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PHILIPP BROTHERS CHEMICALS INC

Form 10-Q

February 14, 2003

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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 December 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 333-64641

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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)

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

Yes  \*

No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

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

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

\* By virtue of Section 15(d) of the Securities Act of 1934, the Registrant is not subject to such filing requirements and not required to file this Quarterly Report, but has provided all such reports as if so required during the preceding 12 months.

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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, 2002 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.

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PART I -- FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In Thousands)

	December 31, 2002	June 30, 2002
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,788	\$ 6,419
Trade receivables, less allowance for doubtful accounts of \$1,812 at December 31, 2002 and \$1,893 at June 30, 2002	59,483	65,161
Other receivables	2,599	3,912
Inventories	97,995	93,517
Prepaid expenses and other current assets	14,190	15,965
	-----	-----
TOTAL CURRENT ASSETS	188,055	184,974
PROPERTY, PLANT AND EQUIPMENT, net	73,415	84,730
INTANGIBLES	12,654	13,200
OTHER ASSETS	11,927	13,540
	-----	-----
	\$ 286,051	\$ 296,444
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash overdraft	\$ 2,416	\$ 7,767
Loans payable to banks	38,219	41,535
Current portion of long-term debt	8,449	8,851
Accounts payable	48,993	42,280
Accrued expenses and other current liabilities	37,156	34,080
	-----	-----
TOTAL CURRENT LIABILITIES	135,233	134,513
LONG-TERM DEBT	128,418	136,641
OTHER LIABILITIES	39,873	29,877
	-----	-----
TOTAL LIABILITIES	303,524	301,031
	-----	-----
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	60,847	56,602
	-----	-----
STOCKHOLDERS' DEFICIT:		
Series A preferred stock	521	521

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Common stock	2	2
Paid-in capital	740	740
Retained earnings	(61,888)	(49,652)
Accumulated other comprehensive (loss) income:		
(Loss) gain on derivative instruments	(179)	1,062
Cumulative currency translation adjustment	(17,516)	(13,862)
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT	(78,320)	(61,189)
	-----	-----
	\$ 286,051	\$ 296,444
	=====	=====

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,		Six Months Ended December 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
NET SALES	\$ 99,118	\$ 97,987	\$ 196,159	\$ 192,646
COST OF GOODS SOLD	76,985	73,692	152,222	147,886
	-----	-----	-----	-----
GROSS PROFIT	22,133	24,295	43,937	44,760
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	18,523	19,681	35,969	38,737
ASSET WRITEDOWNS	7,781	--	7,781	--
	-----	-----	-----	-----
OPERATING (LOSS) INCOME	(4,171)	4,614	187	6,023
OTHER:				
Interest expense	3,656	4,674	8,160	9,317
Interest income	30	(233)	(96)	(303)
Other (income) expense, net	(1,442)	1,220	(1,752)	1,025
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(6,415)	(1,047)	(6,125)	(4,016)
PROVISION FOR INCOME TAXES	1,420	652	1,867	48
	-----	-----	-----	-----
NET LOSS	(7,835)	(1,699)	(7,992)	(4,064)
OTHER COMPREHENSIVE (LOSS) INCOME:				

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(Loss) gain on derivative instruments	(158)	288	(1,241)	433
Change in currency translation adjustment	(827)	2,354	(3,654)	788
	-----	-----	-----	-----
COMPREHENSIVE INCOME (LOSS)	\$ (8,820)	\$ 943	\$ (12,887)	\$ (2,843)
	=====	=====	=====	=====

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' DEFICIT  
(Unaudited)  
For the Three Months and Six Months Ended December 31, 2002  
(In Thousands)

	Preferred Stock	Common Stock		Paid-in Capital	Retained Earnings	Accumulated O Comprehensi (Loss) inco
	Series A	Class "A"	Class "B"			
	-----	-----	-----	-----	-----	-----
BALANCE , JULY 1, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$ (49,652)	\$ (12,800)
Dividends on Series B and C redeemable preferred stock					(2,123)	
Loss on derivative instruments						(1,083)
Foreign currency translation adjustment						(2,827)
Net loss					(157)	
BALANCE, SEPTEMBER 30, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$ (51,932)	\$ (16,710)
	=====	=====	=====	=====	=====	=====
Dividends on Series B and C redeemable preferred stock					(2,121)	
Loss on derivative instruments						(158)
Foreign currency translation adjustment						(827)
Net loss					(7,835)	
BALANCE, DECEMBER 31, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$ (61,888)	\$ (17,695)
	=====	=====	=====	=====	=====	=====

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 Six Months Ended December 31, 2002 and 2001  
(In Thousands)

	2002	2001
	-----	-----
OPERATING ACTIVITIES:		
Net loss	\$ (7,992)	\$ (4,064)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,025	8,044
Asset writedowns	7,781	--
Other	308	1,666
Changes in operating assets and liabilities:		
Accounts receivable	4,110	11,968
Inventories	(4,861)	(13,927)
Prepaid expenses and other current assets	1,554	(372)
Other assets	(1,107)	(507)
Accounts payable	17,988	(2,218)
Accrued expenses and other current liabilities	1,636	3,714
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,442	4,304
	-----	-----
INVESTING ACTIVITIES:		
Capital expenditures	(7,351)	(6,634)
Acquisition of a business	--	(4,422)
Proceeds from sales of assets	5,956	--
Other investing	--	(38)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(1,395)	(11,094)
	-----	-----
FINANCING ACTIVITIES:		
Cash overdraft	(5,351)	751
Net increase (decrease) in short-term debt	(3,426)	10,402
Proceeds from long-term debt	1,660	2,042
Payments of long-term debt	(11,752)	(3,963)
	-----	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(18,869)	9,232
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	191	29
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,369	2,471
CASH AND CASH EQUIVALENTS at beginning of period	6,419	14,845
	-----	-----
CASH AND CASH EQUIVALENTS at end of period	\$ 13,788	\$ 17,316
	=====	=====

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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 Philipp Brothers Chemicals, Inc. (the "Company"), the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments, except for asset writedowns) necessary to present fairly its financial position as of December 31, 2002 and its results of operations and cash flows for the three months and six months ended December 31, 2002 and 2001.

The condensed consolidated balance sheet as of June 30, 2002 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, 2002.

Certain prior year amounts in the accompanying condensed consolidated financial statements and related notes have been reclassified to conform to the fiscal 2003 presentation.

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

Effective July 1, 2002 the Company adopted 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 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 establishes specific criteria for recognition of intangible assets separately from goodwill. 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 has no goodwill, but has assessed the useful lives of its intangible assets. The adoption of SFAS No. 141 and No. 142 did not result in an impact on the Company's financial statements.

Effective July 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 established accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The Company has reviewed its tangible long-lived assets for associated asset retirement obligations ("AROs") in accordance with SFAS No. 143. The Company has not recognized liabilities associated with AROs since the associated assets have indeterminate useful lives.

Effective July 1, 2002 the Company adopted Statement of Financial

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Accounting Standard No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 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" ("SFAS No. 121"), and the development of a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The adoption of SFAS No. 144 did not result in an impact on the Company's financial statements.

