PHILIPP BROTHERS CHEMICALS INC
Form 10-Q
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

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 333-64641

Philipp Brothers Chemicals, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Yes |X| No |_|

Number of shares of each class of common stock outstanding as of March 31, 2002:

Class A Common Stock, $.10 par value: 12,600.00
Class B Common Stock, $.10 par value: 11,888.50

PHILIPP BROTHERS CHEMICALS, INC.

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This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the Company's Annual Report on Form 10-K for its fiscal year ended June 30, 2001 and/or throughout this Form 10-Q and in particular in Item 2 of Part I of this Form 10-Q under the caption "Certain Factors Affecting Future Operating Results." Unless the context otherwise requires, references in this report to the "Company" refers to the Company and/or one or more of its subsidiaries, as applicable.

PART I -- FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In Thousands)

	March 31,	June 30,

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,584	$ 14,845
Trade receivables, less allowance for doubtful accounts of $2,593 at March 31, 2002 and $2,369 at June 30, 2001	63,675	77,910
Other receivables	4,905	4,800
Inventories	98,269	83,796
Prepaid expenses and other current assets	17,704	17,448
TOTAL CURRENT ASSETS	199,137	198,799
PROPERTY, PLANT AND EQUIPMENT, net	96,730	102,323
INTANGIBLES	12,413	5,832
OTHER ASSETS	23,350	23,065
	$ 331,630	$ 330,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Cash overdraft	$ 5,808	$ 4,222
Loans payable to banks	43,922	28,463
Current portion of long-term debt	5,467	5,404
Accounts payable	50,126	51,304
Accrued expenses and other current liabilities	32,602	35,378
TOTAL CURRENT LIABILITIES	137,925	124,771
LONG-TERM DEBT	143,660	139,464
OTHER LIABILITIES	10,355	12,926
TOTAL LIABILITIES	291,940	277,161
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	54,673	48,980
Common stock	--	378
Common stock of subsidiary	95	95
TOTAL REDEEMABLE SECURITIES	54,768	49,453
STOCKHOLDERS' EQUITY:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	878	878
Retained earnings	(9,088)	9,741
Accumulated other comprehensive income (loss)		
gain on derivative instruments	542	--
currency translation adjustment	(7,933)	(7,737)
TOTAL STOCKHOLDERS' EQUITY	(15,078)	3,405

	$ 331,630	$ 330,019
	=========	=========

See notes to unaudited Condensed Consolidated Financial Statements.

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

(In Thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
NET SALES	$ 96,310	$ 103,802	$ 288,956	$ 259,
COST OF GOODS SOLD (2002 includes $4,783 of incremental depreciation for planned asset shutdown - See Note 2)	73,343	75,312	207,637	188,
GROSS PROFIT	22,967	28,490	81,319	71,
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	26,696	27,174	79,025	70,
OPERATING INCOME	(3,729)	1,316	2,294	
OTHER:				
Interest expense	4,609	5,183	13,926	13,
Interest (income)	(8)	16	(311)	(
Other expense, net	93	1,137	1,118	1,
LOSS BEFORE INCOME TAXES	(8,423)	(5,020)	(12,439)	(13,
PROVISION (BENEFIT) FOR INCOME TAXES	649	(1,171)	697	(4,
NET LOSS	(9,072)	(3,849)	(13,136)	(9,
OTHER COMPREHENSIVE INCOME (LOSS)-				
Gain on derivative instruments	109	(168)	542	
Change in currency translation adjustment	(984)	(3,955)	(196)	(4,
COMPREHENSIVE LOSS	$ (9,947)	$ (7,972)	$ (12,790)	$ (14,

See notes to unaudited Condensed Consolidated Financial Statements.

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the Three Months and Nine Months Ended March 31, 2002
(In Thousands)

	Preferred Stock	Common Stock		
	Series "A"	Class "A"	Class "B"	Paid-in Capital
BALANCE, JULY 1, 2001	$ 521	$ 1	$ 1	$ 878
Accretion of redeemable preferred securities to fair market value				
Dividends on Series B and C redeemable preferred stock				
Gain on derivative instruments				
Foreign currency translation adjustment				
Net loss				
BALANCE, SEPTEMBER 30, 2001	$ 521	$ 1	$ 1	$ 878
Accretion of redeemable preferred securities to fair market value				
Dividends on Series B and C redeemable preferred stock				
Gain on derivative instruments				
Foreign currency translation adjustment				
Net loss				
BALANCE, DECEMBER 31, 2001	$ 521	$ 1	$ 1	$ 878
Accretion of redeemable preferred securities to fair market value				

Dividends on Series B and C redeemable preferred stock				
Gain on derivative instruments				
Foreign currency translation adjustment				
Net loss				
BALANCE, MARCH 31, 2002	$ 521	$ 1	$ 1	$ 878

See notes to unaudited Condensed Consolidated Financial Statements.

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Nine Months Ended March 31, 2002 and 2001

(In Thousands)

	2002	2001
OPERATING ACTIVITIES:		
Net loss	$(13,136)	$ (9,586)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	17,159	10,256
Other	2,154	(2,038)
Changes in operating assets and liabilities net of effect of businesses acquired:		
Accounts receivable	13,199	1,138
Inventories	(16,152)	(1,202)
Prepaid expenses and other current assets	(2,038)	854
Other assets	(842)	(3,165)
Accounts payable	(1,450)	5,683
Accrued expenses and other current liabilities	1,520	(360)
NET CASH PROVIDED BY OPERATING ACTIVITIES	414	1,580
INVESTING ACTIVITIES:		
Capital expenditures	(8,665)	(10,326)
Acquisition of a business	(7,182)	(51,700)
Other investing	561	(457)
NET CASH USED IN INVESTING ACTIVITIES	(15,286)	(62,483)
FINANCING ACTIVITIES:		
Cash overdraft	1,481	3,344
Net increase in short-term debt	15,248	25,485

Proceeds from long-term debt	2,316	1,578
Proceeds from issuance of redeemable preferred stock	--	45,000
Payments of long-term debt	(4,324)	(836)
Other financing	--	(942)
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,721	73,629
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(110)	(45)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(261)	12,681
CASH AND CASH EQUIVALENTS at beginning of period	14,845	2,403
CASH AND CASH EQUIVALENTS at end of period	$ 14,584	$ 15,084

See notes to unaudited Condensed Consolidated Financial Statements.

