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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

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 (State or other jurisdiction of incorporation or organization)	**13-1840497** (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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	**PAHC**	**Nasdaq Stock Market**

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 every Interactive Data File required to be submitted 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 such files.) Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 January 27, 2021, there were 20,287,574 shares of the registrant's Class A common stock, par value $0.0001 per share, and 20,166,034 shares of the registrant's Class B common stock, par value $0.0001 per share, outstanding.

PHIBRO ANIMAL HEALTH CORPORATION

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Periods Ended December 31	Three Months 2020	Three Months 2019	Six Months 2020	Six Months 2019
	(unaudited) (in thousands, except per share amounts)			
Net sales	$ 206,149	$ 214,012	$ 401,343	$ 403,732
Cost of goods sold	137,884	144,908	268,959	276,965
Gross profit	68,265	69,104	132,384	126,767
Selling, general and administrative expenses	48,375	49,495	96,806	97,011
Operating income	19,890	19,609	35,578	29,756
Interest expense, net	3,214	3,432	6,024	6,786
Foreign currency (gains) losses, net	624	(718)	(3,007)	2,503
Income before income taxes	16,052	16,895	32,561	20,467
Provision for income taxes	3,251	5,001	7,458	6,058
Net income	$ 12,801	$ 11,894	$ 25,103	$ 14,409
Net income per share				
basic	$ 0.32	$ 0.29	$ 0.62	$ 0.36
diluted	$ 0.32	$ 0.29	$ 0.62	$ 0.36
Weighted average common shares outstanding				
basic	40,454	40,454	40,454	40,454
diluted	40,504	40,504	40,504	40,504

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

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended December 31	Three Months 2020	Three Months 2019	Six Months 2020	Six Months 2019
	(unaudited) (in thousands)			
Net income	$ 12,801	$ 11,894	$ 25,103	$ 14,409
Change in fair value of derivative instruments	3,729	1,080	4,818	(4)
Foreign currency translation adjustment	9,500	2,203	4,777	(4,620)
Unrecognized net pension gains	137	138	272	258
(Provision) benefit for income taxes	(966)	(303)	(1,272)	(63)
Other comprehensive income (loss)	12,400	3,118	8,595	(4,429)
Comprehensive income (loss)	$ 25,201	$ 15,012	$ 33,698	$ 9,980

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

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of	December 31, 2020	June 30, 2020
	(in thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 34,534	$ 36,343
Short-term investments	61,000	55,000
Accounts receivable, net	126,026	126,522
Inventories, net	213,331	196,659
Other current assets	42,276	37,313
Total current assets	477,167	451,837
Property, plant and equipment, net	150,337	148,109
Intangibles, net	66,630	70,997
Goodwill	52,679	52,679
Other assets	56,838	60,478
Total assets	$ 803,651	$ 784,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$ 21,875	$ 18,750
Accounts payable	63,306	66,091
Accrued expenses and other current liabilities	81,722	72,397
Total current liabilities	166,903	157,238
Revolving credit facility	178,000	169,000
Long-term debt	186,943	199,257
Other liabilities	58,483	70,401
Total liabilities	590,329	595,896
Commitments and contingencies (Note 7)		
Common stock, par value $0.0001 per share; 300,000,000 Class A shares authorized, 20,287,574 shares issued and outstanding at December 31, 2020 and June 30, 2020; 30,000,000 Class B shares authorized, 20,166,034 shares issued and outstanding at December 31, 2020 and June 30, 2020	4	4
Preferred stock, par value $0.0001 per share; 16,000,000 shares authorized, no shares issued and outstanding	—	—
Paid-in capital	136,654	135,525
Retained earnings	198,454	183,060
Accumulated other comprehensive (loss)	(121,790)	(130,385)
Total stockholders' equity	213,322	188,204
Total liabilities and stockholders' equity	$ 803,651	$ 784,100

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

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended December 31	Six Months 2020	Six Months 2019
	(unaudited) (in thousands)	
OPERATING ACTIVITIES		
Net income	$ 25,103	$ 14,409
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	16,124	15,929
Amortization of debt issuance costs	441	442
Stock-based compensation	1,129	1,129
Acquisition-related items	—	412
Deferred income taxes	(201)	(565)
Foreign currency (gains) losses, net	(7,174)	(132)
Other	258	374
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable, net	2,633	12,906
Inventories, net	(10,514)	3,412
Other current assets	(1,327)	(2,300)
Other assets	97	(1,395)
Accounts payable	(285)	(14,108)
Accrued expenses and other liabilities	2,327	(1,992)
Net cash provided by operating activities	28,611	28,521
INVESTING ACTIVITIES		
Purchases of short-term investments	(31,000)	(25,000)
Maturities of short-term investments	25,000	—
Capital expenditures	(14,738)	(16,115)
Business acquisitions	—	(54,549)
Other, net	(521)	(1,045)
Net cash (used) by investing activities	(21,259)	(96,709)
FINANCING ACTIVITIES		
Revolving credit facility borrowings	76,000	155,000
Revolving credit facility repayments	(67,000)	(102,000)
Payments of long-term debt and other	(9,375)	(6,361)
Dividends paid	(9,709)	(9,709)
Net cash provided (used) by financing activities	(10,084)	36,930
Effect of exchange rate changes on cash	923	(135)
Net increase (decrease) in cash and cash equivalents	(1,809)	(31,393)
Cash and cash equivalents at beginning of period	36,343	57,573
Cash and cash equivalents at end of period	$ 34,534	$ 26,180

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 CHANGES IN STOCKHOLDERS' EQUITY

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(unaudited) (in thousands, except share amounts)				
As of June 30, 2020	40,453,608	$ 4	$ —	$ 135,525	$ 183,060	$ (130,385)	$ 188,204
Comprehensive income (loss)	—	—	—	—	12,302	(3,805)	8,497
Dividends declared ($0.12 per share)	—	—	—	—	(4,854)	—	(4,854)
Stock-based compensation expense	—	—	—	565	—	—	565
As of September 30, 2020	40,453,608	$ 4	$ —	$ 136,090	$ 190,508	$ (134,190)	$ 192,412
Comprehensive income (loss)	—	—	—	—	12,801	12,400	25,201
Dividends declared ($0.12 per share)	—	—	—	—	(4,855)	—	(4,855)
Stock-based compensation expense	—	—	—	564	—	—	564
As of December 31, 2020	40,453,608	$ 4	$ —	$ 136,654	$ 198,454	$ (121,790)	$ 213,322

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(unaudited) (in thousands, except share amounts)				
As of June 30, 2019	40,453,608	$ 4	$ —	$ 133,266	$ 168,926	$ (86,181)	$ 216,015
Comprehensive income (loss)	—	—	—	—	2,515	(7,547)	(5,032)
Dividends declared ($0.12 per share)	—	—	—	—	(4,854)	—	(4,854)
Stock-based compensation expense	—	—	—	565	—	—	565
As of September 30, 2019	40,453,608	$ 4	$ —	$ 133,831	$ 166,587	$ (93,728)	$ 206,694
Comprehensive income (loss)	—	—	—	—	11,894	3,118	15,012
Dividends declared ($0.12 per share)	—	—	—	—	(4,855)	—	(4,855)
Stock-based compensation expense	—	—	—	564	—	—	564
As of December 31, 2019	40,453,608	$ 4	$ —	$ 134,395	$ 173,626	$ (90,610)	$ 217,415

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(unaudited)

1. Description of Business

Phibro Animal Health Corporation ("Phibro" or "PAHC") and its subsidiaries (together, 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, dairy and beef cattle, and aquaculture. The Company is also a manufacturer and marketer of performance products for use in the personal care, industrial chemical and chemical catalyst industries. Unless otherwise indicated or the context requires otherwise, references in this report to "we," "our," "us," and similar expressions refer to Phibro and its subsidiaries.