Effective July 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections" ("SFAS No. 145"). Under the current rules, SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," requires that all gains and losses from the extinguishment of debt be classified as extraordinary on the Company's consolidated statement of operations, net of applicable taxes. SFAS No. 145 rescinds the automatic classification as extraordinary and requires that the Company evaluate whether the gains or losses qualify as extraordinary under Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The adoption of SFAS No. 145 did not result in an impact on the Company's financial statements.

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

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred rather than at the date of a commitment to an exit or disposal plan. Costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material impact on the financial statements.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are required for financial statements of periods ending after December 15, 2002. The initial measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The Company does not expect the adoption of FIN No. 45 to have a significant impact on the financial statements.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). FIN No. 46 requires consolidation by business enterprises of variable



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interest entities (commonly referred to as special purpose entities), which meet certain characteristics. FIN No. 46 applies to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after January 31, 2003. The Company does not expect the adoption of FIN No. 46 to have an impact on the financial statements.

### 2. Reclassifications

Freight and warehousing expenses of \$6,598, \$6,994, \$6,428 and \$9,245 for the three months ended September 30, 2001, December 31, 2001, March 31, 2002 and June 30, 2002, respectively, are being reclassified from selling, general and administrative expenses to cost of goods sold on the Company's condensed consolidated statements of operations and comprehensive income. The reclassification had no impact on net sales, operating income (loss) or net loss for each of the periods presented below. Results for the prior fiscal year are as follows:

	3 Months Ended September 30, 2001 -----	3 Months Ended December 31, 2001 -----	3 Months Ended March 31, 2002 -----	3 Months Ended June 30, 2002 -----	12 Months Ended June 30, 2002 -----
Net Sales	\$94,659	\$97,987	\$96,310	\$ 99,857	\$388,813
Gross Profit	20,465	24,295	16,539	5,167	66,466
Operating Income (Loss)	1,409	4,614	(3,729)	(23,958)	(21,664)
Net (Loss)	(2,365)	(1,699)	(9,072)	(38,634)	(51,770)

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

### 3. Risks and Uncertainties

As of December 31, 2002, the Company was in compliance with the financial covenants included in its amended senior credit facility ("credit facility") with its lending banks, for which PNC Bank serves as agent. The credit facility was amended in October 2002 to: waive noncompliance with financial covenants as of June 30, 2002; amend financial covenants prospectively until maturity; amend the borrowing base formula and also reduce maximum availability under the revolving credit portion of the credit facility from \$70 million to \$55 million; limit borrowings under the capital expenditure line of the credit facility to the outstanding balance as of the amendment date; and increase the interest rate to 1.5% to 1.75% per annum over the base rate (as defined in the agreement). Management believes that the reduced maximum availability and the revised borrowing base formula under the revolving credit portion of the credit facility will not adversely affect the Company's ability to meet its cash requirements through the remaining term of the credit facility (see below).

The Company's ability to fund its operating plan relies upon continued availability of the credit facility which, in turn, requires the Company to maintain compliance with the amended financial covenants. The Company believes that it will be able to comply with the terms of the amended covenants based on its forecasted operating plan. In the event of adverse operating results and

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resultant violation of the covenants through the remaining term of the credit facility (see below), the Company cannot be certain it will be able to obtain waivers or amendments on favorable terms, if at all.

The Company's credit facility and its note payable to Pfizer, Inc. mature in November 2003 and March 2004, respectively. The Company may not have sufficient cash resources to repay this debt and management has undertaken actions to improve the Company's operating performance and overall liquidity in order to reduce debt levels and allow for ultimate refinancing of this debt prior to their maturities. These actions include cost reduction activities, working capital improvement programs, shutdown of unprofitable operations, deferral and forbearance of certain obligations to Pfizer, and possible sale of certain business operations and other assets.

The Company intends to refinance its current credit facility and the Pfizer note payable. The ability to refinance such debt on terms acceptable to the Company is, among other things, dependent upon the success of the management actions referred to above. There can be no assurance that the Company will be able to refinance such debt on terms acceptable to the Company. The inability to refinance the debt on terms acceptable to the Company would have a material adverse impact on the Company's financial position, results of operations, and cash flow.

In October 2002, the Company entered into an agreement with Pfizer whereby Pfizer agreed to defer until March 1, 2004, without interest, unpaid contingent purchase price amounts existing at May 31, 2002 and to waive contingent purchase price payments on future net revenues from June 1, 2002 through March 1, 2004.

In October 2002, Odda entered into an agreement with its Norwegian banks to restructure its loans and to obtain waivers for its non-compliance with the financial covenants. The agreement establishes a periodic payment schedule through November 30, 2003. The Company is the guarantor of certain portions of this debt.

The Company has completed the sale of certain fixed assets of Odda and certain assets of its Phibro-tech etchant business during the second quarter of fiscal year 2003 for aggregate proceeds of \$5,956. The Company is actively pursuing the sale of certain business operations to generate cash for debt repayment. However, there can be no assurance that such sales will be completed on terms acceptable to the Company, and there are no disposal transactions which the Company considers probable at December 31, 2002. Disposal transactions could result in recording losses for financial statement purposes.

The issue of the potential for increased bacterial resistance to certain antibiotics used in certain food-producing animals is the subject of discussions on a worldwide basis and, in certain instances, has led to government restrictions on the use of antibiotics in these food-producing animals. The sale of feed additives containing antibiotics is a material portion of the Company's business. Should regulatory or other developments result in further restrictions on the sale of such products, it could have a material adverse impact on the Company's financial position, results of operations and cash flows.

On February 14, 2003, the Company was advised that the Joint Expert Committee on Food Additives of the Food and Agricultural Organization of the United Nations and the World Health Organization ("JECFA"), at its meeting held February 6-12, 2003, had determined to withdraw the maximum residue limits ("MRL's") for Carbadox. It is not known at this time whether any national regulatory authorities will adopt this determination, which could result in reduced overall sales of the product. Carbadox is a significant product for the Company's Phibro Animal Health business. The Company is presently assessing the impact of this determination on the Company.

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

4. Inventories

Inventories are valued at the lower of cost or market. Cost is determined principally under the first-in, first-out (FIFO) and average cost methods; however, certain subsidiaries of the Company use the last-in, first-out (LIFO) method for valuing inventories. Obsolete or unsaleable inventory is reflected at its estimated net realizable value. Inventory costs include materials, direct labor and manufacturing overhead.

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

	December 31, 2002	June 30, 2002
	-----	-----
Raw Materials	\$21,011	\$23,524
Work-in-process	1,785	2,098
Finished goods	75,199	67,895
	-----	-----
Total inventory	\$97,995	\$93,517
	=====	=====

5. Asset Writedowns and Restructuring

The Company's Odda, Norway operation has suffered operating losses during fiscal years 2002 and 2001. Odda is included in the Company's Industrial Chemicals segment.