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands)

1. General

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments, except for the incremental depreciation of $4,783 in 2002 for the planned asset shutdown - See Note 2) necessary to present fairly its financial position as of March 31, 2002 and its results of operations and cash flows for the three months and nine months ended March 31, 2002 and 2001.

The condensed consolidated balance sheet as of June 30, 2001 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Additionally, it should be noted that the accompanying condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting standards appropriate for interim financial statements. While the Company believes that the disclosures presented are adequate to make the information contained herein not misleading, it is suggested that these financial statements be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2001.

Certain prior year amounts in the accompanying condensed consolidated financial statements and related notes have been reclassified to conform to the fiscal 2002 presentation. Such reclassifications include a reclassification of freight income of $1,599 and $4,612 for the three months and nine months ended March 31, 2001, respectively, from selling, general and administrative expenses to net sales on the Condensed Consolidated Statements of Operations and Comprehensive Income, as a result of the adoption of the Emerging Issues Task Force Issue No. 00-10 "Accounting for Shipping and Handling Revenues and Costs."

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and No. 142 "Goodwill and Other Intangibles" ("SFAS No. 142"). SFAS No.

141 and No. 142 are effective for the Company on July 1, 2002. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The statement also establishes specific criteria for recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The statement requires that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least annually. The amortization period of intangible assets with finite lives will no longer be limited to forty years. The Company is currently assessing the impact of these statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 is effective for the Company on July 1, 2002. The statement establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company is currently assessing the impact of this statement.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 is effective for the Company on July 1, 2002. The statement addresses significant issues relating to the implementation of FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS No. 121"), and the development of a single accounting model, based on the framework established in FAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The Company is currently assessing the impact of this statement.

The results of operations for the three months and nine months ended March 31, 2002 and 2001 may not be indicative of results for the full year.

2. Risks and Uncertainties

Due to lower levels of economic activity and increased global competition, the Company believes that cash flows from operations and available borrowing arrangements may not provide sufficient working capital to operate the Company's existing business, to make budgeted capital expenditures, and to service interest and current principal coming due on outstanding debt over the ensuing 12 month period. Accordingly, the Company is considering the divestiture of certain business operations, reducing the level of capital expenditures, and initiating additional cost reduction programs to provide funds to meet future obligations on a timely basis. At March 31, 2002, the Company had $4,400 and $8,100 available on its domestic and foreign credit facilities, respectively, and is in compliance with its financial covenant requirements under these facilities.

The Company's Odda, Norway operation has suffered operating losses during fiscal 2001 and for the nine months ended March 31, 2002. Odda is included in the Industrial Chemicals segment and had third party revenues of $18,188 and $15,932, and operating losses (before the effect of the $4,783 incremental depreciation discussed below) of $4,399 and $3,195, for the nine month periods ended March 31, 2002 and 2001, respectively. The Company has initiated and completed a number of cost cutting and efficiency initiatives. However, continued competitive pricing pressures on Odda's primary products and increasing raw material and production costs have more than offset the favorable impact of initiatives undertaken to date. The Company has evaluated the future operation of Odda under a number of scenarios, ranging from ceasing production of certain products to a complete shutdown of the operation. During the third quarter of fiscal 2002 the Company decided to cease production of two of Odda's three primary products as of June 30, 2002, and focus its resources on the remaining product line. Third party revenues of the remaining product line were $9,647 for the nine months ended March 31, 2002. The decision to cease production of these two products requires the Company to accelerate the depreciation of the directly related property, plant, and equipment so these assets will be fully depreciated by June 30, 2002. This change in expected remaining useful life has increased depreciation and amortization by $4,783 for the three months and nine months ended March 31, 2002, with an additional charge to depreciation and amortization of $9,305 planned for the fourth quarter. The Company is also in negotiations with the government of Norway for certain financial assistance.

The Company has evaluated this decision to cease production of two products and the related estimated undiscounted future cash flows from the remaining product line under Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and For Long-lived Assets To Be Disposed Of" and believes no impairment of long-lived assets of Odda (with a carrying value of $18,946) exists at March 31, 2002.

The Company has a domestic net deferred tax asset of approximately $12,219 at March 31, 2002. The Company has incurred domestic losses in recent fiscal years; however, with the acquisition of the Pfizer animal health business and the sale of the Agtrol crop protection business in 2001, the Company had anticipated a return to profitability in fiscal 2002 and, accordingly, the Company has considered the deferred tax assets more likely than not of realization. As indicated previously, the Company has experienced lower levels of economic activity than anticipated across its global operations, including the United States. As a result, the Company currently anticipates a small domestic loss for fiscal 2002. As indicated above, significant cost reduction activities have already been undertaken in several domestic businesses to adjust the cost base to current levels of economic activity, and the Company anticipates domestic profitability for fiscal 2003 and beyond. Consequently, the Company continues to consider the deferred tax assets more likely than not of recovery and no valuation allowance has been provided. The Company's position will continue to be reassessed each reporting period in light of domestic operating performance.

3. Acquisition

On November 30, 2000, the Company purchased the animal health business of Pfizer, Inc. and certain of its subsidiaries ("Pfizer"). Under the terms of the purchase agreement, the Company is required to pay Pfizer contingent purchase price based on a percentage of future net revenues of a particular product. The term of the contingent payments is five years from November 30, 2000. The maximum contingent purchase price due under this arrangement is limited to $55,000, with a maximum annual payment of $12,000. Contingent purchase price paid will be allocated to related production equipment and product intangibles. The Company has recorded $7,469, allocated to related production equipment, and $7,249, related to product intangibles, under this arrangement as of March 31, 2002, of which $8,123 has been paid as of March 31, 2002. Under the terms of the agreement, the Company has elected to defer $5,682 of the payment until June 30, 2006. The deferred payment bears interest at an annual rate of 13%. In addition, the Company is required to pay Pfizer contingent purchase price up to a maximum of $10,000 over five years on other products based on certain gross profit levels of the medicated feed additives business. No amounts have been accrued under this arrangement.

(In Thousands)

The unaudited consolidated results of operations on a pro-forma basis as if such acquisition had occurred at the beginning of the nine-month period ended March 31, 2001 are as follows:

Net sales	$ 307,534
Net (loss) income	(10,413)

The impact of purchase accounting adjustments relating to the inventory acquired from Pfizer increased the loss before income taxes for the three months and nine months ended March 31, 2002 by $343 and $3,257, respectively, and for the three months and nine months ended March 31, 2001 by $4,601 and $5,682, respectively. Exclusive of these charges the loss before income taxes for the three months and nine months ended March 31, 2002 would have been $8,080 and $9,182,

respectively, and for the three months and nine months ended March 31, 2001 would have been $419 and $8,033, respectively.