The unaudited consolidated financial information for the three and six months ended December 31, 2020 and 2019, 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, 2020 (the "Annual Report"), filed with the Securities and Exchange Commission on August 26, 2020 (File no. 001-36410). In the opinion of management, these financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows of the Company 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, 2020, was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are uncertain. Although vaccines are now available, supplies are constrained and distribution efforts vary widely country-by-country and state-by-state. New information may continue to emerge concerning COVID-19, and the actions required to contain or treat it may affect the duration and severity of the pandemic. The pandemic may have significant economic impacts on customers, suppliers and markets. The pandemic may affect our future revenues, expenses, reserves and allowances, manufacturing operations and employee-related costs. Our financial statements include estimates of the effects of COVID-19 and there may be changes to those estimates in future periods.

The consolidated financial statements include the accounts of Phibro and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated from the consolidated financial statements. The decision to consolidate an entity requires consideration of majority voting interests, as well as effective control over the entity.

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 December 31, 2020, there have been no material changes to any of the significant accounting policies contained therein.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 resulting from the assumed exercise of stock options and vesting of restricted stock units. All common share equivalents were included in the calculation of diluted net income per share in the periods included in the consolidated financial statements.

	Three Months		Six Months	
For the Periods Ended December 31	2020	2019	2020	2019
Net income	$ 12,801	$ 11,894	$ 25,103	$ 14,409
Weighted average number of shares – basic	40,454	40,454	40,454	40,454
Dilutive effect of stock options and restricted stock units	50	50	50	50
Weighted average number of shares – diluted	40,504	40,504	40,504	40,504
Net income per share				
basic	$ 0.32	$ 0.29	$ 0.62	$ 0.36
diluted	$ 0.32	$ 0.29	$ 0.62	$ 0.36

New Accounting Standards

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2020-04 and 2021-01, *Reference Rate Reform (Topic 848)*, provide optional expedients and exceptions to GAAP guidance, if certain criteria are met, for contracts, hedging relationships and derivative instruments that reference the London Interbank Offered Rate (LIBOR) and other interbank offered rates expected to be discontinued or modified by rate reform. The overall purpose of Topic 848 is to ease the financial reporting burdens related to the expected market transition to alternative reference rates. These ASUs may be applied prospectively to contract modifications made and hedging relationships entered into on or before December 31, 2022. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, removes certain exceptions and amends certain requirements in the existing income tax guidance to ease accounting requirements. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and must be applied on a retrospective basis. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, modifies existing disclosure requirements for defined benefit pension and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, modifies existing disclosure requirements for fair value measurement. ASU 2018-13 was effective for fiscal years beginning after December 15, 2019. The adoption did not have a material effect on our fair value measurement disclosures.

3. Statements of Operations—Additional Information

Disaggregated revenue, deferred revenue and customer payment terms

We develop, manufacture and market a broad range of products for food animals including poultry, swine, beef and dairy cattle, and aquaculture. The products help prevent, control and treat diseases, enhance nutrition to help improve health and contribute to balanced mineral nutrition. The animal health and mineral nutrition products are sold directly to integrated poultry, swine and cattle integrators and through commercial animal feed manufacturers, wholesalers and distributors. The animal health industry and demand for many of the animal health products in a particular region are affected by changing disease pressures and by weather conditions, as product usage follows varying weather patterns and seasons. Our operations are primarily focused in regions where the majority of livestock production is consolidated in large commercial farms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have a diversified portfolio of products that are classified within our three business segments—Animal Health, Mineral Nutrition and Performance Products. Each segment has its own dedicated management and sales team.

Animal Health

The Animal Health business develops, manufactures and markets products in three main categories:

- MFAs and Other: MFAs and other products primarily consist of concentrated medicated products that are administered through animal feeds, commonly referred to as Medicated Feed Additives ("MFAs"). Specific product classifications include antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of coccidia (parasites) that damage the intestinal tract of animals; and other related products.

- Nutritional Specialties: Nutritional specialty products enhance nutrition to help improve health and performance in areas such as immune system function and digestive health.

- Vaccines: Our vaccines are primarily focused on preventing diseases in poultry and swine. They protect animals from either viral or bacterial disease challenges. We develop, manufacture and market conventionally licensed and autogenous vaccine products and produce and market adjuvants to vaccine manufacturers. We have developed and market an innovative and proprietary delivery platform for vaccines.

Mineral Nutrition

The Mineral Nutrition business is comprised of formulations and concentrations of trace minerals such as zinc, manganese, copper, iron, and other compounds, with a focus on customers in North America. Our customers use these products to fortify the daily feed requirements of their livestock's diets and maintain an optimal balance of trace elements in each animal. We manufacture and market a broad range of mineral nutrition products for food animals including poultry, swine and beef and dairy cattle.

Performance Products

The Performance Products business manufactures and markets specialty ingredients for use in the personal care, industrial chemical and chemical catalyst industries, predominantly in the United States.

The following tables present our revenues disaggregated by major product category and geographic region:

Net Sales by Product Type

	Three Months		Six Months	
For the Periods Ended December 31	**2020**	**2019**	**2020**	**2019**
Animal Health				
MFAs and other	$ 81,577	$ 91,955	$ 160,280	$ 166,989
Nutritional specialties	36,394	33,062	68,994	63,495
Vaccines	18,267	18,672	35,333	35,055
Total Animal Health	$ 136,238	$ 143,689	$ 264,607	$ 265,539
Mineral Nutrition	54,157	55,685	105,597	108,334
Performance Products	15,754	14,638	31,139	29,859
Total	$ 206,149	$ 214,012	$ 401,343	$ 403,732

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Sales by Region

	Three Months		Six Months	
For the Periods Ended December 31	**2020**	**2019**	**2020**	**2019**
United States	$ 122,307	$ 122,917	$ 241,077	$ 241,404
Latin America and Canada	40,664	42,704	78,421	79,445
Europe, Middle East and Africa	30,285	27,660	57,157	51,353
Asia Pacific	12,893	20,731	24,688	31,530
Total	$ 206,149	$ 214,012	$ 401,343	$ 403,732

Net sales by region are based on country of destination.

Deferred revenue was $4,729 and $4,570 as of December 31, 2020, and June 30, 2020, respectively. Accrued expenses and other current liabilities included $1,868 and $1,109 of the total deferred revenue as of December 31, 2020, and June 30, 2020, respectively. The deferred revenue resulted primarily from certain customer arrangements, including technology licensing fees and discounts on future product sales. The transaction price associated with our deferred revenue arrangements is generally based on the stand-alone sales prices of the individual products or services.

Our customer payment terms generally range from 30 to 120 days globally and do not include any significant financing components. Payment terms vary based on industry and business practices within the regions in which we operate. Our average worldwide collection period for accounts receivable is approximately 60 days after the revenue is recognized.

