PHILIPP BROTHERS CHEMICALS INC
Form 10-Q
February 13, 2002

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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 December 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

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 December 31, 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.

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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)

	December 31, 2001	June 30, 2001
ASSETS		
CURRENT ASSETS:		

Cash and cash equivalents	$ 17,316	$ 14,845
Trade receivables, less allowance for doubtful accounts of $2,670 at December 31, 2001 and $2,369 at June 30, 2001	65,694	77,910
Other receivables	2,610	4,800
Inventories	97,607	83,796
Prepaid expenses and other current assets	18,838	17,448
TOTAL CURRENT ASSETS	202,065	198,799
PROPERTY, PLANT AND EQUIPMENT, net	102,977	102,323
INTANGIBLES	10,366	5,832
OTHER ASSETS	23,635	23,065
	$ 339,043	$ 330,019

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Cash overdraft	$ 5,079	$ 4,222
Loans payable to banks	40,304	28,463
Current portion of long-term debt	5,390	5,404
Accounts payable	49,769	51,304
Accrued expenses and other current liabilities	37,426	35,378
TOTAL CURRENT LIABILITIES	137,968	124,771
LONG-TERM DEBT	140,917	139,464
OTHER LIABILITIES	10,521	12,926
TOTAL LIABILITIES	289,406	277,161
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	55,374	48,980
Common stock	--	378
Common stock of subsidiary	95	95
TOTAL REDEEMABLE SECURITIES	55,469	49,453
STOCKHOLDERS' EQUITY:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	878	878
Retained earnings	(717)	9,741
Accumulated other comprehensive income (loss) - gain on derivative instruments	433	--
cumulative currency translation adjustment	(6,949)	(7,737)
TOTAL STOCKHOLDERS' EQUITY	(5,832)	3,405
	$ 339,043	$ 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 December 31, 2001	Three Months Ended December 31, 2000	Six Months Ended December 31, 2001	Six Months Ended December 31, 2000
NET SALES	$ 97,987	$ 83,344	$ 192,646	$ 156,139
COST OF GOODS SOLD	66,698	61,310	134,294	113,600
GROSS PROFIT	31,289	22,034	58,352	42,539
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	26,675	24,426	52,329	43,521
OPERATING INCOME	4,614	(2,392)	6,023	(982)
OTHER:				
Interest expense	4,674	4,080	9,317	8,019
Interest income	(233)	(186)	(303)	(403)
Other expense (income), net	1,220	(1,231)	1,025	97
LOSS BEFORE INCOME TAXES	(1,047)	(5,055)	(4,016)	(8,695)
PROVISION (BENEFIT) FOR INCOME TAXES	652	(2,437)	48	(2,958)
NET LOSS	(1,699)	(2,618)	(4,064)	(5,737)
OTHER COMPREHENSIVE INCOME (LOSS)-				
Gain on derivative instruments	288	168	433	168
Change in currency translation adjustment	2,354	389	788	(772)
COMPREHENSIVE INCOME (LOSS)	$ 943	$ (2,061)	$ (2,843)	$ (6,341)

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 Six Months Ended December 31, 2001

(In Thousands)

	Preferred Stock	Common Stock			
	Series A	Class "A"	Class "B"	Paid-in Capital	Retained Earnings
BALANCE, JULY 1, 2001	$ 521	$ 1	$ 1	$ 878	$9,741
Accretion of redeemable preferred securities to fair market value					(590)
Dividends on Series B and C redeemable preferred stock					(1,837)
Gain on derivative instruments					
Foreign currency translation adjustment					
Net loss					(2,365)
BALANCE, SEPTEMBER 30, 2001	$ 521	$ 1	$ 1	$ 878	$4,949
Accretion of redeemable preferred securities to fair market value					(2,085)
Dividends on Series B and C redeemable preferred stock					(1,882)
Gain on derivative instruments					
Foreign currency translation adjustment					
Net loss					(1,699)
BALANCE, DECEMBER 31, 2001	$ 521	$ 1	$ 1	$ 878	$ (717)

See notes to unaudited Condensed Consolidated Financial Statements.