4. Inventories

Inventories are valued at the lower of cost or market. Cost is principally determined using the first-in, first-out (FIFO) and average methods; however, certain subsidiaries of the Company use the last-in, first-out (LIFO) method for valuing inventories.

Inventories at March 31, 2002 and June 30, 2001 consist of the following:

	March 31, 2002	June 30, 2001
Raw materials	$30,028	$22,614
Work-in-process	3,722	4,257
Finished goods	64,519	56,925
Total inventory	$98,269	$83,796

5. Contingencies

a. Litigation

The Company's subsidiary, Phibro-Tech, Inc., has been named as a potentially responsible party ("PRP") in connection with an action commenced by the EPA, involving a third party fertilizer manufacturing site in South Carolina. Phibro-Tech, Inc. was also named as a PRP involving a third party site in California. Settlements have been reached in both of these actions and adequate reserves have been established.

The Company and its subsidiary, C.P. Chemicals, Inc., are involved in litigation alleging that operations at the Sewaren, New Jersey site have affected the adjoining owner's property. Active settlement discussions are taking place and at this time the Company does not believe there will be a material net cost to any settlement.

The Company and its subsidiaries are a party to a number of claims and lawsuits arising in the normal course of business, including patent infringement, product liability and governmental regulation concerning environmental and other matters. Certain of these actions seek damages in various amounts. All such claims are being contested, and the Company believes the resolution of these matters will not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

b. Environmental Remediation

The Company's domestic subsidiaries are subject to various federal, state and local environmental laws and regulations which govern the management of chemical wastes. The most significant regulation governing the Company's recycling activities is the Resource Conservation and Recovery Act of 1976 ("RCRA"). The Company has been issued final RCRA "Part B" permits to operate as hazardous waste treatment and storage facilities at its facilities in Santa Fe Springs, California; Garland, Texas; Joliet, Illinois; Sumter, South Carolina and Sewaren, New Jersey. The Company has ceased operations at its Union City, California facility. Costs for closure cannot be determined at this time.

On or about November 15, 2001, the Company was advised by the State of California that the State intended to file a civil complaint against the Company for alleged violations arising out of operations at the Santa Fe Springs, California facility. The Company is engaged in negotiations with the State of California at this time. The amount of any penalty that may be assessed cannot be determined at this time, but is not expected to be material.

On or about April 5, 2002, the Company was served, as a potentially responsible party, with an information request from the United States Environmental Protection Agency relating to a third party superfund site in Rhode Island. The Company is investigating the matter, which relates to events in the 1950's and 1960's.

In connection with applying for RCRA "Part B" permits, the Company has been required to perform extensive site investigations at certain of its operating facilities and inactive sites to identify possible contamination and to provide the regulatory authorities with plans and schedules for remediation. Some soil and groundwater contamination has been identified at several plant sites and will require corrective action over the next several years.

Based upon information available, the Company estimates the cost of further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third party sites to be approximately $1,349 as of March 31, 2002, which is included in current and long-term liabilities.

6. Business Segments

The Company has four reportable segments--Animal Health and Nutrition, Industrial Chemicals, Distribution, and All Other. The Company previously reported two reportable segments - Agchem and Industrial Chemicals; however, due principally to organizational changes during fiscal 2001, including those associated with the acquisition of the animal health business from Pfizer and the sale of the Agtrol crop protection business, segment reporting was revised at June 30, 2001. Prior period segment information has been revised to conform to the fiscal 2002 segment presentation. Reportable segments have been determined primarily on the basis of the nature of products and services and certain similar operating units have been aggregated. The Company's Animal Health and Nutrition segment manufactures and markets a broad range of feed additive products including trace minerals, anticoccidials, antibiotics, vitamins, vitamin premixes, and other animal health products. The Company's Industrial Chemicals segment manufactures and markets pigments and other mineral products which include copper oxide, which is produced by the Company's recycling operation, mineral oxides, and alkaline etchants. The Company's Distribution segment markets and distributes a variety of industrial, specialty and fine organic chemicals, and intermediates produced by others. The Company's All Other segment manufactures and markets a variety of specialty custom chemicals and copper-based fungicides, as well as providing management and recycling of coal combustion residues.

Segment data for the three and nine months ended March 31, 2002 and 2001 are as follows:

	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Three Months Ended March 31, 2002				
Revenues -external customers	$ 59,378	$ 19,249	$ 8,326	$ 9
-intersegment	874	3,590	658	
Total revenues	$ 60,252	$ 22,839	$ 8,984	$ 9
Operating income/(loss)	$ 6,246	$ (6,067)	$ 635	$

	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Three Months Ended March 31, 2001				
Revenues -external customers	$ 58,545	$ 20,001	$ 11,141	$ 14
-intersegment	1,622	5,775	500	
Total revenues	$ 60,167	$ 25,776	$ 11,641	$ 14
Operating income/(loss)	$ 4,614	$ (397)	$ 1,119	$ (1

	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth

Nine Months Ended March 31, 2002				
Revenues -external customers	$180,477	$ 53,988	$ 26,144	$ 28
-intersegment	3,141	11,730	1,654	
Total revenues	$183,618	$ 65,718	$ 27,798	$ 28
Operating income/(loss)	$ 23,870	$(12,809)	$ 2,224	$

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In Thousands)

	Animal Health & Nutrition	Industrial Chemicals	Distribution	Al Oth
Nine Months Ended March 31, 2001				
Revenues -external customers	$135,755	$ 56,638	$ 32,513	$ 35
-intersegment	3,896	15,643	1,415	
Total revenues	$139,651	$ 72,281	$ 33,928	$ 35
Operating income/(loss)	$ 11,107	$ (797)	$ 2,964	$ (5

7. Divestitures

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm, Inc. ("Nufarm"), the U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. The sales included inventory and intangible assets to Nufarm and did not include plant, equipment, or other manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant for five years, and from its Bordeaux, France plant for three years. On December 24, 2001, the Company transferred certain receivables and rebate liabilities, at net carrying value, from Agtrol U.S. sales prior to May 1, 2001, to Nufarm, with no recourse.

Revenues and operating losses relating to the Agtrol business amounted to $10,673 and $1,501, respectively, for the three months ended March 31, 2001, and $23,947 and $5,473, respectively, for the nine months ended March 31, 2001.