In November 2002, the Company announced a temporary shutdown of the Odda operation due to continuing operating losses, higher than planned operating costs, and delays in the market acceptance of calcium oxide, a by-product of the manufacturing process of its primary product, dicyandiamide. The Company continues to assess various alternatives for its Odda operation, including complete shutdown.

The Company has reevaluated the carrying value of Odda's long-lived assets (consisting of property, plant and equipment and certain other assets) at December 31, 2002, based upon its estimate of future net cash flows under the possible scenarios being considered by management. As a result, an impairment charge of \$7,781 has been recorded in the Company's condensed consolidated statements of operations and comprehensive income for the three months and six months ended December 31, 2002 to reduce the carrying value of Odda's long-lived assets to their estimated salvage values.

The Company continues to carry a cumulative translation adjustment of \$6,314 related to Odda's operations. Pending management's ultimate decision on the future of Odda, such amount may be charged to operating results.

Operating results for Odda are as follows:

Three Months Ended December 31,	2002	2001
	-----	-----
Total revenues	\$ 3,069	\$ 8,517

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Operating loss	\$(10,702)	\$ (970)
Other income (expense)	\$ 814	\$ (420)
Depreciation	\$ 325	\$ 728
Six Months Ended December 31,	2002	2001
	-----	-----
Total revenues	\$ 7,781	\$ 15,964
Operating loss	\$(12,904)	\$ (3,232)
Other income (expense)	\$ 2,211	\$ 802
Depreciation	\$ 643	\$ 1,454

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

During the third quarter of fiscal year 2002 the Company decided to cease production of two of Odda's three primary products as of June 30, 2002, and focus its resources on the remaining product line. During the fourth quarter of fiscal year 2002, due to further deterioration of the Odda business, the Company's review of certain long-lived assets of Odda for impairment, under the scenarios of continuing production of Odda's remaining primary product or complete shutdown of the Odda operation, resulted in the Company recording an impairment charge of \$5,133.

During fiscal 2002 Odda incurred restructuring charges and terminated approximately 120 employees as of June 30, 2002. During the six months ended December 31, 2002 Odda paid \$32 of these restructuring charges. An accrual of \$847 for restructuring costs still to be paid at December 31, 2002 remains on the Company's condensed consolidated balance sheets at December 31, 2002.

### 6. Contingencies

#### (a) Litigation:

On or about April 17, 1997, the Company and CP Chemicals, Inc. ("CP") were served with a complaint filed by Chevron USA, Inc. ("Chevron") in the United States District Court for the District of New Jersey, alleging that operations of CP at its Sewaren plant affected adjoining property owned by Chevron and that the Company, as the parent of CP, is also responsible to Chevron. In July 2002, a phased settlement agreement was reached under which the Company and another defendant will, subject to certain conditions, take title to the property, subject to a period of due diligence investigation of the property. The Company's portion of the settlement for past costs and expenses is \$495 and was included in selling, general and administrative expenses in the June 30, 2002 statement of operations and comprehensive income, and was paid in July 2002. The Company and the other defendant will, if the sale becomes final, share equally in the costs of remediation. While the costs cannot be estimated at this time, the Company believes the costs will not be material and insurance recoveries will be available to offset a portion of those costs.

The Company's Phibro-Tech subsidiary was named in 1993 as a potentially responsible party ("PRP") in connection with an action commenced under the federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") by the United States Environmental Protection Agency (the "EPA"), involving a former third-party fertilizer manufacturing site in Jericho, South Carolina. An agreement has been reached under which the Company has agreed to contribute up to \$900 of which \$500 was paid during fiscal year 2002. The

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Company has accrued its best estimate of any future costs under the agreement. Partial recovery from insurance and other sources is expected.

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 liabilities 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 that 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 accrued for closure were \$109 as of December 31, 2002.

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

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

On or about April 5, 2002, the Company was served, as a potentially responsible party, with an information request from the United States Environmental Protection Agency (the "EPA") relating to a third-party superfund site in Rhode Island. The Company is investigating the matter, which relates to events in the 1950's and 1960's. The Company does not believe there will be any material costs or liabilities.

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 \$1,532, which is included in current and long-term liabilities in the December 31, 2002 condensed consolidated balance sheets.

### 7. Business Segments

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The Company has four reportable segments--Animal Health and Nutrition, Industrial Chemicals, Distribution, and All Other. 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. Certain of these products 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 primarily by third parties. The Company's All Other segment manufactures and markets a variety of specialty custom chemicals, and copper-based fungicides, as well as providing management and recycling of coal combustion residues.

Segment data for the three months and six months ended December 31, 2002 and 2001 is as follows:

	Animal Health & Nutrition -----	Industrial Chemicals -----	Distribution -----	All Other -----	
Three Months Ended December 31, 2002					Co Ex Ad ---
Revenues -external customers	\$66,650	\$ 13,913	\$8,894	\$9,661	
-intersegment	718	2,538	499	3	
	-----	-----	-----	-----	
Total revenues	\$67,368	\$ 16,451	\$9,393	\$9,664	
	=====	=====	=====	=====	
Operating income/(loss)	\$11,457	\$ (11,616)	\$ 824	\$ (703)	
	=====	=====	=====	=====	
	Animal				Co
Three Months Ended December 31, 2001	Health & Nutrition -----	Industrial Chemicals -----	Distribution -----	All Other -----	Ex Ad ---
Revenues -external customers	\$63,156	\$ 17,394	\$8,383	\$9,054	
-intersegment	857	4,474	442	19	
	-----	-----	-----	-----	
Total revenues	\$64,013	\$ 21,868	\$8,825	\$9,073	
	=====	=====	=====	=====	
Operating income/(loss)	\$10,259	\$ (2,542)	\$ 751	\$ (229)	
	=====	=====	=====	=====	

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Six Months Ended December 31, 2002	Health & Nutrition	Industrial Chemicals	Distribution	All Other	Ex Ad
Revenues -external customers	\$126,626	\$ 31,235	\$18,467	\$19,831	
-intersegment	1,645	5,431	850	7	
Total revenues	\$128,271	\$ 36,666	\$19,317	\$19,838	
Operating income/(loss)	\$ 21,159	\$(13,726)	\$ 1,567	\$ (618)	

  

Six Months Ended December 31, 2001	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Co Ex Ad
Revenues -external customers	\$121,099	\$34,739	\$17,818	\$18,990	\$
-intersegment	2,267	8,140	996	30	
Total revenues	\$123,366	\$42,879	\$18,814	\$19,020	\$
Operating income/(loss)	\$ 17,624	\$(6,742)	\$ 1,589	\$ (110)	\$

  

Identifiable Assets	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other	Con Ad
At June 30, 2002	\$186,118	\$57,419	\$11,826	\$30,688	
At December 31, 2002	\$195,819	\$35,347	\$12,345	\$28,030	

8. Consolidating Financial Statements

In June 1998, the Company issued \$100 million in 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 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., Phibro-Tech, Inc., Mineral Resource Technologies, Inc., Prince Agriproducts, Inc., The Prince Manufacturing Company, Phibrochem, Inc., Phibro Chemicals, Inc., Western Magnesium Corp., Phibro Animal Health Holdings, Inc. and Phibro Animal Health U.S., Inc. All 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.