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Six Months Ended December 31, 2001 and 2000
(In Thousands)

	2001	2000

OPERATING ACTIVITIES:		
Net loss	$ (4,064)	$ (5,737)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,044	6,640
Other	1,666	(1,584)
Changes in operating assets and liabilities:		
Accounts receivable	11,968	7,776
Inventories	(13,927)	(4,017)
Prepaid expenses and other current assets	(372)	(813)
Other assets	(507)	(2,914)
Accounts payable	(2,218)	3,801
Accrued expenses and other current liabilities	3,714	2,253
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,304	5,405
INVESTING ACTIVITIES:		
Capital expenditures	(6,634)	(6,509)
Acquisition of a business	(4,422)	(51,700)
Other investing	(38)	(339)
NET CASH USED IN INVESTING ACTIVITIES	(11,094)	(58,548)
FINANCING ACTIVITIES:		
Cash overdraft	751	1,432
Net increase in short-term debt	10,402	12,403
Proceeds from long-term debt	2,042	1,590
Proceeds from issuance of redeemable preferred stock	--	45,000
Payments of long-term debt	(3,963)	(1,018)
Other financing	--	(942)
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,232	58,465
EFFECT OF EXCHANGE RATE CHANGES ON CASH	29	(164)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,471	5,158
CASH AND CASH EQUIVALENTS at beginning of period	14,845	2,403
CASH AND CASH EQUIVALENTS at end of period	$ 17,316	$ 7,561

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

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 $1,570 and $3,013 for the three months and six months ended December 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. 00-10 "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.

(In Thousands)

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

2. Acquisition

On November 30, 2000, the Company purchased the Medicated Feed Additives (MFA) 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 $4,787, related to product intangibles, under this arrangement as of December 31, 2001, of which $5,363 has been paid as of December 31, 2001. Under the terms of the agreement, the Company has elected to defer $3,000 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 MFA business. No amounts have been accrued under this arrangement.

The unaudited consolidated results of operations on a pro-forma basis as if such acquisition had occurred at the beginning of the six-month period ended December 31, 2000 are as follows:

Net sales	$ 203,732
Net (loss) income	(6,480)

The impact of purchase price adjustments to the inventory acquired from Pfizer increased the loss before income taxes for the three months and six months ended December 31, 2001 by $941 and $2,914, respectively, and for the three months and six months ended December 31, 2000 by $1,081. Exclusive of these charges the loss before income taxes for the three months and six months ended December 31, 2001 would have been $106 and $1,102, respectively, and for the three months and six months ended December 31, 2000 would have been $3,974 and $7,614, respectively.

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 December 31, 2001 and June 30, 2001 consist of the following:

	December 31,	June 30,

	2001	2001
Raw materials	$24,040	$22,614
Work-in-process	3,718	4,257
Finished goods	69,849	56,925
Total inventory	$97,607	$83,796

4. 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. Tentative 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.

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 $2,182 as of December 31, 2001, which is included in current and long-term liabilities.

5. Risks and Uncertainties

The Company's Odda, Norway operation has suffered operating losses during fiscal 2001 and for the six months ended December 31, 2001. 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 is evaluating the future operation of Odda under a number of scenarios, which range from ceasing production of certain products to a complete shutdown of the operation. Among other uncertainties, the ultimate decision may be affected by the outcome of negotiations with the government of Norway for certain financial assistance. This outcome is not expected to be known until the third or fourth quarter of fiscal 2002.

The Company has evaluated the likelihood of the possible scenarios and the related probability weighted estimated future cash flows 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 $26,912) exists at December 31, 2001; however, certain of the possible operating scenarios could result in a write-down of assets that could be material to operating results and financial position. A material write-down may also result in violation of certain of the financial covenants included in the Company's revolving credit facility and certain debt of Odda, making amounts outstanding under these facilities callable at the discretion of the lenders. The Company believes it will be able to successfully negotiate waivers of such violations or amendments to financial covenants, if required; however the outcome and resolution of the above matters is uncertain at this time.

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.

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

Segment data for the three and six months ended December 31, 2001 and 2000 are as follows:

Three Months Ended December 31, 2001	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Othe
Revenues -external customers	$ 63,156	$ 17,394	$ 8,383	$ 9,
-intersegment	857	4,474	442	
Total revenues	$ 64,013	$ 21,868	$ 8,825	$ 9,
Operating income/(loss)	$ 10,259	$ (2,542)	$ 751	$ (

Three Months Ended December 31, 2000	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Othe
Revenues -external customers	$ 43,548	$ 18,870	$10,454	$ 10,
-intersegment	1,306	5,562	434	
Total revenues	$ 44,854	$ 24,432	$10,888	$ 10,
Operating income/(loss)	$ 3,446	$ (845)	$ 927	$ (1,