8. Condensed Consolidating Financial Statements

In June 1998, the Company issued $100 million of 9 7/8% Senior Subordinated Notes due 2008 (the "Notes"). In connection with the issuance of these Notes, the Company's U.S. Subsidiaries fully and unconditionally guaranteed such Notes on a joint and several basis. Foreign subsidiaries do not presently guarantee the Notes.

The following condensed consolidating financial data summarizes the assets, liabilities and results of operations and cash flows of the Parent, Guarantor Subsidiaries and Non-Guarantor Subsidiaries. The Parent is Philipp Brothers Chemicals, Inc. ("PBC"). The U.S. Guarantor Subsidiaries include all domestic subsidiaries of PBC including the following: C.P. Chemicals, Inc., Phibro-Tech, Inc., Mineral Resource Technologies, Inc., Prince Agriproducts, Inc., The Prince Manufacturing Company (PA), The Prince Manufacturing Company (IL), PhibroChem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc. and Phibro Animal Health U.S., Inc. The U.S. Guarantor and Foreign Non-Guarantor Subsidiaries are directly or indirectly wholly owned as to voting stock by PBC.

Investments in subsidiaries are accounted for by the Parent using the equity method. Income tax expense (benefit) is allocated among the consolidating entities based upon taxable income (loss) by jurisdiction within each group.

The principal consolidation adjustments are to eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements of the U.S. Guarantor Subsidiaries and the Non-Guarantor Subsidiaries are not presented because such financial statements would not be material to investors.

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
As of March 31, 2002
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Assets			
Current Assets:			
Cash and cash equivalents	$ 1,942	$ 538	$ 12,104
Trade receivables	3,301	25,070	35,304
Other receivables	1,056	1,502	2,347
Inventory	2,935	45,790	49,544
Prepaid expenses and other	4,089	3,771	9,844
Total current assets	13,323	76,671	109,143
Property, plant & equipment, net	438	30,109	66,183
Intangibles	32	1,771	10,610
Investment in subsidiaries	48,766	2,258	(6,854
Intercompany	74,168	(31,414)	(8,460
Other assets	92,971	(71,283)	1,662
Total assets	$ 229,698	$ 8,112	$ 172,284

Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	$ --	$ 5,808	$ --
Loan payable to banks	40,564	--	3,358
Current portion of long term debt	2,540	461	2,466
Accounts payable	648	24,637	24,841
Accrued expenses and other	8,704	7,446	16,452
Total current liabilities	52,456	38,352	47,117
Long term debt	127,732	(69,452)	119,674
Other liabilities	2,187	4,804	3,364
Redeemable securities:			
Series B and C preferred stock	54,673	--	--
Common stock	481	--	(481
Common stock of subsidiary	--	95	--
	55,154	95	(481
Stockholders' Equity			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,041	--
Retained earnings	(9,088)	210	9,887
Accumulated other comprehensive income (loss)- gain on derivative instruments	--	--	542
currency translation adjustment	(144)	30	(7,819
Total stockholders' equity	(7,831)	34,313	2,610
Total liabilities and equity	$ 229,698	$ 8,112	$ 172,284

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PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Three Months Ended March 31, 2002
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Net sales	$ 6,337	$ 53,002	$ 44,308
Cost of goods sold	5,034	36,663	38,983
Gross profit	1,303	16,339	5,325
Selling, general, and			

administrative expenses	4,402	14,036	8,258
Operating (loss) income	(3,099)	2,303	(2,933)
Interest expense	574	427	3,608
Interest income	(5)	--	(3)
Other (income) expense	6	(79)	166
Intercompany allocation	(4,843)	4,843	--
Loss relating to subsidiaries	8,578	--	--
(Loss) income before income taxes	(7,409)	(2,888)	(6,704)
Provision (benefit) for income taxes	1,663	(1,049)	35
Net (loss) income	$ (9,072)	$ (1,839)	$ (6,739)

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PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Nine Months Ended March 31, 2002
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Net sales	$ 19,516	$ 160,863	$ 129,706
Cost of goods sold	15,431	110,578	102,757
Gross profit	4,085	50,285	26,949
Selling, general, and administrative expenses	12,259	41,255	25,511
Operating (loss) income	(8,174)	9,030	1,438
Interest expense	1,769	1,995	10,162
Interest income	(15)	--	(296
Other (income) expense	(298)	(72)	1,488
Intercompany allocation	(9,778)	9,778	--
Loss relating to subsidiaries	11,901	--	--
(Loss) income before income taxes	(11,753)	(2,671)	(9,916
Provision (benefit) for income taxes	1,383	(185)	(501
Net (loss) income	$ (13,136)	$ (2,486)	$ (9,415

PHILIPP BROTHERS CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the Nine Months Ended March 31, 2002
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Operating activities:			
Net (loss) income	$(13,136)	$ (2,486)	$ (9,415)
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:			
Depreciation and amortization	795	3,986	12,378
Other	(594)	136	2,612
Changes in operating assets and liabilities net of effect of business acquired:			
Accounts receivable	1,278	6,163	5,758
Inventory	318	(3,521)	(12,949)
Prepaid expenses and other	892	(909)	(2,021)
Other assets	260	(838)	(264)
Intercompany	(4,443)	3,675	12,669
Accounts payable	(1,095)	343	(698)
Accrued expenses and other	902	(5,130)	5,748
Net cash (used in) provided by operating activities	(14,823)	1,419	13,818
Investing activities:			
Capital expenditures	(74)	(3,918)	(4,673)
Acquisition of a business	--	--	(7,182)
Other investing	--	412	149
Net cash used in investing activities	(74)	(3,506)	(11,706)
Financing activities:			
Cash overdraft	(13)	1,494	--
Net increase (decrease) in short term debt	16,093	--	(845)
Proceeds from long term debt	2,000	316	--
Payments of long term debt	(2,533)	(395)	(1,396)
Net cash provided by (used in) financing activities	15,547	1,415	(2,241)
Effect of exchange rate changes on cash	--	--	(110)
Net increase (decrease) in			

cash and cash equivalents	650	(672)	(239)
Cash and cash equivalents at beginning of period	1,292	1,210	12,343
Cash and cash equivalents at end of period	$ 1,942	$ 538	$ 12,104