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors	Consolidated Adjustments
Assets				
Current Assets:				
Cash and cash equivalents	\$ 131	\$ 2,005	\$ 11,652	
Trade receivables	2,722	26,070	30,691	
Other receivables	583	615	1,401	
Inventory	3,430	53,087	41,478	
Prepaid expenses and other	1,319	1,075	11,796	
Total current assets	8,185	82,852	97,018	
Property, plant & equipment, net	266	27,924	45,225	
Intangibles	32	1,375	11,247	
Investment in subsidiaries	69,299	3,621	--	(72,921)
Intercompany	63,395	(33,967)	1,273	(30,389)
Other assets	9,835	1,417	675	
Total assets	\$ 151,012	\$ 83,222	\$ 155,438	\$ (103,680)
Liabilities and Stockholders' Deficit				
Current Liabilities:				
Cash overdraft	\$ 1,055	\$ 1,361	\$ --	
Loan payable to banks	33,375	--	4,844	
Current portion of long term debt	4,011	469	3,969	
Accounts payable	1,746	29,043	18,204	
Accrued expenses and other	5,641	6,691	24,824	
Total current liabilities	45,828	37,564	51,841	
Long term debt	120,110	(71,563)	110,572	(30,700)
Other liabilities	2,547	16,989	20,337	
Total liabilities	168,485	(17,010)	182,750	(30,700)
Redeemable securities:				
Series B and C preferred stock	60,847	--	--	
Stockholders' Deficit				
Series A preferred stock	521	--	--	
Common stock	2	32	--	
Paid in capital	740	110,885	8,166	(119,000)



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Retained earnings	(61,888)	(10,524)	(17,945)	28,4
Accumulated other comprehensive (loss) income-				
loss on derivative instruments	(179)	(179)	--	1
cumulative currency translation adjustment	(17,516)	18	(17,533)	17,5
	-----	-----	-----	-----
Total stockholders' deficit	(78,320)	100,232	(27,312)	(72,9
	-----	-----	-----	-----
Total liabilities and deficit	\$ 151,012	\$ 83,222	\$ 155,438	\$ (103,6
	=====	=====	=====	=====

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors	Consolida Adjustme
Net sales	\$ 6,035	\$ 58,799	\$ 36,795	\$ (2,511
Cost of goods sold	4,753	46,674	28,069	(2,511
	-----	-----	-----	-----
Gross profit	1,282	12,125	8,726	--
Selling, general, and administrative expenses	5,396	7,447	5,680	
Asset writedowns	--	--	7,781	
	-----	-----	-----	-----
Operating (loss) income	(4,114)	4,678	(4,735)	--
Interest expense	286	675	2,695	
Interest (income)	--	--	30	
Other expense (income)	212	(710)	(944)	
Intercompany allocation	(4,473)	4,167	306	
Loss (profit) relating to subsidiaries	7,540	--	--	(7,540
	-----	-----	-----	-----
(Loss) income before income taxes	(7,679)	546	(6,822)	7,540
Provision for income taxes	156	149	1,115	
	-----	-----	-----	-----
Net (loss) income	\$ (7,835)	\$ 397	\$ (7,937)	\$ 7,540
	=====	=====	=====	=====

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors	Consolida Adjustme
Net sales	\$13,143	\$115,016	\$73,275	\$ (5,275)
Cost of goods sold	10,540	89,487	57,470	(5,275)
Gross profit	2,603	25,529	15,805	--
Selling, general, and administrative expenses	9,754	14,921	11,294	
Asset writedowns		--	7,781	
Operating (loss) income	(7,151)	10,608	(3,270)	--
Interest expense	672	1,487	6,001	
Interest income	(1)	--	(95)	
Other expense (income)	309	(571)	(1,490)	
Intercompany allocation	(8,641)	8,335	306	
Loss (profit) relating to subsidiaries	8,346	--	--	(8,346)
(Loss) income before income taxes	(7,836)	1,357	(7,992)	8,346
Provision for income taxes	156	226	1,485	
Net (loss) income	\$ (7,992)	\$ 1,131	\$ (9,477)	\$ 8,346

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors	Consolida Adjustme
--	--------	--------------------------------	---	-----------------------

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Operating activities:				
Net (loss) income	\$ (7,992)	\$ 1,131	\$ (9,477)	\$ 8,342
Adjustments to reconcile net (loss) income to cash provided by operating activities:				
Depreciation and amortization	750	2,859	4,416	
Asset writedowns	--	--	7,781	
Other	189	(75)	194	
Changes in operating assets and liabilities:				
Accounts receivable	383	3,301	426	
Inventory	(723)	(8,617)	4,479	
Prepaid expenses and other	1,500	1,152	(1,098)	
Other assets	(849)	(145)	(113)	
Intercompany	15,913	(7,489)	(78)	(8,342)
Accounts payable	722	16,004	1,262	
Accrued expenses and other	(1,740)	(2,212)	5,588	
Net cash provided by operating activities	8,153	5,909	13,380	--
Investing activities:				
Capital expenditures	--	(2,606)	(4,745)	
Proceeds from sales of assets	--	2,472	3,484	
Other investing	--	--	--	
Net cash used in investing activities	--	(134)	(1,261)	--
Financing activities:				
Cash overdraft	479	(4,141)	(1,689)	
Net decrease in short term debt	(4,616)	--	1,190	
Proceeds from long term debt	--	--	1,660	
Payments of long term debt	(4,342)	(262)	(7,148)	
Net cash used in financing activities	(8,479)	(4,403)	(5,987)	--
Effect of exchange rate changes on cash	--	(19)	210	
Net (decrease) increase in cash and cash equivalents	(326)	1,353	6,342	--
Cash and cash equivalents at beginning of year	457	652	5,310	
Cash and cash equivalents at end of year	\$ 131	\$ 2,005	\$ 11,652	\$ --

