

PHIBRO ANIMAL HEALTH CORP

Form 10-Q

February 09, 2016

TABLE OF CONTENTS

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015
OR

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

For the transition period from _____ to _____
Commission File Number: 001-36410

Phibro Animal Health Corporation
(Exact name of registrant as specified in its charter)

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

Glenpointe Centre East, 3rd Floor
300 Frank W. Burr Boulevard, Suite 21 07666-6712
Teaneck, New Jersey (Zip Code)
(Address of Principal Executive Offices)

(201) 329-7300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 1, 2016, there were 18,489,757 shares of the registrant's Class A common stock, par value \$0.0001 per share, and 20,899,811 shares of the registrant's Class B common stock, par value \$0.0001 per share, outstanding.

TABLE OF CONTENTS

PHIBRO ANIMAL HEALTH CORPORATION

TABLE OF CONTENTS

| | Page |
|--|-----------|
| PART I—FINANCIAL INFORMATION | |
| Item 1. | |
| Financial Statements (unaudited) | |
| <u>Consolidated Statements of Operations</u> | <u>3</u> |
| <u>Consolidated Statements of Comprehensive Income (Loss)</u> | <u>4</u> |
| <u>Consolidated Balance Sheets</u> | <u>5</u> |
| <u>Consolidated Statements of Cash Flows</u> | <u>6</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. | |
| <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>19</u> |
| Item 3. | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>32</u> |
| Item 4. | |
| <u>Controls and Procedures</u> | <u>33</u> |
| PART II—OTHER INFORMATION | |
| Item 1. | |
| <u>Legal Proceedings</u> | <u>34</u> |
| Item 1A. | |
| <u>Risk Factors</u> | <u>34</u> |
| Item 2. | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>34</u> |
| Item 3. | |
| <u>Defaults Upon Senior Securities</u> | <u>34</u> |
| Item 4. | |
| <u>Mine Safety Disclosures</u> | <u>34</u> |
| Item 5. | |
| <u>Other Information</u> | <u>34</u> |
| Item 6. | |
| <u>Exhibits</u> | <u>34</u> |
| <u>SIGNATURES</u> | <u>36</u> |

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| For the Periods Ended December 31 | Three Months | | Six Months | |
|--|--|------------|------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| | (unaudited) | | | |
| | (in thousands, except per share amounts) | | | |
| Net sales | \$ 191,773 | \$ 188,688 | \$ 378,893 | \$ 376,146 |
| Cost of goods sold | 129,357 | 132,603 | 256,317 | 259,732 |
| Gross profit | 62,416 | 56,085 | 122,576 | 116,414 |
| Selling, general and administrative expenses | 39,795 | 36,298 | 78,097 | 71,522 |
| Operating income | 22,621 | 19,787 | 44,479 | 44,892 |
| Interest expense, net | 3,967 | 3,515 | 7,786 | 7,005 |
| Foreign currency (gains) losses, net | 2,557 | (1,018) | (2,896) | (2,222) |
| Income before income taxes | 16,097 | 17,290 | 39,589 | 40,109 |
| Provision (benefit) for income taxes | (14,081) | 3,042 | (9,342) | 6,929 |
| Net income | \$ 30,178 | \$ 14,248 | \$ 48,931 | \$ 33,180 |
| Net income per share: | | | | |
| basic | \$ 0.77 | \$ 0.37 | \$ 1.25 | \$ 0.85 |
| diluted | \$ 0.75 | \$ 0.36 | \$ 1.22 | \$ 0.84 |
| Weighted average common shares outstanding: | | | | |
| basic | 39,163 | 38,957 | 39,128 | 38,928 |
| diluted | 39,978 | 39,813 | 39,995 | 39,690 |
| Dividends per share | \$ 0.10 | \$ 0.10 | \$ 0.20 | \$ 0.20 |

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

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| For the Periods Ended December 31 | Three Months | | Six Months | |
|--|----------------|-----------|------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| | (unaudited) | | | |
| | (in thousands) | | | |
| Net income | \$ 30,178 | \$ 14,248 | \$ 48,931 | \$ 33,180 |
| Change in fair value of derivative instruments | 1,909 | (294) | (2,994) | (723) |
| Foreign currency translation adjustment | 2,014 | (7,358) | (19,715) | (17,338) |
| Unrecognized net pension gains (losses) | 508 | 417 | 892 | 702 |
| (Provision) benefit for income taxes | (1,371) | 1,157 | 2,315 | 2,706 |
| Other comprehensive income (loss) | 3,060 | (6,078) | (19,502) | (14,653) |
| Comprehensive income (loss) | \$ 33,238 | \$ 8,170 | \$ 29,429 | \$ 18,527 |

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

4

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| As of | December 31, 2015 | June 30, 2015 |
|---|---|------------------|
| | (unaudited) | |
| | (in thousands, except share and per share amounts) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 25,372 | \$ 29,216 |
| Accounts receivable, net | 114,572 | 111,099 |
| Inventories, net | 154,422 | 149,786 |
| Other current assets | 15,807 | 23,627 |
| Total current assets | 310,173 | 313,728 |
| Property, plant and equipment, net | 112,921 | 104,414 |
| Intangibles, net | 34,755 | 37,281 |
| Other assets | 63,648 | 37,895 |
| Total assets | \$ 521,497 | \$ 493,318 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current portion of long-term debt | \$ 2,814 | \$ 2,809 |
| Accounts payable | 61,226 | 63,061 |
| Accrued expenses and other current liabilities | 50,491 | 45,463 |
| Total current liabilities | 114,531 | 111,333 |
| Revolving credit facility | 20,000 | 3,000 |
| Long-term debt | 282,307 | 283,709 |
| Other liabilities | 51,351 | 65,648 |
| Total liabilities | 468,189 | 463,690 |
| Commitments and contingencies (Note 11) | | |
| Common stock, par value \$0.0001; 300,000,000 Class A shares authorized, 18,283,834 and 17,747,793 shares issued and outstanding at December 31, 2015 and June 30, 2015, respectively; 30,000,000 Class B shares authorized, 20,959,811 and 21,320,275 shares issued and outstanding at December 31, 2015 and June 30, 2015, respectively | 4 | 4 |
| Preferred stock, par value \$0.0001; 16,000,000 shares authorized, no shares issued and outstanding | — | — |
| Paid-in capital | 116,360 | 118,192 |
| Retained earnings (accumulated deficit) | 8,046 | (36,968) |
| Accumulated other comprehensive income (loss) | (71,102) | (51,600) |
| Total stockholders' equity | 53,308 | 29,628 |
| Total liabilities and stockholders' equity | \$ 521,497 | \$ 493,318 |

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

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the Periods Ended December 31 | Six Months | |
|--|----------------|-----------|
| | 2015 | 2014 |
| | (unaudited) | |
| | (in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 48,931 | \$ 33,180 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 10,822 | 10,594 |
| Amortization of deferred financing costs and debt discount | 484 | 483 |
| Acquisition related accrued compensation | 840 | — |
| Acquisition related accrued interest | 689 | — |
| Deferred income taxes valuation allowance | (18,787) | — |
| Deferred income taxes | (2,828) | 176 |
| Foreign currency (gains) losses, net | (2,790) | (1,046) |
| Other | 149 | (21) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (6,885) | (3,440) |
| Inventories, net | (12,794) | (9,281) |
| Prepaid expenses and other current assets | (309) | 4,557 |
| Other assets | (3,343) | 101 |
| Accounts payable | (4,842) | (1,999) |
| Accrued expenses and other liabilities | (3,733) | (7,541) |
| Net cash provided (used) by operating activities | 5,604 | 25,763 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (17,653) | (7,728) |
| Other, net | 263 | 809 |
| Net cash provided (used) by investing activities | (17,390) | (6,919) |
| FINANCING ACTIVITIES | | |
| Borrowings under the revolving credit facility | 100,500 | — |
| Repayments of the revolving credit facility | (83,500) | — |
| Payments of long-term debt, capital leases and other | (2,466) | (1,604) |
| Proceeds from common shares issued | 2,078 | 158 |
| Dividends paid | (7,827) | (7,791) |
| Net cash provided (used) by financing activities | 8,785 | (9,237) |
| Effect of exchange rate changes on cash | (843) | (739) |
| Net increase (decrease) in cash and cash equivalents | (3,844) | 8,868 |
| Cash and cash equivalents at beginning of period | 29,216 | 11,821 |
| Cash and cash equivalents at end of period | \$ 25,372 | \$ 20,689 |

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

6

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

(unaudited)

1.

Description of Business

Phibro Animal Health Corporation (“Phibro” or “PAHC”) and its subsidiaries (collectively, the “Company”) is a diversified global developer, manufacturer and marketer of a broad range of animal health and mineral nutrition products for food animals including poultry, swine, cattle, dairy and aquaculture. The Company is also a manufacturer and marketer of performance products for use in the personal care, automotive, industrial chemical and chemical catalyst industries. Unless otherwise indicated or the context requires otherwise, references in this report to “we,” “our,” “us,” “the Company” and similar expressions refer to Phibro and its subsidiaries.

The unaudited consolidated financial information for the three and six months ended December 31, 2015 and 2014 is presented on the same basis as the financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (the “Annual Report”), filed with the Securities and Exchange Commission on September 10, 2015 (File no. 001-36410). In the opinion of management, these financial statements include all adjustments necessary for a fair statement of financial position, results of operations and cash flows for the interim periods, and the adjustments are of a normal and recurring nature. The financial results for any interim period are not necessarily indicative of the results for the full year. The consolidated balance sheet information as of June 30, 2015 was derived from the audited consolidated financial statements, which include the accounts of Phibro and its consolidated subsidiaries, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The consolidated financial statements include the accounts of Phibro and its consolidated subsidiaries. The decision whether or not to consolidate an entity requires consideration of majority voting interests, as well as effective control over the entity. Intercompany balances and transactions have been eliminated in the consolidated financial statements.