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PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
As of June 30, 2001
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Assets			
Current Assets:			
Cash and cash equivalents	$ 1,292	$ 1,210	$ 12,343
Trade receivables	4,624	32,291	40,995
Other receivables	791	1,913	2,096
Inventory	2,715	44,050	37,031
Prepaid expenses and other	5,461	2,745	9,242
Total current assets	14,883	82,209	101,707
Property, plant & equipment, net	626	30,143	71,554
Intangibles	87	1,915	3,830
Investment in subsidiaries	63,490	1,542	(6,138
Intercompany	54,322	(22,808)	3,852
Other assets	93,466	(71,571)	1,170
Total assets	$ 226,874	$ 21,430	$ 175,975
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	$ 13	$ 4,209	$ --
Loan payable to banks	24,471	--	3,992
Current portion of long term debt	2,541	493	2,370
Accounts payable	1,743	23,359	26,202
Accrued expenses and other	7,859	11,780	15,739
Total current liabilities	36,627	39,841	48,303
Long term debt	127,263	(60,654)	108,221
Other liabilities	2,129	5,731	5,066
Redeemable securities:			
Series B and C preferred stock	48,980	--	--

Common stock	877	--	(499
Common stock of subsidiary	--	95	--
	49,857	95	(499
Stockholders' Equity			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,041	--
Retained earnings	9,741	2,325	22,496
Accumulated other comprehensive (loss) income-currency translation adjustment	(144)	19	(7,612
Total stockholders' equity	10,998	36,417	14,884
Total liabilities and equity	$ 226,874	$ 21,430	$ 175,975

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PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Three Months Ended March 31, 2001
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Net sales	$ 8,814	$ 60,537	$ 50,888
Cost of goods sold	7,156	43,864	40,729
Gross profit	1,658	16,673	10,159
Selling, general, and administrative expenses	4,180	15,392	7,602
Operating (loss) income	(2,522)	1,281	2,557
Interest expense	3,639	(71)	1,615
Interest (income)	(5)	(9)	30
Other expense	29	340	768
Intercompany allocation	(4,699)	2,991	1,708
Loss relating to subsidiaries	2,445	--	--
(Loss) income before income taxes	(3,931)	(1,970)	(1,564
Benefit for income taxes	(82)	(471)	(618

Net (loss) income	$ (3,849)	$ (1,499)	$ (946

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Nine Months Ended March 31, 2001
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiarie Non-Guaranto
Net sales	$ 25,483	$ 152,344	$ 114,376
Cost of goods sold	20,603	108,471	92,100
Gross profit	4,880	43,873	22,276
Selling, general, and administrative expenses	11,209	41,383	18,103
Operating (loss) income	(6,329)	2,490	4,173
Interest expense	8,882	(10)	4,330
Interest income	(49)	(10)	(328
Other expense	150	336	748
Intercompany allocation	(11,594)	9,500	2,094
Loss relating to subsidiaries	6,062	--	--
(Loss) income before income taxes	(9,780)	(7,326)	(2,671
Benefit for income taxes	(194)	(2,490)	(1,445
Net (loss) income	$ (9,586)	$ (4,836)	$ (1,226

PHILIPP BROTHERS CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the Nine Months Ended March 31, 2001
(In Thousands)

	U.S. Guarantor	Foreign Subsidiarie

	Parent	Subsidiaries	Non-Guaranto
Operating activities:			
Net (loss) income	$ (9,586)	$ (4,836)	$ (1,226)
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:			
Depreciation and amortization	528	3,805	5,923
Other	(878)	320	(1,480)
Changes in operating assets and liabilities net of effect of business acquired:			
Accounts receivable	920	8,255	(8,037)
Inventory	280	(9,834)	8,352
Prepaid expenses and other	(434)	2,910	(1,622)
Other assets	(918)	(2,286)	39
Intercompany	(3,517)	4,116	5,463
Accounts payable	1,532	573	3,578
Accrued expenses and other	(2,476)	1,491	625
Net cash (used in) provided by operating activities	(14,549)	4,514	11,615
Investing activities:			
Capital expenditures	(236)	(6,845)	(3,245)
Acquisition of a business	(51,700)	--	--
Other investing	--	--	(457)
Net cash used in investing activities	(51,936)	(6,845)	(3,702)
Financing activities:			
Cash overdraft	(145)	3,489	--
Net decrease in short term debt	24,592	--	893
Proceeds from long term debt	--	26	1,552
Proceeds from issuance of redeemable preferred stock	45,000	--	--
Payments of long term debt	(24)	(806)	(6)
Other financing	(942)	--	--
Net cash provided by financing activities	68,481	2,709	2,439
Effect of exchange rate changes on cash	--	(4)	(41)
Net increase in cash and cash equivalents	1,996	374	10,311
Cash and cash equivalents at beginning of period	11	99	2,293
Cash and cash equivalents at end of period	$ 2,007	$ 473	$ 12,604

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

General

The Company is a leading diversified global manufacturer and marketer of a broad range of specialty agricultural and industrial chemicals, which are sold world-wide for use in numerous markets, including animal health and nutrition, agriculture, pharmaceutical, electronics, wood treatment, glass, construction and concrete. The Company also provides recycling and hazardous waste services primarily to the electronics and metal treatment industries.

The Company has four operating segments--Animal Health and Nutrition, Industrial Chemicals, Distribution and All Other. The Company previously reported two operating segments--Agchem and Industrial Chemicals. Due to organizational changes during fiscal 2001, including those associated with the acquisition of the animal health business from Pfizer and the sale of the Agtrol crop protection business, segment reporting was revised as of June 30, 2001. Prior period segment information has been revised to conform to the fiscal 2002 segment presentation.

On November 30, 2000, the Company purchased the animal health business of Pfizer, Inc. ("Pfizer"). The operating results of this business, now called Phibro Animal Health, ("PAH"), are included in the Company's consolidated statements of operations from the date of acquisition and are included in the Animal Health and Nutrition segment.

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm, Inc. ("Nufarm"), a U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. Agtrol developed, manufactured and marketed crop protection products, including copper fungicides. The sale included inventory and intangible assets to Nufarm but did not include plant, equipment, or other manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant for five years, and from its Bordeaux, France plant for three years. On December 24, 2001, the Company transferred certain receivables and rebate liabilities, at net carrying value, from Agtrol U.S. sales prior to May 1, 2001, to Nufarm, with no recourse. The operating results of Agtrol are included in the Company's consolidated statements of operations up to the date of disposition and are included in the All Other segment.