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	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors	Consolidated Adjustments
Assets				
Current Assets:				
Cash and cash equivalents	\$ 457	\$ 130	\$ 5,832	
Trade receivables	3,150	28,671	33,340	
Other receivables	392	855	2,665	
Inventory	2,707	44,929	45,881	
Prepaid expenses and other	3,010	2,460	10,495	
	-----	-----	-----	
Total current assets	9,716	77,045	98,213	--
	-----	-----	-----	-----
Property, plant & equipment, net	409	29,781	54,540	
Intangibles	32	1,495	11,673	
Investment in subsidiaries	82,540	3,621	--	(86,161)
Intercompany	73,359	(36,074)	(5,240)	(32,045)
Other assets	9,738	1,918	1,884	
	-----	-----	-----	-----
Total assets	\$175,794	\$ 77,786	\$161,070	\$(118,206)
	=====	=====	=====	=====
Liabilities and Stockholders' Deficit				
Current Liabilities:				
Cash overdraft	\$ 576	\$ 5,502	\$ 1,689	
Loan payable to banks	37,991	--	3,544	
Current portion of long term debt	3,216	530	5,105	
Accounts payable	1,024	24,716	16,540	
Accrued expenses and other	7,579	8,092	18,409	
	-----	-----	-----	-----
Total current liabilities	50,386	38,840	45,287	--
	-----	-----	-----	-----
Long term debt	127,643	(68,271)	109,314	(32,045)
Other liabilities	2,352	6,156	21,369	
Redeemable securities:				
Series B and C preferred stock	56,602	--	--	
Stockholders' Deficit				
Series A preferred stock	521	--	--	
Common stock	2	32	--	(32)
Paid in capital	740	110,885	8,166	(119,051)
Retained earnings	(49,652)	(10,271)	(9,852)	20,123
Accumulated other comprehensive income (loss)-				
gain (loss) on derivative instruments	1,062	384	678	(1,062)
cumulative currency translation adjustment	(13,862)	31	(13,892)	13,861
	-----	-----	-----	-----
Total stockholders' deficit	(61,189)	101,061	(14,900)	(86,161)
	-----	-----	-----	-----
Total liabilities and deficit	\$175,794	\$ 77,786	\$161,070	\$(118,206)
	=====	=====	=====	=====

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 Subsidiaries Non-Guarantors	Consolida Adjustme
Net sales	\$ 6,071	\$56,267	\$42,994	\$ (7,345)
Cost of goods sold	4,765	43,123	33,149	(7,345)
Gross profit	1,306	13,144	9,845	--
Selling, general, and administrative expenses	4,120	8,308	7,253	--
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	--	--	(2,225)
(Loss) income before income taxes	(1,184)	271	(2,359)	2,225
Provision (benefit) for income taxes	515	544	(407)	--
Net (loss) income	\$ (1,699)	\$ (273)	\$ (1,952)	\$ 2,225

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 Subsidiaries Non-Guarantors	Consolida Adjustme
Net sales	\$13,179	\$107,861	\$85,398	\$ (13,79)

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Cost of goods sold	10,397	84,284	66,997	(13,79
	-----	-----	-----	-----
Gross profit	2,782	23,577	18,401	-
Selling, general, and administrative expenses	7,857	16,850	14,030	
	-----	-----	-----	-----
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	--	--	(3,32
	-----	-----	-----	-----
(Loss) income before income taxes	(4,344)	217	(3,212)	3,32
(Benefit) provision for income taxes	(280)	864	(536)	
	-----	-----	-----	-----
Net (loss) income	\$ (4,064)	\$ (647)	\$ (2,676)	\$ 3,32
	=====	=====	=====	=====

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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 Subsidiaries Non-Guarantors	Consolidated Adjustments
Operating activities:				
Net (loss) income	\$ (4,064)	\$ (647)	\$ (2,676)	\$ 3,32
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	(3,32
Accounts payable	(608)	(1,726)	116	
Accrued expenses and other	410	(3,337)	6,641	
	-----	-----	-----	-----
Net cash (used in) provided by				

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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	\$

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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. These operations are classified into four segments: Animal Health and Nutrition; Industrial Chemicals; Distribution; and, All Other.

The Company recorded operating income of \$.2 million for the six months ended December 31, 2002. Excluding an asset writedown of \$7.8 million related to the Company's Odda operations, operating income was \$8.0 million for the six months ended December 31, 2002, compared to an operating income of \$6.0 million in the prior year six-month period. The year-to-year comparison was also affected by purchase accounting adjustments relating to inventory acquired in the acquisition of the Phibro Animal Health ("PAH") business in November 2000, that resulted in a \$2.9 million increase to cost of goods sold for the six months ended December 31, 2001.

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At December 31, 2002, the Company was in compliance with the financial covenants included in its amended domestic senior credit facility ("credit facility") with its lending banks. During fiscal 2003, the Company amended the credit facility and obtained a waiver for noncompliance at June 30, 2002. In addition, the Company entered into an agreement with its Norwegian banks to restructure loans and to obtain a waiver for noncompliance at June 30, 2002. Further, the Company entered into an agreement with Pfizer whereby Pfizer agreed to defer until March 1, 2004, without interest, unpaid contingent purchase price amounts existing at May 31, 2002 and to waive contingent purchase price payments on future net revenues from June 1, 2002 through March 1, 2004.

In November 2002, the Company announced a temporary shutdown of the Odde facility due to continuing operating losses, higher than planned operating costs and delays in the market acceptance of calcium oxide, a by-product of the manufacturing process to produce dicyandiamide. Various alternatives are under consideration by the Company including complete shutdown. The Company recorded an asset write-down charge of \$7.8 million at December 31, 2002 to reflect impairment of long-lived assets at the Odde facility. Long-lived assets at Odde have now been reduced to their estimated salvage values.

The Company continues to carry a cumulative translation adjustment of \$6,314 related to Odde's operations. Pending management's ultimate decision on the future of Odde, such amount may be charged to operating results.

In light of continued declines in the printed circuit board business in the United States, during the second quarter of fiscal 2003, Phibro-Tech disposed of that portion of its ammoniacal etchant business associated with its Joliet, Illinois and Sumter, South Carolina facilities. The transaction included the migration of the customers of such business to the purchaser and the exclusive license to the purchaser of know-how for the fresh ammoniacal etchant sold in certain states. No manufacturing facilities, equipment or inventory was included in the transaction. The purchaser has agreed to pay future royalties based on sales levels exceeding certain specified minimums. The gain on the transaction was not material.

Certain prior year amounts have been reclassified to conform to the fiscal 2003 presentation. Freight and warehousing expenses of \$7.0 million and \$13.6 million for the three and six months ended December 31, 2001, respectively, were reclassified from general and administrative expenses to cost of goods sold.

### Results of Operations

	Sales (\$000's)			
	Three Months Ended December 31,		Six Months Ended December 31,	
	----- 2002 -----	2001 -----	2002 -----	2001 -----
Operating Segments				
Animal Health and Nutrition ..	\$67,368	\$64,013	\$128,271	\$123,366
Industrial Chemicals .....	16,451	21,868	36,666	42,879
Distribution .....	9,393	8,825	19,317	18,814
All Other .....	9,664	9,073	19,838	19,020
Elimination of inter-segment sales .....	(3,758)	(5,792)	(7,933)	(11,433)
	----- \$99,118 =====	----- \$97,987 =====	----- \$196,159 =====	----- \$192,646 =====



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Operating Segments	Operating Income (Loss)			
	(\$000's)			
	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
Animal Health and Nutrition ..	\$ 11,457	\$10,259	\$ 21,159	\$17,624
Industrial Chemicals .....	(11,616)	(2,542)	(13,726)	(6,742)
Distribution .....	824	751	1,567	1,589
All Other .....	(703)	(229)	(618)	(110)
Corporate expenses and eliminations .....	(4,133)	(3,625)	(8,195)	(6,338)
	\$ (4,171)	\$ 4,614	\$ 187	\$ 6,023

Comparison of Three Months Ended December 31, 2002 and 2001

Net Sales. Net sales increased by \$1.1 million, or 1%, to \$99.1 million in the three months ended December 31, 2002, as compared to the same period of the prior year. The increase was primarily due to higher sales in the Animal Health segment offset in part by declines in the Industrial Chemicals segment.