Interest Expense and Depreciation and Amortization

	Three Months		Six Months	
For the Periods Ended December 31	**2020**	**2019**	**2020**	**2019**
Interest expense, net				
Term loan	$ 2,064	$ 2,031	$ 3,939	$ 4,079
Revolving credit facility	1,133	1,530	2,079	2,961
Amortization of debt issuance costs	220	221	441	442
Other	59	155	126	288
Interest expense	3,476	3,937	6,585	7,770
Interest income	(262)	(505)	(561)	(984)
	$ 3,214	$ 3,432	$ 6,024	$ 6,786

	Three Months		Six Months	
For the Periods Ended December 31	**2020**	**2019**	**2020**	**2019**
Depreciation and amortization				
Depreciation of property, plant and equipment	$ 5,885	$ 5,840	$ 11,716	$ 11,571
Amortization of intangible assets	2,203	2,296	4,408	4,334
Amortization of other assets	—	12	—	24
	$ 8,088	$ 8,148	$ 16,124	$ 15,929

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Balance Sheets—Additional Information

As of	December 31, 2020	June 30, 2020
Inventories		
Raw materials	$ 71,070	$ 73,837
Work-in-process	11,636	8,881
Finished goods	130,625	113,941
	$ 213,331	$ 196,659

As of	December 31, 2020	June 30, 2020
Goodwill roll-forward		
Balance at beginning of period	$ 52,679	$ 27,348
Osprey acquisition	—	25,331
Balance at end of period	$ 52,679	$ 52,679

As of	December 31, 2020	June 30, 2020
Other assets		
ROU operating lease assets	$ 22,827	$ 22,873
Deferred income taxes	10,382	11,430
Deposits	5,439	5,158
Insurance investments	5,891	5,801
Equity method investments	4,638	4,219
Indemnification asset	—	3,000
Debt issuance costs	766	1,021
Other	6,895	6,976
	$ 56,838	$ 60,478

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 $3,098 equity investment are currently idle. We concluded the investment is not impaired based on expected future operating cash flows and disposal value.

As of	December 31, 2020	June 30, 2020
Accrued expenses and other current liabilities		
Employee related	$ 29,115	$ 25,825
Current operating lease liabilities	7,075	6,439
Commissions and rebates	5,570	5,782
Professional fees	5,848	5,766
Income and other taxes	4,217	3,821
Derivatives	4,952	5,757
Contingent consideration	4,840	—
Restructuring costs	1,535	2,314
Insurance-related	1,299	1,272
Other	17,271	15,421
	$ 81,722	$ 72,397

In connection with productivity and cost-saving initiatives in the Animal Health segment, we incurred business restructuring costs related to the termination of a contract manufacturing agreement and employee separation charges.

The following table summarizes the activity of the restructuring liability during the six months ended December 31, 2020:

Liability balance at June 30, 2020	$ 2,860
Charges	—
Payments	(1,325)
Liability balance at December 31, 2020	$ 1,535

As of December 31, 2020, $1,200 and $335 of the liability balance related to contract termination and employee separation costs, respectively.

As of	December 31, 2020	June 30, 2020
Other liabilities		
Long-term operating lease liabilities	$ 17,076	$ 17,276
Long-term and deferred income taxes	12,052	11,680
Derivatives	3,840	7,691
Supplemental retirement benefits, deferred compensation and other	8,331	8,067
Contingent consideration	—	4,840
International retirement plans	5,664	5,499
U.S. pension plan	2,424	3,563
Restructuring costs	—	546
Other long-term liabilities	9,096	11,239
	$ 58,483	$ 70,401

As of	December 31, 2020	June 30, 2020
Accumulated other comprehensive income (loss)		
Derivative instruments	$ (8,630)	$ (13,448)
Foreign currency translation adjustment	(98,961)	(103,738)
Unrecognized net pension losses	(22,299)	(22,571)
Benefit for income taxes on derivative instruments	2,052	3,256
Benefit for incomes taxes on long-term intercompany investments	8,166	8,166
Provision for income taxes on net pension losses	(2,118)	(2,050)
	$ (121,790)	$ (130,385)

5. Debt

Term Loans and Revolving Credit Facilities

Pursuant to a credit agreement entered into in June 2017 (the “Credit Agreement”), we have a revolving credit facility (the “Revolver”), under which we can borrow up to $250,000, subject to the terms of the agreement, and a term A loan with an aggregate initial principal amount of $250,000 (the “Term A Loan,” and together with the Revolver, the “Credit Facilities”). The interest rate per annum applicable to the loans under the Credit Facilities is based on the fluctuating rate of interest plus an applicable rate equal to 2.00%, 1.75% or 1.50%, in the case of LIBOR and Eurodollar rate loans and 1.00%, 0.75% or 0.50%, in the case of base rate loans; the applicable rates are based on the First Lien Net Leverage Ratio, as defined in the Credit Agreement. The LIBOR rate is subject to a floor of 0.00%. The Credit Facilities mature on June 29, 2022.

The Credit Agreement requires, among other things, compliance with financial covenants that permit: (i) a maximum First Lien Net Leverage Ratio of 4.00:1.00 and (ii) a minimum interest coverage ratio of 3.00:1.00, each calculated on a trailing four-quarter basis. The Credit Agreement contains an acceleration clause should an event of default (as defined in the Credit Agreement) occur. As of December 31, 2020, we were in compliance with the financial covenants.

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As of December 31, 2020, we had $178,000 in borrowings under the Revolver and had outstanding letters of credit of $2,709, leaving $69,291 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 terms of these letters of credit are all less than one year.

In July 2017, we entered into an interest rate swap agreement on $150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrently with the Credit Agreement. We designated the interest rate swap as a highly effective cash flow hedge. For additional details, see "- Derivatives."

In March 2020, we entered into an interest rate swap agreement on an additional $150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed rate of 0.620% plus the applicable rate. On the maturity of the July 2017 agreement, this agreement increases to a notional principal amount of $300,000 through June 30, 2025, and effectively converts the floating LIBOR portion of our interest obligation on $300,000 of debt to a fixed interest rate of 0.620% plus the applicable rate. We designated the interest rate swaps as highly effective cash flow hedges. For additional details, see "—Derivatives."

As of December 31, 2020, the interest rates for the Revolver and the Term A Loan were 2.39% and 3.49%, respectively. The weighted-average interest rates for the Revolver were 2.24% and 3.58% for the six months ended December 31, 2020 and 2019, respectively. The weighted-average interest rates for the Term A Loan were 3.33% and 3.46% for the six months ended December 31, 2020 and 2019, respectively.

Long-Term Debt

As of	December 31, 2020	June 30, 2020
Term A Loan due June 2022	$ 209,375	$ 218,750
Unamortized debt issuance costs	(557)	(743)
	208,818	218,007
Less: current maturities	(21,875)	(18,750)
	$ 186,943	$ 199,257

6. Related Party Transactions

Certain relatives of Jack C. Bendheim, our Chairman, President and Chief Executive Officer, provided services to us as employees or consultants and received aggregate compensation and benefits of approximately $394 and $390 during the three months ended December 31, 2020 and 2019, respectively, and $925 and $841 during the six months ended December 31, 2020 and 2019, respectively. Mr. Bendheim has sole authority to vote shares of our stock owned by BFI Co., LLC, an investment vehicle of the Bendheim family.

7. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 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 on our experience, we believe that the future cost of compliance with existing Environmental Laws, and liabilities for known environmental claims pursuant to such Environmental Laws, will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

The United States 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 the Santa Fe Springs, California facility of our subsidiary, Phibro-Tech, Inc. ("Phibro-Tech"). The EPA has entered into a settlement agreement with a group of companies that sent chemicals to the Omega Chemical Site for processing and recycling ("OPOG") to remediate the contaminated groundwater that has migrated from the Omega Chemical Site in accordance with a general remedy selected by EPA. 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 any groundwater contamination at its site is localized and 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, the members of OPOG filed a complaint under the Comprehensive Environmental Response, Compensation, and Liability Act and the Resource Conservation and Recovery Act 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, the preliminary stage of the ongoing litigation 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 the 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 $4,381 and $5,254 at December 31, 2020, and June 30, 2020, 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 are 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 various 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.

8. Derivatives

We monitor our exposure to foreign currency exchange rates and interest rates and from time-to-time use derivatives to manage certain of these risks. We designate derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). All changes in the fair value of a highly effective cash flow hedge are recorded in accumulated other comprehensive income (loss).