2.

Correction of Prior Year Interim Consolidated Financial Statements

We have revised the consolidated financial statements for the three and six months ended December 31, 2014 to correct errors in accounting for income taxes arising from long-term intercompany investments. We incorrectly recorded the benefits in the provision for income taxes instead of recording the benefits in other comprehensive income. The correcting adjustments increased the provision for income taxes, reduced net income and increased other comprehensive income. We concluded the corrections were not material to the periods.

| For the Periods Ended December 31, 2014 | Three Months | Six Months |
|---|-----------------|------------|
| Consolidated statements of operations | | |
| As reported | | |
| Provision (benefit) for income taxes | \$ 1,885 | \$ 4,223 |
| Net income (loss) | 15,405 | 35,886 |
| Net income (loss) per share – basic | 0.40 | 0.92 |
| Net income (loss) per share – diluted | 0.39 | 0.90 |
| Correction | | |
| Provision (benefit) for income taxes | \$ 1,157 | \$ 2,706 |
| Net income (loss) | (1,157) | (2,706) |
| Net income (loss) per share – basic | (0.03) | (0.07) |
| Net income (loss) per share – diluted | (0.03) | (0.06) |

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| For the Periods Ended December 31, 2014 | Three Months | Six Months |
|--|-----------------|---------------|
| Consolidated statements of operations | | |
| As corrected | | |
| Provision (benefit) for income taxes | \$ 3,042 | \$ 6,929 |
| Net income (loss) | 14,248 | 33,180 |
| Net income (loss) per share – basic | 0.37 | 0.85 |
| Net income (loss) per share – diluted | 0.36 | 0.84 |
| Consolidated statements of comprehensive income | | |
| As reported | | |
| Net income (loss) | \$ 15,405 | \$ 35,886 |
| Other comprehensive income (loss) | (7,235) | (17,359) |
| Comprehensive income (loss) | 8,170 | 18,527 |
| Correction | | |
| Net income (loss) | \$ (1,157) | \$ (2,706) |
| Other comprehensive income (loss) | 1,157 | 2,706 |
| Comprehensive income (loss) | — | — |
| As corrected | | |
| Net income (loss) | \$ 14,248 | \$ 33,180 |
| Other comprehensive income (loss) | (6,078) | (14,653) |
| Comprehensive income (loss) | 8,170 | 18,527 |
| Consolidated statement of cash flows | | |
| As reported | | |
| Net income (loss) | | \$ 35,886 |
| Deferred income tax | | (2,530) |
| Net cash provided (used) by operating activities | | 25,763 |
| Correction | | |
| Net income (loss) | | \$ (2,706) |
| Deferred income tax | | 2,706 |
| Net cash provided (used) by operating activities | | — |
| As corrected | | |
| Net income (loss) | | \$ 33,180 |
| Deferred income tax | | 176 |
| Net cash provided (used) by operating activities | | 25,763 |

3.

Summary of Significant Accounting Policies and New Accounting Standards

Our significant accounting policies are described in the notes to the consolidated financial statements included in our Annual Report. As of December 31, 2015, there have been no material changes to any of the significant accounting policies contained therein, except for the application of Accounting Standards Update (“ASU”) 2015-17, Income Taxes

(Topic 740), during the three months ended December 31, 2015. For further discussion regarding this guidance, see “—New Accounting Standards.”

8

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Income per Share and Weighted Average Shares

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period.

Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period after giving effect to potential dilutive common shares equivalents resulting from the assumed exercise of stock options and warrants. For the three and six months ended December 31, 2015 and 2014, all common share equivalents were included in the calculation of diluted net income per share.

| For the Periods Ended December 31 | Three Months | | Six Months | |
|--|--------------|-----------|------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 30,178 | \$ 14,248 | \$ 48,931 | \$ 33,180 |
| Weighted average number of shares – basic | 39,163 | 38,957 | 39,128 | 38,928 |
| Dilutive effect of stock options and warrant | 815 | 856 | 867 | 762 |
| Weighted average number of shares – diluted | 39,978 | 39,813 | 39,995 | 39,690 |
| Net income per share: | | | | |
| basic | \$ 0.77 | \$ 0.37 | \$ 1.25 | \$ 0.85 |
| diluted | \$ 0.75 | \$ 0.36 | \$ 1.22 | \$ 0.84 |

New Accounting Standards

Financial Accounting Standards Board (“FASB”) ASU 2015-17, Income Taxes (Topic 740), requires entities to classify deferred tax assets and liabilities as noncurrent on the consolidated balance sheet. The guidance is effective for annual periods beginning after December 15, 2016. Early application is permitted, and either retrospective or prospective application is allowed. We have elected early application of this ASU during the quarter ended December 31, 2015 to simplify the presentation of deferred tax assets and liabilities. We applied the guidance prospectively; periods prior to December 31, 2015 were not retrospectively adjusted. The application of this guidance did not have a material impact on our consolidated balance sheet.

ASU 2015-12, Plan Accounting, has multiple parts that may potentially impact our consolidated financial statements. Plan Investment Disclosures (Part II) will eliminate the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation for investments by general type. The net appreciation or depreciation in investments for the period still will be required to be presented in the aggregate, but will no longer be required to be disaggregated and disclosed by general type. Measurement Date Practical Expedient (Part III) is applicable for fully benefit-responsive investment contracts only, and will allow for the contract value to be the only required method of measurement for these contracts. Under the current guidance these contracts are required to be measured at fair value. The guidance is effective for annual periods beginning after December 15, 2015. Early application is permitted. Retrospective application of the provisions of this guidance will be required. We are evaluating the impact of adoption of this guidance on our consolidated financial statements.

ASU 2015-11, Inventory (Topic 330), requires entities to measure inventory at the lower of cost and net realizable value (“NRV”). NRV is defined as “the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. We are evaluating the impact of adoption of this guidance on our consolidated financial statements.

ASU 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40). The amendments in this Update provide guidance to companies regarding the treatment of cloud computing arrangements and if an arrangement includes a software license. This guidance is effective for annual

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for both prospective and retrospective transition methods. We do not expect adoption of this guidance will have a material effect on our consolidated financial statements.

ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30), intends to simplify presentation of debt issuance costs. The provisions of ASU 2015-03 require that debt issuance costs related to a recorded debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the treatment required of debt discounts. The provisions of ASU 2015-03 are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. We do not expect adoption of this guidance will have a material effect on our consolidated financial statements.

ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. ASU 2014-15 will be effective for annual periods ending after December 15, 2016. Earlier adoption is permitted. We do not expect adoption of this guidance will have a material effect on our consolidated financial statements.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), establishes principles for the recognition of revenue from contracts with customers. The underlying principle is to identify the performance obligations of a contract, allocate the revenue to each performance obligation and then to recognize revenue when the company satisfies a specific performance obligation of the contract. Subsequent to June 30, 2015, ASU 2015-14, Revenue from Contracts with Customers—Deferral of the Effective Date, was issued resulting in a one year deferral of the ASU 2014-09 effective date. Thus, ASU 2014-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2016. The guidance should be applied retrospectively to each prior reporting period presented. We are evaluating the impact of adoption of this guidance on our consolidated financial statements.

4.

Statements of Operations—Additional Information

| For the Periods Ended December 31 | Three Months | | Six Months | |
|---|--------------|----------|------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest expense, net | | | | |
| Term B Loan | \$ 2,927 | \$ 2,957 | \$ 5,862 | \$ 5,921 |
| Revolving credit facility | 342 | 236 | 602 | 469 |
| Acquisition related accrued interest | 344 | — | 689 | — |
| Amortization of deferred financing fees and debt discount | 242 | 242 | 484 | 484 |
| Other | 169 | 115 | 255 | 228 |
| Interest expense | 4,024 | 3,550 | 7,892 | 7,102 |
| Interest (income) | (57) | (35) | (106) | (97) |
| | \$ 3,967 | \$ 3,515 | \$ 7,786 | \$ 7,005 |
| Depreciation and amortization | | | | |
| Depreciation of property, plant and equipment | \$ 4,075 | \$ 4,123 | \$ 8,186 | \$ 8,351 |
| Amortization of intangible assets | 1,260 | 1,057 | 2,519 | 2,126 |
| Amortization of other assets | 58 | 61 | 117 | 117 |
| | \$ 5,393 | \$ 5,241 | \$ 10,822 | \$ 10,594 |

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5.

Balance Sheets—Additional Information

| As of | December 31, 2015 | June 30, 2015 |
|-----------------|----------------------|------------------|
| Inventories | | |
| Raw materials | \$ 45,378 | \$ 40,012 |
| Work-in-process | 8,987 | 7,617 |
| Finished goods | 100,057 | 102,157 |
| | \$ 154,422 | \$ 149,786 |

Goodwill balances did not change during the six months ended December 31, 2015.

