PHIBRO ANIMAL HEALTH CORP
Form 10-Q
May 09, 2016
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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 March 31, 2016
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 incorporation or organization)	(I.R.S. Employer Identification No.)
Glenpointe Centre East, 3rd Floor 300 Frank W. Burr Boulevard, Suite 21 Teaneck, New Jersey (Address of Principal Executive Offices)	07666-6712 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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 May 2, 2016, there were 18,519,757 shares of the registrant's Class A common stock, par value $0.0001 per share, and 20,887,811 shares of the registrant's Class B common stock, par value $0.0001 per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
	(unaudited) (in thousands, except per share amounts)			
Net sales	$ 183,461	$ 187,495	$ 562,354	$ 563,641
Cost of goods sold	123,506	128,385	379,823	388,117
Gross profit	59,955	59,110	182,531	175,524
Selling, general and administrative expenses	38,784	37,297	116,881	108,819
Operating income	21,171	21,813	65,650	66,705
Interest expense, net	4,265	3,602	12,051	10,607
Foreign currency (gains) losses, net	(2,243)	(4,633)	(5,139)	(6,855)
Income before income taxes	19,149	22,844	58,738	62,953
Provision (benefit) for income taxes	572	6,148	(8,770)	13,077
Net income	$ 18,577	$ 16,696	$ 67,508	$ 49,876
Net income per share:				
basic	$ 0.47	$ 0.43	$ 1.72	$ 1.28
diluted	$ 0.46	$ 0.42	$ 1.69	$ 1.25
Weighted average common shares outstanding:				
basic	39,356	38,998	39,203	38,951
diluted	40,000	39,919	39,996	39,766
Dividends per share	$ 0.10	$ 0.10	$ 0.30	$ 0.30

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

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

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
	(unaudited) (in thousands)			
Net income	$ 18,577	$ 16,696	$ 67,508	$ 49,876
Change in fair value of derivative instruments	4,316	(2,624)	1,322	(3,347)
Foreign currency translation adjustment	4,935	(16,673)	(14,780)	(34,011)
Unrecognized net pension gains (losses)	446	351	1,338	1,053
(Provision) benefit for income taxes	(1,828)	2,729	487	5,435
Other comprehensive income (loss)	7,869	(16,217)	(11,633)	(30,870)
Comprehensive income (loss)	$ 26,446	$ 479	$ 55,875	$ 19,006

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

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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of	March 31, 2016	June 30, 2015
	(unaudited)	
	(in thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 32,225	$ 29,216
Accounts receivable, net	116,233	111,099
Inventories, net	168,293	149,786
Other current assets	15,847	23,627
Total current assets	332,598	313,728
Property, plant and equipment, net	123,100	104,414
Intangibles, net	61,671	37,281
Other assets	72,512	37,895
Total assets	$ 589,881	$ 493,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$ 2,809	$ 2,809
Accounts payable	51,852	63,061
Accrued expenses and other current liabilities	45,119	45,463
Total current liabilities	99,780	111,333
Revolving credit facility	82,000	3,000
Long-term debt	281,606	283,709
Other liabilities	48,794	65,648
Total liabilities	512,180	463,690
Commitments and contingencies (Note 11)		
Common stock, par value $0.0001; 300,000,000 Class A shares authorized, 18,515,351 and 17,747,793 shares issued and outstanding at March 31, 2016 and June 30, 2015, respectively; 30,000,000 Class B shares authorized, 20,887,811 and 21,320,275 shares issued and outstanding at March 31, 2016 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	118,247	118,192
Retained earnings (accumulated deficit)	22,683	(36,968)
Accumulated other comprehensive income (loss)	(63,233)	(51,600)
Total stockholders' equity	77,701	29,628
Total liabilities and stockholders' equity	$ 589,881	$ 493,318

The accompanying notes are an integral part of these consolidated financial statements
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PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended March 31	Nine Months 2016 (unaudited) (in thousands)	2015
OPERATING ACTIVITIES		
Net income	$ 67,508	$ 49,876
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	16,678	15,950
Amortization of deferred financing costs and debt discount	734	725
Acquisition-related cost of goods sold	1,601	—
Acquisition-related accrued compensation	1,260	327
Acquisition-related accrued interest	1,083	235
Deferred income taxes valuation allowance	(21,323)	—
Deferred income taxes	(1,794)	3,331
Foreign currency (gains) losses, net	(5,635)	(4,587)
Other	286	(40)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable, net	(6,556)	(6,879)
Inventories, net	(19,822)	(6,733)
Prepaid expenses and other current assets	(991)	1,449
Other assets	(1,770)	105
Accounts payable	(11,715)	(1,199)
Accrued expenses and other liabilities	(8,918)	(5,718)
Net cash provided (used) by operating activities	10,626	46,842
INVESTING ACTIVITIES		
Capital expenditures	(28,648)	(13,103)
Business acquisition	(46,546)	(5,000)
Other, net	142	(4,002)
Net cash provided (used) by investing activities	(75,052)	(22,105)
FINANCING ACTIVITIES		
Borrowings under the revolving credit facility	222,500	2,000
Repayments of the revolving credit facility	(143,500)	(2,000)
Payments of long-term debt, capital leases and other	(3,198)	(3,358)
Proceeds from common shares issued	3,965	616
Dividends paid	(11,767)	(11,692)
Net cash provided (used) by financing activities	68,000	(14,434)
Effect of exchange rate changes on cash	(565)	(1,320)
Net increase (decrease) in cash and cash equivalents	3,009	8,983

Cash and cash equivalents at beginning of period	29,216	11,821
Cash and cash equivalents at end of period	$ 32,225	$ 20,804

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

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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 nine months ended March 31, 2016 and 2015 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.
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 March 31, 2016, 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 quarter ended December 31, 2015. For further discussion regarding this guidance, see "—New Accounting Standards."