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."

In July 2017, we entered into an interest rate swap agreement on the first $150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrently with the Credit Agreement. In March 2020, we entered into an interest rate swap agreement on an additional $150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed rate of 0.620% plus the applicable rate. On the maturity of the July 2017 agreement, this agreement increases to a notional principal amount of $300,000 through June 30, 2025, and effectively converts the floating LIBOR portion of our interest obligation on $300,000 of debt to a fixed interest rate of 0.620% plus the applicable rate. The forecasted transactions are probable of occurring, and the interest rate swaps have been designated as highly effective cash flow hedges.

We entered into foreign currency option contracts to hedge cash flows related to monthly inventory purchases. The individual option contracts mature monthly through September 2022. The forecasted inventory purchases are probable of occurring and the individual option contracts were designated as highly effective cash flow hedges.

The following table details the Company's outstanding derivatives that are designated and effective as cash flow hedges as of December 31, 2020:

Instrument	Hedge	Notional Amount at December 31, 2020	Consolidated Balance Sheet	Fair value as of December 31, 2020	Fair value as of June 30, 2020
Options	Brazilian Real calls	R$ 99,000	(1)	$ 378	$ 126
Options	Brazilian Real puts	R$ 99,000	(1)	$ (1,821)	$ (3,900)
Swap	Interest rate swap	$ 300,000	(2)	$ (7,187)	$ (9,674)

(1) We record the net fair values of our outstanding foreign currency option contracts within the respective balance sheet line item based on the net financial position and maturity date of the individual contracts as of the balance sheet date. As of December 31, 2020 and June 30, 2020, accrued expenses and other current liabilities included net fair values of $1,605 and $2,477, respectively. As of December 31, 2020 other assets included net fair values of $162. As of June 30, 2020, other liabilities included net fair values of $1,297.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(2) We classify the current and noncurrent amounts associated with our interest rate swap based on the expected timing of the cash flows. As of December 31, 2020 and June 30, 2020, accrued expenses and other current liabilities included net fair values of $3,347 and $3,280, respectively. As of December 31, 2020 and June 30, 2020, other liabilities included net fair values of $3,840 and $6,394, respectively.

The following tables show the effects of derivatives on the consolidated statements of operations and other comprehensive income ("OCI") for the three and six months ended December 31, 2020 and 2019.

For the Three Months Ended December 31		Gain (Loss) recorded in OCI		Gain (Loss) recognized in consolidated statements of operations			Consolidated Statement of Operations line item total	
Instrument	**Hedge**	**2020**	**2019**	**Consolidated Statement of Operations**	**2020**	**2019**	**2020**	**2019**
Options	Brazilian Real puts and calls	$ 1,955	$ 422	Cost of goods sold	$ (139)	$ (63)	$ 137,884	$ 144,908
Swap	Interest rate swap	$ 1,774	$ 658	Interest expense, net	$ (828)	$ 4	$ 3,214	$ 3,432

For the Six Months Ended December 31		Gain (Loss) recorded in OCI		Gain (Loss) recognized in consolidated statements of operations			Consolidated Statement of Operations line item total	
Instrument	**Hedge**	**2020**	**2019**	**Consolidated Statement of Operations**	**2020**	**2019**	**2020**	**2019**
Options	Brazilian Real puts and calls	$ 2,331	$ 59	Cost of goods sold	$ (136)	$ (108)	$ 268,959	$ 276,965
Swap	Interest rate swap	$ 2,487	$ (63)	Interest expense, net	$ (1,642)	$ 169	$ 6,024	$ 6,786

We recognize gains (losses) related to foreign currency derivatives as a component of cost of goods sold at the time the hedged item is sold. Realized net losses of $1,620 related to matured contracts were recorded as a component of inventory at December 31, 2020. We anticipate the net losses included in inventory will be recognized in cost of goods sold within the next twelve months.

9. Fair Value Measurements

Short-term investments

Our short-term investments consist of cash deposits held at financial institutions. We consider the carrying amounts of these short-term investments to be representative of their fair value.

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.

Contingent Consideration on Acquisitions

We determine the fair value of contingent consideration on acquisitions based on contractual terms, our current forecast of performance factors related to the acquired business and an applicable discount rate.

Debt

We record debt, including term loans and revolver balances, at amortized cost in our consolidated financial statements. We believe the carrying value of the debt is approximately equal to its fair value, due to the variable nature of the instruments and our evaluation of estimated market prices.

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.

Non-financial assets

Our non-financial assets, which primarily consist of goodwill, other intangible assets, property and equipment, and lease-related ROU assets, are not required to be measured at fair value on a recurring basis, and instead are reported at carrying value in the consolidated balance sheet. We assess the carrying values of non-financial assets for impairment on a periodic basis or whenever events or changes in circumstances indicate an asset may not be fully recoverable.

Fair Value of Assets (Liabilities)

	December 31, 2020			June 30, 2020		
As of	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Short-term investments	$ 61,000	$ —	$ —	$ 55,000	$ —	$ —
Foreign currency derivatives	$ —	$ (1,443)	$ —	$ —	$ (3,774)	$ —
Interest rate swap	$ —	$ (7,187)	$ —	$ —	$ (9,674)	$ —
Contingent consideration on acquisitions	$ —	$ —	$ (4,840)	$ —	$ —	$ (4,840)

There were no transfers between levels during the periods presented.

The contingent consideration on acquisitions is the minimum amount payable in accordance with the acquisition agreement for Osprey.

10. Business Segments

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 we refer to these items as Corporate. We do not allocate Corporate costs or assets to the segments because they are not used to evaluate the segments' operating results or financial position. Corporate costs include certain costs related to executive management, business technology, legal, finance, human resources and business development.

We evaluate performance of our segments based on Adjusted EBITDA. We define Adjusted EBITDA as income before income taxes plus (a) interest expense, net, (b) depreciation and amortization, (c) (income) loss from, and disposal of, discontinued operations, (d) 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 (e) certain items that we consider to be unusual, non-operational or non-recurring.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Three Months		Six Months	
For the Periods Ended December 31	**2020**	**2019**	**2020**	**2019**
Net sales				
Animal Health	$ 136,238	$ 143,689	$ 264,607	$ 265,539
Mineral Nutrition	54,157	55,685	105,597	108,334
Performance Products	15,754	14,638	31,139	29,859
Total segments	$ 206,149	$ 214,012	$ 401,343	$ 403,732
Depreciation and amortization				
Animal Health	$ 6,498	$ 6,711	$ 13,019	$ 13,095
Mineral Nutrition	747	629	1,396	1,242
Performance Products	423	417	868	794
Total segments	$ 7,668	$ 7,757	$ 15,283	$ 15,131
Adjusted EBITDA				
Animal Health	$ 33,349	$ 33,838	$ 63,450	$ 58,899
Mineral Nutrition	4,185	3,684	7,232	7,159
Performance Products	2,266	1,457	4,238	2,309
Total segments	$ 39,800	$ 38,979	$ 74,920	$ 68,367
Reconciliation of income before income taxes to Adjusted EBITDA				
Income before income taxes	$ 16,052	$ 16,895	$ 32,561	$ 20,467
Interest expense, net	3,214	3,432	6,024	6,786
Depreciation and amortization – Total segments	7,668	7,757	15,283	15,131
Depreciation and amortization – Corporate	420	391	841	798
Corporate costs	11,258	10,491	22,089	20,219
Stock-based compensation	564	564	1,129	1,129
Restructuring costs	—	—	—	425
Acquisition-related cost of goods sold	—	—	—	280
Acquisition-related transaction costs	—	—	—	462
Acquisition-related other	—	167	—	167
Foreign currency (gains) losses, net	624	(718)	(3,007)	2,503
Adjusted EBITDA – Total segments	$ 39,800	$ 38,979	$ 74,920	$ 68,367

	December 31, 2020	June 30, 2020
Identifiable assets		
Animal Health	$ 569,388	$ 560,663
Mineral Nutrition	71,680	65,686
Performance Products	34,849	31,016
Total segments	675,917	657,365
Corporate	127,734	126,735
Total	$ 803,651	$ 784,100

The Animal Health segment includes all goodwill of the Company. Corporate assets include cash and cash equivalents, short-term investments, debt issuance costs, income tax-related assets and certain other assets.

