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PHILIPP BROTHERS CHEMICALS INC  
Form 10-Q  
May 15, 2001

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2001

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

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

New York  
(State or other jurisdiction  
of incorporation or organization)

13-1840497  
(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)

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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

Number of shares of each class of common stock outstanding as of May 1, 2001:

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

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PHILIPP BROTHERS CHEMICALS, INC.

## TABLE OF CONTENTS

	Page
	----
PART I FINANCIAL INFORMATION (UNAUDITED)	
Item 1. Condensed Financial Statements 3	
Condensed Consolidated Balance Sheets .....	4
Condensed Consolidated Statements of Operations and Comprehensive Income .....	5
Condensed Consolidated Statements of Changes in Stockholders' Equity .....	6
Condensed Consolidated Statements of Cash Flows .....	7
Notes to Condensed Consolidated Financial Statements .....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk .....	27
PART II OTHER INFORMATION	
Item 5. Other Information .....	28
Item 6. Exhibits and Reports on Form 8-K .....	28
SIGNATURES .....	29

2

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 throughout this Form 10-Q and are discussed 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

3

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)  
(In Thousands)

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March 31,  
2001

Assets

CURRENT ASSETS:

Cash and cash equivalents .....	\$ 15,084
Trade receivables, less allowance for doubtful accounts of \$869 at March 31, 2001 and \$756 at June 30, 2000 .....	79,626
Other receivables .....	4,829
Inventories .....	102,289
Prepaid expenses and other current assets .....	14,100
<b>TOTAL CURRENT ASSETS .....</b>	<b>215,928</b>
PROPERTY, PLANT AND EQUIPMENT, NET .....	98,204
INTANGIBLES .....	6,049
OTHER ASSETS .....	27,867

\$ 348,048

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Cash overdraft .....	\$ 4,805
Loans payable to banks .....	62,900
Current portion of long-term debt .....	3,639
Accounts payable .....	38,735
Accrued expenses and other current liabilities .....	36,367
<b>TOTAL CURRENT LIABILITIES .....</b>	<b>146,446</b>

LONG-TERM DEBT .....	131,690
OTHER LIABILITIES .....	10,478

**TOTAL LIABILITIES .....** 288,614

COMMITMENTS AND CONTINGENCIES

REDEEMABLE SECURITIES:

Series B and C preferred stock .....	47,250
Common stock .....	1,226
Common stock of subsidiary .....	95

**TOTAL REDEEMABLE SECURITIES .....** 48,571

STOCKHOLDERS' EQUITY:

Series A preferred stock .....	521
Common stock .....	2
Paid-in capital .....	878
Retained earnings .....	16,780
Accumulated other comprehensive loss .....	(7,318)

**TOTAL STOCKHOLDERS' EQUITY .....** 10,863

\$ 348,048

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,	
	2001	2000	2001	2000
	-----	-----	-----	-----
NET SALES .....	\$ 102,203	\$ 79,443	\$ 255,329	\$ 226,661
COST OF GOODS SOLD .....	75,312	57,934	188,912	163,992
	-----	-----	-----	-----
GROSS PROFIT .....	26,891	21,509	66,417	62,669
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES .....	25,575	18,856	66,083	55,887
	-----	-----	-----	-----
OPERATING INCOME .....	1,316	2,653	334	6,782
OTHER:				
Interest expense .....	5,183	3,777	13,202	10,765
Interest income .....	16	(292)	(387)	(467)
Other expense, net .....	1,137	743	1,234	2,778
Gain from property damage claim .....	--	(550)	--	(550)
Gain from sale of asset .....	--	(14,195)	--	(14,195)
	-----	-----	-----	-----
(LOSS) INCOME BEFORE INCOME TAXES .....	(5,020)	13,170	(13,715)	8,451
(BENEFIT) PROVISION FOR INCOME TAXES .....	(1,171)	3,687	(4,129)	1,699
	-----	-----	-----	-----
NET (LOSS) INCOME .....	(3,849)	9,483	(9,586)	6,752
OTHER COMPREHENSIVE (LOSS)				
Loss on derivative instruments .....	(168)	--	--	--
Change in foreign currency translation adjustment .....	(3,955)	(1,087)	(4,727)	(177)
	-----	-----	-----	-----
COMPREHENSIVE (LOSS) INCOME .....	\$ (7,972)	\$ 8,396	\$ (14,313)	\$ 6,575
	=====	=====	=====	=====

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, 2001  
 (In Thousands)

	Preferred Stock		Common Stock		Retained Earnings	Accumulated Comprehensive Income
	Series A	Class "A"	Class "B"	Paid-in Capital		
BALANCE,						
JULY 1, 2000 .....	\$ 521	\$ 1	\$ 1	\$ 878	\$ 32,808	\$
Foreign currency translation adjustment .....						
Net loss .....	--	--	--	--	(3,119)	--
BALANCE,						
SEPTEMBER 30, 2000 .....	\$ 521	\$ 1	\$ 1	\$ 878	\$ 29,689	\$
Accretion of redeemable preferred securities to fair market value .....	--	--	--	--	(4,192)	--
Dividends on series B and C redeemable preferred stock ..	--	--	--	--	(563)	--
Gain on derivative instruments .....	--	--	--	--	--	--
Foreign currency translation adjustment .....	--	--	--	--	--	--
Net loss .....	--	--	--	--	(2,618)	--
BALANCE,						
DECEMBER 31, 2000 .....	\$ 521	\$ 1	\$ 1	\$ 878	\$ 22,316	\$
Dividends on series B and C redeemable preferred stock ..	--	--	--	--	(1,687)	--
Loss on derivative instruments .....	--	--	--	--	--	--
Foreign currency translation adjustment .....	--	--	--	--	--	--
Net loss .....	--	--	--	--	(3,849)	--
BALANCE,						
MARCH 31, 2001 .....	\$ 521	\$ 1	\$ 1	\$ 878	\$ 16,780	\$

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, 2001 and 2000  
 (In Thousands)

	2001	2000
<b>OPERATING ACTIVITIES:</b>		
Net (loss) income .....	\$ (9,586)	\$ 6,752
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	10,256	9,223
Gain from property damage claim .....	--	(550)
Gain from sale of asset .....	--	(14,195)
Other .....	(2,038)	(3,258)
Changes in operating assets and liabilities:		
Accounts receivable .....	1,138	5,165
Inventories .....	(1,202)	(10,779)
Prepaid expenses and other current assets .....	854	184
Other assets .....	(3,165)	(805)
Accounts payable .....	5,683	(2,520)
Accrued expenses and other current liabilities .....	(360)	(8)
	1,580	(10,791)
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures .....	(10,326)	(13,921)
Acquisition of a business .....	(51,700)	--
Proceeds from property damage claim .....	--	872
Proceeds from sale of assets .....	37	18,700
Other investing .....	(494)	(3,000)
	(62,483)	2,651
<b>FINANCING ACTIVITIES:</b>		
Cash overdraft .....	3,344	1,845
Net increase in short-term debt .....	25,485	2,076
Proceeds from long-term debt .....	1,578	19,249
Proceeds from issuance of redeemable preferred stock .....	45,000	--
Payments of long-term debt .....	(836)	(11,414)
Other financing .....	(942)	62
	73,629	11,818
EFFECT OF EXCHANGE RATE CHANGES ON CASH .....	(45)	--
	12,681	3,678
CASH AND CASH EQUIVALENTS at beginning of period .....	2,403	2,308
	\$ 15,084	\$ 5,986

See notes to unaudited Condensed Consolidated Financial Statements

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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) necessary to present fairly the financial position as of March 31, 2001 and the results of operations and cash flows for the three months and nine months ended March 31, 2001 and 2000.