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 nine months ended March 31, 2016 and 2015, all common share equivalents were included in the calculation of diluted net income per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
Net income	$ 18,577	$ 16,696	$ 67,508	$ 49,876
Weighted average number of shares – basic	39,356	38,998	39,203	38,951
Dilutive effect of stock options and warrant	644	921	793	815
Weighted average number of shares – diluted	40,000	39,919	39,996	39,766
Net income per share:				
basic	$ 0.47	$ 0.43	$ 1.72	$ 1.28
diluted	$ 0.46	$ 0.42	$ 1.69	$ 1.25

New Accounting Standards

Financial Accounting Standards Board (“FASB”) ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, amends Compensation—Stock Compensation (Topic 718). This new standard simplifies the accounting for share-based payments. The application of this ASU will change various aspects of the current accounting treatment, including accounting for income taxes to require that excess tax deficiencies/benefits be recognized as income tax expense/benefit rather than additional paid-in capital as currently required, as well as accounting for minimum statutory tax withholding requirements and forfeitures. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016. Early application is permitted and should be applied on a modified retrospective basis. We are evaluating the impact of adoption of this guidance on our consolidated financial statements.

ASU 2016-02, Leases (Topic 842), supersedes the current lease accounting guidance and requires an entity to recognize assets and liabilities for both financing and operating leases on the balance sheet and requires additional qualitative and quantitative disclosures regarding leasing arrangements. This ASU is effective for annual reporting periods beginning after December 15, 2018. Early application is permitted. The provisions of this guidance are to be applied using a modified retrospective approach, and provide for certain practical expedients. We are evaluating the impact of adoption of this guidance on our consolidated financial statements.

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 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

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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 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. Subsequently, ASU 2016-08, Revenue from Contracts with Customers (Topic 606), was issued and amends ASU 2014-09 to clarify the implementation guidance for principal versus agent considerations, and reporting revenue gross versus net. In addition, 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, along with the guidance in ASU 2016-08, 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.

3.

Acquisition

In January 2016, we purchased the assets of MVP Laboratories, Inc. (“MVP”). MVP was a developer, manufacturer and marketer of livestock vaccines, vaccine adjuvants and other products. We acquired all of the assets and assumed certain liabilities used in MVP’s business, including working capital, intellectual property, manufacturing equipment, real property and facilities. The purchase price of approximately $46,546 was paid in cash at closing. We incurred $618 in transaction expenses in connection with the acquisition, which are included in selling, general and administrative expenses.

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The acquisition was accounted for as a business combination in accordance with ASC No. 805, Business Combinations. Pro forma information giving effect to the acquisition has not been provided because the results are not material to the consolidated financial statements. The preliminary fair values of the acquired assets and liabilities as of the acquisition date were:

Working capital, net	$ 4,893
Property, plant and equipment	4,774
Definite-lived intangible assets	28,380
Goodwill	8,499
Net assets acquired	$ 46,546

We may further refine the determination of certain assets during the measurement period.The definite-lived intangible assets relate to developed products and will be amortized over an estimated useful life of 15 years. The preliminary amount of goodwill has been allocated to our Animal Health segment and is deductible for tax purposes.

4.

Statements of Operations—Additional Information

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
Interest expense, net				
Term B Loan	$ 2,888	$ 2,887	$ 8,750	$ 8,808
Revolving credit facility	720	211	1,322	680
Acquisition-related accrued interest	394	235	1,083	235
Amortization of deferred financing fees and debt discount	251	241	734	725
Other	79	88	335	316
Interest expense	4,332	3,662	12,224	10,764
Interest (income)	(67)	(60)	(173)	(157)
	$ 4,265	$ 3,602	$ 12,051	$ 10,607
Depreciation and amortization				
Depreciation of property, plant and equipment	$ 4,328	$ 4,066	$ 12,514	$ 12,417
Amortization of intangible assets	1,469	1,233	3,988	3,359
Amortization of other assets	59	57	176	174
	$ 5,856	$ 5,356	$ 16,678	$ 15,950

5.

Balance Sheets—Additional Information

As of	March 31, 2016	June 30, 2015
Inventories		
Raw materials	$ 46,971	$ 40,012
Work-in-process	9,276	7,617

Finished goods	112,046	102,157
	$ 168,293	$ 149,786
Goodwill roll-forward		
Balance at beginning of period	$ 12,613	$ 12,613
MVP acquisition	8,499	—
Balance at end of period	$ 21,112	$ 12,613

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 $4,049 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	March 31, 2016	June 30, 2015
Accrued expenses and other current liabilities		
Employee related	$ 20,394	$ 22,273
Commissions and rebates	3,895	4,148
Insurance related	1,403	1,368
Professional fees	4,041	3,543
Income and other taxes	2,003	817
Deferred consideration on acquisitions	1,250	1,196
Fair value of derivatives	220	1,542
Other	11,913	10,576
	$ 45,119	$ 45,463

As of	March 31, 2016	June 30, 2015
Accumulated other comprehensive income (loss)		
Derivative instruments	$ (220)	$ (1,542)
Foreign currency translation adjustment	(47,503)	(32,723)
Unrecognized net pension gains (losses)	(18,546)	(19,884)
(Provision) benefit for income taxes on derivative instruments	(2,327)	63
(Provision) benefit for incomes taxes on long-term intercompany investments	8,166	4,923
(Provision) benefit for income taxes on pension gains (losses)	(2,803)	(2,437)
	$ (63,233)	$ (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%.
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 March 31, 2016, we were in compliance with the covenants of the Credit Facilities.

As of March 31, 2016, we had $82,000 in borrowings under the Revolver and had outstanding letters of credit of $14,183 leaving $103,817 available for borrowings and letters of credit under the Revolver. 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.

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The weighted-average interest rates on the Revolver and Term B Loan were 3.00% and 4.00%, respectively, for the nine months ended March 31, 2016.