Six Months Ended December 31, 2001	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Othe
Revenues -external customers	$121,099	$ 34,739	$17,818	$ 18,
-intersegment	2,267	8,140	996	
Total revenues	$123,366	$ 42,879	$18,814	$ 19,
Operating income/(loss)	$ 17,624	$ (6,742)	$ 1,589	$ (

Animal

Six Months Ended December 31, 2000	Health & Nutrition	Industrial Chemicals	Distribution	All Othe
Revenues -external customers	$ 77,210	$ 36,637	$21,372	$ 20,
-intersegment	2,274	9,868	915	
Total revenues	$ 79,484	$ 46,505	$22,287	$ 20,
Operating income/(loss)	$ 6,493	$ (400)	$ 1,845	$ (3,

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 $6,907 and $1,969, respectively, for the three months ended December 31, 2000, and $13,274 and $3,972, respectively, for the six months ended December 31, 2000.

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 the Company has determined that such financial statements would not be material to investors.

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
As of December 31, 2001
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Assets			
Current Assets:			
Cash and cash equivalents	$ 1,838	$ 1,110	$ 14,368
Trade receivables	3,302	27,605	34,787
Other receivables	611	547	1,452
Inventory	3,840	45,397	48,370
Prepaid expenses and other	4,699	3,077	11,062
Total current assets	14,290	77,736	110,039
Property, plant & equipment, net	516	29,748	72,713
Intangibles	32	1,856	8,478
Investment in subsidiaries	58,844	2,254	(6,850)
Intercompany	67,244	(28,811)	(3,909)
Other assets	93,235	(71,296)	1,696
Total assets	$ 234,161	$ 11,487	$182,167
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	$ 28	$ 4,987	$ 64
Loan payable to banks	38,137	-	2,167
Current portion of long term debt	2,540	478	2,372
Accounts payable	1,135	22,204	26,430
Accrued expenses and other	7,288	9,173	20,965
Total current liabilities	49,128	36,842	51,998
Long term debt	126,738	(66,480)	115,183
Other liabilities	2,016	4,877	3,628
Redeemable securities:			
Series B and C preferred stock	55,374	--	--
Common stock	365	--	(365)
Common stock of subsidiary	--	95	--

	55,739	95	(365)
Stockholders' Equity			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,041	--
Retained earnings	(717)	2,049	18,126
Accumulated other comprehensive income (loss)-			
gain on derivative instruments	--	--	433
cumulative currency translation adjustment	(144)	31	(6,836)
Total stockholders' equity	540	36,153	11,723
Total liabilities and equity	$ 234,161	$ 11,487	$182,167

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsid Non-Guarant
Net sales	$ 6,071	$56,267	$42,994
Cost of goods sold	4,765	37,743	31,535
Gross profit	1,306	18,524	11,459
Selling, general, and administrative expenses	4,120	13,688	8,867
Operating (loss) income	(2,814)	4,836	2,592
Interest expense	521	635	3,518
Interest income	(13)	--	(220
Other (income) expense	(421)	(12)	1,653
Intercompany allocation	(3,942)	3,942	--
Loss (profit) relating to subsidiaries	2,225	--	--
(Loss) income before income taxes	(1,184)	271	(2,359
Provision (benefit) for income taxes	515	544	(407
Net (loss) income	$(1,699)	$ (273)	$(1,952

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$13,179	$107,861	$85,398
Cost of goods sold	10,397	73,915	63,774
Gross profit	2,782	33,946	21,624
Selling, general, and administrative expenses	7,857	27,219	17,253
Operating (loss) income	(5,075)	6,727	4,371
Interest expense	1,195	1,568	6,554
Interest income	(10)	--	(293
Other (income) expense	(304)	7	1,322
Intercompany allocation	(4,935)	4,935	--
Loss (profit) relating to subsidiaries	3,323	--	--
(Loss) income before income taxes	(4,344)	217	(3,212
(Benefit) provision for income taxes	(280)	864	(536
Net (loss) income	$(4,064)	$ (647)	$(2,676

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Operating activities:			
Net (loss) income	$ (4,064)	$ (647)	$ (2,676

Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:			
Depreciation and amortization	532	2,643	4,869
Other	(190)	286	1,570
Changes in operating assets and liabilities:			
Accounts receivable	1,292	3,692	6,984
Inventory	(587)	(2,931)	(10,409
Prepaid expenses and other	727	863	(1,962
Other assets	185	(587)	(105
Intercompany	(8,599)	3,535	8,387
Accounts payable	(608)	(1,726)	116
Accrued expenses and other	410	(3,337)	6,641
Net cash (used in) provided by operating activities	(10,902)	1,791	13,415
Investing activities:			
Capital expenditures	(72)	(2,368)	(4,194
Acquisition of a business	--	--	(4,422
Other investing	(541)	412	91
Net cash used in investing activities	(613)	(1,956)	(8,525
Financing activities:			
Cash overdraft	15	817	(81
Net increase (decrease) in short term debt	12,570	--	(2,168
Proceeds from long term debt	2,000	--	42
Payments of long term debt	(2,524)	(242)	(1,197
Net cash provided by (used in) financing activities	12,061	575	(3,404
Effect of exchange rate changes on cash	--	--	29
Net increase in cash and cash equivalents	546	410	1,515
Cash and cash equivalents at beginning of year	1,292	700	12,853
Cash and cash equivalents at end of year	$ 1,838	$ 1,110	$ 14,368

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
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- cumulative 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 December 31, 2000
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidia Non-Guarantor
Net sales	$ 8,148	$48,993	$35,391
Cost of goods sold	6,656	34,690	29,152
Gross profit	1,492	14,303	6,239
Selling, general, and administrative expenses	3,557	14,523	6,346
Operating (loss) income	(2,065)	(220)	(107
Interest expense	2,773	(5)	1,312
Interest income	(8)	(1)	(177
Other expense	32	(4)	(1,259
Intercompany allocation	(3,571)	3,442	129
Loss (profit) relating to subsidiaries	2,112	--	--
(Loss) income before income taxes	(3,403)	(3,652)	(112
Benefit for income taxes	(785)	(1,307)	(345
Net (loss) income	$(2,618)	$(2,345)	$ 233

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PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
For The Six Months Ended December 31, 2000
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$16,669	$91,807	$63,488

Cost of goods sold	13,447	64,607	51,371
Gross profit	3,222	27,200	12,117
Selling, general, and administrative expenses	7,029	25,991	10,501
Operating (loss) income	(3,807)	1,209	1,616
Interest expense	5,243	61	2,715
Interest income	(44)	(1)	(358
Other expense	121	(4)	(20
Intercompany allocation	(6,895)	6,509	386
Loss (profit) relating to subsidiaries	3,617	--	--
(Loss) income before income taxes	(5,849)	(5,356)	(1,107
Benefit for income taxes	(112)	(2,019)	(827
Net (loss) income	$(5,737)	$(3,337)	$ (280

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PHILIPP BROTHERS CHEMICALS INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
For the Six Months Ended December 31, 2000
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Operating activities:			
Net (loss) income	$ (5,737)	$(3,337)	$ (280
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Depreciation and amortization	273	2,551	3,816
Other	(565)	(22)	(997
Changes in operating assets and liabilities:			
Accounts receivable	1,048	9,128	(2,400
Inventory	(306)	(5,619)	1,908
Prepaid expenses and other	1,904	(2,248)	(469
Other assets	(957)	(1,948)	(9
Intercompany	(891)	2,620	1,888
Accounts payable	184	552	3,065
Accrued expenses and other	438	2,082	(267
Net cash (used in) provided by operating activities	(4,609)	3,759	6,255

Investing activities:			
Capital expenditures	(47)	(4,099)	(2,363
Acquisition of a business	(51,700)	--	--
Other investing	--	--	(339
Net cash used in investing activities	(51,747)	(4,099)	(2,702
Financing activities:			
Cash overdraft	(158)	1,590	--
Net decrease in short term debt	12,586	--	(183
Proceeds from long term debt	--	--	1,590
Proceeds from issuance of redeemable preferred stock	45,000	--	--
Payments of long term debt	(15)	(340)	(663
Other financing	(942)	--	--
Net cash provided by financing activities	56,471	1,250	744
Effect of exchange rate changes on cash	--	--	(164
Net increase in cash and cash equivalents	115	910	4,133
Cash and cash equivalents at beginning of year	11	99	2,293
Cash and cash equivalents at end of year	$ 126	$ 1,009	$ 6,426

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 six months ended December 31, 2001. 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 is evaluating the future operation of Odda under a number of scenarios, which range from ceasing production of certain products to a complete shutdown of the operation. Among other uncertainties, the ultimate decision may be affected by the outcome of negotiations with the government of Norway for certain financial assistance. This outcome is not expected to be known until the third or fourth quarter of fiscal 2002.