The condensed consolidated balance sheet as of June 30, 2000 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, 2000.

Certain prior year amounts in the accompanying condensed consolidated financial statements and related notes have been reclassified to conform to the fiscal 2001 presentation. Such reclassifications include a reclassification of customer rebates of \$1,132 and \$3,561 for the three months and nine months ended March 31, 2000, respectively, from selling, general and administrative expenses to net sales on the consolidated statements of operations and comprehensive income, as a result of the adoption of the Emerging Issues Task Force Issue No. 00-14 "Accounting for Certain Sales Incentives."

The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on July 1, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks and foreign currency options as a means of hedging forecasted operating costs. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing process, to hedge the cost of its anticipated production requirements. During the quarter ended March 31, 2001, the Company's foreign currency options have been designated and qualify as cash flow hedges under the criteria of SFAS 133. SFAS 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in other comprehensive income while the ineffective portion of the derivative's change in fair value be recognized immediately in earnings. The Company's foreign currency forward contracts and commodity derivatives did not meet the criteria of SFAS 133 to qualify for hedge accounting. SFAS 133 requires that unrealized gains and losses on derivatives not qualifying for hedge accounting be recognized currently in earnings. The cumulative effect of a change in accounting principle due to the adoption of SFAS 133 as of July 1, 2000 was not material. The Company recorded a net loss of \$168 in other comprehensive income for foreign currency options, a net loss of \$147 in cost of goods sold for commodity contracts and a net loss of \$567 in other expense for the foreign currency forward contracts and the ineffective portion of the option contracts for the three month period ended March 31, 2001 and net losses of \$0 and \$143 and a net gain of \$60, respectively, for the nine months ended March

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31, 2001.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition", which provides guidelines in applying generally accepted accounting principles to selected revenue recognition issues. In October 2000, the SEC issued an interpretive release to SAB 101, clarifying certain of its positions on revenue recognition. The SAB is effective in the fourth fiscal quarter of fiscal years beginning after December 15, 1999, or as of April 1, 2001 in the Company's case. The Company anticipates recording the effect of adoption of SAB 101 as a cumulative effect adjustment, retroactive to July 1, 2000, however, the Company continues to assess the impact of the SEC's interpretive release and the amount of the cumulative effect adjustment will not be known until the fourth fiscal quarter.

In October 2000, the Emerging Issues Task Force ("EITF") issued guidance on how to classify certain revenues and costs in a company's financial statements. EITF No. 00-10 "Accounting for Shipping and Handling Revenues and Costs" requires that companies classify all amounts billed to customers related to shipping and handling costs as revenue. This statement will be effective in the fourth fiscal quarter of fiscal years beginning after December 15, 1999 and is not expected to have any effect on the financial statements.

The results of operations for the three months and nine months ended March 31, 2001 and 2000 may not be indicative of results for the full year.

8

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

### 2. Acquisition

On November 30, 2000, the Company purchased the Medicated Feed Additives (MFA) business of Pfizer, Inc. and certain of its subsidiaries ("Pfizer"). The MFA business was a group of products within Pfizer's Animal Health Group. The business produces and sells a broad range of Medicated Feed Additive Products (MFAs) to the global livestock industry, either directly to large integrated livestock producers or through a network of independent distributors. The activities of the MFA business (production, sales and marketing, and finance) were integrated within Pfizer's Animal Health Group.

The purchase price of \$74,434 (including cost of acquisition) was paid with cash of \$51,700 and the issuance of a promissory note to Pfizer for \$22,734, which matures in 2003 with interest payable semi-annually in arrears at 13%. The purchase price continues to be subject to finalization based on certain working capital adjustments under the agreement. The Company financed the \$51,700 cash payment through the issuance of \$40,808 of redeemable preferred securities (\$45,000 of redeemable preferred securities, less costs connected with the issue of those securities of \$4,192), and the remainder was financed through an amendment to existing bank credit facilities. In addition, 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 and the Company accrued \$3,406 under this arrangement as of March 31, 2001. In addition, the Company is required to pay Pfizer contingent



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purchase price up to a maximum of \$10,000 over five years on other products based on certain gross profit levels of the MFA business. No amounts have been accrued under this arrangement.

The acquisition was accounted for in accordance with the purchase method and results of the MFA business have been included since the date of acquisition. The purchase price has been preliminarily allocated to inventory and property, plant, and equipment. Property, plant and equipment includes two facilities, Rixensart, Belgium and Guarulhols, Brazil. Following the closing, the Company is operating under a supply agreement with Pfizer in respect of the manufacturing facility in Belgium pending regulatory approval of the transfer of title. In addition, the transfer of employees in Belgium is also pending such regulatory approval and is also pending further negotiations of the settlement of the pensions. The Company expects the transfer of pension obligations to be fully funded by Pfizer. The final allocation of the purchase price and the determination of the useful lives of the long-term assets acquired will be based on an independent valuation to be completed prior to the Company's fiscal 2001 year end.

The unaudited consolidated results of operations on a pro-forma basis as if such acquisition had occurred at the beginning of the nine-month periods being reported are as follows.

	Nine Months Ended	
	March 31,	
	2001	2000
	-----	-----
Net sales	\$305,940	\$348,433
Net (loss) income	(10,243)	18,386

The impact of purchase price adjustments to the inventory acquired from Pfizer increased the net loss in 2001 by \$3,335.

### 3. 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, 2001 and June 30, 2000 consist of the following:

	March 31,	June 30,
	2001	2000
	-----	-----
Raw materials	\$ 27,117	\$21,457
Work-in-process	2,832	5,340
Finished goods	72,340	23,608
	-----	-----
	\$102,289	\$50,405
	=====	=====

### 4. Contingencies

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### 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. While the outcome of ongoing negotiation is uncertain, the Company has accrued its best estimate of the amount for which this matter can be settled. Phibro-Tech, Inc. has also been named as a PRP involving a third party site in California. The Company is not, at this time, in a position to assess the extent of liability associated with this site.