Long-Term Debt

As of	March 31, 2016	June 30, 2015
Term B loan due April 2021	$ 284,925	$ 287,100
Capitalized lease obligations	13	18
	284,938	287,118
Unamortized debt discount	(523)	(600)
	284,415	286,518
Less: current maturities	(2,809)	(2,809)
	$ 281,606	$ 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 $3,940, and $11,767 for the three and nine months ended March 31, 2016, respectively, 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 $388 and $1,515 during the three and nine months ended March 31, 2016, respectively, and $385 and $1,554 during the three and nine months ended March 31, 2015, 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. The following table details the net periodic pension expense:

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
Service cost – benefits earned during the period	$ 735	$ 739	$ 2,204	$ 2,217
Interest cost on benefit obligation	723	654	2,170	1,963
Expected return on plan assets	(794)	(707)	(2,382)	(2,121)
Amortization of net actuarial (gain) loss and prior service costs	446	351	1,338	1,053

Net periodic pension expense	$ 1,110	$ 1,037	$ 3,330	$ 3,112

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10.
Income Taxes

During the quarter 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. Accordingly we released our domestic valuation allowance. 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 nine months ended March 31, 2016, included a benefit from the release of our valuation allowance against domestic deferred tax assets of approximately $2,536 and $21,323, respectively. 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 $2,130 and $3,677 for the three and nine months ended March 31, 2016, respectively, and $0 and $1,218 for the three and nine months ended March 31, 2015, 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 $6,435 and $6,827 at March 31, 2016 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.

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

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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 March 31, 2016, the following table details the Company's outstanding derivatives that are designated and effective as cash flow hedges:

Instrument	Hedge	Notional Amount at March 31, 2016	Fair value as of	
			March 31, 2016	June 30, 2015
Options	Brazilian Real calls	R$136,500	$ 1,561	$ 493
Options	Brazilian Real puts	R$136,500	$ (1,781)	$ (2,035)

The unrecognized gains (losses) at March 31, 2016, are unrealized and will fluctuate based on future exchange rates until the derivative contracts mature. Other comprehensive income (loss) included $4,316 and $1,322 of unrecognized gains for the three and nine months ended March 31, 2016, respectively. Accumulated other comprehensive income (loss) at March 31, 2016 included $220 of net unrecognized losses on derivative instruments; we anticipate that $289 of those losses will be recognized in earnings within the next twelve months. We realized net losses of $618 and $2,559 related to contracts that matured during the three and nine months ended March 31, 2016, respectively, and recorded the cost as a component of inventory. In addition, during the three and nine months ended March 31, 2016 we recognized $174 of losses in earnings in relation to contracts that matured; we anticipate the balance of the realized net losses in inventory as of March 31, 2016 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 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.

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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 March 31, 2016 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	March 31, 2016			June 30, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivatives asset/(liability)	$ —	$ (220)	$ —	$ —	$ (1,542)	$ —
Deferred consideration on acquisitions	$ —	$ —	$ (6,351)	$ —	$ —	$ (5,465)

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

Balance, June 30, 2015	$ (5,465)
Acquisition-related accrued interest	(1,082)
Payment and other	196
Balance, March 31, 2016	$ (6,351)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
Net sales				
Animal Health	$ 118,328	$ 117,346	$ 359,966	$ 353,356
Mineral Nutrition	53,029	57,320	166,351	171,509
Performance Products	12,104	12,829	36,037	38,776
	$ 183,461	$ 187,495	$ 562,354	$ 563,641
Depreciation and amortization				
Animal Health	$ 4,246	$ 3,829	$ 11,951	$ 11,367
Mineral Nutrition	656	613	1,876	1,822
Performance Products	196	133	584	426
Corporate	758	781	2,267	2,335
	$ 5,856	$ 5,356	$ 16,678	$ 15,950
Adjusted EBITDA				
Animal Health	$ 32,151	$ 29,629	$ 95,978	$ 90,379
Mineral Nutrition	4,012	3,761	11,361	10,994
Performance Products	490	994	568	2,192
Corporate	(6,987)	(6,888)	(22,100)	(20,583)
	$ 29,666	$ 27,496	$ 85,807	$ 82,982
Reconciliation of Adjusted EBITDA to income before income taxes				
Adjusted EBITDA	$ 29,666	$ 27,496	$ 85,807	$ 82,982
Depreciation and amortization	(5,856)	(5,356)	(16,678)	(15,950)
Acquisition-related cost of goods sold	(1,601)	—	(1,601)	—
Acquisition-related accrued compensation	(420)	(327)	(1,260)	(327)
Acquisition-related transaction costs	(618)	—	(618)	—

Interest expense, net	(4,265)	(3,602)	(12,051)	(10,607)
Foreign currency gains (losses), net	2,243	4,633	5,139	6,855
Income before income taxes	$ 19,149	$ 22,844	$ 58,738	$ 62,953

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of	March 31, 2016	June 30, 2015
Identifiable assets		
Animal Health	$ 433,754	$ 361,078
Mineral Nutrition	58,966	59,881
Performance Products	24,850	22,255
Corporate	72,311	50,104
	$ 589,881	$ 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 $4,049 and $4,364 as of March 31, 2016 and June 30, 2015, respectively. The Performance Products segment includes an investment in an equity method investee of $407 and $361 as of March 31, 2016 and June 30, 2015, respectively. Corporate includes all cash and cash equivalents.

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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.

Trends and uncertainties

Our business is subject to product registration and authorization regulations. Changes in the regulations could have a material impact on our business. In April 2016, the United States ("U.S.") Food and Drug Administration (the "FDA") began initial steps to withdraw approval of Mecadox® (carbadox), one of our products, due to concerns that certain residues from our carbadox product may persist in tissues for longer than previously determined. This initial action by the FDA does not prohibit the sale or use of Mecadox in the U.S. Mecadox has been approved and sold in the U. S. for more than 40 years and is a widely used treatment for controlling bacterial diseases including salmonella and swine dysentery. Mecadox is not used in human medicine and the class of drug is not considered a medically important antimicrobial. The approved Mecadox label requires a 42-day withdrawal period pre-harvesting, and to date, we have not seen any hazardous residues of carbadox being detected from pig meat treated in accordance with the approved label. We have complete confidence in the safety of Mecadox. In response to FDA inquiries several years ago, we began rigorous new studies, with positive evidence to date, of the continued safety of the product when used in accordance with the label. Our studies are due to be completed in July 2016, and we expect the data will support the continued safe use of Mecadox. We have formally requested a hearing with the FDA to address its concerns. We will submit our data, analyses and information to the FDA by the required deadline of not later than July 11, 2016. The timing of the FDA's response to our submission is not subject to a predetermined deadline.

Our sales of Mecadox in the U.S. were approximately $15 million for the 12 months ending March 31, 2016. Should we be unable to successfully defend the safety of the product, the loss of Mecadox sales would have a negative impact to the results of our operations.