The Animal Health and Nutrition segment's net sales increased by \$3.4 million, or 5%, to \$67.4 million for the three months ended December 31, 2002. The Company's PAH operations improved due to higher unit volume sales of its antibacterial and anticoccidial products offset in part by lower average selling prices. Higher revenues were also recorded at the Company's Prince Agri operations due to higher unit volumes associated with its core inorganic materials, trace mineral premixes and other specialty ingredients. The Company's Koffolk sales also improved due to sales of its core organic materials.

The Industrial Chemicals segment's net sales decreased by \$5.4 million, or 25%, to \$16.5 million in the three months ended December 31, 2002 as compared to the prior period. The Company's Odda revenues declined by \$5.4 million due to discontinued production and sale of the CY-50 and calcium carbide product lines in the fourth quarter of fiscal year 2002. In addition, in the quarter ended December 31, 2002 Odda began a temporary shutdown of production which reduced sales of its remaining dicyandiamide product line. Sales by the Company's Phibro-Tech subsidiary decreased slightly from the prior year. During the quarter ended December 31, 2002, Phibro-Tech disposed of its etchant business operated out of the Joliet, Illinois and Sumter, South Carolina facilities. Phibro-Tech will maintain its existing etchant business at its other facilities. The Company's Prince operations reported slightly higher sales due to improvements in average selling prices during the current fiscal quarter.

Net sales for the Distribution segment increased by \$.6 million, or 6%, to \$9.4 million in 2002, as compared to the prior period. Improved performance in the Company's Ferro operations were offset by lower carbide sales, related to the discontinuance of carbide production at Odda.

Net sales for the All Other segment increased by \$.6 million, or 7%, to \$9.7 million in 2002, as compared to the prior period. The Company's fly ash business increased revenues by approximately \$.8 million due to higher unit volumes offset in part by declines in average selling prices. A decrease in specialized lab projects and formulations at the segment's U.K. operations lowered revenues by \$.2 million.

Gross Profit. Gross profit decreased by \$2.2 million, or 9%, to \$22.1 million in the three months ended December 31, 2002, as compared to the prior

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period. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of \$0 and \$0.9 million for the three months ended December 31, 2002 and 2001, respectively. Excluding the purchase accounting adjustments, gross profit decreased by approximately \$0.4 million in the Animal Health segment primarily due to lower average selling prices. The Industrial Chemicals segment decreased by approximately \$3.4 million primarily due to lower revenues and higher production costs at the Company's Odda facility, lower revenues and higher production costs at Phibro-Tech facilities, offset in part by higher margins at the Company's Prince Manufacturing operations. The Distribution segment increased \$0.1 million primarily as a result of lower material costs and product mix. The All Other segment declined by approximately \$0.2 million primarily due to higher freight and warehousing costs associated with the Company's fly ash operations and decreases in specialized lab projects and formulations at the Company's U.K. operations. Elimination of inter-company profit in inventory accounted for the remainder.

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**Selling, General and Administrative Expenses.** Costs decreased by \$1.2 million, or 6% to \$18.5 million in 2002, as compared to the prior period. Costs declined primarily at the Company's Phibro-Tech, Koffolk and Odda operations due to cost reduction programs and lower levels of production activity. Corporate expenses increased due to increased staff levels and costs related to debt restructuring activities.

**Asset Write-down.** During the quarter ended December 31, 2002, the Company recorded a charge of \$7.8 million related to the impairment of long-lived assets at the Company's Odda, Norway operations. (See Note 5 to the Condensed Consolidated Financial Statements).

**Operating (Loss) Income.** Operating income decreased by \$8.8 million to a loss of \$4.2 million in 2002, as compared to the prior period. The Animal Health and Nutrition segment, after the exclusion of purchase accounting adjustments in fiscal 2002, increased due to higher unit volumes and cost reductions. The Industrial Chemicals segment worsened due to asset impairment charges at the Company's Odda facilities offset in part by lower general and administrative expenses at Phibro-Tech and also higher sales and production volumes at Prince Manufacturing. The Company's Distribution segment approximated the prior year. The All Other segment declined from the prior period due to higher costs at MRT and sales decreases at the Company's U.K. operations.

**Interest Expense, Net.** Costs decreased by \$0.8 million or 17% to \$3.7 million for the three months ended December 31, 2002 as compared to the prior period primarily due to lower interest rates offset in part by slightly higher average borrowing levels.

**Other (Income) Expense, Net.** Other (income) expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries (principally Norwegian Kroner and the Israeli Shekel). In addition, the Company recognized a gain of \$0.6 million resulting from a class action litigation against European vitamin manufacturers. The Company also recorded a gain of \$0.4 million on a power purchase derivative instrument at its Odda facility.

**Income Taxes.** An income tax provision of \$1.4 million was reported on a consolidated pre-tax loss of \$6.4 million in fiscal 2003 primarily due to income tax provisions in profitable foreign jurisdictions and also for state income taxes. In addition, domestic pre-tax income was recorded without a tax provision

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due to the utilization of net operating loss carryforwards with a full valuation allowance. The Company's Odda losses were not given any tax benefit. The Company continues to carry a full valuation allowance on its domestic, Brazilian and Norwegian operating losses. These deferred tax assets will continue to be evaluated each reporting period based on actual and expected operating performance.

Comparison of Six Months Ended December 31, 2002 and 2001

**Net Sales.** Net sales increased by \$3.5 million, or 2%, to \$196.2 million in the six months ended December 31, 2002, as compared to the same period of the prior year. The increase was primarily due to higher sales in the Animal Health and Nutrition segment offset in part by declines in the Industrial Chemical segment.

The Animal Health and Nutrition segment's net sales increased by \$4.9 million, or 4% to \$128.3 million for the six months ended December 31, 2002. The Company's PAH operations improved due to higher unit volume sales of its antibacterial products offset in part by lower average selling prices. Higher revenues were also recorded at the Company's Prince Agri operations due to higher unit volumes associated with its core inorganic materials, trace mineral premixes and other specialty ingredients. The Company's Koffolk sales declined due to unfavorable currency impacts at its Brazilian subsidiary offset in part by improved sales of its core organic materials.

The Industrial Chemicals segment's net sales decreased by \$6.2 million, or 14%, to \$36.7 million in the six months ended December 31, 2002 as compared to the prior period. The Company's Odda subsidiary revenues declined by \$8.2 million due to discontinued production and sale of the CY-50 and calcium carbide product lines in the fourth quarter of fiscal 2002. In addition, in the quarter ended December 31, 2002 Odda began a temporary shutdown of operations that reduced sales of its remaining dicyandiamide product line. Sales by the Company's Phibro-Tech subsidiary increased by \$1.3 million due to increased unit volumes over the prior year comparable period. During the quarter ended December 31, 2002, Phibro-Tech divested its etchant business operated out of the Joliet, Illinois and Sumter, South Carolina facilities. Phibro-Tech will maintain its existing etchant business at its other facilities. The Company's Prince operations reported higher sales due to improvements in average selling prices during the current period.