The Company has evaluated the likelihood of the possible scenarios and the related probability-weighted estimated future cash flows 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 $26.9 million) exists at December 31, 2001; however, certain of the possible operating scenarios, could result in a write-down of assets that could be material to operating results and financial position. A material write-down may also result in violation of certain of the financial covenants included in the Company's revolving credit facility and certain debt of Odda, making amounts outstanding under these facilities callable at the discretion of the lenders. The Company believes it will be able to successfully negotiate waivers of such violations or amendments to financial covenants, if required; however the outcome and resolution of the above matters is uncertain at this time.

Results of Operations

Sales

	($000's)		
	Three Months Ended December 31,		Six D
Operating Segments	2001	2000	2001
Animal Health and Nutrition	$ 64,013	$ 44,854	$ 123,366
Industrial Chemicals	21,868	24,432	42,879
Distribution	8,825	10,888	18,814
All Other	9,073	10,472	19,020
Elimination of intersegment sales	(5,792)	(7,302)	(11,433
	$ 97,987	$ 83,344	$ 192,646

	Operating Income (Loss) ($000's)		
	Three Months Ended December 31,		Six D
Operating Segments	2001	2000	2001
Animal Health and Nutrition	$ 10,259	$ 3,446	$ 17,624
Industrial Chemicals	(2,542)	(845)	(6,742
Distribution	751	927	1,589
All Other	(229)	(1,965)	(110
Corporate expenses and eliminations	(3,625)	(3,955)	(6,338
	$ 4,614	$ (2,392)	$ 6,023

Comparison of Three Months Ended December 31, 2001 and 2000

Net Sales. Net sales increased by $14.6 million, or 18%, to $98.0 million in the three months ended December 31, 2001, as compared to the 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 $19.2 million, or 43%, to $64.0 million in the three months ended December 31, 2001, 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 $.4 million below the prior year primarily due to discontinuing sales of vitamin exports and lower average selling prices by the Company's Koffolk Israel facility due to the adverse business climate in Israel. Higher unit volumes in the U.S. were offset in part by lower average sales prices.

The Industrial Chemicals segment's net sales decreased by $2.6 million, or 10%, to $21.9 million in the three months ended December 31, 2001, as compared to the prior period. Sales by the Company's Phibro-Tech subsidiary were down by $2.0 million due to volume declines related to the printed circuit board industry. Higher unit volume sales at the Company's Odda subsidiary increased revenues by $.3 million and partially offset the decrease. Other declines in intersegment sales aggregated $.9 million.

Net sales for the Distribution segment decreased by $2.1 million, or 19%, to $8.8 million in 2001, as compared to the prior period. The net sales decrease was due to lower unit volumes. Significant declines in the segment's cyanide, carbide and dicyandiamide products occurred during the first and second quarters of this fiscal year as compared to the prior year periods.

Net sales for the All Other segment decreased by $1.4 million, or 13%, to $9.1 million in 2001, as compared to the prior period. Approximately $2.1 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 $.7 million above the prior year. The Company's fly ash business increased by $.3 million primarily due to increased volume as a result of additional contracts with utilities in Missouri and Michigan and improved average selling prices. Revenues at the Company's Wychem, U.K. facility improved by $.4 million due to an increase in specialized lab projects and formulations.

Gross Profit. Gross profit increased by $9.3 million, or 42%, to $31.3 million in the three months ended December 31, 2001, 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. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of $.9 and $1.1 million for the three months ended December 31, 2001 and 2000, respectively. The remainder of the inventory purchase adjustment, approximately $.3 million, will be charged to cost of goods sold during the balance of the fiscal year. Margin declines in the All Other segment were 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.

Selling, General and Administrative Expenses. Costs increased by $2.2 million to $26.7 million in 2001, as compared to the prior period. Excluding PAH and Agtrol, costs were up approximately $.9 million principally due to management advisory fees to Palladium Equity Partners, LLC ($.4 million), higher warehousing and distribution costs primarily relating to sales growth in the Company's fly ash business ($.8 million), environmental remediation ($.3 million), and other general spending increases ($.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.

Operating Income. Operating income increased by $7.0 million to $4.6 million in 2001, as compared to the prior period. The Animal Health and Nutrition segment increased due to the inclusion of PAH for the period. Operating income 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 PhibroTech'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 slightly below the prior year primarily due to sales volume declines.