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Analysis of the consolidated statements of operations

Summary Results of Operations

	Three Months				Nine Months			
For the Periods Ended March 31	2016	2015	Change		2016	2015	Change	
	(in thousands, except per share)				(in thousands, except per share)			
Net sales	$ 183,461	$ 187,495	$ (4,034)	(2)%	$ 562,354	$ 563,641	$ (1,287)	(0)%
Gross profit	59,955	59,110	845	1%	182,531	175,524	7,007	4%
Selling, general and administrative expenses	38,784	37,297	1,487	4%	116,881	108,819	8,062	7%
Operating income	21,171	21,813	(642)	(3)%	65,650	66,705	(1,055)	(2)%
Interest expense, net	4,265	3,602	663	18%	12,051	10,607	1,444	14%
Foreign currency (gains) losses, net	(2,243)	(4,633)	2,390	*	(5,139)	(6,855)	1,716	*
Income before income taxes	19,149	22,844	(3,695)	(16)%	58,738	62,953	(4,215)	(7)%
Provision (benefit) for income taxes	572	6,148	(5,576)	(91)%	(8,770)	13,077	(21,847)	*
Net income	$ 18,577	$ 16,696	$ 1,881	11%	$ 67,508	$ 49,876	$ 17,632	35%
Net income per share								
basic	$ 0.47	$ 0.43	$ 0.04		$ 1.72	$ 1.28	$ 0.44	
diluted	$ 0.46	$ 0.42	$ 0.04		$ 1.69	$ 1.25	$ 0.44	
Weighted average number of shares outstanding								
basic	39,356	38,998			39,203	38,951		
diluted	40,000	39,919			39,996	39,766		
Ratio to net sales								
Gross profit	32.7%	31.5%			32.5%	31.1%		
Selling, general and administrative expenses	21.1%	19.9%			20.8%	19.3%		

Operating income	11.5%	11.6%	11.7%	11.8%
Income before income taxes	10.4%	12.2%	10.4%	11.2%
Net income	10.1%	8.9%	12.0%	8.8%
Effective tax rate	3.0%	26.9%	(14.9)%	20.8%

Certain amounts and percentages may reflect rounding adjustments

*

Calculation not meaningful

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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:

	Three Months				Nine Months			
For the Periods Ended March 31	2016	2015	Change		2016	2015	Change	
	(in thousands)				(in thousands)			
Net sales								
MFAs and other	$ 82,445	$ 83,372	$ (927)	(1)%	$ 253,535	$ 251,547	$ 1,988	1%
Nutritional specialties	22,792	19,826	2,966	15%	69,384	60,129	9,255	15%
Vaccines	13,091	14,148	(1,057)	(7)%	37,047	41,680	(4,633)	(11)%
Animal Health	118,328	117,346	982	1%	359,966	353,356	6,610	2%
Mineral Nutrition	53,029	57,320	(4,291)	(7)%	166,351	171,509	(5,158)	(3)%
Performance Products	12,104	12,829	(725)	(6)%	36,037	38,776	(2,739)	(7)%
Total	$ 183,461	$ 187,495	$ (4,034)	(2)%	$ 562,354	$ 563,641	$ (1,287)	(0)%
Adjusted EBITDA								
Animal Health	$ 32,151	$ 29,629	$ 2,522	9%	$ 95,978	$ 90,379	$ 5,599	6%
Mineral Nutrition	4,012	3,761	251	7%	11,361	10,994	367	3%
Performance Products	490	994	(504)	(51)%	568	2,192	(1,624)	(74)%
Corporate	(6,987)	(6,888)	(99)	*	(22,100)	(20,583)	(1,517)	*
Total	$ 29,666	$ 27,496	$ 2,170	8%	$ 85,807	$ 82,982	$ 2,825	3%
Adjusted EBITDA ratio to segment net sales								
Animal Health	27.2%	25.2%			26.7%	25.6%		
Mineral Nutrition	7.6%	6.6%			6.8%	6.4%		
Performance Products	4.0%	7.7%			1.6%	5.7%		

Corporate(1)	(3.8)%	(3.7)%	(3.9)%	(3.7)%
Total(1)	16.2%	14.7%	15.3%	14.7%

(1)
reflects ratio to total net sales

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

	Three Months				Nine Months			
For the Periods Ended March 31	2016	2015	Change		2016	2015	Change	
	(in thousands)				(in thousands)			
Net income (loss)	$ 18,577	$ 16,696	$ 1,881	11%	$ 67,508	$ 49,876	$ 17,632	35%
Interest expense, net	4,265	3,602	663	18%	12,051	10,607	1,444	14%
Provision (benefit) for income taxes	572	6,148	(5,576)	(91)%	(8,770)	13,077	(21,847)	*
Depreciation and amortization	5,856	5,356	500	9%	16,678	15,950	728	5%
EBITDA	29,270	31,802	(2,532)	(8)%	87,467	89,510	(2,043)	(2)%
Acquisition-related cost of goods sold	1,601	—	1,601	*	1,601	—	1,601	*
Acquisition-related accrued compensation	420	327	93	28%	1,260	327	933	285
Acquisition-related transaction costs	618	—	618	*	618	—	618	*
Foreign currency (gains) losses, net	(2,243)	(4,633)	2,390	*	(5,139)	(6,855)	1,716	*
Adjusted EBITDA	$ 29,666	$ 27,496	$ 2,170	8%	$ 85,807	$ 82,982	$ 2,825	3%

Amounts and percentages may reflect rounding adjustments
*
Calculation not meaningful