We evaluate our investments in equity method investees for impairment if circumstances indicate that the fair value of the investment may be impaired. The assets underlying a \$4,061 equity investment are currently idled; we have concluded the investment is not currently impaired, based on expected future operating cash flows and/or disposal value.

| As of | December 31, 2015 | June 30, 2015 |
|--|----------------------|------------------|
| Accrued expenses and other current liabilities | | |
| Employee related | \$ 16,858 | \$ 22,273 |
| Commissions and rebates | 4,448 | 4,148 |
| Insurance related | 1,685 | 1,368 |
| Professional fees | 3,987 | 3,543 |
| Income and other taxes | 4,074 | 817 |
| Deferred consideration on acquisitions | 1,250 | 1,196 |
| Fair value of derivatives | 4,536 | 1,542 |
| Other | 13,653 | 10,576 |
| | \$ 50,491 | \$ 45,463 |

| As of | December 31, 2015 | June 30, 2015 |
|---|----------------------|------------------|
| Accumulated other comprehensive income (loss) | | |
| Derivative instruments | \$ (4,536) | \$ (1,542) |
| Foreign currency translation adjustment | (52,438) | (32,723) |
| Unrecognized net pension gains (losses) | (18,992) | (19,884) |
| (Provision) benefit for income taxes on derivative instruments | (670) | 63 |
| (Provision) benefit for incomes taxes on long-term intercompany investments | 8,166 | 4,923 |
| (Provision) benefit for income taxes on pension gains (losses) | (2,632) | (2,437) |
| | \$ (71,102) | \$ (51,600) |

6.
Debt

Revolving Credit Facility and Term B Loan

We have a revolving credit facility (the “Revolver”) and a term B loan (the “Term B Loan,” and together with the Revolver, the “Credit Facilities”). The Term B Loan has applicable margins equal to 3.00% in the case of LIBOR loans and 2.00% in the case of base rate loans. The LIBOR rate on the Term B Loan is subject to a floor of 1.00%.

11

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In January 2016, we amended the agreements governing our Credit Facilities to, among other things, increase the commitment available to us under the Revolver from \$100,000 to \$200,000. All other material terms and conditions were unchanged.

The Revolver requires, among other things, the maintenance of a maximum consolidated first lien net debt to consolidated EBITDA leverage ratio, calculated on a trailing four quarter basis, and contains an acceleration clause should an event of default (as defined in the agreement governing the Credit Facilities) occur. As of December 31, 2015, we were in compliance with the covenants of the Credit Facilities.

As of December 31, 2015, we had \$20,000 in borrowings under the Revolver and had outstanding letters of credit of \$14,065, leaving \$65,935 available for borrowings and letters of credit under the Revolver. In January 2016 we funded the MVP acquisition with the Revolver. For additional details, see “—Subsequent Event.” We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The tenors of these letters of credit are all one year or less.

The weighted-average interest rates on the Revolver and Term B Loan were 2.88% and 4.00%, respectively, for the six months ended December 31, 2015.

Long-Term Debt

| As of | December 31, 2015 | June 30, 2015 |
|-------------------------------|----------------------|------------------|
| Term B loan due April 2021 | \$ 285,650 | \$ 287,100 |
| Capitalized lease obligations | 19 | 18 |
| | 285,669 | 287,118 |
| Unamortized debt discount | (548) | (600) |
| | 285,121 | 286,518 |
| Less: current maturities | (2,814) | (2,809) |
| | \$ 282,307 | \$ 283,709 |

7.

Dividends

We intend to pay regular quarterly dividends to holders of our Class A and Class B common stock out of assets legally available for this purpose. We declared and paid quarterly cash dividends totaling \$3,917, and \$7,827 for the three and six months ended December 31, 2015, to holders of our Class A common stock and Class B common stock. Our future ability to pay dividends will depend upon our results of operations, financial condition, capital requirements, our ability to obtain funds from our subsidiaries and other factors that our Board of Directors deems relevant.

Additionally, the terms of our current and any future agreements governing our indebtedness could limit our ability to pay dividends or make other distributions.

8.

Related Party Transactions

Certain relatives of Jack C. Bendheim provided services to us as employees or consultants and received aggregate compensation and benefits of approximately \$428 and \$1,127 during the three and six months ended December 31, 2015, respectively, and \$418 and \$1,169 during the three and six months ended December 31, 2014, respectively. Mr. Bendheim has sole authority to vote shares of our stock owned by BFI Co., LLC, an investment vehicle of the Bendheim family.

9.

Employee Benefit Plans

The Company maintains a noncontributory defined benefit pension plan for all domestic nonunion employees employed on or prior to December 31, 2013, who meet certain requirements of age, length of service and hours worked per year. Plan benefits are based upon years of service and average compensation, as defined within the plan.

12

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table details the net periodic pension expense:

| For the Periods Ended December 31 | Three Months | | Six Months | |
|---|--------------|--------|------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Service cost – benefits earned during the period | \$ 751 | \$ 656 | \$ 1,470 | \$ 1,477 |
| Interest cost on benefit obligation | 757 | 574 | 1,446 | 1,309 |
| Expected return on plan assets | (846) | (648) | (1,588) | (1,414) |
| Amortization of net actuarial (gain) loss and prior service costs | 508 | 417 | 892 | 702 |
| Net periodic pension expense | \$ 1,170 | \$ 999 | \$ 2,220 | \$ 2,074 |

10.

Income Taxes

During the three months ended December 31, 2015, we concluded it was more likely than not that the value of domestic deferred tax assets would be realized and it was no longer necessary to maintain a valuation allowance. We have released the domestic valuation allowance, except for amounts that will be released against the utilization of net operating losses during the remainder of the fiscal year. We continue to maintain valuation allowances against deferred tax assets related to certain foreign jurisdictions. We review the realizability of our deferred tax assets on a quarterly basis, or whenever events or changes in circumstances indicate a review is required.

The provision (benefit) for income taxes for the three and six months ended December 31, 2015, included a benefit from the release of a valuation allowance against domestic deferred tax assets of approximately \$18,787. Excluding the release of the valuation allowance, the Company's income tax provisions were comprised primarily of income taxes relating to profitable foreign jurisdictions; income taxes relating to domestic income were substantially offset by the utilization of net operating losses that previously had been offset by the valuation allowance. The provision for income taxes also included benefits from the recognition of certain previously unrecognized tax benefits of \$1,637 and \$1,218 for the six months ended December 31, 2015 and 2014, respectively.

11.

Commitments and Contingencies

Environmental

Our operations and properties are subject to extensive federal, state, local and foreign laws and regulations, including those governing pollution; protection of the environment; the use, management, and release of hazardous materials, substances and wastes; air emissions; greenhouse gas emissions; water use, supply and discharges; the investigation and remediation of contamination; the manufacture, distribution, and sale of regulated materials, including pesticides; the importing, exporting and transportation of products; and the health and safety of our employees (collectively, "Environmental Laws"). As such, the nature of our current and former operations exposes us to the risk of claims with respect to such matters, including fines, penalties, and remediation obligations that may be imposed by regulatory authorities. Under certain circumstances, we might be required to curtail operations until a particular problem is remedied. Known costs and expenses under Environmental Laws incidental to ongoing operations, including the cost of litigation proceedings relating to environmental matters, are included within operating results. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under Environmental Laws or to investigate or remediate potential or actual contamination and from time to time 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.

While we believe that our operations are currently in material compliance with Environmental Laws, we have, from time to time, received notices of violation from governmental authorities, and have been involved in civil or criminal action for such violations. Additionally, at various sites, our subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with historic operations of the sites. We devote considerable resources to complying with

13

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Environmental Laws and managing environmental liabilities. We have developed programs to identify requirements under, and maintain compliance with, Environmental Laws; however, we cannot predict with certainty the effect of increased and more stringent regulation on our operations, future capital expenditure requirements or the cost of compliance.

The nature of our current and former operations exposes us to the risk of claims with respect to environmental matters and we cannot assure 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 liabilities for known environmental claims pursuant to such Environmental Laws, will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

The U.S. Environmental Protection Agency (the “EPA”) is investigating and planning for the remediation of offsite contaminated groundwater that has migrated from the Omega Chemical Corporation Superfund Site (“Omega Chemical Site”), which is upgradient of a facility in Santa Fe Springs, California, operated by our subsidiary Phibro-Tech, Inc. (“Phibro-Tech”). The EPA has named Phibro-Tech and certain other subsidiaries of PAHC as potentially responsible parties (“PRPs”) due to groundwater contamination from Phibro-Tech’s Santa Fe Springs facility that has allegedly commingled with contaminated groundwater from the Omega Chemical Site. In September 2012, the EPA notified approximately 140 PRPs, including Phibro-Tech and the other subsidiaries, that they have been identified as potentially responsible for remedial action for the groundwater plume affected by the Omega Chemical Site and for EPA oversight and response costs. Phibro-Tech contends that groundwater contamination at its site is due to historical operations that pre-date Phibro-Tech and/or contaminated groundwater that has migrated from upgradient properties. In addition, a successor to a prior owner of the Phibro-Tech site has asserted that PAHC and Phibro-Tech are obligated to provide indemnification for its potential liability and defense costs relating to the groundwater plume affected by the Omega Chemical Site. Phibro-Tech has vigorously contested this position and has asserted that the successor to the prior owner is required to indemnify Phibro-Tech for its potential liability and defense costs. Furthermore, a nearby property owner has filed a complaint in the Superior Court of the State of California against many of the PRPs allegedly associated with the groundwater plume affected by the Omega Chemical Site (including Phibro-Tech) for alleged contamination of groundwater underneath its property, and a group of companies that sent chemicals to the Omega Chemical Site for processing and recycling has filed a complaint under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act, as amended, and the common law public nuisance doctrine in the United States District Court for the Central District of California against many of the PRPs allegedly associated with the groundwater plume affected by the Omega Chemical Site (including Phibro-Tech) for contribution toward past and future costs associated with the investigation and remediation of the groundwater plume affected by the Omega Chemical Site. Due to the ongoing nature of the EPA’s investigation and Phibro-Tech’s dispute with the prior owner’s successor, at this time we cannot predict with any degree of certainty what, if any, liability Phibro-Tech or the other subsidiaries may ultimately have for investigation, remediation and the EPA oversight and response costs associated with the affected groundwater plume.

Based upon information available, to the extent such costs can be estimated with reasonable certainty, we estimated our cost for further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites, to be approximately \$6,544 and \$6,827 at December 31, 2015 and June 30, 2015, respectively, which is included in current and long-term liabilities on the consolidated balance sheets. 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 and elsewhere in this report, it should be noted that we take and have taken the position that neither PAHC 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.