The Company's Odda, Norway operation has suffered operating losses during fiscal 2001 and for the nine months ended March 31, 2002. Odda is included in the Industrial Chemicals segment and had third party revenues of $18.2 and $15.9 million, and operating losses (before the effect of the $4.8 million incremental depreciation discussed below) of $4.4 and $3.2 million for the nine month periods ended March 31, 2002 and 2001, respectively. The Company has initiated and completed a number of cost cutting and efficiency initiatives. However, continued competitive pricing pressures on Odda's primary products and increasing raw material and production costs have more than offset the favorable impact of initiatives undertaken to date. The Company has evaluated the future operation of Odda under a number of scenarios, ranging from ceasing production of certain products to a complete shutdown of the operation. During the third quarter of fiscal 2002 the Company decided to cease production of two of Odda's three primary products as of June 30, 2002, and focus its resources on the remaining product line. Third party revenues of the remaining product line were

$9.6 million for the nine months ended March 31, 2002. The decision to cease production of these two products requires the Company to accelerate the depreciation of the directly related property, plant, and equipment so these assets will be fully depreciated by June 30, 2002. This change in expected remaining useful life has increased depreciation and amortization by $4.8 million for the three months and nine months ended March 31, 2002, with an additional charge to depreciation and amortization of $9.3 million planned for the fourth quarter. The Company is also in negotiations with the government of Norway for certain financial assistance.

The Company has evaluated this decision to cease production of two products and the related estimated undiscounted future cash flows from the remaining product line under Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and For Long-lived Assets To Be Disposed Of" and believes no impairment of long-lived assets of Odda (with a carrying value of $18,946) exists at March 31, 2002.

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Results of Operations

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	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Operating Segments		
Animal Health and Nutrition	$ 60,252	$ 60,167
Industrial Chemicals	22,839	25,776
Distribution	8,984	11,641
All Other	9,444	14,115
Elimination of intersegment sales	(5,209)	(7,897)
	$ 96,310	$ 103,802

Operating I
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	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Operating Segments		
Animal Health and Nutrition	$ 6,246	$ 4,614
Industrial Chemicals	(6,067)	(397)
Distribution	635	1,119
All Other	(750)	(1,744)
Corporate expenses and eliminations	(3,793)	(2,276)
	$ (3,729)	$ 1,316

Comparison of Three Months Ended March 31, 2002 and 2001

Net Sales. Net sales decreased by $7.5 million, or 7%, to $96.3 million in the three months ended March, 2002, as compared to the same period of the prior year. The decrease was primarily due to the sale of the Company's Agtrol operations and lower average selling prices.

The Animal Health and Nutrition segment's net sales were $60.3 million for the three months ended March 31, 2002, approximately the same as the prior period. Higher unit volumes and product mix changes increased sales approximately 7% during the period and were offset by lower average selling prices and inter segment sales of approximately the same percent.

The Industrial Chemicals segment's net sales decreased by $2.9 million, or 11%, to $22.8 million in the three months ended March 31, 2002 as compared to the prior period. Sales by the Company's Phibro-Tech subsidiary were down by $2.1 million due to volume declines related to the printed circuit board industry. The Company's Odda subsidiary reduced revenues by $1.1 million due to lower shipments of Carbide and Dicyandiamide offset by increased shipments of CY-50 product. Higher shipments of mineral oxide products partially offset the decrease. Included in the sales decreases were lower inter segment sales of approximately $2.2 million.

Net sales for the Distribution segment decreased by $2.7 million, or 23%, to $9.0 million in 2002, as compared to the prior period. The net sales decrease was due to lower unit volumes and product mix changes of $2.5 million and also lower average selling prices of $.2 million. Declines in the segment's cyanide, carbide, dicyandiamide and DL panthenol products occurred during the quarter of this fiscal year as compared to the prior year period.

Net sales for the All Other segment decreased by $4.7 million, or 33%, to $9.4 million in 2002, as compared to the prior period. Approximately $4.9 million of this decrease related to lower sales of crop protection chemicals. The Company's Agtrol crop protection business was sold during the fourth quarter of fiscal 2001 and sales of certain crop protection chemicals are currently being made under supply agreements to Nufarm. Excluding Agtrol, sales for the segment in 2002 were $.2 million above the prior year, primarily due to improved average selling prices in the Company's fly ash business.

Gross Profit. Gross profit decreased by $5.5 million, or 19%, to $23.0 million in the three months ended March 31, 2002, as compared to the prior period. A charge of $4.8 million was recorded in the third quarter for the acceleration of depreciation related to the Company's decision to cease production of two products at the Company's Odda facility. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of $.4 million and $4.6 million for the three months ended March 31, 2002 and, respectively. Excluding the purchase accounting adjustments, gross profit declined by approximately $.8 million in the Animal Health segment primarily due to lower average selling prices. The Industrial Chemicals segment declined primarily due to lower production volumes and ERS revenues at the Company's Phibro-Tech facilities ($.9 million) and lower profits at the Company's Odda facility ($.8 million) offset in part by higher sales of mineral products ($.3 million). The Distribution segment declined $.6 million primarily as a result of lower unit volume. Gross profit declined in the All Other segment due to sales of crop protection products sold to Nufarm under a supply agreement in the current period as opposed to higher margin sales to third parties in the prior period of $1.9 million offset by improved performance at the Company's fly ash operations ($.5 million). Elimination of inter-company profit in inventory accounted for the balance of the decrease.

Selling, General and Administrative Expenses. Costs decreased by $.5 million to $26.7 million in 2002, as compared to the prior period. Excluding Agtrol, costs were up approximately $2.7 million. Costs increased by $.9 million over the prior period at PAH due to increased staffing levels, advertising and research and development costs associated with the transition of operations from Pfizer. In addition, costs increased due to higher warehousing, and distribution costs primarily relating to sales growth in the Company's fly ash business ($.7 million). The prior period included a $1.1 million non-cash gain to reflect the decrease in repurchase value of redeemable common stock of a minority shareholder; no amount was recorded in the current period.

Operating Income (Loss). Operating income decreased by $5.0 million to a loss of $3.7 million in 2002, as compared to the prior period. The Animal Health and Nutrition segment, after the exclusion of purchase accounting adjustments, decreased due to lower margins and increased overhead spending. Operating income, excluding the accelerated depreciation at Odda, declined in the Industrial Chemicals segment primarily due to lower sales and production volumes. The Company is implementing cost reduction programs and other initiatives with respect to Phibro-Tech's copper related businesses in reaction to current market conditions in the printed circuit board industry. The improvement in operating income of the All Other segment is primarily the result of the sale of Agtrol as the Company is no longer materially impacted by the seasonal nature of the crop protection business. The Distribution segment decreased compared to the prior year primarily due to sales volume declines.