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

Introduction

Our 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. 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 related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Our future results could differ materially from our historical performance as a result of various factors such as those discussed in "Risk Factors" and "Forward-Looking Statements."

Overview of our business

Phibro Animal Health Corporation is a global diversified animal health and mineral nutrition company. We develop, manufacture and market a broad range of products for food animals including poultry, swine, beef and dairy cattle, and aquaculture. Our products help prevent, control and treat diseases, enhance nutrition to help improve health and performance and contribute to balanced mineral nutrition. In addition to animal health and mineral nutrition products, we manufacture and market specific ingredients for use in the personal care, industrial chemical and chemical catalyst industries.

Effects of the COVID-19 pandemic

The global food and animal production industry has experienced demand disruption, production impacts, price declines and currency volatility in international markets due to the COVID-19 pandemic. The response to the global outbreak of COVID-19 continues to evolve. Governmental authorities continue to implement measures to contain virus outbreaks, such as travel bans, quarantines, shelter-in-place orders, site closures and business shutdowns. Although vaccines are now available, supplies are constrained and distribution efforts vary widely country-by-country and state-by-state. The pandemic may have significant economic impacts on customers, suppliers and markets. New information may continue to emerge concerning COVID-19 and the actions required to contain or treat it may affect the duration and severity of the economic impact. We believe the global food and animal production industry is returning to stability, but the potential impact of COVID-19 continues to evolve and future industry outlooks remain uncertain.

Phibro is an integral participant in the essential production of meat, milk, eggs and fish for human consumption. In the face of the pandemic, we have focused on the safety of our employees, while continuing to supply our customers. Our global production facilities have continued to operate without interruption, despite supply chain and logistical challenges. Our sales and technical service people remain in close virtual contact with our customers, as most travel and in-person meetings have been cancelled. Most of our administrative and management staff are working remotely. We have experienced some cost increases from the safety measures implemented to protect our employees as well as from supply chain disruptions. We have maintained headcount and compensation at constant levels. We continue to monitor sales trends, cash flow and liquidity.

The uncertainties surrounding the COVID-19 pandemic remain fluid. We are unable to predict the supply, distribution or effectiveness of COVID-19 vaccines and hence the impact on the economies where we manufacture and sell our products. While we continue to adapt our operations and mitigate the risks and challenges posed by COVID-19, the demand for our products will be dependent upon economic conditions and the ability of our customers and end users of our products to operate their businesses and production facilities. Our business and future operational results may be impacted by government mandated response efforts, supply chain and manufacturing disruptions, increased volatility in raw material costs and decreased demand due to changes in our customer purchasing patterns and preferences. We are unable to predict with confidence the nature and timing of when any of these events may occur and the effects COVID-19 will have on our business, our consolidated results and the broader economic environment going forward. We will continue to evaluate the nature and extent of the effects of COVID-19 on our business, consolidated results of operations, financial condition, and liquidity. For additional considerations and risks associated with COVID-19 on our business, please refer to "Risk Factors" in Item 1A. of our Annual Report.

Trends and uncertainties

In April 2016, the Food and Drug Administration ("FDA") began initial steps to withdraw approval of carbadox via a regulatory process known as a Notice of Opportunity for Hearing ("NOOH"), due to concerns that certain residues from the product may persist in animal tissues for longer than previously determined. The NOOH process provided Phibro with an opportunity to defend the safety of carbadox prior to the FDA taking final steps to remove carbadox from the market. Over the next four years, as part of an ongoing process of responding to the inquiries from the FDA's Center for Veterinary Medicine ("CVM"), we provided extensive and meticulous research and data that confirmed the safety of carbadox. In March 2018, the FDA indefinitely stayed the withdrawal proceedings. In July 2020, the FDA announced it does not agree with Phibro's scientific conclusions that carbadox is safe under the current conditions of use. Instead of proceeding to a hearing on the scientific concerns raised in the 2016 NOOH, consistent with the normal regulatory procedure, the FDA announced that it was withdrawing the current NOOH, and issuing a proposed order to review the regulatory method for carbadox. The approved regulatory method determines if there are residues of carcinogenic concern in animal tissue at the time of slaughter. If the order is finalized, the FDA has indicated it plans to issue a new NOOH proposing the withdrawal of carbadox from the market because of a lack of an approved regulatory method.

In September 2020, Phibro commented on the proposed order, reiterating the safety of carbadox and the appropriateness of the regulatory method, and further offered to work with the CVM to generate additional data to support the existing regulatory method or select a suitable alternative regulatory method. Phibro disagrees with the agency's actions and has submitted a request to the FDA Office of the Commissioner that the agency continue the NOOH process it started in 2016 and proceed with a hearing to review the substantial body of data supporting the safety of carbadox. There is no defined timeline for the conclusion of this matter.Should we be unable to successfully defend the safety of the product, the loss of carbadox sales would have an adverse effect on our financial condition and results of operations. Sales of carbadox for the twelve months ended December 31, 2020, were $18 million.

Analysis of the consolidated statements of operations

Summary Results of Operations

	Three Months				Six Months			
For the Periods Ended December 31	**2020**	**2019**	**Change**		**2020**	**2019**	**Change**	
	(in thousands, except per share amounts and percentages)							
Net sales	$ 206,149	$ 214,012	$ (7,863)	*(4)%*	$ 401,343	$ 403,732	$ (2,389)	*(1)%*
Gross profit	68,265	69,104	(839)	*(1)%*	132,384	126,767	5,617	*4 %*
Selling, general and administrative expenses	48,375	49,495	(1,120)	*(2)%*	96,806	97,011	(205)	*(0)%*
Operating income	19,890	19,609	281	*1 %*	35,578	29,756	5,822	*20 %*
Interest expense, net	3,214	3,432	(218)	*(6)%*	6,024	6,786	(762)	*(11)%*
Foreign currency (gains) losses, net	624	(718)	1,342	*	(3,007)	2,503	(5,510)	*
Income before income taxes	16,052	16,895	(843)	*(5)%*	32,561	20,467	12,094	*59 %*
Provision for income taxes	3,251	5,001	(1,750)	*(35)%*	7,458	6,058	1,400	*23 %*
Net income	$ 12,801	$ 11,894	$ 907	*8 %*	$ 25,103	$ 14,409	$ 10,694	*74 %*
Net income per share								
basic	$ 0.32	$ 0.29	$ 0.03		$ 0.62	$ 0.36	$ 0.26	
diluted	$ 0.32	$ 0.29	$ 0.03		$ 0.62	$ 0.36	$ 0.26	
Weighted average number of shares outstanding								
basic	40,454	40,454			40,454	40,454		
diluted	40,504	40,504			40,504	40,504		
Ratio to net sales								
Gross profit	*33.1 %*	*32.3 %*			*33.0 %*	*31.4 %*		
Selling, general and administrative expenses	*23.5 %*	*23.1 %*			*24.1 %*	*24.0 %*		
Operating income	*9.6 %*	*9.2 %*			*8.9 %*	*7.4 %*		
Income before income taxes	*7.8 %*	*7.9 %*			*8.1 %*	*5.1 %*		
Net income	*6.2 %*	*5.6 %*			*6.3 %*	*3.6 %*		
Effective tax rate	*20.3 %*	*29.6 %*			*22.9 %*	*29.6 %*		

Certain amounts and percentages may reflect rounding adjustments.