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Claims and Litigation

PAHC and its subsidiaries are party to a number of claims and lawsuits arising out of the normal course of business including product liabilities, payment disputes and governmental regulation. Certain of these actions seek damages in various amounts. In many 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, results of operations, cash flows or liquidity.

12.

Derivatives

We monitor our exposure to commodity prices, interest rates and foreign currency exchange rates, and use derivatives to manage certain of these risks. These derivatives generally have an expiration/maturity of two years or less and are intended to hedge cash flows related to the purchase of inventory. We designate derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). We record the portion of the changes in the value of the derivative, related to a hedged asset or liability (the effective portion), in accumulated other comprehensive income (loss). As the hedged item is sold, we recognize the gain or loss recorded in accumulated other comprehensive income (loss) to the consolidated statements of operations on the same line where the hedged item is charged when released/sold. We immediately recognize in the consolidated statements of operations in the same line as the hedged item, the portion of the changes in fair value of derivatives used as cash flow hedges that is not offset by changes in the expected cash flows related to a recognized asset or liability (the ineffective portion).

We routinely assess whether the derivatives used to hedge transactions are effective. If we determine a derivative ceases to be an effective hedge, we discontinue hedge accounting in the period of the assessment for that derivative, and immediately recognize any unrealized gains or losses related to the fair value of that derivative in the consolidated statements of operations.

We record derivatives at fair value in the consolidated balance sheets. For additional details regarding fair value, see “—Fair Value Measurements.”

At December 31, 2015, the following table details the Company’s outstanding derivatives that are designated and effective as cash flow hedges:

| Instrument | Hedge | Notional Amount at December 31, 2015 | Fair value as of | |
|------------|----------------------|---|----------------------|------------------|
| | | | December 31, 2015 | June 30, 2015 |
| Options | Brazilian Real calls | R\$156,000 | \$ 675 | \$ 493 |
| Options | Brazilian Real puts | R\$156,000 | \$ (5,211) | \$ (2,035) |

The unrecognized gains (losses) at December 31, 2015, are unrealized and will fluctuate based on future exchange rates until the derivative contracts mature. Other comprehensive income (loss) included \$1,909 and \$(2,994) of unrecognized gains (losses) for the three and six months ended December 31, 2015, respectively. Accumulated other comprehensive income (loss) at December 31, 2015 included \$4,536 of unrecognized losses on derivative instruments; we anticipate that \$1,196 of the losses will be recognized in earnings within the next twelve months. We realized \$1,095 and \$1,941 of losses related to contracts that matured during the three and six months ended December 31, 2015, respectively, and recorded the cost as a component of inventory; we anticipate the cost will be recognized in earnings within the next twelve months. We recognize gains (losses) related to these derivative instruments as a component of cost of goods sold at the time the hedged item is sold. We hedge forecasted transactions for periods not exceeding twenty-four months.

13.

Fair Value Measurements

Fair value is defined as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. Financial assets and liabilities are measured at

15

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

fair value using the three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—

Quoted prices in active markets for identical assets or liabilities.

Level 2—

Significant observable inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3—

Unobservable inputs for which there is little or no market data available, and which are significant to the overall fair value measurement, are employed which require the reporting entity to develop its own assumptions.

In assessing the fair value of financial instruments at December 31, 2015 and June 30, 2015, we used a variety of methods and assumptions which were based on estimates of market conditions and risks existing at the time.

Current Assets and Liabilities

We consider the carrying amounts of current assets and current liabilities to be representative of their fair value because of the current nature of these items.

Letters of Credit

We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The carrying values of these letters of credit are considered to be representative of their fair values because of the nature of the instruments. The tenors of these letters of credit are all one year or less.

Long Term Debt

We record the Term B Loan at book value in our consolidated financial statements. We believe the carrying value of the Term B Loan is approximately equal to the fair value, which is based on quoted broker prices that are Level 2 inputs.

Deferred Consideration on Acquisitions

We estimated the fair value of the deferred consideration on acquisitions using the income approach, based on the Company's current sales forecast related to the acquired business.

Derivatives

We determine the fair value of derivative instruments based upon pricing models using observable market inputs for these types of financial instruments, such as spot and forward currency translation rates.

| As of | December 31, 2015 | | | June 30, 2015 | | |
|--|-------------------|------------|----------|---------------|------------|----------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Derivatives | \$ — | \$ (4,536) | \$ — | \$ — | \$ (1,542) | \$ — |
| Deferred consideration on acquisitions | \$ — | \$ — | \$ 5,958 | \$ — | \$ — | \$ 5,465 |

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below provides a summary of the changes in the fair value of Level 3 assets:

| | |
|--------------------------------------|----------|
| Balance, June 30, 2015 | \$ 5,465 |
| Acquisition related accrued interest | 689 |
| Payment and other | (196) |
| Balance, December 31, 2015 | \$ 5,958 |

14.

Business Segments

The Animal Health segment manufactures and markets products for the poultry, swine, cattle, dairy, aquaculture and ethanol markets. The business includes net sales of medicated feed additives and other related products, nutritional specialty products and vaccines. The Mineral Nutrition segment manufactures and markets trace minerals for the cattle, swine, poultry and pet food markets. The Performance Products segment manufactures and markets a variety of products for use in the personal care, automotive, industrial chemical and chemical catalyst industries.

We evaluate performance and allocate resources based on the Animal Health, Mineral Nutrition and Performance Products segments. Certain of our costs and assets are not directly attributable to these segments and such costs are referred to as Corporate. We do not allocate such items to the principal segments because they are not used to evaluate their operating results or financial position. Assets include cash and cash equivalents, debt issue costs and certain other assets.

We evaluate performance of our segments based on adjusted EBITDA. We define adjusted EBITDA as EBITDA plus (a) (income) loss from, and disposal of, discontinued operations, (b) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (c) certain items that we consider to be unusual or non-recurring. We define EBITDA as net income plus (i) interest expense, net, (ii) provision for income taxes or less benefit for income taxes and (iii) depreciation and amortization.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included herein.

| For the Periods Ended December 31 | Three Months | | Six Months | |
|-----------------------------------|--------------|------------|------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | | | | |
| Animal Health | \$ 121,504 | \$ 118,785 | \$ 241,638 | \$ 236,010 |
| Mineral Nutrition | 58,853 | 58,742 | 113,322 | 114,189 |
| Performance Products | 11,416 | 11,161 | 23,933 | 25,947 |
| | \$ 191,773 | \$ 188,688 | \$ 378,893 | \$ 376,146 |
| Depreciation and amortization | | | | |
| Animal Health | \$ 3,829 | \$ 3,710 | \$ 7,705 | \$ 7,538 |
| Mineral Nutrition | 612 | 605 | 1,220 | 1,209 |
| Performance Products | 194 | 147 | 388 | 293 |
| Corporate | 758 | 779 | 1,509 | 1,554 |
| | \$ 5,393 | \$ 5,241 | \$ 10,822 | \$ 10,594 |

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| For the Periods Ended December 31 | Three Months | | Six Months | |
|---|--------------|-----------|------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Adjusted EBITDA | | | | |
| Animal Health | \$ 32,351 | \$ 28,296 | \$ 63,827 | \$ 60,750 |
| Mineral Nutrition | 4,189 | 3,754 | 7,349 | 7,233 |
| Performance Products | (8) | 162 | 78 | 1,198 |
| Corporate | (8,098) | (7,184) | (15,113) | (13,695) |
| | \$ 28,434 | \$ 25,028 | \$ 56,141 | \$ 55,486 |
| Reconciliation of Adjusted EBITDA to income before income taxes | | | | |
| Adjusted EBITDA | \$ 28,434 | \$ 25,028 | \$ 56,141 | \$ 55,486 |
| Depreciation and amortization | (5,393) | (5,241) | (10,822) | (10,594) |
| Acquisition related accrued compensation | (420) | — | (840) | — |
| Interest expense, net | (3,967) | (3,515) | (7,786) | (7,005) |
| Foreign currency gains (losses), net | (2,557) | 1,018 | 2,896 | 2,222 |
| Income before income taxes | \$ 16,097 | \$ 17,290 | \$ 39,589 | \$ 40,109 |

| As of | December 31, 2015 | June 30, 2015 |
|----------------------|----------------------|------------------|
| Identifiable assets | | |
| Animal Health | \$ 370,522 | \$ 361,078 |
| Mineral Nutrition | 62,771 | 59,881 |
| Performance Products | 23,718 | 22,255 |
| Corporate | 64,486 | 50,104 |
| | \$ 521,497 | \$ 493,318 |

The Animal Health segment includes all goodwill of the Company. The Animal Health segment includes advances to and investment in an equity method investee of \$4,061 and \$4,364 as of December 31, 2015 and June 30, 2015, respectively. The Performance Products segment includes an investment in equity method investee of \$452 and \$361 as of December 31, 2015 and June 30, 2015, respectively. Corporate includes all cash and cash equivalents.

15.

Subsequent Event

In January 2016, we purchased the assets of MVP Laboratories, Inc. (“MVP”). MVP is a developer, manufacturer and marketer of livestock vaccines, vaccine adjuvants and other products. We acquired all of the assets used in MVP’s business, including working capital, intellectual property, manufacturing equipment and real property. The purchase price of approximately \$46,500 was paid at closing and was funded with the Revolver.

The acquisition will be accounted for as a business combination in accordance with ASC No. 805, “Business Combinations” (“ASC 805”). We are evaluating the allocations of the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Pro forma information giving effect to the acquisition has not been provided because the results are not material to the consolidated financial statements.

TABLE OF CONTENTS

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

Introduction

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is provided to assist readers in understanding our performance, as reflected in the results of our operations, our financial condition and our cash flows and should be read in conjunction with the consolidated financial statements and notes thereto included as part of this interim report. The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. This MD&A should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Our future results of operations may differ materially from those discussed in the forward-looking statements contained herein as a result of various factors, including, but not limited to those elsewhere in this Quarterly Report on Form 10-Q, including under “Forward-Looking Statements,” and those contained within the “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors” and other portions of the Annual Report.