Phibro-Tech, Inc. has also been named as one of several defendants in a suit brought by Communities for a Better Environment in California, alleging violations under California's Proposition 65, the Safe Drinking Water and Toxic Enforcement Act, relating to its Santa Fe Springs, California facility. The Company is not, at this time, in a position to assess the extent of liability, if any.

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. The Company is not, at this time, in a position to assess the extent of any liability.

The Company and its subsidiaries are 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 management 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 also obtained an interim status RCRA permit for its Union City, California facility.

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, management 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 \$1,737 as of March 31, 2001, which is included in current and long-term liabilities.

### 5. Business Segments

The Company operates in two business segments: AgChem and Industrial Chemicals. The AgChem segment manufactures and markets a variety of animal

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nutrition and health products, copper based fungicides and growth regulators. The MFA business is included in the AgChem segment. The Industrial Chemicals segment manufactures and markets a number of specialty organic and inorganic intermediate chemicals for use in a broad variety of industrial chemical applications. The Company aggregates certain operating segments into its reportable segments. Management evaluates the performance of its operating segments and allocates resources based on operating income. Transfers between segments are priced at amounts that include a manufacturing profit except that transfers of \$2,751 and \$2,014 for the three months ended March 31, 2001 and 2000, respectively, and \$9,215 and \$6,157 for the nine months ended March 31, 2001 and 2000, respectively, from the Industrial

10

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

Chemicals group to the AgChem group are recorded at the cost of product transferred. Other includes corporate expenses and elimination of intersegment revenues.

	AgChem Group	Industrial Chemicals Group	Other	Total
	-----	-----	-----	-----
Three Months Ended March 31, 2001				
Revenues - external customers .....	\$ 68,049	\$ 34,154	\$ --	\$102,203
- intersegment .....	1,622	5,847	(7,469)	0
	-----	-----	-----	-----
Total revenues .....	\$ 69,671	\$ 40,001	\$ (7,469)	\$102,203
	=====	=====	=====	=====
Operating income (loss) .....	\$ 3,113	\$ 479	\$ (2,276) (1)	\$ 1,316
	=====	=====	=====	=====

-----  
 (1) Represents corporate expenses and intercompany profit eliminations.

	AgChem Group	Industrial Chemicals Group	Other	Total
	-----	-----	-----	-----
Three Months Ended March 31, 2000				
Revenues - external customers .....	\$43,892	\$35,551	\$ --	\$79,443
- intersegment .....	806	4,652	(5,458)	0
	-----	-----	-----	-----
Total revenues .....	\$44,698	\$40,203	\$(5,458)	\$79,443
	=====	=====	=====	=====
Operating income (loss) .....	\$ 2,989	\$ 1,842	\$(2,178) (2)	\$ 2,653
	=====	=====	=====	=====

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 (2) Represents corporate expenses and intercompany profit eliminations.

	AgChem Group	Industrial Chemicals Group	Other	Total
	-----	-----	-----	-----
Nine Months Ended March 31, 2001				
Revenues - external customers .....	\$156,272	\$ 99,057	\$--	\$255,329
- intersegment .....	3,896	18,025	(21,921)	0
	-----	-----	-----	-----
Total revenues .....	\$160,168	\$117,082	\$ (21,921)	\$255,329
	=====	=====	=====	=====
Operating income (loss) .....	\$ 5,634	\$ 2,257	\$ (7,557) (1)	\$ 334
	=====	=====	=====	=====

-----  
 (1) Represents corporate expenses and intercompany profit eliminations.

	AgChem Group	Industrial Chemicals Group	Other	Total
	-----	-----	-----	-----
Nine Months Ended March 31, 2000				
Revenues - external customers .....	\$122,573	\$104,088	\$ --	\$226,661
- intersegment .....	3,654	15,521	(19,175)	0
	-----	-----	-----	-----
Total revenues .....	\$126,227	\$119,609	\$ (19,175)	\$226,661
	=====	=====	=====	=====
Operating income (loss) .....	\$ 6,126	\$ 7,687	\$ (7,031) (2)	\$ 6,782
	=====	=====	=====	=====

-----  
 (2) Represents corporate expenses and intercompany profit eliminations.

6. Credit Facility

In connection with the MFA acquisition, the Company has amended its existing \$35,000 revolving credit facility with PNC Bank to increase the facility to \$70,000 and to provide for an additional \$15,000 facility for capital expenditure spending. The Company, under the amended credit agreement, may choose between two interest options: (i) base rate, as defined and

(ii) Euro Rate, as defined, plus 21/4% - 3% per annum, depending on the Company's operating performance and whether the drawdowns are under the

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revolving credit facility or the capital expenditure facility. The facilities have a maturity date of three years from December 1, 2000 and required the grant of security interests in substantially all the Company's domestic assets as well as certain of the capital stock of the Company's foreign subsidiaries. Due to the nature and terms of the amended credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lock box arrangement, all borrowings against this facility are now classified as a current liability.

### 7. Redeemable Preferred Stock

Redeemable preferred securities were issued on November 30, 2000 to Palladium Equity Partners LLC and related entities ("Palladium") as follows:

Preferred B - \$25,000 - 25,000 shares

Preferred C - \$20,000 - 20,000 shares

The redeemable preferred stock is entitled to cumulative cash dividends, payable semi-annually, at 15% per annum of the liquidation value. The liquidation value of the Preferred B stock is an amount equal to \$1 per share plus all accrued and unpaid dividends (the "Liquidation Value"). The redeemable Preferred C stock is entitled to the Liquidation Value plus a percentage of the equity value of the Company, as defined in the amended Certificate of Incorporation. The equity value is calculated as a multiple of the earnings before interest, tax, depreciation and amortization ("EBITDA") of the combined Company business ("Equity Value"). The Company may, at the date of the annual closing anniversary, redeem the Preferred B stock, in whole or in part at the Liquidation Value, for cash, provided that if Preferred B is redeemed separately from the Preferred C, then the Preferred B must be redeemed for the Liquidation Value plus an additional amount which would generate an internal rate of return of 20% to Palladium on the Preferred B investment. Redemption in part of Preferred B is only available if at least 50% of the outstanding Preferred B is redeemed. On the third closing anniversary and on each closing anniversary thereafter, the Company may redeem for cash only in whole the Preferred C, at the Liquidation Value plus the Equity Value payment.

At any time after the redemption of the Company's Senior Subordinated Notes due 2008, Palladium shall have the right to require the Company to redeem for cash the Preferred B at the Liquidation Value and the Preferred C at the Liquidation Value plus the Equity Value payment.

The redeemable preferred securities were initially recorded at \$40,808, representing proceeds of \$45,000, net of costs of issuance of \$4,192. The Company has recorded a charge of \$4,192 to retained earnings to reflect the accretion of the preferred securities to their fair market value as at the closing date. Dividends of \$2,250 have been accrued on the preferred securities and charged to retained earnings as of March 31, 2001. No equity value accretion was required as of March 31, 2001 under the applicable formula.