* Calculation not meaningful

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."

Segment net sales and Adjusted EBITDA:

For the Periods Ended December 31	Three Months 2020	Three Months 2019	Three Months Change		Six Months 2020	Six Months 2019	Six Months Change	
	(in thousands, except percentages)							
Net sales								
MFAs and other	$ 81,577	$ 91,955	$ (10,378)	(11)%	$ 160,280	$ 166,989	$ (6,709)	(4)%
Nutritional specialties	36,394	33,062	3,332	10 %	68,994	63,495	5,499	9 %
Vaccines	18,267	18,672	(405)	(2)%	35,333	35,055	278	1 %
Animal Health	136,238	143,689	(7,451)	(5)%	264,607	265,539	(932)	(0)%
Mineral Nutrition	54,157	55,685	(1,528)	(3)%	105,597	108,334	(2,737)	(3)%
Performance Products	15,754	14,638	1,116	8 %	31,139	29,859	1,280	4 %
Total	$ 206,149	$ 214,012	$ (7,863)	(4)%	$ 401,343	$ 403,732	$ (2,389)	(1)%
Adjusted EBITDA								
Animal Health	$ 33,349	$ 33,838	$ (489)	(1)%	$ 63,450	$ 58,899	$ 4,551	8 %
Mineral Nutrition	4,185	3,684	501	14 %	7,232	7,159	73	1 %
Performance Products	2,266	1,457	809	56 %	4,238	2,309	1,929	84 %
Corporate	(11,258)	(10,491)	(767)	7 %	(22,089)	(20,219)	(1,870)	9 %
Total	$ 28,542	$ 28,488	$ 54	0 %	$ 52,831	$ 48,148	$ 4,683	10 %
Adjusted EBITDA ratio to segment net sales								
Animal Health	24.5 %	23.5 %			24.0 %	22.2 %		
Mineral Nutrition	7.7 %	6.6 %			6.8 %	6.6 %		
Performance Products	14.4 %	10.0 %			13.6 %	7.7 %		
Corporate[(1)]	(5.5)%	(4.9)%			(5.5)%	(5.0)%		
Total[(1)]	13.8 %	13.3 %			13.2 %	11.9 %		

(1) Reflects ratio to total net sales

The table below sets forth a reconciliation of net income, as reported under GAAP, to Adjusted EBITDA:

For the Periods Ended December 31	Three Months 2020	Three Months 2019	Three Months Change		Six Months 2020	Six Months 2019	Six Months Change	
	(in thousands, except percentages)							
Net income	$ 12,801	$ 11,894	$ 907	8 %	$ 25,103	$ 14,409	$ 10,694	74 %
Interest expense, net	3,214	3,432	(218)	(6)%	6,024	6,786	(762)	(11)%
Provision for income taxes	3,251	5,001	(1,750)	(35)%	7,458	6,058	1,400	23 %
Depreciation and amortization	8,088	8,148	(60)	(1)%	16,124	15,929	195	1 %
EBITDA	27,354	28,475	(1,121)	(4)%	54,709	43,182	11,527	27 %
Stock-based compensation	564	564	—	0 %	1,129	1,129	—	0 %
Restructuring costs	—	—	—	*	—	425	(425)	*
Acquisition-related cost of goods sold	—	—	—	*	—	280	(280)	*
Acquisition-related transaction costs	—	—	—	*	—	462	(462)	*
Acquisition-related other, net	—	167	(167)	*	—	167	(167)	*
Foreign currency (gains) losses, net	624	(718)	1,342	*	(3,007)	2,503	(5,510)	*
Adjusted EBITDA	$ 28,542	$ 28,488	$ 54	0 %	$ 52,831	$ 48,148	$ 4,683	10 %

Certain amounts may reflect rounding adjustments.

* Calculation not meaningful

<u>Comparison of three months ended December 31, 2020 and 2019</u>

Net sales

Net sales of $206.1 million for the three months ended December 31, 2020, declined $7.9 million, or 4%, as compared to the three months ended December 31, 2019. Animal Health and Mineral Nutrition decreased $7.5 million and $1.5 million, respectively, while Performance Products increased $1.1 million.

Animal Health

Net sales of $136.2 million for the three months ended December 31, 2020, declined $7.5 million, or 5%. Net sales of MFAs and other decreased $10.4 million, or 11%, driven by lower international demand, partially offset by favorable domestic customer order patterns. The decrease in international demand was primarily concentrated in China and Latin America. The prior period included customer orders in China ahead of regulatory changes effective January 1, 2020. Net sales of nutritional specialty products increased $3.3 million, or 10%, due to domestic and international growth in dairy products. Net sales of vaccines declined $0.4 million, or 2%. Higher domestic vaccine sales were more than offset by lower international volume due to timing of customer orders and reduced demand during the quarter.

Mineral Nutrition

Net sales of $54.2 million for the three months ended December 31, 2020, decreased $1.5 million, or 3%, driven by lower average selling prices. The decline in average selling prices is correlated with the movement of the underlying raw material costs.

Performance Products

Net sales of $15.8 million for the three months ended December 31, 2020, increased $1.1 million, or 8%. Increased volumes of copper-based products were partially offset by lower sales of personal care product ingredients.

Gross profit

Gross profit of $68.3 million for the three months ended December 31, 2020, decreased $0.8 million, or 1%, as compared to the three months ended December 31, 2019. Gross margin increased 80 basis points to 33.1% of net sales for the three months ended December 31, 2020, as compared to 32.3% for the three months ended December 31, 2019.

Animal Health gross profit decreased $1.8 million due to lower volumes of MFAs and other products, partially offset by favorable product mix and favorable production costs, primarily related to foreign currency movements. Mineral Nutrition gross profit increased $0.4 million, driven primarily by product mix. Performance Products gross profit increased $0.6 million driven by volume increases coupled with decreases in raw material and production costs.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) of $48.4 million for the three months ended December 31, 2020, decreased $1.1 million, or 2%, as compared to the three months ended December 31, 2019. SG&A for the three months ended December 31, 2019, included $0.2 million of other acquisition-related costs. Excluding these costs, SG&A decreased $0.9 million, or 2%.

Animal Health SG&A decreased $1.5 million, primarily due to the favorable effects of foreign currency exchange and decreased marketing and sales team travel costs driven by COVID-19 safety concerns and limitations. Mineral Nutrition SG&A was comparable to the prior year; Performance Products SG&A declined $0.2 million. Corporate SG&A increased $0.7 million due to increased professional fees and information technology costs.

Interest expense, net

Interest expense, net of $3.2 million for the three months ended December 31, 2020, decreased $0.2 million, or 6%, as compared to the three months ended December 31, 2019. Interest expense decreased due to favorable variable interest rates, partially offset by higher levels of debt outstanding and lower interest income from short-term investments.

Foreign currency (gains) losses, net

Foreign currency losses, net for the three months ended December 31, 2020, were $0.6 million, as compared to $0.7 million in net gains for the three months ended December 31, 2019.

Provision for income taxes

The provision for income taxes was $3.3 million and $5.0 million for the three months ended December 31, 2020 and 2019, respectively. The effective income tax rate was 20.3% and 29.6% for the three months ended December 31, 2020 and 2019, respectively. The provision for income taxes during the three months ended December 31, 2020, included (i) a $0.9 million benefit for the year ended June 30, 2019 related to final regulations issued in July 2020 for the Global Intangible Low-Taxed Income ("GILTI") tax and (ii) an $0.8 million benefit related to exchange rate differences on intercompany dividends. The effective income tax rate, without these benefits, would have been 30.8% for the three months ended December 31, 2020.