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Net sales for the Distribution segment increased by \$.5 million, or 3%, to \$19.3 million in 2002, as compared to the prior period. Improved performance in the Company's Ferro operations were offset by lower carbide sales, related to the discontinuance of carbide production at Odda.

Net sales for the All Other segment increased by \$.8 million, or 4%, to \$19.8 million in 2002, as compared to the prior period. The Company's fly ash business increased revenues by approximately \$1.6 million due to higher unit volumes offset in part by declines in average selling prices. A decrease in specialized lab projects and formulations at the segment's U.K. operations lowered revenues by \$.6 million. Lower sales of crop protection chemicals accounted for the balance of the decrease.

**Gross Profit.** Gross profit decreased by \$.8 million, or 2%, to \$43.9 million in the six months ended December 31, 2002, as compared to the prior period. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of \$0 and \$2.9 million for the six months ended December 31, 2002 and 2001, respectively.

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Excluding the purchase accounting adjustments, gross profit decreased by approximately \$.2 million in the Animal Health segment primarily due to lower average selling prices. The Industrial Chemicals segment decreased by approximately \$3.2 million primarily due to lower revenues and higher production costs at the Company's Odda facility; lower revenues and higher production costs at Phibro-Tech facilities, offset in part by higher margins at the Company's Prince Manufacturing operations. The Distribution segment approximated the prior year. The All Other segment declined by approximately \$.5 million primarily due to higher freight and warehouse costs associated with the Company's fly ash operations and decreases in specialized lab projects and formulations at the segment's U.K. facility. Elimination of inter-company profit in inventory accounted for the remainder.

**Selling, General and Administrative Expenses.** Costs decreased by \$2.8 million, or 7% to \$36.0 million in 2002, as compared to the prior period. Costs declined primarily at the Company's Phibro-Tech, Koffolk and Odda operations due to cost reduction programs and lower levels of production activity. The prior period included a \$.4 million non-cash gain to reflect the decrease in repurchase value of redeemable common stock of a minority shareholder; no amount was recorded in the current period. Corporate expenses increased due to increased staff levels and costs related to debt restructuring activities.

**Asset Write-down.** During the quarter ended December 31, 2002, the Company recorded a charge of \$7.8 million related to the impairment of long-lived assets at the Company's Odda, Norway operations. (See Note 5 to the Condensed Consolidated Financial Statements).

**Operating (Loss) Income.** Operating income decreased by \$5.8 million to \$.2 million in 2002, as compared to the prior period. The Animal Health and Nutrition segment, after the exclusion of purchase accounting adjustments in fiscal 2002, increased due to higher unit volumes. The Industrial Chemicals segment worsened due to asset impairment charges at the Company's Odda facilities offset in part by lower general and administrative costs at the Company's Phibro-Tech facilities. The Company's Distribution segment approximated the prior year. The All Other segment declined from the prior period due to higher costs at MRT and sales decreases at the Company's U.K. facility.

**Interest Expense, Net.** Costs decreased by \$.9 million or 11% to \$8.1 million for the six months ended December 31, 2002 as compared to the prior period primarily due to lower interest rates offset in part by slightly higher average borrowing levels.

**Other (Income) Expense, Net.** Other (income) expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries (principally Norwegian Kroner and the Israeli Shekel). In addition, the Company recognized a gain of \$.6 million resulting from a settlement of a class action against European vitamin manufacturers. The Company also recorded a gain of \$1.1 million on a power purchase derivative instrument at its Odda facility.

**Income Taxes.** An income tax provision of \$1.9 million was reported on a consolidated pre-tax loss of \$9.6 million in fiscal 2003 primarily due to income tax provisions in profitable foreign jurisdictions and also for state income taxes. In addition, domestic pre-tax income was recorded without a tax provision due to the utilization of net operating loss carryforwards with a full valuation allowance. The Company's Odda facility losses were not given any tax benefit. The Company continues to carry a full valuation allowance on its domestic, Brazilian and Norwegian operating losses. These deferred tax assets will continue to be evaluated each reporting period based on actual and expected operating performance.

#### Liquidity and Capital Resources

**Net Cash Provided by Operating Activities.** Cash provided by operations for the six months ended December 31, 2002 and 2001 was \$27.4 million and \$4.3 million, respectively. Cash provided by operating activities increased in the six months ended December 31, 2002, compared with the six months ended December 31, 2001, primarily due to improvements in working capital management.

**Net Cash Used in Investing Activities.** Net cash used in investing activities for the six months ended December 31, 2002 and 2001 was \$1.4 million and \$11.1 million, respectively. Capital expenditures of \$7.4 million and \$6.6 million in the respective 2002 and 2001 periods, were for new product development, maintaining the Company's existing asset base and for environmental, health and safety projects. Proceeds of \$6.0 million from sales of certain fixed assets of Odda and certain assets of its Phibro-tech etchant business accounted for the remainder of cash provided by investing activities.

**Net Cash (Used In) Provided by Financing Activities.** Net cash (used in) provided by financing activities for the six months ended December 31, 2002 and 2001 was (\$18.9) million and \$9.2 million, respectively. Borrowings under the domestic revolving credit facility and other long-term debt were reduced in fiscal 2003 from cash generated by operating activities.

**Liquidity.** At December 31, 2002, the Company was in compliance with the financial covenants included in its amended domestic senior credit facility ("credit facility") with its lending banks. The credit facility was amended in October 2002 to: waive noncompliance with financial covenants as of June 30, 2002; amend financial covenants prospectively until maturity; amend the borrowing base formula and also reduce maximum availability under the revolving credit portion of the facility from \$70 million to \$55 million; limit borrowings under the capital expenditure line of the facility outstanding balance as of the amendment date; and revise the interest rate to 1.5% to 1.75% per annum over the base rate (as defined in the agreement). Management believes that the reduced maximum availability and the revised borrowing base formula under the revolving credit portion of the credit facility will not affect the Company's ability to meet its cash requirements during fiscal 2003.

The Company's ability to fund its operating plan relies upon continued availability of the credit facility which, in turn, requires the Company to maintain compliance with the amended financial covenants. The Company believes that it will be able to comply with the terms of the amended covenants based on its forecasted operating plan. In the event of adverse operating results and resultant violation of the covenants, through the remaining term of the financing agreement (see below), the Company cannot be certain it will be able to obtain waivers or amendments on favorable terms, if at all.

The Company's credit facility and its note payable to Pfizer mature in November 2003 and March 2004, respectively. The Company may not have sufficient cash resources to repay this debt and management has undertaken actions to improve the Company's operating performance and overall liquidity in order to reduce debt levels and allow for ultimate refinancing of this debt in fiscal 2004. These actions include cost reduction activities, working capital improvement programs, shutdown of unprofitable operations, and possible sale of certain business operations and other assets. The Company has completed the sale of certain fixed assets of Odda and certain assets of its Phibro-tech etchant business during the second quarter of fiscal year 2003 for aggregate proceeds of \$5,956. The Company is actively pursuing the sale of certain business operations

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to generate cash for debt repayment. However, there can be no assurance that such sales will be completed on terms acceptable to the Company, and there are no disposal transactions which the Company considers probable at December 31, 2002. Disposal transactions could result in recording losses for financial statement purposes.