Interest Expense, Net. Costs increased by $.5 million or 14% to $4.4 million for the three months ended December 31, 2001 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 losses of the Company's foreign subsidiaries and the quarter over quarter change reflects the strengthening of currencies against the U.S. dollar in 2001 (principally Norwegian Kroner) versus weakening of these currencies in the December 2000 quarter.

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 subsidiaries' individual income or loss position to the statutory tax rates in each country.

Comparison of Six Months Ended December 31, 2001 and 2000

Net Sales. Net sales increased by $36.5 million, or 23%, to $192.6 million in the six months ended December 31, 2001, 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 $43.9 million, or 55%, to $123.4 million in the six months ended December 31, 2001, 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 $.6 million above the prior year primarily due to higher unit volume sales of vitamin, mineral and other pre-mix products at our 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 facility.

The Industrial Chemicals segment's net sales decreased by $3.6 million, or 8%, to $42.9 million in the six months ended December 31, 2001, as compared to the prior period. Sales by the Company's Phibro-Tech subsidiary were down by $3.7 million due to volume declines related to the printed circuit board industry. Higher unit volume sales at the Company's Odda subsidiary increased revenues by $2.0 million and partially offset the decrease. Declines in intersegment sales aggregated $1.4 million. Lower unit sales of iron and manganese oxides accounted for the balance of the change.

Net sales for the Distribution segment decreased by $3.5 million, or 16%, to $18.8 million in 2001, as compared to the prior period. The net sales decrease was due to lower unit volumes. Significant declines in the segment's cyanide, carbide

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and dicyandiamide products occurred during the first and second quarters of this fiscal year as compared to the prior year periods.

Net sales for the All Other segment decreased by $1.9 million, or 9%, to $19.0 million in 2001, as compared to the prior period. Approximately $4.5 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 $2.6 million above the prior year. The Company's fly ash business increased by $1.6 million primarily due to increased volume as a result of additional contracts with utilities in Missouri and Michigan and improved average selling prices. Revenues at the Company's Wychem, U.K. facility improved by $1.0 million due to an increase in specialized lab projects and formulations.

Gross Profit. Gross profit increased by $15.8 million, or 37%, to $58.4 million in the six months ended December 31, 2001, 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. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of $2.9 and $1.1 million for the six months ended December 31, 2001 and 2000, respectively. The remainder of the inventory purchase adjustment, approximately $.3 million, will be charged to cost of goods sold during the balance of the fiscal year. Margin declines in the All Other segment were 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.

Selling, General and Administrative Expenses. Costs increased by $8.8 million to $52.3 million in 2001, as compared to the prior period. Excluding PAH and Agtrol, costs were up approximately $3.5 million principally due to management advisory fees to Palladium Equity Partners, LLC ($.9 million), higher warehousing and distribution primarily relating to sales growth in the Company's fly ash business ($1.3 million), environmental remediation ($.7 million), and other general spending increases ($1.9 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.

Operating Income. Operating income increased by $7.0 million to $6.0 million in 2001, as compared to the prior period. The Animal Health and Nutrition segment increased due to the inclusion of PAH for the period. Operating income 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 PhibroTech'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 slightly below the prior year primarily due to sales volume declines.

Interest Expense, Net. Costs increased by $1.4 million or 18% to $9.0 million for the six months ended December 31, 2001 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 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 subsidiaries' individual income or loss position to the statutory tax rates in each country.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the six months ended December 31, 2001 was $4.3 million. The increase in cash from the collection of receivables from our crop protection business was offset by 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 six months ended December 31, 2001 was $11.1 million. Capital expenditures of $6.6 million were mostly for maintaining the Company's existing asset base and for environmental, health and safety projects. The remainder primarily relates to contingent purchase price payments from the PAH acquisition.

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Net Cash Provided by Financing Activities. Net cash provided by financing activities totaled $9.2 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 December 31, 2001, working capital totaled $64.1 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 December 31, 2001, the amount of credit extended under this agreement totaled $38.1 million and the Company had $8.3 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 $9.6 million.

The Company anticipates spending approximately $13 million for capital expenditures in fiscal 2002, primarily to cover the Company's asset replacement needs, improve processes, and for environmental and regulatory compliance. The Company believes that cash flows from operations and available borrowing arrangements should 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.

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.

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: February 12, 2002

By: /s/ DAVID C. STORBECK

David C. Storbeck
Chief Financial Officer

Date: February 12, 2002

By: /S/ JOSEPH KATZENSTEIN

Joseph Katzenstein, Treasurer
and Secretary