Net income

Net income of $12.8 million for the three months ended December 31, 2020, increased $0.9 million, as compared to net income of $11.9 million for the three months ended December 31, 2019. Operating income increased $0.3 million, driven by favorable SG&A expenses, partially offset by lower sales and related gross profit. The decrease in gross profit in the Animal Health segment due to lower overall sales was partially offset by increased gross profit in the Mineral Nutrition and Performance Products segments. Favorable production costs and product mix contributed to the increase in the gross margin compared to the prior year. Interest expense was lower by $0.2 million, while foreign currency losses increased $1.3 million. Income tax expense declined $1.8 million, primarily due to $1.7 million in tax benefits related to GILTI income tax regulations and exchange rate differences on intercompany dividends.

Adjusted EBITDA

Adjusted EBITDA of $28.5 million for the three months ended December 31, 2020, was comparable to the three months ended December 31, 2019. Animal Health Adjusted EBITDA decreased $0.5 million on lower sales and gross profit, partially offset by favorable SG&A costs. Mineral Nutrition Adjusted EBITDA increased $0.5 million, driven by increased gross profit on favorable product mix. Performance Products Adjusted EBITDA increased $0.8 million driven by increased gross profit. Corporate expenses increased $0.8 million, primarily due to increased professional fees and information technology costs.

Comparison of six months ended December 31, 2020 and 2019

Net sales

Net sales of $401.3 million for the six months ended December 31, 2020, decreased $2.4 million, or 1%, as compared to the six months ended December 31, 2019. Animal Health and Mineral Nutrition declined $0.9 million and $2.7 million, respectively. Performance Products increased $1.3 million.

Animal Health

Net sales of $264.6 million for the six months ended December 31, 2020, declined $0.9 million, or less than 1%. Net sales of MFAs and other declined $6.7 million, or 4%, due to reduced demand in China following regulatory changes effective January 1, 2020, partially offset by net sales growth in other products. Net sales of nutritional specialty products grew $5.5 million, or 9%, due to continued volume growth in dairy products. Net sales of vaccines increased $0.3 million, or 1% on higher domestic volume. International volume for poultry vaccines was comparable to the prior year.

Mineral Nutrition

Net sales of $105.6 million for the six months ended December 31, 2020, decreased $2.7 million, or 3%, driven by lower average selling prices, partially offset by increased unit volumes. The decline in average selling prices is correlated with the movement of the underlying raw material costs.

Performance Products

Net sales of $31.1 million for the six months ended December 31, 2020, increased $1.3 million, or 4%, driven by increased volumes of copper-based products, partially offset by lower sales of personal care product ingredients.

Gross profit

Gross profit of $132.4 million for the six months ended December 31, 2020, increased $5.6 million, or 4%, as compared to the six months ended December 31, 2019. Gross margin increased 160 basis points to 33.0% of net sales for the six months ended December 31, 2020, as compared to 31.4% for the six months ended December 31, 2019. The six months ended December 31, 2019, included $0.3 million of acquisition-related cost of goods sold.

Animal Health gross profit increased $3.8 million, driven by increased volumes of nutritional specialty and vaccine products, favorable product mix and favorable production costs, primarily related to foreign currency movements. Mineral Nutrition gross profit decreased $0.1 million, as declines in average selling prices were mostly offset by favorable raw material costs and product mix. Performance Products gross profit increased $1.7 million driven by higher volume coupled with decreases in raw material and production costs.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) of $96.8 million for the six months ended December 31, 2020, decreased $0.2 million, or less than 1%, as compared to the six months ended December 31, 2019. SG&A for the six months ended December 31, 2019, included $0.4 million of restructuring costs, $0.5 million of acquisition-related transaction costs and $0.2 million of other acquisition-related costs. Excluding these costs, SG&A increased $0.9 million, or 1%.

Animal Health SG&A decreased $0.8 million primarily due to the favorable effects of foreign currency exchange and decreased marketing and sales team travel costs driven by COVID-19 safety concerns and limitations, partially offset by increased professional fees to support the continued use of carbadox. Mineral Nutrition SG&A was comparable to the prior year and Performance Products SG&A decreased $0.1 million. Corporate expenses increased $1.9 million, driven by increased costs for business development initiatives, professional fees and information technology. The restructuring costs, acquisition-related transaction costs and other acquisition-related costs resulted in a net $1.1 million decrease to SG&A.

Interest expense, net

Interest expense, net of $6.0 million for the six months ended December 31, 2020, decreased $0.8 million, or 11%, as compared to the six months ended December 31, 2019. Interest expense decreased due to favorable variable interest rates, partially offset by higher levels of debt outstanding and lower interest income from short-term investments.

Foreign currency (gains) losses, net

Foreign currency gains, net for the six months ended December 31, 2020, were $3.0 million, as compared to net losses of $2.5 million for the six months ended December 31, 2019. Foreign currency gains primarily arose from intercompany balances, driven by the movement of the Mexican, South African and Turkish currencies relative to the U.S. dollar.

Provision for income taxes

The provision for income taxes was $7.5 million and $6.1 million for the six months ended December 31, 2020 and 2019, respectively. The effective income tax rate was 22.9% and 29.6% for the six months ended December 31, 2020 and 2019, respectively. The provision for income taxes during the six months ended December 31, 2020, included (i) a $1.5 million benefit for the years ended June 30, 2020 and 2019 related to final regulations issued in July 2020 for the Global Intangible Low-Taxed Income ("GILTI") tax, (ii) an $0.8 million benefit related to exchange rate differences on intercompany dividends and (iii) a $0.6 million benefit for the reversal of an uncertain tax position. The effective income tax rate, without these benefits, would have been 31.7% for the six months ended December 31, 2020.

Net income

Net income of $25.1 million for the six months ended December 31, 2020, increased $10.7 million, as compared to net income of $14.4 million for the six months ended December 31, 2019. The increase was primarily driven by higher operating income of $5.8 million, lower interest expense of $0.8 million and increased foreign currency gains of $5.5 million. The increase in operating income was driven by a $5.6 million increase in gross profit. SG&A was comparable to the prior year. These increases were partially offset by a $1.4 million increase to the provision for income taxes.

Adjusted EBITDA

Adjusted EBITDA of $52.8 million for the six months ended December 31, 2020, increased $4.7 million, or 10%, as compared to the six months ended December 31, 2019. Animal Health Adjusted EBITDA increased $4.6 million, driven by favorable product mix and production costs and lower SG&A expenses. Mineral Nutrition Adjusted EBITDA increased $0.1 million. Performance Products Adjusted EBITDA increased $1.9 million on higher gross profit. Corporate expenses increased $1.9 million due to increased costs for business development initiatives, professional fees and information technology.

Analysis of financial condition, liquidity and capital resources

Net increase (decrease) in cash and cash equivalents was:

For the Periods Ended December 31	Six Months 2020	Six Months 2019	Change
		(in thousands)	
Cash provided (used) by:			
Operating activities	$ 28,611	$ 28,521	$ 90
Investing activities	(21,259)	(96,709)	75,450
Financing activities	(10,084)	36,930	(47,014)
Effect of exchange-rate changes on cash and cash equivalents	923	(135)	1,058
Net decrease in cash and cash equivalents	$ (1,809)	$ (31,393)	$ 29,584

Certain amounts may reflect rounding adjustments.