In addition, an annual management advisory fee of \$2,250 is payable to Palladium until all of the Preferred B and Preferred C shares are redeemed. Payments are made quarterly in advance.

### 8. Subsequent Event

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. The effective date was May 1, 2001 and the sale included inventory and intangible assets to Nufarm. The sale did not include plant, equipment, and other manufacturing assets. The Company also entered into a five-year agreement to

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supply copper fungicide products to Nufarm from its Sumter, South Carolina plant.

The sales price was \$16,000, of which \$14,775 was paid in cash plus a note for \$1,225 payable on June 30, 2001. Additionally, the purchase price will be adjusted upward or downward for any inventory in excess or less than the amount of inventory at June 30, 2000.

The parties are involved in ongoing discussions relating to the sale of Agtrol's European operations.

12

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

### 9. Condensed Consolidating Financial Statements

In June 1998, the Company issued \$100 million of its 97/8% 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, Guarantors 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., Koffolk, Inc., Phibro-Tech, Inc., MRT Management Corp., Mineral Resource Technologies, L.L.C., 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. and foreign Guarantor and 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 management has determined that such financial statements would not be material to investors.

13

PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)  
AS OF MARCH 31, 2001  
(In Thousands)

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	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
-----			
Assets			
Current Assets:			
Cash and cash equivalents .....	\$ 2,007	\$ 473	\$ 12,60
Trade receivables .....	5,251	36,992	37,38
Other receivables .....	1,445	435	2,94
Inventory .....	2,987	59,678	39,62
Prepaid expenses and other .....	6,909	3,700	3,49
	-----		
Total current assets .....	18,599	101,278	96,05
	-----		
Property, plant & equipment, net .....	694	29,074	68,43
Intangibles .....	87	2,009	3,95
Investment in subsidiaries .....	66,467	1,530	(6,12
Intercompany .....	78,946	(39,030)	(4,49
Other assets .....	95,154	(69,531)	2,24
	-----		
Total assets .....	\$ 259,947	\$ 25,330	\$ 160,06
	=====		
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft .....	\$ 13	\$ 4,791	\$
Loan payable to banks .....	53,708	--	9,19
Current portion of long term debt .....	2,304	398	93
Accounts payable .....	3,672	15,890	19,17
Other loans payable .....	688	--	
Accrued expenses and other .....	9,485	15,386	10,80
	-----		
Total current liabilities .....	69,870	36,465	40,11
	-----		
Long term debt .....	121,330	(52,674)	98,45
Other liabilities .....	2,100	4,543	3,83
	-----		
Redeemable securities:			
Series B and C preferred stock .....	47,250	--	--
Common stock .....	1,360	--	(13
Common stock of subsidiary .....	--	95	--
	-----		
	48,610	95	(13
	-----		
Stockholders' Equity			
Series A preferred stock .....	521	--	--
Common stock .....	2	32	--
Paid in capital .....	878	33,941	10
Retained earnings .....	16,780	2,911	24,88
Accumulated other comprehensive income (loss) .....	(144)	17	(7,19
	-----		
Total stockholders' equity .....	18,037	36,901	17,79
	-----		
Total liabilities and equity .....	\$ 259,947	\$ 25,330	\$ 160,06
	=====		

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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 Subsidiari Non-Guarant
Net sales .....	\$ 8,795	\$ 58,957	\$ 50,88
Cost of goods sold .....	7,156	43,864	40,72
Gross profit .....	1,639	15,093	10,15
Selling, general, and administrative expenses .....	4,161	13,812	7,60
Operating (loss) income .....	(2,522)	1,281	2,55
Interest expense .....	3,639	(71)	1,61
Interest income .....	(5)	(9)	3
Other expense .....	29	340	76
Intercompany allocation .....	(4,699)	2,991	1,70
Loss (profit) relating to subsidiaries .....	2,445	--	--
(Loss) income before income taxes .....	(3,931)	(1,970)	(1,56
(Benefit) for income taxes .....	(82)	(471)	(61
Net (loss) income .....	\$ (3,849)	\$ (1,499)	\$ (94

15

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 Subsidiari Non-Guarant
Net sales .....	\$ 25,439	\$ 147,776	\$ 114,37

16



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Cost of goods sold .....	20,603	108,471	92,100
Gross profit .....	4,836	39,305	22,270
Selling, general, and administrative expenses .....	11,165	36,815	18,100
Operating (loss) income .....	(6,329)	2,490	4,170
Interest expense .....	8,882	(10)	4,330
Interest income .....	(49)	(10)	(320)
Other expense .....	150	336	740
Intercompany allocation .....	(11,594)	9,500	2,090
Loss (profit) relating to subsidiaries .....	6,062	--	--
(Loss) income before income taxes .....	(9,780)	(7,326)	(2,670)
(Benefit) for income taxes .....	(194)	(2,490)	(1,440)
Net (loss) income .....	\$ (9,586)	\$ (4,836)	\$ (1,220)

16

PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)  
FOR THE NINE MONTHS ENDED MARCH 31, 2001  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiary Non-Guarant
Operating activities:			
Net (loss) income .....	\$ (9,586)	\$ (4,836)	\$ (1,220)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization .....	528	3,805	5,920
Other .....	(878)	320	(1,480)
Changes in operating assets and liabilities:			
Accounts receivable .....	920	8,255	(8,030)
Inventory .....	280	(9,834)	8,350
Prepaid expenses and other .....	(434)	2,910	(1,620)
Other assets .....	(918)	(2,286)	300
Intercompany .....	(3,517)	4,116	5,460
Accounts payable .....	1,532	573	3,570

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Accrued expenses and other .....	(2,476)	1,491	62
Net cash (used in) provided by operating activities .....	(14,549)	4,514	11,61
Investing activities:			
Capital expenditures .....	(236)	(6,845)	(3,24
Acquisition of a business .....	(51,700)	--	(45
Other investing .....	--	--	(45
Net cash used in investing activities .....	(51,936)	(6,845)	(3,70
Financing activities:			
Cash overdraft .....	(145)	3,489	--
Net increase in short term debt .....	24,592	--	89
Proceeds from long term debt .....	--	26	1,55
Proceeds from issuance of redeemable preferred stock .....	45,000	--	--
Payments of long term debt .....	(24)	(806)	(
Other financing .....	(942)	--	--
Net cash provided by financing activities .....	68,481	2,709	2,43
Effect of exchange rate changes on cash .....	--	(4)	(4
Net increase in cash and cash equivalents .....	1,996	374	10,31
Cash and cash equivalents at beginning of year .....	11	99	2,29
Cash and cash equivalents at end of year .....	\$ 2,007	\$ 473	\$ 12,60