Interest Expense, Net. Costs decreased by $.6 million or 12% to $4.6 million for the three months ended March 31, 2002 as compared to the prior period primarily due to lower interest rates and lower average borrowing levels associated with the Company's revolving credit agreement.

Other Expense, Net. Other expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries (principally Norwegian Kroner and the Israeli Shekel).

Income Taxes. The Company provides a benefit on interim period losses as it is anticipated that future earnings can be utilized to offset the tax benefit recorded in the current year. The effective tax rate differs from the U.S. statutory rate due to the relationship of each domestic and international subsidiary's individual income or loss position to the statutory tax rates in each country.

Comparison of Nine Months Ended March 31, 2002 and 2001

Net Sales. Net sales increased by $29.0 million, or 11%, to $289.0 million in the nine months ended March 31, 2002, as compared to same period of the prior year. The increase was primarily due to the purchase of the PAH business offset in part by the sale of the Company's Agtrol operations.

The Animal Health and Nutrition segment's net sales increased by $44.0 million, or 31%, to $183.6 million in the nine months ended March 31, 2002, as compared to the prior period. The net sales increase was due to increased unit volume primarily as a result of the PAH purchase. Excluding PAH, sales for the segment in 2001 were $2.2 million above the prior year primarily due to higher unit volume sales of vitamin, mineral and other pre-mix products at the Company's domestic facilities. This was offset in part by the adverse business climate in Israel and the discontinuation of sales of vitamin exports by the Company's Koffolk Israel operations.

The Industrial Chemicals segment's net sales decreased by $6.6 million, or 9%, to $65.7 million in the nine months ended March 31, 2002, as compared to the prior period. Sales by the Company's Phibro-Tech subsidiary were down by $7.1 million due to volume declines related to the printed circuit board industry. Higher unit volume sales, offset in part by lower average selling prices, at the Company's Odda subsidiary increased revenues by $1.1 million and partially offset the decrease. Lower sales of iron and manganese oxides accounted for the balance of the change.

Net sales for the Distribution segment decreased by $6.1 million, or 18%, to $27.8 million in 2002, as compared to the prior period. The net sales decrease was primarily due to lower unit volumes and product mix changes of approximately $3.3 million and lower average selling prices, primarily carbide products, of $2.8 million. Declines in the segment's cyanide, carbide, dicyandiamide and DL panthenol products also occurred during nine month period of this fiscal year as compared to the prior year period.

Net sales for the All Other segment decreased by $6.6 million, or 19%, to $28.5 million in 2002, as compared to the prior period. Approximately $9.4 million of this decrease related to lower sales of crop protection chemicals. The Company's Agtrol crop protection business was sold during the fourth quarter of fiscal 2001 and sales of certain crop protection chemicals are currently being made under supply agreements to Nufarm. Excluding Agtrol, sales for the segment in 2001 were $2.8 million above the prior year. The Company's fly ash business increased by $1.8 million primarily due to increased volume as a result of additional contracts with utilities in Missouri and Michigan and improved average selling prices. Revenues of the Company's Wychem, U.K. operations improved by $1.0 million due to an increase in specialized lab projects and formulations.

Gross Profit. Gross profit increased by $10.3 million, or 14%, to $81.3 million in the nine months ended March 31, 2002, as compared to the prior period. The increase was primarily due to the purchase of the PAH business offset in part by lower production volumes at the Company's Phibro-Tech facilities and the sale of the Company's Agtrol operations. A charge of $4.8 million was recorded in the third quarter for the acceleration of depreciation related to the Company's decision to cease production of two products at the Company's Odda facility. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of $3.3 and $5.7 million for the nine months ended March 31, 2002 and 2001, respectively. Gross profit declined in the All Other segment due to sales of crop protection products sold to Nufarm under a supply agreement in the current period as opposed to higher margin sales to third parties in the prior period of $4.1 million offset by improved performance at the Company's fly ash operations of $1.6 million. Elimination of inter-company profit in inventory accounted for the balance of the decrease.

Selling, General and Administrative Expenses. Costs increased by $8.3 million to $79.0 million in 2002, as compared to the prior period. Excluding PAH and Agtrol, costs were up approximately $5.3 million principally due to management advisory fees to Palladium Equity Partners, LLC ($.9 million), higher warehousing and distribution primarily relating to sales growth in the Company's fly ash business ($1.5 million), higher depreciation and amortization ($.6 million) and environmental remediation ($.7 million). The prior period included an accrual for severance costs ($1.3 million) associated with the termination of employment of an executive of the Company. In addition, the prior period included a $2.3 million non-cash gain to reflect the decrease in repurchase value of redeemable common stock of a minority shareholder, as compared to the gain in the current period of $.4 million. Other general spending accounted for the balance of the increase.

Operating Income. Operating income increased by $2.0 million to $2.3 million in 2002, as compared to the prior period. The Animal Health and Nutrition segment increased due to the inclusion of PAH for the period. Operating income, excluding the accelerated depreciation at Odda, declined in the Industrial Chemicals segment primarily due to lower sales and production volumes. The Company is implementing cost reduction programs and other initiatives with respect to Phibro-Tech's copper related businesses in reaction to current market conditions in the printed circuit board industry. The improvement in operating income of the All Other segment is primarily the result of the sale of Agtrol as the Company is no longer materially impacted by the seasonal nature of the crop protection business. The Distribution segment was below the prior year primarily due to sales volume declines.

Interest Expense, Net. Costs increased by $.8 million or 6% to $13.6 million for the nine months ended March 31, 2002 as compared to the prior period primarily due to debt incurred in connection with the PAH acquisition and higher levels of average bank borrowings.

Other Expense, Net. Other expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries.

Income Taxes. The Company provides a benefit on interim period losses as it is anticipated that future earnings can be utilized to offset the tax benefit recorded in the current year. The effective tax rate differs from the U.S. statutory rate due to the relationship of each domestic and international subsidiary's individual income or loss position to the statutory tax rates in each country.

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Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the nine months ended March 31, 2002 was $.4 million. The increase in cash from the collection of receivables from the Company's crop protection business was offset by a planned increase in higher inventories at the PAH business unit. This build up of inventories is considered necessary to ensure an adequate availability of product as the Company continues to refine its supply chain and expand into new markets.