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

For the Periods Ended December 31	Six Months 2020	Six Months 2019	Change
		(in thousands)	
EBITDA	$ 54,709	$ 43,182	$ 11,527
Adjustments			
Stock-based compensation	1,129	1,129	—
Restructuring costs	—	425	
Acquisition-related cost of goods sold	—	280	(280)
Acquisition-related transaction costs	—	462	(462)
Acquisition other, net	—	167	
Foreign currency (gains) losses, net	(3,007)	2,503	(5,510)
Interest paid, net	(5,464)	(6,261)	797
Income taxes paid	(10,356)	(9,357)	(999)
Changes in operating assets and liabilities and other items	(8,400)	(4,009)	(4,391)
Net cash provided (used) by operating activities	$ 28,611	$ 28,521	$ 90

Certain amounts may reflect rounding adjustments.

Operating activities

Operating activities provided $28.6 million of net cash for the six months ended December 31, 2020. Cash provided by net income and non-cash items, including depreciation and amortization, was $35.7 million. Cash used in the ordinary course of business for changes in operating assets and liabilities and other items was $7.1 million. Cash used for inventory was $10.5 million. Inventory increases were primarily due to forecasted future demand and internal production schedules. For certain products, we are maintaining safety stocks to mitigate potential disruptions in production. Accrued expenses and other liabilities provided cash of $2.3 million due to timing of payments for employee-related liabilities. Accounts receivable provided $2.6 million of cash due to lower sales and favorable collections in international regions, partially offset by timing of domestic sales and collections.

Investing activities

Investing activities used $21.3 million of net cash for the six months ended December 31, 2020. Capital expenditures were $14.7 million as we continued to invest in expanding production capacity and productivity improvements. In addition, we invested $6.0 million in short-term investments.

Financing activities

Financing activities used $10.1 million of net cash for the six months ended December 31, 2020. Net borrowings on our Revolver provided $9.0 million. We paid $9.7 million in dividends to holders of our Class A and Class B common stock. We paid $9.4 million in scheduled debt and other requirements.

Liquidity and capital resources

We believe our cash on hand, operating cash flow and financing arrangements, including the availability of borrowings under the Revolver and foreign credit lines, will be sufficient to support our ongoing cash needs. We are aware of the current and potential future effects of COVID-19 on the financial markets. We expect adequate liquidity for at least the next twelve months. 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 Credit Facilities 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, including those caused by COVID-19. There can be no assurance that a challenging economic environment or an economic downturn would not affect our liquidity or our ability to obtain future financing or fund operations or investment opportunities. In addition, our debt covenants may restrict our ability to invest.

Certain relevant measures of our liquidity and capital resources follow:

As of	**December 31, 2020**	**June 30, 2020**
	(in thousands, except ratios)	
Cash and cash equivalents and short-term investments	$ 95,534	$ 91,343
Working capital	236,605	222,006
Ratio of current assets to current liabilities	2.63:1	2.60:1

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

At December 31, 2020, we had $178.0 million in outstanding borrowings under the Revolver. We had outstanding letters of credit and other commitments of $2.7 million, leaving $69.3 million available for borrowings and letters of credit.

We currently intend to pay quarterly dividends on our Class A and Class B common stock, subject to approval from the Board of Directors. Our Board of Directors declared a cash dividend of $0.12 per share on Class A and Class B common stock, payable on March 24, 2021. 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.

As of December 31, 2020, our cash and cash equivalents and short-term investments included $93.7 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

Contractual obligations

As of December 31, 2020, 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.

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 (loss) 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 (c) certain items that we consider to be unusual, non-operational 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.

Certain significant items

Adjusted EBITDA is 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 and 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 acquisition-related activities and business restructuring costs related to productivity and cost-saving initiatives, including employee separation costs, to be unusual items that we do 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 and/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 accounting policies require management to make difficult, subjective or complex judgments or estimates. In presenting our consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results that differ from our estimates and assumptions could have an unfavorable effect on our financial position and results of operations. Critical accounting policies include revenue recognition, business combinations, long-lived assets, goodwill, and income taxes.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are uncertain. The pandemic may affect our future sales, expenses, reserves and allowances, manufacturing operations and employee-related costs. The pandemic may have significant economic impacts on our customers, suppliers and markets where we compete and operate. New information may continue to emerge concerning COVID-19, and the actions required to contain or treat it may affect the duration and severity of the pandemic. Our financial statements include estimates of the effects of COVID-19 and there may be changes to those estimates in future periods.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "outlook," "potential," "project," "projection," "plan," "intend," "seek," "believe," "may," "could," "would," "will," "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:

- the negative effects of a pandemic, epidemic, or outbreak of an infectious disease in humans, such as COVID-19, on our business, financial results, manufacturing facilities and supply chain, as well as our customers and protein processors;

- 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;

- 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;
- outbreaks of animal diseases could significantly reduce demand for our products;
- 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 ability to successfully implement our strategic initiatives;
- our reliance on the continued operation of our manufacturing facilities and application of our intellectual property;
- adverse U.S. and international economic market conditions, including currency fluctuations;
- failure of our product approval, R&D, acquisition and licensing efforts to generate new products;
- the risks of product liability claims, legal proceedings and general litigation expenses;
- the impact of current and future laws and regulatory changes;
- modification of foreign trade policy may harm our food animal product customers
- 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 our 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.” 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 and interest rate swaps as a means of hedging exposure to foreign currency risks and fluctuating interest rates, respectively. We do not utilize derivative instruments for trading or speculative purposes. We do not hedge our exposure to market risks in a manner that 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 and foreign currency exchange rates, 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. As of the date of this report, 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 December 31, 2020, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting, as described in Management’s Report on Internal Control over Financial Reporting in “Item 9A. Controls and Procedures” in the Annual Report.

Material Weakness Remediation Efforts

We continue to make further progress in implementing a broad range of changes to our internal control over financial reporting to remediate the material weaknesses described in "Item 9A. Controls and Procedures" in the Annual Report. Our actions to address the material weaknesses have included the design and implementation of additional formal accounting policies and procedures to ensure transactions are properly initiated, recorded, processed, reported, appropriately authorized and approved. Also, our efforts to ensure maintenance of the appropriate level of segregation of duties includes restricting access to key financial systems and records to appropriate users. We continue to make improvements by reducing the number of segregation of duties conflicts and continue to evaluate the extent it is necessary to limit access and modify responsibilities of certain personnel, as well as designing and implementing additional user access controls and compensating controls. We have completed a gap analysis of our key controls. In completing this analysis, we identified areas where new controls were needed and enhancements to existing controls, policies and procedures need to be made. Through this analysis, we have developed a plan for remediation of our material weaknesses. We are executing our remediation plan by enhancing and supplementing the finance team through an increased number of roles, reassigning responsibilities, enhancing key financial systems and adding additional resources with an appropriate level of knowledge and experience in internal control over financial reporting commensurate with our financial reporting requirements. 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 internal control over financial reporting during the three months ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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6. Exhibits

Exhibit 31.1	Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 31.2	Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 32.1	Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 32.2	Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 101 .INS*	XBRL Instance Document
Exhibit 101.SCH*	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* 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.

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

February 3, 2021	By: /s/ Jack C. Bendheim Jack C. Bendheim Chairman, President and Chief Executive Officer
February 3, 2021	By: /s/ Damian Finio Damian Finio Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Jack C. Bendheim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 3, 2021

/s/ Jack C. Bendheim
Jack C. Bendheim
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Damian Finio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 3, 2021

/s/ Damian Finio
Damian Finio
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: February 3, 2021

/s/ Jack C. Bendheim
Jack C. Bendheim
Chairman, President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: February 3, 2021	/s/ Damian Finio
	Damian Finio
	Chief Financial Officer