17

PHILIPP BROTHERS CHEMICALS, INC.  
 CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)  
 AS OF JUNE 30, 2000  
 (In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarant
Assets			
Current Assets:			
Cash and cash equivalents .....	\$ 11	\$ 99	\$ 2,29
Trade receivables .....	6,172	45,378	27,82
Other receivables .....	4,855	550	3,07
Inventory .....	3,267	25,072	22,06
Prepaid expenses and other .....	3,065	2,443	3,59
Total current assets .....	17,370	73,542	58,84

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Property, plant & equipment, net .....	702	25,032	50,44
Intangibles .....	87	2,292	3,91
Investment in subsidiaries .....	78,028	1,533	(6,12)
Intercompany .....	63,874	(32,463)	3,19
Other assets .....	15,236	8,542	2,43
<b>Total assets .....</b>	<b>\$ 175,297</b>	<b>\$ 78,478</b>	<b>\$ 112,71</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities:</b>			
Cash overdraft .....	\$ 158	\$ 1,302	\$ 66
Loan payable to banks .....	--	--	8,65
Current portion of long term debt .....	31	893	1,37
Accounts payable .....	2,140	14,999	15,50
Accrued expenses and other .....	3,892	13,118	7,14
<b>Total current liabilities .....</b>	<b>6,221</b>	<b>30,312</b>	<b>33,33</b>
Long term debt .....	130,600	1,435	42,29
Other liabilities .....	2,022	4,431	6,82
<b>Redeemable Securities:</b>			
Common stock .....	2,389	--	1,12
Common stock of subsidiary .....	--	451	--
	<b>2,389</b>	<b>451</b>	<b>1,12</b>
<b>Stockholders' Equity</b>			
Series A preferred stock .....	521	--	--
Common stock .....	2	32	--
Paid in capital .....	878	34,040	--
Retained earnings .....	32,808	7,747	31,61
Accumulated other comprehensive income (loss) .....	(144)	30	(2,47)
<b>Total stockholders' equity .....</b>	<b>34,065</b>	<b>41,849</b>	<b>29,13</b>
<b>Total liabilities and equity .....</b>	<b>\$ 175,297</b>	<b>\$ 78,478</b>	<b>\$ 112,71</b>

18

PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)  
FOR THE THREE MONTHS ENDED MARCH 31, 2000  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Net sales .....	\$ 9,066	\$ 45,540	\$ 34,12

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Cost of goods sold .....	7,389	34,555	25,28
Gross profit .....	1,677	10,985	8,84
Selling, general, and administrative expenses .....	3,801	9,837	5,21
Operating (loss) income .....	(2,124)	1,148	3,62
Interest expense .....	2,223	75	1,47
Interest income .....	(5)	--	(28
Other expense .....	--	--	74
Gain from property damage claim .....	--	(550)	--
Gain from sale of asset .....	--	--	(14,19
Intercompany allocation .....	(2,757)	2,757	--
(Profit) loss relating to subsidiaries .....	(11,292)	--	--
Income (loss) income before income taxes .....	9,707	(1,134)	15,88
(Benefit) provision for income taxes .....	(211)	(259)	4,15
Net income (loss) .....	\$ 9,918	\$ (875)	\$ 11,73

19

PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)  
FOR THE NINE MONTHS ENDED MARCH 31, 2000  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Net sales .....	\$ 26,511	\$ 125,915	\$ 101,68
Cost of goods sold .....	21,421	95,099	74,92
Gross profit .....	5,090	30,816	26,76
Selling, general, and administrative expenses .....	10,283	28,385	17,21
Operating (loss) income .....	(5,193)	2,431	9,54

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Interest expense .....	6,102	193	4,47
Interest income .....	(17)	(1)	(44)
Other expense .....	(912)	--	3,69
Gain from property damage claim .....	--	(550)	--
Gain from sale of asset .....	--	--	(14,19)
Intercompany allocation .....	(7,969)	7,969	--
(Profit) loss relating to subsidiaries .....	(8,590)	--	--
Income (loss) income before income taxes .....	6,193	(5,180)	16,02
(Benefit) provision for income taxes .....	(994)	(1,724)	4,41
Net income (loss) .....	\$ 7,187	\$ (3,456)	\$ 11,61

20

PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)  
FOR THE NINE MONTHS ENDED MARCH 31, 2000  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Operating activities:			
Net income (loss) .....	\$ 7,187	\$ (3,456)	\$ 11,61
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization .....	405	3,329	5,48
Gain from property damage claim .....	--	(550)	--
Gain from sale of asset .....	--	--	(14,19)
Other .....	2,133	(467)	(4,92)
Changes in operating assets and liabilities:			
Accounts receivable .....	248	914	4,00
Inventory .....	(290)	(8,744)	(1,74)
Prepaid expenses and other .....	(2,440)	609	2,01
Other assets .....	19	(595)	(22)
Intercompany .....	(24,081)	18,847	(3,35)
Accounts payable .....	(162)	432	(2,79)
Accrued expenses and other .....	2,796	(6,602)	3,79
Net cash (used in) provided by operating activities .....	(14,185)	3,717	(32)
Investing activities:			

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Capital expenditures .....	(90)	(6,185)	(7,64
Proceeds from property damage claim .....	--	872	--
Proceeds from sale of asset .....	--	--	18,70
Other investing .....	(3,000)	--	--
-----			
Net cash provided by (used in) investing activities .....	(3,090)	(5,313)	11,05
-----			
Financing activities:			
Cash overdraft .....	(75)	812	1,10
Net increase in short term debt .....	229	74	1,77
Proceeds from long term debt .....	16,807	1,566	87
Payments of long term debt .....	(94)	(464)	(10,85
Other financing .....	--	--	6
-----			
Net cash (used in) provided by financing activities .....	16,867	1,988	(7,03
-----			
Net (decrease) increase in cash and cash equivalents .....	(408)	392	3,69
Cash and cash equivalents at beginning of year .....	393	166	1,74
-----			
Cash and cash equivalents at end of year .....	\$ (15)	\$ 558	\$ 5,44
=====			

21

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

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 throughout this Form 10-Q and are discussed under the caption of this Item 2 entitled "Certain Factors Affecting Future Operating Results".

General

Philipp Brothers Chemicals, Inc. (together with its subsidiaries, 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 nutrition and health, 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. Unless the context otherwise requires, references herein to the Company are intended to refer to Philipp Brothers Chemicals, Inc. and/or one or more of its subsidiaries, as applicable.

Acquisition

On November 30, 2000, the Company purchased (see Note 2 of the Notes to the Condensed Consolidated Financial Statements) the Medicated Feed Additives (MFA) business of Pfizer, Inc. (Pfizer). The MFA business produces and sells a broad range of medicated feed additive products to the global livestock

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industry, either directly to large integrated livestock producers or through a network of independent distributors.