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

	Three Months					
	As Reported		Adjustments(1)		Adjusted	
For the Periods Ended March 31	2016	2015	2016	2015	2016	2015
	(in thousands, except per share amounts)					
Cost of goods sold	$ 123,506	$ 128,385	$ (1,601)	$ —	$ 121,905	$ 128,385
Gross profit	59,955	59,110	1,601	—	61,556	59,110
Selling, general and administrative expenses	38,784	37,297	(2,507)	(1,560)	36,277	35,737
Operating income	21,171	21,813	4,108	1,560	25,279	23,373
Interest expense, net	4,265	3,602	(394)	(235)	3,871	3,367
Foreign currency (gains) losses, net	(2,243)	(4,633)	2,243	4,633	—	—
Income before income taxes	19,149	22,844	2,259	(2,838)	21,408	20,006
Provision (benefit) for income taxes	572	6,148	5,779	(2,679)	6,351	3,469
Net income	$ 18,577	$ 16,696	$ (3,520)	$ (159)	$ 15,057	$ 16,537
Net income per share						
basic	$ 0.47	$ 0.43	$ (0.09)	$ 0.00	$ 0.38	$ 0.42
diluted	$ 0.46	$ 0.42	$ (0.09)	$ 0.00	$ 0.38	$ 0.41
Weighted average common shares outstanding						
basic	39,356	38,998			39,356	38,998
diluted	40,000	39,919			40,000	39,919
Ratio to net sales						
Gross profit	32.7%	31.5%			33.6%	31.5%
Selling, general and administrative expenses	21.1%	19.9%			19.8%	19.1%
Operating income	11.5%	11.6%			13.8%	12.5%
Income before income taxes	10.4%	12.2%			11.7%	10.7%
Net income	10.1%	8.9%			8.2%	8.8%
Effective tax rate	3.0%	26.9%			29.7%	17.3%

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	Nine Months					
	As Reported		Adjustments(1)		Adjusted	
For the Periods Ended March 31	2016	2015	2016	2015	2016	2015
	(in thousands, except per share amounts)					
Cost of goods sold	$ 379,823	$ 388,117	$ (1,601)	$ —	$ 378,222	$ 388,117
Gross profit	182,531	175,524	1,601	—	184,132	175,524
Selling, general and administrative expenses	116,881	108,819	(5,866)	(3,686)	111,015	105,133
Operating income	65,650	66,705	7,467	3,686	73,117	70,391
Interest expense, net	12,051	10,607	(1,083)	(235)	10,968	10,372
Foreign currency (gains) losses, net	(5,139)	(6,855)	5,139	6,855	—	—
Income before income taxes	58,738	62,953	3,411	(2,934)	62,149	60,019
Provision (benefit) for income taxes	(8,770)	13,077	22,635	(3,945)	13,865	9,132
Net income	$ 67,508	$ 49,876	$ (19,224)	$ 1,011	$ 48,284	$ 50,887
Net income per share						
basic	$ 1.72	$ 1.28	$ (0.49)	$ 0.03	$ 1.23	$ 1.31
diluted	$ 1.69	$ 1.25	$ (0.48)	$ 0.03	$ 1.21	$ 1.28
Weighted average common shares outstanding						
basic	39,203	38,951			39,203	38,951
diluted	39,996	39,766			39,996	39,766
Ratio to net sales						
Gross profit	32.5%	31.1%			32.7%	31.1%
Selling, general and administrative expenses	20.8%	19.3%			19.7%	18.7%
Operating income	11.7%	11.8%			13.0%	12.5%
Income before income taxes	10.4%	11.2%			11.1%	10.6%
Net income	12.0%	8.8%			8.6%	9.0%
Effective tax rate	(14.9)%	20.8%			22.3%	15.2%

(1)
See below for details on adjustments:

	Three Months		Nine Months	
For the Periods Ended March 31	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Cost of goods sold:				

Acquisition-related cost of goods sold	$ (1,601)	$ —	$ (1,601)	$ —
Selling, general and administrative expenses:				
Acquisition-related intangible amortization	$ (1,469)	$ (1,233)	$ (3,988)	$ (3,359)
Acquisition-related accrued compensation	(420)	(327)	(1,260)	(327)
Acquisition-related transaction costs	(618)	—	(618)	—
Total	$ (2,507)	$ (1,560)	$ (5,866)	$ (3,686)
Interest expense, net:				
Acquisition-related accrued interest	$ (394)	$ (235)	$ (1,083)	$ (235)
Foreign currency (gains) losses, net:				
Primarily related to intercompany balances	$ 2,243	$ 4,633	$ 5,139	$ 6,855
Provision (benefit) for income taxes:				
Adjust to cash income taxes paid	$ 5,779	$ (2,679)	$ 22,635	$ (3,945)

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Comparison of three months ended March 31, 2016 and 2015

Our results for the three months ended March 31, 2015 included $2.0 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 2015 that exclude the prior year milestone payments.

Net sales

Net sales of $183.5 million for the three months ended March 31, 2016 decreased $2.0 million, or 1%, as compared to the three months ended March 31, 2015, excluding the prior year $2.0 million of vaccine licensing milestone revenue. Animal Health grew $3.0 million, offset by declines in Mineral Nutrition and Performance Products of $4.3 million and $0.7 million, respectively.

Including the prior year $2.0 million in vaccine licensing milestone revenue, net sales decreased $4.0 million, or 2%.

Animal Health

Net sales of $118.3 million for the three months ended March 31, 2016 grew $3.0 million, or 3%, excluding the prior year $2.0 million of vaccine licensing milestone revenue. The growth was primarily due to volume increases in the nutritional specialty and vaccine product groups. Nutritional specialty products grew $3.0 million, or 15%, primarily due to U.S. volume growth of our products for the dairy and poultry industries. Vaccines grew $0.9 million, or 8%, principally from volume growth, including approximately two months results from the MVP Laboratories, Inc. (“MVP”) acquisition, partially offset by a reduction in international volumes. Certain vaccine sales were reduced due to production interruptions necessary to implement Good Manufacturing Practices capital improvements, which have now been completed. MFAs and other decreased $0.9 million, or 1%, primarily due to volume declines in the U.S., as well as unfavorable currency movements in certain international markets.

Including the prior year $2.0 million of vaccine licensing milestone revenue, net sales grew $1.0 million, or 1%.

Mineral Nutrition

Net sales of $53.0 million decreased $4.3 million, or 7%, for the three months ended March 31, 2016. The decrease is due to lower average selling prices due to underlying raw material commodity price declines. Partially offsetting the lower average selling prices were increased volumes from improved demand for trace mineral products.

Performance Products

Net sales of $12.1 million decreased $0.7 million, or 6%, for the three months ended March 31, 2016 due to lower volumes of copper-based and chemical catalyst products, as well as lower average selling prices of personal care ingredients. These declines were partially offset by higher volumes of personal care ingredients.