Net Cash Used by Investing Activities. Net cash used in investing activities for the nine months ended March 31, 2002 was $15.3 million. Capital expenditures of $8.7 million were mostly for maintaining the Company's existing asset base and for environmental, health and safety projects. The remainder of the net cash used by investing activities primarily relates to contingent purchase price payments from the PAH acquisition.

Net Cash Provided by Financing Activities. Net cash provided by financing activities totaled $14.7 million. Borrowings under the domestic revolving credit agreement were partially offset by paydowns of debt at several of the Company's international subsidiaries and a $2.5 million payment on long-term debt related to the PAH acquisition.

Liquidity. At March 31, 2002, working capital totaled $61.2 million compared to $74.0 million at the fiscal year end. Due to the nature and terms of the revolving credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lockbox arrangement, all borrowings against this facility are classified as a current liability. At March 31, 2002, the amount of credit extended under this agreement totaled $40.6 million and the Company had $4.4 million available under the borrowing base formula in this agreement. In addition, certain of the Company's foreign subsidiaries also had availability under their respective credit facilities totaling $8.1 million.

The Company anticipates spending approximately $12 million for capital expenditures in fiscal 2002, primarily to cover the Company's asset replacement needs, improve processes, and for environmental and regulatory compliance, subject to the availability of funds.

The Company's Odda subsidiary, with the concurrence of the Norwegian banks, has deferred a scheduled principal payment of $.6 million pending resolution of discussions with Odda's banks regarding the restructuring of these loans as a result of the partial shutdown of Odda's operations, and is also negotiating with the government of Norway for financial assistance. Philipp Brothers Chemicals, Inc. is the guarantor of this debt.

Due to lower levels of economic activity and increased global competition, the Company believes that cash flows from operations and available borrowing arrangements may not provide sufficient working capital to operate the Company's existing business, to make budgeted capital expenditures, and to service interest and current principal coming due on outstanding debt over the ensuing 12 month period. Accordingly, the Company is considering the divestiture of certain business operations and cost reduction programs to provide funds to meet future obligations on a timely basis.

Critical Accounting Policies

The Securities and Exchange Commission ("SEC") recently issued disclosure guidance for "critical accounting policies". The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company's significant accounting policies are described in Note 1 of the June 30, 2001 Annual Report on Form 10-K. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates.

Significant estimates underlying the accompanying consolidated financial statements include inventory valuation, allowance for doubtful accounts, useful lives of tangible and intangible assets and various other operating allowances and accruals.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No.

141") and No. 142 "Goodwill and Other Intangibles" ("SFAS No. 142"). SFAS No. 141 and No. 142 are effective for the Company on July 1, 2002. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The statement also establishes specific criteria for recognition of intangible assets separately from goodwill. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The statement requires that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least annually. The amortization period of intangible assets with finite lives will no longer be limited to forty years. The Company is currently assessing the impact of these statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 is effective for the Company on July 1, 2002. The statement establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company is currently assessing the impact of this statement.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 is effective for the Company on July 1, 2002. The statement addresses significant issues relating to the implementation of FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS No. 121"), and the development of a single accounting model, based on the framework established in FAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The Company is currently assessing the impact of this statement.

Seasonality of Business

Prior to the divestiture of the crop protection business, the Company's sales were typically highest in the fourth fiscal quarter due to the seasonal nature of the agricultural industry. With the sale of this business, as well as the acquisition of the non-seasonal PAH business, the Company's sales are expected to be less seasonal. However, some seasonality in the Company's results will remain as sales of certain industrial chemicals to the wood treatment industry as well as sales of coal fly ash are typically highest during the peak construction periods of the first and fourth fiscal quarters.

Quantitative and Qualitative Disclosure About Market Risk

For financial market risks related to changes in interest rates, foreign currency exchange rates and commodity prices, reference is made to Part II, Item 7, Quantitative and Qualitative Disclosure About Market Risk, in the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and to Note 13 to the Consolidated Financial Statements of the Company included therein.

Certain Factors Affecting Future Operating Results

This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include, among other factors noted herein, the following: the Company's substantial leverage and potential inability to service its debt; the Company's dependence on distributions from its subsidiaries; risks associated with the Company's international operations; the Company's ability to absorb and integrate into its existing operations the PAH acquisition referred to above; the Company's dependence on its Israeli operations; competition in each of the Company's markets; potential environmental liability; extensive regulation by numerous government authorities in the United States and other countries; significant cyclical price fluctuation for the principal raw materials used by the Company in the manufacture of its products; the Company's reliance on the continued operation and sufficiency of its manufacturing facilities; the Company's dependence upon unpatented trade secrets; the risks of legal proceedings and general litigation expenses; potential operating hazards and uninsured risks; the risk of work stoppages; the Company's dependence on key personnel; the uncertain impact of the Company's acquisition plans; and the seasonality of the Company's business.

Additional factors that might cause such a difference include the effect of current hostilities in Israel on the Company's Israeli operations, the potential need to make cost reduction programs and divestiture of certain business operations and the effect of such actions on consolidated results, and uncertainties with respect to the restructuring of the Company's Odda operations.

The Company has a domestic net deferred tax asset of approximately $12.2 million at March 31, 2002. The Company has incurred domestic losses in recent fiscal years; however, with the acquisition of the Pfizer Animal Health business and the sale of the Agtrol crop protection business in 2001, the Company had anticipated a return to profitability in fiscal 2002 and, accordingly, the Company had considered the deferred tax assets more likely than not of realization. As indicated previously, the Company has experienced lower levels of economic activity than anticipated across its global operations, including the United States. As a result, the Company currently anticipates a small domestic loss for fiscal 2002. As indicated above, significant cost reduction activities have already been undertaken in several domestic businesses to adjust the cost base to current levels of economic activity, and the Company anticipates domestic profitability for fiscal 2003 and beyond. Consequently, the Company continues to consider the deferred tax assets more likely than not of recovery and no valuation allowance has been provided. The Company's position will continue to be reassessed each reporting period in light of domestic operating performance.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Part I -- Item 2 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosure About Market Risk."

PART II -- OTHER INFORMATION

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit No.	Description

None.

(b) Reports on Form 8-K.

None.

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.

PHILIPP BROTHERS CHEMICALS, INC.

Date: May 14, 2002

By: /s/ DAVID C. STORBECK

David C. Storbeck
Chief Financial Officer

Date: May 14, 2002

By: /s/ JOSEPH KATZENSTEIN

Joseph Katzenstein, Treasurer
and Secretary