The purchase price for this acquisition was \$74.4 million, of which \$51.7 million was paid in cash with the remainder being financed through the issuance of a promissory note to Pfizer for \$22.7 million. The note is payable in 2003 and bears interest at 13% payable semi-annually in arrears. The purchase price continues to be subject to finalization based on certain working capital adjustments under the agreement. The Company financed the \$51.7 million cash payment through net cash proceeds of \$40.8 million from the issuance of redeemable preferred securities (see Note 7 of the Notes to Condensed Consolidated Financial Statements) and the remainder through an amendment to existing bank credit facilities (see Note 6 of the Notes to Condensed Consolidated Financial Statements). In addition, 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 \$55.0 million, with a maximum annual payment of \$12.0 million. In addition, the Company is required to pay Pfizer contingent payments to a maximum of \$10.0 million over five years on other products based on certain gross profit levels of the MFA business.

The acquisition was accounted for as a purchase and operating results have been included since the date of acquisition. The MFA business is included in the AgChem Segment for segment reporting purposes.

### Subsequent Event

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. Agtrol develops, manufactures, and markets crop protection products, including copper fungicides. The effective date was May 1, 2001 and the sale included inventory and intangible assets to Nufarm. The sale did not include plant, equipment, and other manufacturing assets. The Company also entered into a five-year agreement to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant.

The sales price was \$16.0 million, of which \$14.8 million was paid in cash with a note for \$1.2 million payable on June 30, 2001. Additionally, the purchase price will be adjusted upward or downward for any inventory in excess or less than the amount of inventory at June 30, 2000. The proceeds will be used to pay down debt.

The parties are involved in ongoing discussions relating to the sale of Agtrol's European operations.

### Results of Operations

The Company operates in two industry segments: AgChem and Industrial Chemicals.

	Sales (\$000's)
Three Months Ended March 31,	Nine Months Ended March 31,

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Operating Segments	2001	2000	2001	2000
	-----	-----	-----	-----
AgChem .....	\$ 69,671	\$ 44,698	\$ 160,168	\$ 126,227
Industrial Chemicals .....	40,001	40,203	117,082	119,609
Elimination of intersegment sales .	(7,469)	(5,458)	(21,921)	(19,175)
	-----	-----	-----	-----
	\$ 102,203	\$ 79,443	\$ 255,329	\$ 226,661
	=====	=====	=====	=====

	Operating Income (\$000's)			
	Three Months Ended March 31,		Nine Months Ended March 31,	
Operating Segments	2001	2000	2001	2000
	-----	-----	-----	-----
AgChem .....	\$ 3,113	\$ 2,989	\$ 5,634	\$ 6,126
Industrial Chemicals .....	479	1,842	2,257	7,687
Corporate expenses and eliminations	(2,276)	(2,178)	(7,557)	(7,031)
	-----	-----	-----	-----
	\$ 1,316	\$ 2,653	\$ 334	\$ 6,782
	=====	=====	=====	=====

Comparison of Three Months Ended March 31, 2001 and 2000

Net Sales. Net sales increased by \$22.8 million, or 28.6% to \$102.2 million in the three months ended March 31, 2001 as compared to the same period of the prior year. AgChem sales increased by \$25.0 million, due to \$27.6 million of sales from the newly acquired MFA business. This was partially offset by a \$1.4 million reduction in sales of crop protection chemicals primarily due to a weather related delay in the California grape-growing season. Industrial Chemicals sales were lower by \$.2 million. Lower sales volume of etchants due to the slowdown in the electronics industry was partially offset by increased demand for coal fly ash and higher recycling fees.

Gross Profit. Gross profit increased by \$5.4 million, or 25.0% to \$26.9 million as compared to the same period of the prior year. In AgChem, gross profits generated by operations of the MFA business were \$8.7 million. Gross profit (and operating income) of the MFA business would have been \$4.6 million higher than reported if not for purchase price adjustments to the value of inventory acquired from Pfizer. Offsetting this was a reduction in gross profit from crop protection chemicals of \$1.4 million, resulting from reduced sales and changes in product mix. Lower profits in the Industrial Chemicals segment were primarily due to the lower sales volume to the electronics industry as well as increased utility costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$6.7 million, or 35.6% to \$25.6 million for the three months ended March 31, 2001 as compared to the same period of the prior year. \$6.5 million of this increase relates to S,G&A expenses of the MFA business. A reduction in the repurchase value of redeemable common stock of a minority shareholder was partially offset by management advisory fees payable to Palladium in the 2001 period.

Operating Income. Operating income decreased by \$1.3 million to \$1.3 million for the three months ended March 31, 2001 as compared to the same period of the prior year. Operating income of the AgChem segment increased by \$.1 million as income generated by the MFA business of \$2.2 million was substantially offset by reduced profitability from crop protection chemicals



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(\$1.5 million). Operating income of the Industrial Chemicals segment was lower by \$1.4 million primarily due to lower sales to the electronics industry, and higher utility and freight costs. Operating income would have been \$4.6 million higher than reported if not for purchase price adjustments to the value of inventory acquired from Pfizer.

Interest Expense, Net. Net interest expense increased by \$1.7 million, to \$5.2 million for the three months ended March 31, 2001 as compared to the same period of the prior year. The additional debt taken on as part of the financing of the MFA acquisition as well as increased borrowings under the amended credit facility with PNC Bank were the primary factors for the increase.

Other Expense, Net. Other expense, net is primarily comprised of unrealized foreign currency losses.

23

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 for the quarter is lower than the U.S. statutory rate due to the relationship of each domestic and international subsidiaries' individual income or loss position to the statutory tax rates in each country.

Comparison of Nine Months Ended March 31, 2001 and 2000

Net Sales. Net sales increased by \$28.7 million, or 12.6% to \$255.3 million in the nine months ended March 31, 2001 as compared to the same period of the prior year. AgChem sales increased by \$33.9 million, primarily due to \$38.0 million of sales from the MFA business. This was partially offset by a drop in sales of crop protection chemicals (\$4.2 million) primarily due to a weather related delay in the sales in the third quarter of fiscal 2001 as well as heavier than normal sales volume during the second quarter of fiscal 2000 as one customer purchased additional product to meet its minimum purchase commitments for the calendar year. Sales to this customer during fiscal 2001 have followed a more normalized sales pattern. Industrial Chemicals sales were lower by \$2.5 million primarily due to lower sales of calcium carbide (\$3.8 million) as the continuing weak market negatively impacted both pricing and volume. In addition, sales of halogenated organic compounds were down \$2.4 million due to the impact of competitive products from China. Offsetting these decreases were higher recycling fees (\$1.9 million) and sales of coal fly ash (\$2.3 million) as sales volume increased resulting from new supply contracts.