Gross profit

Gross profit of $61.6 million for the three months ended March 31, 2016 increased $4.4 million, or 8%, as compared to the three months ended March 31, 2015, excluding the prior year $2.0 million of vaccine licensing milestone revenue and excluding $1.6 million of current year acquisition-related cost of goods sold from the inventory step-up related to the MVP acquisition. Gross profit increased to 33.6% of net sales for the three months ended March 31, 2016 as compared to 30.8% for the three months ended March 31, 2015. Animal Health gross profit increased $5.2 million due to volume growth and favorable currency movements. Mineral Nutrition gross profit was level with last year, as lower average selling prices were offset by lower product costs. Performance Products gross profit decreased $0.5 million due to higher product costs of copper-based products and lower average selling prices of personal care ingredients, partially offset by higher volumes of personal care ingredients.

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Including the prior year $2.0 million of vaccine licensing milestone revenue and including $1.6 million of acquisition-related cost of goods sold, gross profit increased $0.8 million, or 1%.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses of $36.3 million for the three months ended March 31, 2016 increased $0.5 million, or 2%, as compared to the three months ended March 31, 2015, excluding acquisition-related transaction costs of $0.6 million for the three months ended March 31, 2016; acquisition-related intangible amortization of $1.5 million and $1.2 million and acquisition-related accrued compensation of $0.4 million and $0.3 million for the three months ended March 31, 2016 and 2015, respectively,. Animal Health accounted for $0.6 million of the increase, driven by increased sales force and product development costs. Corporate expenses accounted for $0.1 million of the increase, due to increased compensation and office-related costs.

Including acquisition-related transaction costs, intangible amortization and accrued compensation, SG&A increased $1.5 million, or 4%.

Adjusted EBITDA

Adjusted EBITDA of $29.7 million for the three months ended March 31, 2016 increased $4.2 million or 16%, as compared to the three months ended March 31, 2015, excluding the prior year $2.0 million in vaccine licensing milestone revenue. Animal Health adjusted EBITDA increased $4.5 million, or 16%, due to sales growth and increased gross profit, partially offset by increased SG&A expenses. Mineral Nutrition increased $0.3 million, or 7%, due to lower SG&A expenses as lower average selling prices were offset by lower product costs. Performance Products decreased $0.5 million due to lower volumes. Corporate expenses increased $0.1 million due to increased compensation and office-related costs.

Including the prior year $2.0 million of vaccine licensing milestone revenue, adjusted EBITDA increased $2.2 million or 8%.

Interest expense, net

Interest expense, net of $3.9 million increased $0.5 million, primarily due to interest on increased borrowings under our revolving credit facility (the "Revolver"), excluding acquisition-related accrued interest of $0.4 million and $0.3 million for the three months ended March 31, 2016 and 2015, respectively,

Including acquisition-related accrued interest, interest expense, net increased $0.7 million or 18%.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the three months ended March 31, 2016 amounted to net gains of $2.2 million, as compared to $4.6 million in net gains for the three months ended March 31, 2015. Foreign currency gains in the three months ended March 31, 2016 were primarily due to the movement of Brazil 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

The provision for income tax was $0.6 million, and the effective tax rate was 3.0% for the three months ended March 31, 2016, including the effect of certain discrete items.

Income tax expense for the three months ended March 31, 2016, included a benefit of $4.6 million for discrete items related to previously unrecognized tax benefits and a release of our domestic valuation allowance, of $2.1 million and $2.5 million, respectively. Excluding this $4.6 million benefit, income tax expense was $5.2 million for the three months ended March 31, 2016, compared with $6.1 million for the same period last year, resulting in a 27.2% effective tax rate compared to 26.9% for the same period last year. Our consolidated provisions for income taxes, before taking into effect discrete items, is primarily comprised of income taxes relating to profitable foreign jurisdictions.

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Prior to releasing the valuation allowance on our deferred tax assets during the quarter ended December 31, 2015, 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 nine months ended March 31, 2016 and 2015

Our results for the nine months ended March 31, 2015 included $8.0 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 2015 that exclude the prior year milestone payments.

Net sales

Net sales of $562.4 million for the nine months ended March 31, 2016 increased $6.7 million, or 1%, as compared to the nine months ended March 31, 2015, excluding the prior year $8.0 million of vaccine licensing milestone revenue,. Animal Health grew $14.6 million, while Mineral Nutrition and Performance Products declined $5.2 million and $2.7 million, respectively.

Including the prior year $8.0 million of vaccine licensing milestone revenue, net sales decreased $1.3 million, or less than 1%.

Animal Health

Net sales of $360.0 million for the nine months ended March 31, 2016 grew $14.6 million, or 4%, excluding the prior year $8.0 million of vaccine licensing milestone revenue. The growth was primarily due to volume increases across all product groups. MFAs and other grew $2.0 million, or 1%, primarily due to volume growth in international markets. Nutritional specialty products grew $9.3 million, or 15%, primarily due to U.S. and E.U. volume growth of our products for the dairy and poultry industries. Vaccines grew $3.4 million, or 10%, principally from volume growth, including sales of MVP products.

Including the prior year $8.0 million of vaccine licensing milestone revenue, net sales grew $6.6 million, or 2%.

Mineral Nutrition

Net sales of $166.4 million decreased $5.2 million, or 3%, for the nine months ended March 31, 2016. The decrease is due to lower average selling prices due to underlying raw material commodity price declines. Partially offsetting the lower average selling prices were increased volumes from improved demand for trace mineral products.

Performance Products

Net sales of $36.0 million decreased $2.7 million, or 7%, for the nine months ended March 31, 2016, due to lower average selling prices of copper-based products and personal care ingredients and lower volumes of chemical catalyst products.

Gross profit

Gross profit of $184.1 million for the nine months ended March 31, 2016 increased $16.6 million, or 10%, as compared to the nine months ended March 31, 2015, excluding the prior year $8.0 million in vaccine licensing milestone revenue and excluding the current year $1.6 million of acquisition-related cost of goods sold from the inventory step-up related to the MVP acquisition. Gross profit increased to 32.7% of net sales for the nine months ended March 31, 2016 as compared to 30.1% for the nine months ended March 31, 2015. Animal Health gross profit increased $18.4 million due to volume growth, lower unit costs from improved operating efficiencies and favorable currency movements. Mineral Nutrition gross profit increased $0.3 million due to lower product costs, partially offset by lower average selling prices.