Overview of our business

Phibro Animal Health Corporation is a diversified global developer, manufacturer and marketer of a broad range of animal health and mineral nutrition products for food animals including poultry, swine, cattle, dairy and aquaculture. We also are a manufacturer and marketer of performance products for use in the personal care, automotive, industrial chemical and chemical catalyst industries.

Correction of Prior Year Interim Consolidated Financial Statements

We have revised the consolidated financial statements for the three and six months ended December 31, 2014 to correct errors in accounting for income taxes arising from long-term intercompany investments. We incorrectly recorded the benefits in the provision for income taxes instead of recording the benefits in other comprehensive income. The correcting adjustments increased the provision for income taxes, reduced net income and increased other comprehensive income. We concluded the corrections were not material to the periods. For additional information, see “Notes to Consolidated Financial Statements—Correction of Prior Year Interim Consolidated Financial Statements.”

TABLE OF CONTENTS

Analysis of the consolidated statements of operations

Summary Results of Operations

| For the Periods Ended December 31 | Three Months | | | | Six Months | | | |
|---|----------------------------------|------------|-----------|------|----------------------------------|------------|-----------|------|
| | 2015 | 2014 | Change | | 2015 | 2014 | Change | |
| | (in thousands, except per share) | | | | (in thousands, except per share) | | | |
| Net sales | \$ 191,773 | \$ 188,688 | \$ 3,085 | 2% | \$ 378,893 | \$ 376,146 | \$ 2,747 | 1% |
| Gross profit | 62,416 | 56,085 | 6,331 | 11% | 122,576 | 116,414 | 6,162 | 5% |
| Selling, general and administrative expenses | 39,795 | 36,298 | 3,497 | 10% | 78,097 | 71,522 | 6,575 | 9% |
| Operating income | 22,621 | 19,787 | 2,834 | 14% | 44,479 | 44,892 | (413) | (1)% |
| Interest expense, net | 3,967 | 3,515 | 452 | 13% | 7,786 | 7,005 | 781 | 11% |
| Foreign currency (gains) losses, net | 2,557 | (1,018) | 3,575 | * | (2,896) | (2,222) | (674) | * |
| Income before income taxes | 16,097 | 17,290 | (1,193) | (7)% | 39,589 | 40,109 | (520) | (1)% |
| Provision (benefit) for income taxes | (14,081) | 3,042 | (17,123) | * | (9,342) | 6,929 | (16,271) | * |
| Net income | \$ 30,178 | \$ 14,248 | \$ 15,930 | 112% | \$ 48,931 | \$ 33,180 | \$ 15,751 | 47% |
| Net income per share | | | | | | | | |
| basic | \$ 0.77 | \$ 0.37 | \$ 0.40 | | \$ 1.25 | \$ 0.85 | \$ 0.40 | |
| diluted | \$ 0.75 | \$ 0.36 | \$ 0.39 | | \$ 1.22 | \$ 0.84 | \$ 0.38 | |
| Weighted average number of shares outstanding | | | | | | | | |
| basic | 39,163 | 38,957 | | | 39,128 | 38,928 | | |
| diluted | 39,978 | 39,813 | | | 39,995 | 39,690 | | |
| Ratio to net sales | | | | | | | | |
| Gross profit | 32.5% | 29.7% | | | 32.4% | 30.9% | | |
| Selling, general and administrative expenses | 20.8% | 19.2% | | | 20.6% | 19.0% | | |

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| | | | | |
|----------------------------|---------|-------|---------|-------|
| Operating income | 11.8% | 10.5% | 11.7% | 11.9% |
| Income before income taxes | 8.4% | 9.2% | 10.4% | 10.7% |
| Net income | 15.7% | 7.6% | 12.9% | 8.8% |
| Effective tax rate | (87.5)% | 17.6% | (23.6)% | 17.3% |

Certain amounts and percentages may reflect rounding adjustments

*

Calculation not meaningful

TABLE OF CONTENTS

Net sales, adjusted EBITDA and reconciliation of GAAP net income to adjusted EBITDA

We report net sales and adjusted EBITDA by segment to understand the operating performance of each segment. This enables us to monitor changes in net sales, costs and other actionable operating metrics at the segment level. See “—General description of non-GAAP financial measures” for descriptions of EBITDA and adjusted EBITDA.

Segment net sales and adjusted EBITDA:

| For the Periods Ended December 31 | Three Months | | | | Six Months | | | |
|--|----------------|------------|------------|------|----------------|------------|----------|-------|
| | 2015 | 2014 | Change | | 2015 | 2014 | Change | |
| | (in thousands) | | | | (in thousands) | | | |
| Net Sales | | | | | | | | |
| MFAs and other | \$ 85,569 | \$ 87,393 | \$ (1,824) | (2)% | \$ 171,090 | \$ 168,175 | \$ 2,915 | 2% |
| Nutritional specialties | 24,222 | 20,786 | 3,436 | 17% | 46,592 | 40,303 | 6,289 | 16% |
| Vaccines | 11,713 | 10,606 | 1,107 | 10% | 23,956 | 27,532 | (3,576) | (13)% |
| Animal Health | 121,504 | 118,785 | 2,719 | 2% | 241,638 | 236,010 | 5,628 | 2% |
| Mineral Nutrition | 58,853 | 58,742 | 111 | 0% | 113,322 | 114,189 | (867) | (1)% |
| Performance Products | 11,416 | 11,161 | 255 | 2% | 23,933 | 25,947 | (2,014) | (8)% |
| Total | \$ 191,773 | \$ 188,688 | \$ 3,085 | 2% | \$ 378,893 | \$ 376,146 | \$ 2,747 | 1% |
| Adjusted EBITDA | | | | | | | | |
| Animal Health | \$ 32,351 | \$ 28,296 | \$ 4,055 | 14% | \$ 63,827 | \$ 60,750 | \$ 3,077 | 5% |
| Mineral Nutrition | 4,189 | 3,754 | 435 | 12% | 7,349 | 7,233 | 116 | 2% |
| Performance Products | (8) | 162 | (170) | * | 78 | 1,198 | (1,120) | (93)% |
| Corporate | (8,098) | (7,184) | (914) | * | (15,113) | (13,695) | (1,418) | * |
| Total | \$ 28,434 | \$ 25,028 | \$ 3,406 | 14% | \$ 56,141 | \$ 55,486 | \$ 655 | 1% |
| Adjusted EBITDA ratio to segment net sales | | | | | | | | |
| Animal Health | 26.6% | 23.8% | | | 26.4% | 25.7% | | |
| Mineral Nutrition | 7.1% | 6.4% | | | 6.5% | 6.3% | | |
| Performance Products | (0.1)% | 1.5% | | | 0.3% | 4.6% | | |

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| | | | | |
|--------------|--------|--------|--------|--------|
| Corporate(1) | (4.2)% | (3.8)% | (4.0)% | (3.6)% |
| Total(1) | 14.8% | 13.3% | 14.8% | 14.8% |

(1)
reflects ratio to total net sales

A reconciliation of net income, as reported under GAAP, to adjusted EBITDA:

| For the Periods Ended December 31 | Three Months | | | | Six Months | | | |
|---|----------------|-----------|-----------|------|----------------|-----------|-----------|-----|
| | 2015 | 2014 | Change | | 2015 | 2014 | Change | |
| | (in thousands) | | | | (in thousands) | | | |
| Net income | \$ 30,178 | \$ 14,248 | \$ 15,930 | 112% | \$ 48,931 | \$ 33,180 | \$ 15,751 | 47% |
| Interest expense, net | 3,967 | 3,515 | 452 | 13% | 7,786 | 7,005 | 781 | 11% |
| Provision (benefit) for income taxes | (14,081) | 3,042 | (17,123) | * | (9,342) | 6,929 | (16,271) | * |
| Depreciation and amortization | 5,393 | 5,241 | 152 | 3% | 10,822 | 10,594 | 228 | 2% |
| EBITDA | 25,457 | 26,046 | (589) | (2)% | 58,197 | 57,708 | 489 | 1% |
| Acquisition related accrued compensation | 420 | — | 420 | * | 840 | — | 840 | * |
| Foreign currency (gains) losses, net | 2,557 | (1,018) | 3,575 | * | (2,896) | (2,222) | (674) | * |
| Adjusted EBITDA | \$ 28,434 | \$ 25,028 | \$ 3,406 | 14% | \$ 56,141 | \$ 55,486 | \$ 655 | 1% |

Amounts and percentages may reflect rounding adjustments

*

Calculation not meaningful

TABLE OF CONTENTS

Adjusted net income

We report adjusted net income to portray the results of our operations prior to considering certain income statement elements. See “—General description of non-GAAP financial measures” for more information.