Gross Profit. Gross profit increased by \$3.7 million, or 6.0% to \$66.4 million as compared to the same period of the prior year. In AgChem, gross profits generated by the MFA business were \$12.3 million, which were partially offset by reduced profits from crop protection chemicals (\$3.1 million). Gross profit (and operating income) of the MFA business would have been \$5.7 higher than reported if not for purchase price adjustments to the value of inventory acquired from Pfizer. Lower profits in the Industrial Chemicals segment were primarily due to increased raw material and utility costs in the production of calcium carbide and dicyandiamide which, in conjunction with the reduced volume and pricing on calcium carbide, negatively impacted gross profit by \$5.2 million. In addition, the lower sales of halogenated compounds, the weakening in the electronics industry, and higher utility costs more than offset the additional gross profit from coal fly ash and recycling fees.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$10.2 million, or 18.2% to \$66.1 million for the nine months ended March 31, 2001 as compared to the same period of the prior

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year. This increase was primarily due to S,G&A expenses relating to the MFA business (\$9.7 million), compensation expense associated with the separation of employment of a senior executive of the Company (\$1.3 million), and additional warehousing and distribution costs associated with the increased sales of coal fly ash (\$1.6 million). Offsetting these items were lower expenses (\$1.9 million) at the Company's Norwegian subsidiary, primarily the result of cost containment measures taken over the past year. A reduction in the repurchase value of redeemable common stock of a minority shareholder was partially offset by management advisory fees payable to Palladium in the 2001 period.

**Operating Income.** Operating income decreased by \$6.4 million to \$3 million for the nine months ended March 31, 2001 as compared to the same period of the prior year. Operating income of the AgChem segment decreased by \$5 million. Income generated from the MFA business (\$2.6 million) was offset by reduced profitability from crop protection chemicals (\$2.5 million). Operating income of the Industrial Chemicals segment was lower by \$5.4 million primarily due to lower profitability of dicyandiamide and calcium carbide (\$3.2 million) and halogenated organic compounds (\$1.2 million). In addition, the weakening electronics industry and increased freight and utility costs have adversely impacted the segment's profitability. Operating income would have been \$5.7 million higher than reported if not for purchase price adjustments to the value of inventory acquired from Pfizer.

**Interest Expense, Net.** Net interest expense increased by \$2.5 million, or 24.4% to \$12.8 million in the nine months ended March 31, 2001 as compared to the same period of the prior year. Increased average borrowings as well as higher interest rates were the primary factors for the increase.

**Other Expense, Net.** Other expense, net is primarily comprised of unrealized foreign currency losses.

**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 is lower than the U.S. statutory rate due to the relationship of each domestic and international subsidiaries' individual income or loss position to the statutory tax rates in each country.

24

### Liquidity and Capital Resources

**Net Cash Provided by Operating Activities.** Cash provided by operations for the nine months ended March 31, 2001 was \$1.6 million. Included in this is \$4.1 million as a final settlement from the Company's insurance carrier for business interruption and other reimbursable losses and expenses in connection with a fire, in April 1999, at its Bowmanstown, Pennsylvania facility.

**Net Cash Used in Investing Activities.** Cash used in investing activities for the nine months ended March 31, 2001 was \$62.5 million, primarily related to the MFA acquisition (\$51.7 million). See Note 2 of the Notes to the Condensed Consolidated Financial Statements for details on the non-cash consideration for this acquisition. Capital expenditures of \$10.3 million were primarily for improvements at the Company's ODDA (Norway) facility and expansion of the Company's coal fly ash operations.

**Net Cash Provided by Financing Activities.** Net cash provided by financing activities for the nine months ended March 31, 2001 was \$73.6 million, of which \$45.0 million was received through the issuance of redeemable preferred securities and \$24.0 million through utilization of the amended revolving credit

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facility with PNC Bank (see Note 6 of the Notes to the Condensed Consolidated Financial Statements).

Liquidity. In connection with the MFA acquisition, the Company amended its loan agreement with PNC Bank, increasing the revolving credit portion of the facility to \$70 million (from \$35 million) and adding an additional \$15 million facility for spending on capital expenditures. The Company may choose between two interest options: the base rate, as defined; and the Euro Rate, as defined, plus 2 1/4% to 3% per annum, depending on the Company's operating performance and whether the drawdowns are under the revolving credit facility or the capital expenditure facility. The agreement was effective December 1, 2000 and continues until November 30, 2003.

On November 30, 2000 the Company issued \$25 million of redeemable Series B preferred stock and \$20 million of redeemable Series C preferred stock. Each Series is entitled to cumulative cash dividends, payable semi-annually at 15% per annum of the liquidation value. The liquidation value of the Preferred B stock is an amount equal to \$1 per share plus all accrued and unpaid dividends (Liquidation Value). The Preferred C stock is entitled to the Liquidation Value plus a percentage of the equity value of the Company, as defined in the amended Certificate of Incorporation. The equity value is calculated as a multiple of the earnings before interest, tax, depreciation and amortization of the Company (Equity Value). The Company may, at the date of the annual closing anniversary, redeem the Preferred B in whole or in part at the Liquidation Value, for cash, provided that if the Preferred B stock is redeemed separately from the Preferred C stock then the Preferred B must be redeemed for the Liquidation Value plus an additional amount which would generate an internal rate of return of 20% to the holders of the shares. Redemption in part of the Preferred B shares is only available if at least 50% of the outstanding Preferred B shares are redeemed. On the third closing anniversary and on each closing anniversary thereafter, the Company may redeem for cash only in whole the Preferred C shares, at the Liquidation Value plus the Equity Value payment. At any time after the redemption of the Company's Senior Subordinated Notes due 2008, the holders of both series have the right to require the Company to redeem for cash all such preferred shares outstanding.

As of March 31, 2001, the Company had \$69.5 million of working capital compared to \$79.9 million as of June 30, 2000. Inventories increased by \$51.9 million from the fiscal year end, primarily due to inventory purchased as part of the MFA acquisition (\$51.7 million). Due to the nature and terms of the amended revolving credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lockbox arrangement, all borrowings against this facility are now classified as a current liability. At March 31, 2001, the amount of credit extended under this agreement totaled \$53.7 million and the Company had \$12.1 million available under the borrowing base formula in this agreement.

Cash on hand as of March 31, 2001 amounted to \$15.1 million compared to \$2.4 million at the fiscal year end. Much of the increase in cash results from the initial funding requirements for the international operations of the MFA business.

Commencing with the fourth quarter of fiscal 2000, due to competitive market conditions, the Company extended payment terms on selected AgChem sales representing \$6.7 million of revenues. These terms deferred cash inflows into the third and fourth quarters of fiscal 2001. As of March 31, 2001, \$6.1 million of receivables is still outstanding relating to these revenues.

The Company anticipates spending approximately \$14 million for capital expenditures in the 2001 fiscal year for its existing business, principally for improvements at its ODDA facility and for expansion of its coal fly ash operations. Depending on actual future operating results, the Company may, if

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necessary, postpone certain expenditures that are considered discretionary.