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Performance Products gross profit decreased $1.9 million due to lower average selling prices of copper-based products and personal care ingredients and lower volumes of chemical catalyst products, partially offset by lower product costs for personal care ingredients.

Including the prior year $8.0 million of vaccine licensing milestone revenue and including $1.6 million of acquisition-related cost of goods sold, gross profit increased $7.0 million, or 4%.

Selling, general and administrative expenses

SG&A expenses of $111.0 million for the nine months ended March 31, 2016 increased $5.9 million, or 6%, as compared to the nine months ended March 31, 2015, excluding acquisition-related transaction costs of $0.6 million for the nine months ended March 31, 2016; acquisition-related intangible amortization of $4.0 million and $3.4 million and acquisition-related accrued compensation of $1.3 million and $0.3 million, for the nine months ended March 31, 2016 and 2015, respectively. Animal Health accounted for $4.6 million of the increase, driven by increased sales force and product development costs. Corporate expenses accounted for $1.4 million of the increase, due to increased compensation and office-related costs.

Including acquisition-related transaction costs, intangible amortization and accrued compensation, SG&A increased $8.1 million, or 7%.

Adjusted EBITDA

Adjusted EBITDA of $85.8 million for the nine months ended March 31, 2016 increased $10.8 million, or 14%, as compared to the nine months ended March 31, 2015, excluding the prior year $8.0 million of vaccine licensing milestone revenue. Animal Health adjusted EBITDA increased $13.6 million, or 17%, due to sales growth and increased gross profit, partially offset by increased SG&A expenses. Mineral Nutrition increased $0.4 million, or 3%, due to improved operating margins from lower product costs, partially offset by lower average selling prices. Performance Products decreased $1.6 million, or 74%, due to lower sales volumes and lower average selling prices. Corporate expenses increased $1.5 million due to increased compensation and office-related costs.

Including the prior year $8.0 million of vaccine licensing milestone revenue, adjusted EBITDA increased $2.8 million, or 3%.

Interest expense, net

Interest expense, net of $11.0 million increased $0.6 million primarily due to interest on increased borrowings under our Revolver, excluding acquisition-related accrued interest of $1.1 million and $0.3 million for the nine months ended March 31, 2016 and 2015, respectively.

Including acquisition-related accrued interest, interest expense, net increased $1.4 million or 14%.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the nine months ended March 31, 2016 amounted to net gains of $5.1 million, as compared to $6.9 million in net gains for the nine months ended March 31, 2015. Foreign currency gains in the nine months ended March 31, 2016 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.

Provision (benefit) for income taxes

During the quarter 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 released those domestic valuation allowances, except for those amounts that were needed for release against the utilization of net operating losses for the remainder of the fiscal year. The effect of the release of this valuation allowance, as well as the impact of recognizing certain previously

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unrecognized tax benefits, resulted in a tax benefit of $25.0 million. Including the impact of these discrete items, we experienced an income tax benefit of $8.8 million and our effective tax rate was (14.9)% for the nine months ended March 31, 2016, as compared to $13.1 million of income tax expense with an effective tax rate of 20.8% for the same period last year.

The $25.0 million tax benefit was comprised of the release of our valuation allowance for $21.3 million and previously unrecognized tax benefits of $3.7 million. Excluding the benefit from these discrete items, income tax expense was $16.2 million for the nine months ended March 31, 2016, with an effective tax rate of 27.6%. Excluding a discrete item for a benefit of $1.2 million related to unrecognized tax benefits, income tax expense was $14.3 million, with an effective tax rate of 22.7%, for the nine months ended March 31, 2015. Our consolidated provision for income taxes, before taking into effect the aforementioned discrete items, 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 the nine months ended March 31, 2016 as compared to the same period 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:

	Nine Months		
For the Periods Ended March 31	2016	2015	Change
	(in thousands)		
Cash provided by/(used in):			
Operating activities	$ 10,626	$ 46,842	$ (36,216)
Investing activities	(75,052)	(22,105)	(52,947)
Financing activities	68,000	(14,434)	82,434
Effect of exchange-rate changes on cash and cash equivalents	(565)	(1,320)	755
Net increase/(decrease) in cash and cash equivalents	$ 3,009	$ 8,983	$ (5,974)

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

	Nine Months		
For the Periods Ended March 31	2016	2015	Change
	(in thousands)		
Adjusted EBITDA	$ 85,807	$ 82,982	$ 2,825
Interest paid	(10,352)	(9,757)	(595)
Income taxes paid	(13,865)	(9,132)	(4,733)
Changes in operating assets and liabilities and other items	(50,964)	(17,251)	(33,713)
Net cash provided (used) by operating activities	$ 10,626	$ 46,842	$ (36,216)

Certain amounts may reflect rounding adjustments.

Operating activities

Net cash provided by operating activities was $10.6 million for the nine months ended March 31, 2016, primarily attributable to operating income of $65.7 million, partially offset by changes in operating

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assets and liabilities of $51.0 million. Accounts receivable used $6.6 million due to timing of sales and collections and sales growth. Increased inventories used $19.8 million of cash due to timing of purchases and production. Accounts payable and accrued expenses used $20.6 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 $75.1 million for the nine months ended March 31, 2016. The MVP acquisition used $46.5 million. Capital expenditures were $28.6 million as we continued to invest in our existing asset base and for capacity expansion and productivity improvements.

Financing activities

Net cash provided by financing activities was $68.0 million for the nine months ended March 31, 2016. Net borrowings from our Revolver provided $79.0 million. We paid $11.8 million in dividends to holders of our Class A and Class B common stock. We paid $3.2 million in scheduled debt and other requirements. The issuance of common shares related to the exercise of stock options provided $4.0 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	March 31, 2016	June 30, 2015	Change
	(in thousands)		
Cash and cash equivalents	$ 32,225	$ 29,216	$ 3,009
Working capital	$ 203,402	$ 175,988	$ 27,414
Ratio of current assets to current liabilities	3.10:1	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 March 31, 2016, our cash and cash equivalents included $32.0 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

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 borrowings under the Revolver. At March 31, 2016, we had $82.0 million in outstanding borrowings under the Revolver. We had outstanding letters of credit and other commitments of $14.2 million, leaving $103.8 million available for borrowings and letters of credit. In addition, we had availability totaling $15.0 million under our Israeli loan agreements.