A reconciliation of net income (loss), as reported under GAAP, to adjusted net income:

| For the Periods Ended December 31 | Three Months | | Adjustments | | Adjusted | |
|---|--|-----------|-------------|------------|-----------|-----------|
| | As Reported | | | | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | (in thousands, except per share amounts) | | | | | |
| Selling, general and administrative expenses(1) | \$ 39,795 | \$ 36,298 | \$ (1,680) | \$ (1,057) | \$ 38,115 | \$ 35,241 |
| Operating income | 22,621 | 19,787 | 1,680 | 1,057 | 24,301 | 20,844 |
| Interest expense, net(2) | 3,967 | 3,515 | (344) | — | 3,623 | 3,515 |
| Foreign currency (gains) losses, net | 2,557 | (1,018) | (2,557) | 1,018 | — | — |
| Income before income taxes | 16,097 | 17,290 | 4,581 | 39 | 20,678 | 17,329 |
| Provision (benefit) for income taxes(3) | (14,081) | 3,042 | 19,280 | 178 | 5,199 | 3,220 |
| Net income (loss) | \$ 30,178 | \$ 14,248 | \$ (14,699) | \$ (139) | \$ 15,479 | \$ 14,109 |
| Net income per share | | | | | | |
| basic | \$ 0.77 | \$ 0.37 | \$ (0.37) | \$ (0.01) | \$ 0.40 | \$ 0.36 |
| diluted | \$ 0.75 | \$ 0.36 | \$ (0.36) | \$ (0.01) | \$ 0.39 | \$ 0.35 |
| Weighted average common shares outstanding | | | | | | |
| basic | 39,163 | 38,957 | | | 39,163 | 38,957 |
| diluted | 39,978 | 39,813 | | | 39,978 | 39,813 |
| Ratio to net sales | | | | | | |
| Gross profit | 32.5% | 29.7% | | | 32.5% | 29.7% |
| Selling, general and administrative expenses | 20.8% | 19.2% | | | 19.9% | 18.7% |
| Operating income | 11.8% | 10.5% | | | 12.7% | 11.0% |
| Income before income taxes | 8.4% | 9.2% | | | 10.8% | 9.2% |
| Net income | 15.7% | 7.6% | | | 8.1% | 7.5% |
| Effective tax rate | (87.5)% | 17.6% | | | 25.1% | 18.6% |

TABLE OF CONTENTS

| For the Periods Ended December 31 | Six Months | | Adjustments | | Adjusted | |
|---|--|-----------|-------------|------------|-----------|-----------|
| | As Reported | | | | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | (in thousands, except per share amounts) | | | | | |
| Selling, general and administrative expenses(4) | \$ 78,097 | \$ 71,522 | \$ (3,359) | \$ (2,126) | \$ 74,738 | \$ 69,396 |
| Operating income | 44,479 | 44,892 | 3,359 | 2,126 | 47,838 | 47,018 |
| Interest expense, net(5) | 7,786 | 7,005 | (689) | — | 7,097 | 7,005 |
| Foreign currency (gains) losses, net | (2,896) | (2,222) | 2,896 | 2,222 | — | — |
| Income before income taxes | 39,589 | 40,109 | 1,152 | (96) | 40,741 | 40,013 |
| Provision (benefit) for income taxes(3) | (9,342) | 6,929 | 16,856 | (1,266) | 7,514 | 5,663 |
| Net income (loss) | \$ 48,931 | \$ 33,180 | \$ (15,704) | \$ 1,170 | \$ 33,227 | \$ 34,350 |
| Net income per share | | | | | | |
| basic | \$ 1.25 | \$ 0.85 | \$ (0.40) | \$ 0.03 | \$ 0.85 | \$ 0.88 |
| diluted | \$ 1.22 | \$ 0.84 | \$ (0.39) | \$ 0.03 | \$ 0.83 | \$ 0.87 |
| Weighted average common shares outstanding | | | | | | |
| basic | 39,128 | 38,928 | | | 39,128 | 38,928 |
| diluted | 39,995 | 39,690 | | | 39,995 | 39,690 |
| Ratio to net sales | | | | | | |
| Gross profit | 32.4% | 30.9% | | | 32.4% | 30.9% |
| Selling, general and administrative expenses | 20.6% | 19.0% | | | 19.7% | 18.4% |
| Operating income | 11.7% | 11.9% | | | 12.6% | 12.5% |
| Income before income taxes | 10.4% | 10.7% | | | 10.8% | 10.6% |
| Net income | 12.9% | 8.8% | | | 8.8% | 9.1% |
| Effective tax rate | (23.6)% | 17.3% | | | 18.4% | 14.2% |

(1)

Adjustments to selling, general and administrative expense include acquisition related accrued compensation of \$420 for the three months ended December 31, 2015 and acquisition intangible amortization of \$1,260 and \$1,057 for the three months ended December 31, 2015 and 2014, respectively.

(2)

Adjustments to interest expense, net include acquisition related accrued interest of \$344 for the three months ended December 31, 2015.

(3)

We adjust the provision for income taxes to reflect cash income taxes paid in the period.

(4)

Adjustments to selling, general and administrative expense include acquisition related accrued compensation of \$840 for the six months ended December 31, 2015 and acquisition intangible amortization of \$2,519 and \$2,126 for the six months ended December 31, 2015 and 2014, respectively.

(5)

Adjustments to interest expense, net include acquisition related accrued interest of \$689 for the six months ended December 31, 2015.

Comparison of three months ended December 31, 2015 and 2014

Net sales

Net sales of \$191.8 million for the three months ended December 31, 2015 increased \$3.1 million, or 2%, as compared to the three months ended December 31, 2014. Animal Health, Mineral Nutrition and Performance Products grew \$2.7 million, \$0.1 million and \$0.3 million, respectively.

23

TABLE OF CONTENTS

Animal Health

Net sales of \$121.5 million for the three months ended December 31, 2015 grew \$2.7 million, or 2%. The growth was primarily due to volume increases in the nutritional specialty and vaccine product groups. Nutritional specialty products grew \$3.4 million, or 17%, primarily due to U.S. and E.U. volume growth of our products for the dairy industry and the introduction of products for the U.S. poultry industry. Vaccines grew \$1.1 million, or 10%, principally from volume growth, including sales of MJ Biologics, Inc. (“MJB”) products that began in January 2015. MFAs and other decreased \$1.8 million, or 2%, primarily due to volume declines in the U.S., partially offset by international growth.

Mineral Nutrition

Net sales of \$58.9 million increased \$0.1 million, or less than 1%, for the three months ended December 31, 2015. The increase is due to increased volumes from improved demand. Offsetting the volume increases were lower average selling prices due to underlying raw material commodity price declines.

Performance Products

Net sales of \$11.4 million increased \$0.3 million, or 2%, for the three months ended December 31, 2015, due to higher volumes of copper-based products, partially offset by lower average selling prices of copper-based products and lower volumes of chemical catalyst products.

Gross profit

Gross profit of \$62.4 million for the three months ended December 31, 2015 increased \$6.3 million, or 11%, to 32.5% of net sales, as compared to the three months ended December 31, 2014. Animal Health gross profit increased \$5.8 million, due to volume growth, lower unit costs from improved operating efficiencies and favorable currency movements, partially offset by costs related to sales of MJB products. Mineral Nutrition gross profit increased \$0.5 million due to higher volumes and favorable product mix. Performance Products gross profit decreased \$0.1 million due to lower volumes and lower average selling prices, partially offset by lower product costs.

Selling, general and administrative expenses

Selling, general and administrative (“SG&A”) expenses of \$39.8 million for the three months ended December 31, 2015 increased \$3.5 million, or 10%, as compared to the three months ended December 31, 2014. Animal Health accounted for \$2.5 million of the increase, driven by increased sales force and product development costs and by \$0.6 million of acquisition related compensation expense and increased intangible amortization expense. Corporate expenses accounted for \$0.9 million of the increase due to increased compensation and office-related costs.

Adjusted EBITDA

Adjusted EBITDA of \$28.4 million for the three months ended December 31, 2015 increased \$3.4 million, as compared to the three months ended December 31, 2014. Animal Health adjusted EBITDA increased \$4.1 million, or 14%, due to sales growth and increased gross profit, partially offset by increased SG&A expenses. Mineral Nutrition increased \$0.4 million, or 12%, due to higher sales volumes and improved operating margins, partially offset by lower average selling prices. Performance Products decreased \$0.2 million due to lower average selling prices. Corporate expenses increased \$0.9 million due to increased compensation and office-related costs.

Interest expense, net

Interest expense, net, of \$4.0 million for the three months ended December 31, 2015 increased \$0.5 million due to acquisition related accrued interest in connection with the MJB transaction.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the three months ended December 31, 2015 amounted to net losses of \$2.6 million, as compared to \$1.0 million in net gains for the three months ended December 31, 2014. Foreign currency losses in the three months ended December 31, 2015 were primarily

TABLE OF CONTENTS

due to the movement of Brazil, Argentina and South Africa currencies relative to the U.S. dollar. Foreign currency gains and losses primarily arise from intercompany balances.

Provision (benefit) for income taxes

During the three months ended December 31, 2015, we concluded it was more likely than not that the value of domestic deferred tax assets would be realized, and it was no longer necessary to maintain a valuation allowance. We have released the domestic valuation allowance, except for amounts that will be released against the utilization of net operating losses during the remainder of the fiscal year. Including the effect of the release of the valuation allowance for domestic deferred income taxes, we experienced an income tax benefit of \$14.1 million and our effective tax rate was (87.5)% for the three months ended December 31, 2015.

Excluding the \$18.8 million benefit from the release of the valuation allowance for domestic deferred income taxes, income tax expense was \$4.7 million for the three months ended December 31, 2015, compared with \$3.0 million for the same period last year, resulting in a 29.2% effective tax rate compared to 17.6% for the same period last year. Our consolidated provisions for income taxes, before taking into effect discrete items such as the valuation allowance release, is primarily comprised of income taxes relating to profitable foreign jurisdictions. The increase in the effective rate was primarily due to a greater proportion of our pre-tax income being generated in our foreign subsidiaries during this quarter as compared to the same quarter last year.

Prior to releasing the valuation allowance, our domestic provision for income taxes was substantially offset by the utilization of domestic net operating losses that previously had been offset by a valuation allowance. As a result of the release of the valuation allowance, we expect our income tax provision in future periods to increase as we record an income tax provision on our domestic pre-tax income.

Comparison of six months ended December 31, 2015 and 2014

Our results for the six months ended December 31, 2014 included \$6.0 million of revenue and income from milestone payments for licensing of vaccine delivery technology. For a better understanding of underlying trends, we also present comparisons with 2014 that exclude the prior year milestone payments.