25

The Company believes that cash flows from operations and available borrowing arrangements should provide sufficient working capital to operate the Company's business, to make budgeted capital expenditures, and to service interest and current principal coming due on outstanding debt for the next twelve months.

### Seasonality of Business

The Company's sales of copper-based fungicides and other agricultural products included in the Agtrol business has been typically highest in the first and fourth fiscal quarters, and its sales of gibberellic acid, also part of the Agtrol business, has been highest in the fourth quarter, due to the seasonal nature of the agricultural industry. The Company's sales of finished chemicals to the wood treatment industry are typically highest in the first and fourth fiscal quarters due to the increased level of home construction during these periods. Additionally, sales of these products may be more concentrated in one of these quarters due to weather conditions.

### Quantitative and Qualitative Disclosure About Market Risk

In the normal course of operations, the Company is 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. The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing processes, to hedge the cost of its anticipated purchase requirements. The Company does not utilize derivative instruments for trading purposes. The Company does not hedge its exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values. The Company monitors the financial stability and credit standing of its major counterparties.

### Interest Rate Risk

The Company uses sensitivity analysis to assess the market risk of its debt-related financial instruments and derivatives. Market risk is defined for these purposes as the potential change in the fair value resulting from an adverse movement in interest rates. The carrying amounts of cash and cash equivalents, trade receivables, trade payables and short term debt is considered to be representative of their fair value because of their short maturities. As of March 31, 2001, the fair value of the Company's senior subordinated debt was estimated based on quoted market rates to be \$65.0 million and the related carrying amount is \$100 million. A 100 basis point increase in interest rates could result in an approximately \$5.4 million reduction in the fair value of total debt.

### Foreign Currency Exchange Rate Risk

A significant portion of the financial results of the Company is derived from activities conducted outside the U.S. and denominated in currencies other than the U.S. dollar. Because the financial results of the Company are reported in U.S. dollars, they are affected by changes in the value of the various foreign currencies in relation to the U.S. dollar. Exchange rate risks are reduced, however, by the diversity of the Company's foreign operations and the

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fact that international activities are not concentrated in any single non-U.S. currency. Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. The Company covers known and anticipated operating exposures by using purchased foreign currency exchange option and forward contracts. The primary currencies for which the Company has foreign currency exchange rate exposure are the Euro, Brazilian real, Belgian franc, and Japanese yen.

The Company uses sensitivity analysis to assess the market risk associated with its foreign currency transactions. Market risk is defined for these purposes as the potential change in fair value resulting from an adverse movement in foreign currency exchange rates. The fair value associated with the foreign currency contracts has been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date. At March 31, 2001, the fair market value was equal to their carrying amount due to the Company's adoption of SFAS 133 at July 1, 2000 which requires that all derivatives be recorded on the balance sheet at fair value.

Other

The Company obtains third party letters of credit and surety bonds in connection with certain inventory purchases and insurance obligations. At March 31, 2001, the contract values of these letters of credit and surety bonds were \$1.4 million and their fair values did not differ materially from their carrying amount.

26

Commodity Price Risk

The Company purchases certain raw materials, such as copper, under short-term supply contracts. The purchase prices thereunder are generally determined based on prevailing market conditions. The Company uses commodity derivative instruments to modify some of the commodity price risks. At March 31, 2001, the fair market value was equal to their carrying value due to the Company's adoption of SFAS 133 at July 1, 2000 which requires that all derivatives be recorded on the balance sheet at fair value.

The foregoing market risk discussion and the estimated amounts presented are Forward-Looking Statements that assume certain market conditions. Actual results in the future may differ materially from these projected results due to developments in relevant financial markets and commodity markets. The methods used above to assess risk should not be considered projections of expected future events or results.

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 MFA 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

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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.

### 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."

27

## PART II -- Other Information

### Item 5. Other Information.

On May 4, 2001, the Company agreed to sell certain of the assets of its Agtrol International division ("Agtrol") fungicide business to Nufarm Limited, an Australian public company ("Nufarm"). Agtrol develops, manufactures and markets crop protection products, including copper fungicides. The sale of the U.S. operations of the Agtrol division and the contemplated sale of the Agtrol European operations (as discussed below) includes Agtrol's products, trademarks and other intellectual property, inventory and commercial relationships. The Company is retaining ownership of all Agtrol receivables, copper know-how and its plants, equipment and other manufacturing assets, including its plants in Sumter, South Carolina and Bordeaux, France. The Company has agreed to supply 100% of Nufarm's requirements of copper fungicide products from the Company's Sumter and Bordeaux plants. The sale of the United States assets of Agtrol was effective as of May 1, 2001 for a purchase price of \$15,999,990, of which the Company received \$14,775,000 in cash at the closing and the remaining \$1,224,990 in the form of a note of Nufarm, Inc., a subsidiary of Nufarm, payable on June 30, 2001. The purchase price will be adjusted upward or downward for inventory of Agtrol in excess of or less than the amount of inventory at June 30, 2000. In addition to the U. S. asset sale, the Company has agreed to sell certain of the assets of Agtrol International located in France to Nufarm, as well as all the stock of an operating subsidiary of Agtrol International in Argentina and of a newly formed non-operating subsidiary of Agtrol International in Mexico. The entry into a definitive agreement for the disposition of the French assets is subject to compliance with certain French labor law requirements. In connection with the foregoing transactions, the Company and Nufarm, Inc. entered into a license agreement pursuant to which the Company licensed certain technology relating to its dry prill manufacturing process to Nufarm on an exclusive basis in the fungicide field and with respect to certain pesticide products and on a non-exclusive basis in all other fields.

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

#### (a) Exhibits

Exhibit No. -----	Description -----
10.37	United States Asset Purchase Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001.*
10.38	Supply Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001.*

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10.39 License Agreement between Phibro-Tech, Inc. and Nufarm, Inc. dated as of May 1, 2001.\*

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\* Filed herewith.

(b) Reports on Form 8-K.

The registrant filed a Current Report on Form 8-K dated November 30, 2000, as amended by a Current Report on Form 8-K/A dated February 2, 2001, reporting under Item 2 the acquisition of assets relating to the Medicated Feed Additives business of Pfizer Inc. and certain of its subsidiaries. The financial statements reported in Item 7 of said Form 8-K/A were: (a) statements of assets acquired as of December 31, 1999 and 1998, and the related statements of revenues and operating expenses for the years ended December 31, 1999, 1998 and 1997, and (b) the following pro forma balance sheet as of September 30, 2000, and pro forma income statements for the year ended June 30, 2000 and for the three months ended September 30, 2000.

28

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, 2001

By: /s/ DAVID STORBECK

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David Storbeck  
Chief Financial Officer

Date: May 14, 2001

By: /S/ JOSEPH KATZENSTEIN

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Joseph Katzenstein, Treasurer  
and Secretary

29

EXHIBIT INDEX

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