 management advisory fee to Palladium was $2.3 million, compared with $1.4 million for a partial year in 2001. In 2002, the Company recorded a $0.4 million non-cash gain to adjust the value of redeemable common stock; the 2001 gain was $3.1 million. In 2001, the Company recorded $1.3 million of expense for the severance of an executive.

Operating Income of $9.7 million increased $4.3 million. The improvement was due to a full year of the MFA acquisition and improved operating results in Animal Health and Nutrition. Specialty Chemicals reported increased losses related to declining sales to the printed circuit board market, offset in part by the elimination of losses related to the Agtrol business, divested in 2001.

Interest Expense, Net of $17.8 million increased $0.1 million primarily due to debt incurred in connection with the MFA acquisition and higher levels of average bank borrowings, offset in part by lower interest rates.

Other Expense, Net principally reflects foreign currency transaction and translation gains and losses of the Company's foreign subsidiaries. During 2001, a $1.5 million gain was recorded on the divestiture of the Agtrol crop protection business.

Income Taxes of $14.8 million were primarily due to an increase in valuation allowances for domestic deferred tax assets and income tax provisions in profitable foreign jurisdictions. The Company incurred domestic losses in recent years and a reassessment of the likelihood of recovering net domestic deferred tax assets resulted in the recording of a full domestic valuation allowance of $14.7 million.

OPERATING SEGMENTS

	YEAR ENDED JUNE 30,		
	2003	2002	2001
NET SALES			
Animal Health & Nutrition.....	$ 250,706	$ 239,602	$ 197,806
Specialty Chemicals:			
Industrial Chemicals.....	48,797	50,854	55,111
Distribution.....	30,072	27,852	34,074

All Other	25,650	22,241	32,673
	$ 355,225	$ 340,549	$ 319,664

	YEAR ENDED JUNE 30,		
	2003	2002	2001
OPERATING INCOME			
Animal Health & Nutrition	$ 38,472	$ 28,298	$ 17,562
Specialty Chemicals:			
Industrial Chemicals	(1,855)	(7,324)	664
Distribution	3,207	2,345	3,057
All Other	261	252	(5,763)
Corporate	(14,948)	(13,854)	(10,086)
	$ 25,137	$ 9,717	$ 5,434

The Animal Health and Nutrition segment manufactures and markets MFAs and NFAs to the poultry, swine and cattle markets, and includes the operations of the Phibro Animal Health business unit, Prince AgriProducts, Koffolk Israel, and Koffolk Brazil. The Industrial Chemicals segment manufacturers and 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. The All Other segment in 2001 includes the Agtrol crop protection business, which was sold to Nufarm in the fourth quarter of fiscal 2001.

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 $48.8 million decreased $2.1 million, or 4%. Industrial Chemicals net sales decreased $2.9 million principally due to reduced sales of etchants to the printed circuit board market. Sales of iron and manganese compounds to the brick, masonry, glass, and other chemical industries increased $0.8 million. Industrial Chemicals operating loss of $1.9 million improved $5.5 million. 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 Company continues its existing etchant business at one remaining facility. No manufacturing facilities, equipment or inventory were included in the transaction. The gain on the transaction was not material.

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 $25.7 million increased $3.4 million, or 15%. Sales to new customers accounted for the increase, as contract manufacturing declined $0.8 million and specialized lab projects and formulations declined $0.6 million. All Other operating income of $0.3 million approximated the prior year.

OPERATING SEGMENTS 2002 COMPARED TO 2001

ANIMAL HEALTH AND NUTRITION

NET SALES of $239.6 million increased $41.8 million, or 21%. The net sales increase was due to a full year of the MFA acquisition. Excluding the MFA acquisition, 2002 net sales increased $0.4 million. The adverse business climate in Israel and discontinuation of sales of vitamin exports by Koffolk Israel lowered international net sales. Domestic operations reported higher net sales due to increased unit volume sales of vitamin, mineral and other pre-mix products offset in part by lower average selling prices and other product mix changes.

OPERATING INCOME of $28.3 million increased $10.7 million, or 61%. The increase primarily was due to a full year of the MFA acquisition offset by the adverse business climate in Israel. Purchase accounting adjustments relating to inventory from the MFA acquisition resulted in increased cost of goods sold of $3.3 million and $8.9 million in 2002 and 2001, respectively. Adjusted to exclude the purchase accounting adjustments, the operating income margin was 13% in 2002, approximately the same as the prior year.

SPECIALTY CHEMICALS

INDUSTRIAL CHEMICALS net sales of $50.9 million decreased $4.3 million, or 8%. Industrial Chemicals net sales declined $3.7 million due to volume declines in the sales and recycling revenues of etchants related to the contraction of the U.S. printed circuit board industry. Sales price declines at the Company's PMC operations, partially offset by volume improvements of iron and manganese oxides, decreased revenues $0.6 million. Industrial Chemicals operating loss was $7.3 million in fiscal 2002 compared to income of $0.7 million in the prior year. These losses were primarily due to reduced sales volumes from printed circuit board customers.

DISTRIBUTION net sales of $27.9 million decreased $6.2 million, or 18%. The net sales decrease was primarily due to lower unit volumes of carbide, dicyandiamide and cyanide products in 2002. Distribution operating income of $2.3 million decreased $0.7 million, or 23%, primarily due to sales volume

declines.

ALL OTHER net sales of $22.2 million decreased $10.4 million, or 32%. This decrease principally was due to the divestiture of the Agtrol crop protection business during the fourth quarter of 2001. The transaction included multi-year supply agreements to continue to produce crop protection chemicals for Nufarm. The sales decline reflects contract manufacturing volumes under the supply agreements, compared with sales to third-party customers in 2001. Specialized lab projects and formulations net sales increased $1.3 million. All Other operating income was $0.3 million in 2002 compared to an operating loss of $5.8 million in the prior year. The improvement was primarily the result of the sale of Agtrol, which generated 2001 operating losses of $6.4 million. An increase in specialized lab projects and formulations also contributed to improved 2002 profitability.

DISCONTINUED OPERATIONS

During 2003, the Company decided to shutdown or divest Odda Smelteverk (Norway), Carbide Industries (U.K.), and Mineral Resource Technologies, Inc. These businesses have been classified as discontinued operations. 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 2003 presentation.

		YEAR EN
	ODDA/CARBIDE	
Net sales	$ 11,217	$
Loss before income taxes	$ (11,135)	$
Provision (benefit) for income tax	(58)	
(Loss) from discontinued operations	$ (11,077)	$
Depreciation and amortization	$ 894	$

		YEAR END
	ODDA/CARBIDE	
Net sales	$ 31,219	$
Loss before income taxes	$ (24,010)	$
Provision (benefit) for income tax	(1,170)	
(Loss) from discontinued operations	$ (22,840)	$
Depreciation and amortization	$ 17,676	$

	YEAR ENDE	
	ODDA/CARBIDE	
Net sales	$ 30,440	$
Loss before income taxes	$ (3,858)	$
Provisi		