Net sales

Net sales of \$378.9 million for the six months ended December 31, 2015 increased \$8.7 million, or 2%, excluding the prior year \$6.0 million in vaccine licensing milestone revenue, as compared to the six months ended December 31, 2014. Animal Health grew \$11.6 million, while Mineral Nutrition and Performance Products declined \$0.9 million and \$2.0 million, respectively.

Net sales increased \$2.7 million, or 1%, including the prior year \$6.0 million in vaccine licensing milestone revenue.

Animal Health

Net sales of \$241.6 million for the six months ended December 31, 2015 grew \$11.6 million, or 5%, excluding the prior year \$6.0 million in vaccine licensing milestone revenue. The growth was primarily due to volume increases across all product groups. MFAs and other grew \$2.9 million, or 2%, primarily due to volume growth in international markets. Nutritional specialty products grew \$6.3 million, or 16%, primarily due to U.S. and E.U. volume growth of our products for the dairy industry and the introduction of products for the U.S. poultry industry. Vaccines grew \$2.4 million, or 11%, excluding the prior year \$6.0 million in vaccine licensing milestone revenue, principally from volume growth, including sales of MJB products that began in January 2015.

Net sales grew \$5.6 million, or 2%, including the prior year \$6.0 million in vaccine licensing milestone revenue.

TABLE OF CONTENTS

Mineral Nutrition

Net sales of \$113.3 million decreased \$0.9 million, or 1%, for the six months ended December 31, 2015. Increased volumes from improved demand were offset by lower average selling prices due to underlying raw material commodity price declines.

Performance Products

Net sales of \$23.9 million decreased \$2.0 million, or 8%, for the six months ended December 31, 2015, due to lower average selling prices of copper-based products and lower volumes of chemical catalyst products.

Gross profit

Gross profit of \$122.6 million for the six months ended December 31, 2015 increased \$12.2 million, or 11%, excluding the prior year \$6.0 million in vaccine licensing milestone revenue, as compared to the six months ended December 31, 2014. Gross profit increased to 32.4% of net sales for the six months ended December 31, 2015.

Animal Health gross profit increased \$13.1 million, excluding the prior year vaccine licensing milestone revenue, due to volume growth, lower unit costs from improved operating efficiencies and favorable currency movements, partially offset by costs related to sales of MJB products. Mineral Nutrition gross profit increased \$0.3 million due to higher volumes and favorable product mix. Performance Products gross profit decreased \$1.4 million due to lower volumes and lower average selling prices, partially offset by lower product costs.

Gross profit increased \$6.2 million, or 5%, including the prior year \$6.0 million in vaccine licensing milestone revenue.

Selling, general and administrative expenses

SG&A expenses of \$78.1 million for the six months ended December 31, 2015 increased \$6.6 million, or 9%, as compared to the six months ended December 31, 2014. Animal Health accounted for \$5.2 million of the increase, driven by increased sales force and product development costs and by \$1.2 million of acquisition related accrued compensation and increased intangible amortization expense. Corporate expenses accounted for \$1.3 million of the increase due to increased compensation and office-related costs.

Adjusted EBITDA

Adjusted EBITDA of \$56.1 million for the six months ended December 31, 2015 increased \$6.7 million, or 13%, excluding the prior year \$6.0 million in vaccine licensing milestone revenue, as compared to the six months ended December 31, 2014. Animal Health adjusted EBITDA increased \$9.1 million, or 17%, due to sales growth and increased gross profit, partially offset by increased SG&A expenses. Mineral Nutrition increased \$0.1 million, or 2%, due to higher sales volumes and improved operating margins, partially offset by lower average selling prices.

Performance Products decreased \$1.1 million, or 93%, due to lower sales volumes and lower average selling prices.

Corporate expenses increased \$1.4 million due to increased compensation and office-related costs.

Adjusted EBITDA increased \$0.7 million, or 1%, including the prior year \$6.0 million in vaccine licensing milestone revenue.

Interest expense, net

Interest expense, net, of \$7.8 million for the six months ended December 31, 2015 increased \$0.8 million due to acquisition related accrued interest in connection with the MJB transaction.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the six months ended December 31, 2015 amounted to net gains of \$2.9 million, as compared to \$2.2 million in net gains for the six months ended December 31, 2014. Foreign currency gains in the six months ended December 31, 2015 were primarily due to the movement of Brazil, South Africa and Mexico currencies relative to the U.S. dollar. Foreign currency gains and losses primarily arise from intercompany balances.

TABLE OF CONTENTS

Provision (benefit) for income taxes

During the six months ended December 31, 2015, we concluded that it was more likely than not that the value of domestic deferred tax assets would be realized, and it was no longer necessary to maintain a valuation allowance. We have released the domestic valuation allowance, except for amounts that will be released against the utilization of net operating losses during the remainder of the fiscal year. Including the effect of the release of the valuation allowance for domestic deferred income taxes, we experienced an income tax benefit of \$9.3 million and our effective tax rate was (23.6)% for the six months ended December 31, 2015.

Excluding the \$18.8 million benefit from the release of the valuation allowance for domestic deferred income taxes, income tax expense was \$9.4 million for the six months ended December 31, 2015, compared with \$6.9 million for the same period last year, resulting in a 23.9% effective tax rate compared to 17.3% for the same period last year. Our consolidated provision for income taxes, before taking into effect discrete items such as the valuation allowance release, is primarily comprised of income taxes relating to profitable foreign jurisdictions. The increase in the effective rate was primarily due to a greater proportion of our pre-tax income being generated in our foreign subsidiaries during this quarter as compared to the same quarter last year.

Prior to releasing the valuation allowance, our domestic provision for income taxes was substantially offset by the utilization of domestic net operating losses that previously had been offset by a valuation allowance. As a result of the release of the valuation allowance, we expect our income tax provision in future periods to increase as we record an income tax provision on our domestic pre-tax income.

Analysis of financial condition, liquidity and capital resources

Net increase in cash and cash equivalents was:

| For the Periods Ended December 31 | Six Months | | |
|--|----------------|-----------|-------------|
| | 2015 | 2014 | Change |
| | (in thousands) | | |
| Cash provided by/(used in): | | | |
| Operating activities | \$ 5,604 | \$ 25,763 | \$ (20,159) |
| Investing activities | (17,390) | (6,919) | (10,471) |
| Financing activities | 8,785 | (9,237) | 18,022 |
| Effect of exchange-rate changes on cash and cash equivalents | (843) | (739) | (104) |
| Net increase/(decrease) in cash and cash equivalents | \$ (3,844) | \$ 8,868 | \$ (12,712) |

Net cash provided (used) by operating activities was comprised of:

| For the Periods Ended December 31 | Six Months | | |
|---|----------------|-----------|-------------|
| | 2015 | 2014 | Change |
| | (in thousands) | | |
| Adjusted EBITDA | \$ 56,141 | \$ 55,486 | \$ 655 |
| Interest paid | (6,687) | (6,565) | (122) |
| Income taxes paid | (7,514) | (5,663) | (1,851) |
| Changes in operating assets and liabilities and other items | (36,336) | (17,495) | (18,841) |
| Net cash provided (used) by operating activities | \$ 5,604 | \$ 25,763 | \$ (20,159) |

Certain amounts may reflect rounding adjustments.

TABLE OF CONTENTS

Operating activities

Net cash provided by operating activities was \$5.6 million for the six months ended December 31, 2015, primarily attributable to operating income of \$44.5 million, partially offset by changes in operating assets and liabilities of \$31.9 million. Accounts receivable used \$6.9 million due to timing of sales and collections and sales growth. Increased inventories used \$12.8 million of cash due to timing of purchases and production. Accounts payable and accrued expenses used \$8.6 million of cash primarily due to timing of purchases, payments for annual incentive compensation and retirement plan funding.

Investing activities

Net cash used in investing activities was \$17.4 million for the six months ended December 31, 2015. Capital expenditures were \$17.7 million as we continued to invest in our existing asset base and for capacity expansion and productivity improvements. Other investing items provided \$0.3 million of cash.

Financing activities

Net cash provided by financing activities was \$8.8 million for the six months ended December 31, 2015. Net borrowings from our revolving credit facility (the "Revolver") provided \$17.0 million. We paid \$7.8 million in dividends to holders of our Class A and Class B common stock. We paid \$2.5 million in scheduled debt and other requirements. The issuance of common shares related to the exercise of stock options provided \$2.1 million.

Liquidity and capital resources

We believe our cash on hand and our financing arrangements, including the availability of borrowings under the Revolver and foreign credit lines, will be sufficient to support our future cash needs. Our operating plan projects adequate liquidity throughout the year. However, we can provide no assurance that our liquidity and capital resources will be adequate for future funding requirements. We believe we will be able to comply with the terms of the covenants under the Revolver and foreign credit lines based on our operating plan. In the event of adverse operating results and/or violation of covenants under the facilities, there can be no assurance we would be able to obtain waivers or amendments. Other risks to our meeting future funding requirements include global economic conditions and macroeconomic, business and financial disruptions that could arise. There can be no assurance that the challenging economic environment or an economic downturn would not impact our liquidity or our ability to obtain future financing. In addition, our debt covenants may restrict our ability to invest.

Certain relevant measures of our liquidity and capital resources were:

| As of | December 31, 2015 | June 30, 2015 | Change |
|--|-------------------|---------------|------------|
| | (in thousands) | | |
| Cash and cash equivalents | \$ 25,372 | \$ 29,216 | \$ (3,844) |
| Working capital | \$ 173,084 | \$ 175,988 | \$ (2,904) |
| Ratio of current assets to current liabilities | 2.55:1 | 2.62:1 | |

We define working capital as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding current portion of long-term debt). We calculate the ratio of current assets to current liabilities based on this definition.