The Company intends to refinance its current credit facility and the Pfizer note payable. The ability to refinance such debt on terms acceptable to the Company is, among other things, dependent upon the success of the management actions referred to above. There can be no assurance that the Company will be able to refinance such debt on terms acceptable to the Company. The inability to refinance the debt on terms acceptable to the Company would have a material adverse impact on the Company's financial position, results of operations, and cash flow.

In October 2002, the Company entered into an agreement with Pfizer whereby Pfizer agreed to defer until March 1, 2004, without interest, unpaid contingent purchase price amounts existing at May 31, 2002 and to waive contingent purchase price payments on future net revenues from June 1, 2002 through March 1, 2004.

In October 2002, Odda entered into an agreement with its Norwegian banks to restructure these loans and to obtain a waiver for non-compliance of its financial covenants. The agreement establishes a periodic payment schedule through November 30, 2003. Philipp Brothers Chemicals, Inc. is the guarantor of certain portions of this debt.

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Working capital as of December 31, 2002 was \$52.8 million compared to \$50.5 million at fiscal year end June 30, 2002. At December 31, 2002, the amount of credit extended under the Company's credit facility totaled \$33.4 million and the Company had \$7.9 million available under the borrowing base formula in effect under the credit facility. In addition, certain of the Company's foreign subsidiaries also had availability totaling \$7.3 million under their respective loan agreements.

The Company anticipates spending approximately \$10.4 million for capital expenditures in fiscal 2003, primarily to cover the Company's asset replacement needs, improve processes, and for environmental and regulatory compliance, subject to the availability of funds.

### Critical Accounting Policies

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

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the fiscal year ended June 30, 2002 and critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated

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financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates.

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

### New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred rather than at the date of a commitment to an exit or disposal plan. Costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material impact on the financial statements.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are required for financial statements of periods ending after December 15, 2002. The initial measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The Company does not expect the adoption of FIN No. 45 to have a significant impact on the financial statements.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). FIN No. 46 requires consolidation by business enterprises of variable interest entities (commonly referred to as special purpose entities), which meet certain characteristics. FIN No. 46 applies to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after January 31, 2003. The Company does not expect the adoption of FIN No. 46 to have an impact on the financial statements.

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### Seasonality of Business

There is some seasonality in the Company's results 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

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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 fiscal year ended June 30, 2002 and to Note 14 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 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; and the uncertain impact of the Company's divestiture plans. See also the discussion under "Risks and Uncertainties" in Note 3 of the Notes to Condensed Consolidated Financial Statements included in this Report and matters referred to throughout Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

In addition, the issue of the potential for increased bacterial resistance to certain antibiotics used in certain food-producing animals is the subject of discussions on a worldwide basis and, in certain instances, has led to government restrictions on the use of antibiotics in these food-producing animals. The sale of feed additives containing antibiotics is a material portion of the Company's business. Should regulatory or other developments result in further restrictions on the sale of such products, it could have a material adverse impact on the Company's financial position, results of operations and cash flows.

On February 14, 2003, the Company was advised that the Joint Expert Committee on Food Additives of the Food and Agricultural Organization of the United Nations and the World Health Organization ("JECFA"), at its meeting held February 6-12, 2003, had determined to withdraw the maximum residue limits ("MRL's") for Carbadox. It is not known at this time whether any national regulatory authorities will adopt this determination, which could result in reduced overall sales of the product. Carbadox is a significant product for the Company's Phibro Animal Health business. The Company is presently assessing the impact of this determination on the Company.

### 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."

### Item 4. Control and Procedures

- (a) Based upon an evaluation by the Company's Chief Executive Officer, Chairman of the Board and Chief Financial Officer within 90 days prior to the filing date of this Quarterly Report on Form 10-Q they have concluded that the Company's disclosure controls and procedures as defined in Rule



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15d-14(c) under the Securities Exchange Act of 1934, as amended, are effective for gathering, analyzing and disclosing information contained in the Company's periodic reports provided to the Securities and Exchange Commission.

- (b) Since the date of the most recent evaluation of the Company's internal controls, there have been no significant changes in such internal controls or in other factors that could significantly affect these controls nor were there any corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

On or about April 17, 1997, Philipp Brothers Chemicals, Inc. ("Philipp Brothers") and CP Chemicals, Inc. ("CP") were served with a complaint filed by Chevron USA, Inc. ("Chevron") in the United States District Court for the District of New Jersey, alleging that operations of CP at its Sewaren plant affected adjoining property owned by Chevron and that Philipp Brothers, as the parent of CP, is also responsible to Chevron. In July 2002, a phased settlement agreement was reached under which the Company and another defendant will, subject to certain conditions, take title to the property, subject to a period of due diligence investigation of the property. The Company's portion of the settlement for past costs and expenses is \$495 and is included in selling, general and administrative expenses in the June 30, 2002 statement of operations and comprehensive income. The payable of \$495 is included in accrued expenses and other current liabilities as of June 30, 2002 and was subsequently paid in July 2002. The Company and the other defendant will, if the sale becomes final, share equally in the costs of remediation. While the costs cannot be estimated at this time, the Company believes the costs will not be material and insurance recoveries will be available to offset some of those costs.

Item 5. Other Information.

None.

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

(a) Exhibits

Table with 2 columns: 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

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undersigned, thereunto duly authorized.

PHILIPP BROTHERS CHEMICALS, INC.

Date: February 14, 2003

By: /s/ JACK C. BENDHEIM

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Jack C. Bendheim  
Chairman of the Board

Date: February 14, 2003

By: /S/ GERALD K. CARLSON

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Gerald K. Carlson  
Chief Executive Officer

Date: February 14, 2003

By: /s/ RICHARD G. JOHNSON

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Richard G. Johnson  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

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CERTIFICATIONS

I, Gerald K. Carlson, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Philipp Brothers Chemicals, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date

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of this quarterly report (the "Evaluation Date"); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/Gerald K. Carlson

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Gerald K. Carlson,  
Chief Executive Officer

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I, Jack C. Bendheim, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Philipp Brothers Chemicals, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that

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material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/Jack C. Bendheim

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Jack C. Bendheim,  
Chairman of the Board

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I, Richard G. Johnson, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Philipp Brothers Chemicals, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/Richard G. Johnson

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Richard G. Johnson,  
Chief Financial Officer

Since the Company does not have securities registered under Section 12 of the Securities Exchange Act of 1934 and is not required to file periodic reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company is not an "issuer" as defined in the Sarbanes-Oxley Act of 2002, and therefore the Company is not filing the written certification statement pursuant to Section 906 of such Act. The Company submits periodic reports with the Securities and Exchange Commission because it is required to do so by the terms of the indenture governing its senior subordinated notes.