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 March 31, 2016.

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On May 9, 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 June 1, 2016, payable on June 22, 2016.

Contractual obligations

As of March 31, 2016, 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 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.

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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 accounting policies are described in the notes to the consolidated financial statements included in the Annual Report. Except as described below, as of March 31, 2016, there have been no material changes to any of the critical accounting policies contained therein.

During the quarter ended December 31, 2015, 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.

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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,” “co “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;

- 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;

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- 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.

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 March 31, 2016, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end

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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 March 31, 2016 that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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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.

Except as set forth below, there were no material changes in the Company's risk factors from the risks disclosed in the Annual Report.

Restrictions on the use of antibacterials in food-producing animals may become more prevalent.

The issue of the potential transfer of antibacterial resistance from bacteria from food-producing animals to human bacterial pathogens, and the causality and impact of that transfer, are the subject of global scientific and regulatory discussion. Antibacterials refer to molecules that can be used to treat or prevent bacterial infections and are a sub-categorization of the products that make up our medicated feed additives portfolios. In some countries, this issue has led to government restrictions on the use of specific antibacterials in some food-producing animals, regardless of the route of administration (in feed, water, intramammary, topical, injectable or other route of administration). These restrictions are more prevalent in countries where animal protein is plentiful and governments are willing to take action even when there is scientific uncertainty. In December 2013, the FDA announced a plan to phase out the production (non-therapeutic) uses of medically important antibacterials administered in animal feed or water to food producing animals over a three-year period. Medically important antibacterials include classes that are prescribed in animal and human health and are listed in the Appendix of the FDA-CVM Guidance for Industry (GFI) #152. The FDA plan objectives are described in GFI #209 and GFI #213 and provide for the continued use of medically important antibacterials in food-producing animals for treatment, control and prevention of disease ("therapeutic" use) under the supervision of a veterinarian. The FDA indicated that it took this action to help preserve the efficacy of medically important antibacterials to treat infections in humans. In the United States, the antibacterial products within our poultry business, the largest portion of our MFAs and other business in this region, as well as our cattle business, have both approved therapeutic and non-therapeutic indications. We believe, based on current producer usage patterns, that the large majority of use of our products in these segments is at therapeutic dosage levels. We currently generate a portion of our revenues from antibacterial products sold for use in turkeys and swine in the United States where we do not currently have therapeutic claims that match our customers' usage patterns. We intend to ensure that our antibacterial product offerings are in full alignment with the FDA's guidance documents within the FDA's three-year implementation period, and will pursue both new and additional therapeutic claims for these products with the FDA. However, there can be no assurance that we will be successful in obtaining such claims. While it is difficult to predict exactly what impact the removal of non-therapeutic claims for our products that are medically important antibacterials will ultimately have on our sales, we estimate that, based on our customers' usage patterns, had we voluntarily decided to withdraw all of our non-therapeutic claims for these products in the United States, and did not add any new therapeutic claims for these products, our MFAs and other net sales would have been reduced by between $10 and $15 million for the year ended June 30, 2015.

Our Mecadox (carbadox) product has been approved for use in food animals for over 40 years. Certain regulatory bodies have raised concerns about the possible presence of certain residues of our carbadox product in meat from animals that consume the product. The product was banned for use in the European Union in 1998 and has been banned in several other countries outside the United States. In 1998, following a submission by the drug sponsor, the FDA conducted an evaluation of carbadox and found that it was safe based on the U.S. "sensitivity of the method" policy. Accordingly, the FDA continued to permit the approved use of carbadox. More recently, the FDA raised concerns that certain residues from our

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carbadox product may persist in tissues for longer than previously determined. See “Business— Regulatory” in the Annual Report. In April 2016, the FDA began initial steps to withdraw approval of Mecadox due to these concerns. This initial action by the FDA does not prohibit the sale or use of Mecadox in the United States. Our sales of Mecadox in the U.S. were approximately $15 million for the 12 months ending March 31, 2016. Should we be unable to successfully defend the safety of the product, the loss of Mecadox sales would have a negative impact to the results of our operations.

In July 2014, the Codex adopted risk management advice language for a number of compounds including carbadox. The advice language states “authorities should prevent residues of carbadox in food. This can be accomplished by not using carbadox in food producing animals.” The advice language is to provide advice only and is not binding on individual national authorities, and almost all national authorities already have long-established regulatory standards for carbadox. The advice language may be considered by national authorities in making future risk management determinations. To the extent additional national authorities elect to follow the risk management advice and prohibit the use of carbadox in food-producing animals, those decisions could have an adverse effect on our sales of carbadox in those countries or in countries like the United States that produce meat for export to those countries.

In 2008, the FDA announced that the agency required formal review of all additives used in the production of ethanol, including our Lactrol product (formulated virginiamycin), where the co-products may be used for animal feed. Virginiamycin has been certified by an independent expert panel convened by us as “generally recognized as safe” (“GRAS”) for use as a processing aid in ethanol production and as related to the use of the resulting distiller’s co-products for animal feed. We believe that this certification satisfies the FDA requirement. However, there can be no assurance we will be successful in maintaining market access for our Lactrol product or other ethanol production additives that we sell.

Our global sales of antibacterials and other related products were approximately $336 million for the year ended June 30, 2015. We cannot predict whether resistance concerns with antibacterials will result in additional restrictions, expanded regulations or public pressure to discontinue or reduce use of antibacterials in food-producing animals, which could materially adversely affect our operating results and financial condition.

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 2.1* Asset Purchase Agreement dated January 12, 2016 by and among MVP Laboratories, Inc., Mary Lou Chapek, AVP, LLC and Phibro Animal Health Corporation.
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

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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

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Confidential treatment of certain provisions of this exhibit has been requested with the Securities and Exchange Commission. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

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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.

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SIGNATURES

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

Phibro Animal Health Corporation

/s/ Jack C. Bendheim

May 9, 2016 By: Jack C. Bendheim
President and Chief Executive Officer

/s/ Richard G. Johnson

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