At December 31, 2015, our cash and cash equivalents included \$25.4 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

At December 31, 2015, we had \$20.0 million in outstanding borrowings under the Revolver. We had outstanding letters of credit and other commitments of \$14.1 million, leaving \$65.9 million available for borrowings and letters of credit. In addition, we had availability totaling \$15.0 million under our Israeli

TABLE OF CONTENTS

loan agreements. In January 2016, we amended the agreements governing our Revolver and term B loan to, among other things, increase the commitment available to us under the Revolver from \$100.0 million to \$200.0 million. All other material terms and conditions were unchanged. In January 2016, we funded the \$46.5 million MVP acquisition with the Revolver.

We currently intend to pay quarterly dividends of \$0.10 per share, representing \$15.7 million annually on our Class A and Class B common stock, subject to approval from the Board of Directors. We declared and paid a cash dividend of \$0.10 per share on Class A common stock and Class B common stock during the quarter ended December 31, 2015. On February 8, 2016, our Board of Directors declared a cash dividend of \$0.10 per share on each share of our Class A and Class B common stock outstanding on the record date of March 2, 2016, payable on March 23, 2016.

Contractual obligations

As of December 31, 2015, there were no material changes in payments due under contractual obligations from those disclosed in the Annual Report.

Off-balance sheet arrangements

We do not currently use off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, investment or other financial purposes.

In the ordinary course of business, we may indemnify our counterparties against certain liabilities that may arise. These indemnifications typically pertain to environmental matters. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications generally are subject to certain restrictions and limitations.

General description of non-GAAP financial measures

Adjusted EBITDA

Adjusted EBITDA is an alternative view of performance used by management as our primary operating measure, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. We report adjusted EBITDA to portray the results of our operations prior to considering certain income statement elements. We have defined EBITDA as net income plus (i) interest expense, net, (ii) provision for income taxes or less benefit for income taxes, and (iii) depreciation and amortization. We have defined adjusted EBITDA as EBITDA plus (a) (income) loss from, and disposal of, discontinued operations, (b) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (c) certain items that we consider to be unusual or non-recurring. The adjusted EBITDA measure is not, and should not be viewed as, a substitute for GAAP reported net income.

The adjusted EBITDA measure is an important internal measurement for us. We measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how our adjusted EBITDA measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an adjusted EBITDA basis;
- our annual budgets are prepared on an adjusted EBITDA basis; and
- other goal setting and performance measurements are prepared on an adjusted EBITDA basis.

Despite the importance of this measure to management in goal setting and performance measurement, adjusted EBITDA is a non-GAAP financial measure that has no standardized meaning prescribed by GAAP and, therefore, has limits in its usefulness to investors. Because of its non-standardized definition, adjusted EBITDA, unlike GAAP net income, may not be comparable to the calculation of

TABLE OF CONTENTS

similar measures of other companies. Adjusted EBITDA is presented to permit investors to more fully understand how management assesses performance.

We also recognize that, as an internal measure of performance, the adjusted EBITDA measure has limitations, and we do not restrict our performance management process solely to this metric. A limitation of the adjusted EBITDA measure is that it provides a view of our operations without including all events during a period, such as the depreciation of property, plant and equipment or amortization of purchased intangibles, and does not provide a comparable view of our performance to other companies.

Adjusted net income

Adjusted net income is an alternative view of performance and we believe investors' understanding of our performance is enhanced by disclosing this performance measure. We report adjusted net income to portray the results of our operations prior to considering certain income statement elements. We have defined adjusted net income as net income plus (i) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, (ii) amortization of acquired intangibles, (iii) stock-based compensation, (iv) certain items that we consider to be unusual or non-recurring and (v) income taxes on a cash basis. The adjusted net income measure is not, and should not be viewed as, a substitute for GAAP reported net income.

Adjusted net income is a non-GAAP financial measure that has no standardized meaning prescribed by GAAP and, therefore, has limits in its usefulness to investors. Because of its non-standardized definition, adjusted net income, unlike GAAP net income, may not be comparable to the calculation of similar measures of other companies. Adjusted net income is presented to permit investors to more fully understand how management assesses performance.

Certain significant items

Adjusted EBITDA and adjusted net income are calculated prior to considering certain items. We evaluate such items on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual or non-operational nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis. We consider foreign currency gains and losses to be non-operational because they arise principally from intercompany transactions and are largely non-cash in nature.

New accounting standards

For discussion of new accounting standards, see "Notes to Consolidated Financial Statements— Summary of Significant Accounting Policies and New Accounting Standards."

Critical Accounting Policies

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Significant estimates include depreciation and amortization periods of long-lived and intangible assets, recoverability of long-lived and intangible assets and goodwill, realizability of deferred income tax and value-added tax assets, legal and environmental matters and actuarial assumptions related to the our pension plans. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates. Our significant

TABLE OF CONTENTS

accounting policies are described in the notes to the consolidated financial statements included in the Annual Report. Except as described below, as of December 31, 2015, there have been no material changes to any of the critical accounting policies contained therein.

We applied Accounting Standards Update (“ASU”) 2015-17, Income Taxes (Topic 740), which requires that deferred tax assets and liabilities be classified as noncurrent in the consolidated balance sheet. We applied the guidance prospectively; periods prior to December 31, 2015 were not retrospectively adjusted. We elected early application to simplify the presentation of deferred tax assets and liabilities in the consolidated balance sheet.

Forward-Looking Statements

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “believe,” “may,” “could,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Examples of such risks and uncertainties include:

- restrictions on the use of antibacterials in food-producing animals may become more prevalent;

- a material portion of our sales and gross profits are generated by antibacterials and other related products;

- competition in each of our markets from a number of large and small companies, some of which have greater financial, research and development (“R&D”), production and other resources than we have;

- the impact of current and future laws and regulatory changes;

- outbreaks of animal diseases could significantly reduce demand for our products;

- perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products could cause a decline in the sales of those products;

- our ability to successfully implement several of our strategic initiatives;

- our business may be negatively affected by weather conditions and the availability of natural resources;

- the continuing trend toward consolidation of certain customer groups as well as the emergence of large buying groups;

- our ability to control costs and expenses;
- any unforeseen material loss or casualty;
- exposure relating to rising costs and reduced customer income;
- competition deriving from advances in veterinary medical practices and animal health technologies;
- unanticipated safety or efficacy concerns;

TABLE OF CONTENTS

- our dependence on suppliers having current regulatory approvals;
- our raw materials are subject to price fluctuations and their availability can be limited;
- natural and man-made disasters, including but not limited to fire, snow and ice storms, flood, hail, hurricanes and earthquakes;
- terrorist attacks, particularly attacks on or within markets in which we operate;
- our reliance on the continued operation of our manufacturing facilities and application of our intellectual property;
- adverse U.S. and international economic market conditions, including currency fluctuations;
- the risks of product liability claims, legal proceedings and general litigation expenses;
- our dependence on our Israeli and Brazilian operations;
- our substantial level of indebtedness and related debt-service obligations;
- restrictions imposed by covenants in our debt agreements;
- the risk of work stoppages; and
- other factors as described in “Risk Factors” in Item 1A. of the Annual Report.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties. We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other

forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

For financial market risks related to changes in interest rates, foreign currency exchange rates and commodity prices, reference is made to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosures about Market Risk” section in the Annual Report and to the notes to the consolidated financial statements included therein. There were no material changes in the Company’s financial market risks from the risks disclosed in the Annual Report.

32

TABLE OF CONTENTS

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting, as described in Management's Report on Internal Control Over Financial Reporting in "Item 9A. Controls and Procedures" in the Annual Report on Form 10-K for the year ended June 30, 2015.

Management's Remediation Plan

Management has begun implementing changes to our internal control over financial reporting to remediate the material weaknesses that existed as of June 30, 2015. Our remediation plan includes (i) designing and implementing additional formal accounting policies and procedures, (ii) hiring additional resources with an appropriate level of accounting knowledge, experience and training and (iii) restricting access to key financial systems and records to appropriate users to ensure that appropriate segregation of duties is maintained. Recent actions taken to address material weaknesses include the design and implementation of certain formal accounting policies and procedures, making certain accounting hires with the requisite professional expertise, as well as restricting certain access to users of key financial systems and records. We will continue to build on the progress we have made in our remediation plan. We cannot determine when our remediation plan will be fully completed, and we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

TABLE OF CONTENTS

PART II—OTHER INFORMATION

Item 1.

Legal Proceedings

Information required by this Item is incorporated herein by reference to “Notes to the Consolidated Financial Statements—Commitments and Contingencies” in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Risk Factors” section in the Annual Report, which could materially affect our business, financial condition or future results.

There were no material changes in the Company’s risk factors from the risks disclosed in the Annual Report.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3.

Defaults Upon Senior Securities

None.

Item 4.

Mine Safety Disclosures

None.

Item 5.

Other Information

None.

Item 6.

Exhibits

Exhibit 10.34* Amendment No.1 to Credit Agreement, dated January 19, 2016, among Phibro Animal Health Corporation, Bank of America, N.A., and Coöperatieve Rabobank U.A., New York Branch (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank, B.A., “Rabobank Nederland,” New York Branch)

Exhibit 31.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302

Exhibit 31.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302

Exhibit 32.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906

Exhibit 32.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906

Exhibit 101.INS** XBRL Instance Document

Exhibit 101.SCH** XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB** XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

TABLE OF CONTENTS

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Incorporated by reference to Current Report on Form 8-K dated January 19, 2016.

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Furnished with this Quarterly Report. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933 and are deemed not filed for purposes of section 18 of the Exchange Act.

35

TABLE OF CONTENTS

SIGNATURES

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

Phibro Animal Health Corporation

/s/ Jack C. Bendheim

February 9, 2016 By: Jack C. Bendheim
President and Chief Executive Officer
/s/ Richard G. Johnson

February 9, 2016 By: Richard G. Johnson
Chief Financial Officer