PHILIPP BROTHERS CHEMICALS INC
Form 10-Q
February 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2000

OR

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

For the transition period from _______ to _______

Commission File Number 333-64641

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

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

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

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

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

Yes |X| No |_|

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

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

PHILIPP BROTHERS CHEMICALS, INC.

TABLE OF CONTENTS

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

PART I-- FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

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

	December 31, 2000
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 7,561
Trade receivables, less allowance for doubtful accounts of $842 at December 31, 2000 and $756 at June 30, 2000	71,394
Other receivables	10,245
Inventories	105,972
Prepaid expenses and other current assets	10,971
TOTAL CURRENT ASSETS	206,143
PROPERTY, PLANT AND EQUIPMENT, net	99,754
INTANGIBLES	6,392
OTHER ASSETS	28,931
	$ 341,220
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Cash overdraft	$ 4,301
Loans payable to banks	49,295
Current portion of long-term debt	999
Accounts payable	36,589
Accrued expenses and other current liabilities	34,612
TOTAL CURRENT LIABILITIES	125,796
LONG-TERM DEBT	135,417
OTHER LIABILITIES	11,440
TOTAL LIABILITIES	272,653
COMMITMENTS AND CONTINGENCIES	
REDEEMABLE SECURITIES:	
Series B and C preferred stock	45,563
Common stock	2,280
Common stock of subsidiary	202
TOTAL REDEEMABLE SECURITIES	48,045
STOCKHOLDERS' EQUITY:	
Series A preferred stock	521
Common stock	2
Paid-in capital	878
Retained earnings	22,316
Accumulated other comprehensive income (loss)--	
gain on derivative instruments	168
cumulative currency translation adjustment	(3,363)

TOTAL STOCKHOLDERS' EQUITY	20,522
	$ 341,220

See notes to unaudited Condensed Consolidated Financial Statements

4

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	Three Months Ended December 31,		Six Months End[ed] December 31,	
	2000	1999	2000	1[999]
NET SALES	$ 81,774	$ 76,289	$ 153,126	$ 1
COST OF GOODS SOLD	61,310	54,988	113,600	1
GROSS PROFIT	20,464	21,301	39,526	
SELLING, GENERAL AND ADMINISTRATIVE				
EXPENSES	22,856	17,957	40,508	
OPERATING (LOSS) INCOME	(2,392)	3,344	(982)	
OTHER:				
Interest expense	4,080	3,598	8,019	
Interest income	(186)	(83)	(403)	
Other (income)/expense, net	(1,231)	1,134	97	
LOSS BEFORE INCOME TAXES	(5,055)	(1,305)	(8,695)	
BENEFIT FOR INCOME TAXES	(2,437)	(559)	(2,958)	
NET LOSS	(2,618)	(746)	(5,737)	
OTHER COMPREHENSIVE INCOME (LOSS)				
Gain on derivative instruments	168	--	168	
Change in foreign currency translation adjustment	389	(474)	(772)	

COMPREHENSIVE LOSS	$ (2,061)	$ (1,220)	$ (6,341)	$

See notes to unaudited Condensed Consolidated Financial Statements

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY (Unaudited)
For the Three Months and Six Months Ended December 31, 2000
(In Thousands)

	Preferred Stock	Common Stock		
	Series A	Class A	Class B	Paid-in Capital
BALANCE, JULY 1, 2000	$ 521	$ 1	$ 1	$ 878
Foreign currency translation adjustment	--	--	--	--
Net loss	--	--	--	--
BALANCE, SEPTEMBER 30, 2000	$ 521	$ 1	$ 1	$ 878
Accretion of redeemable preferred securities to fair market value	--	--	--	--
Dividends on series B and C preferred stock	--	--	--	--
Gain on derivative instruments	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Net loss	--	--	--	--
BALANCE, DECEMBER 31, 2000	$ 521	$ 1	$ 1	$ 878

See notes to unaudited Condensed Consolidated Financial Statements

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Six Months Ended December 31, 2000 and 1999
(In Thousands)

	2000	1999
OPERATING ACTIVITIES:		
Net loss	$ (5,737)	$ (2,731)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,640	5,982
Other	(1,584)	340
Changes in operating assets and liabilities:		
Accounts receivable	7,776	12,161
Inventories	(4,017)	(5,682)
Prepaid expenses and other current assets	(813)	1,670
Other assets	(2,914)	(277)
Accounts payable	3,801	(7,463)
Accrued expenses and other current liabilities	2,253	(3,975)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,405	25
INVESTING ACTIVITIES:		
Capital expenditures	(6,509)	(9,903)
Acquisition of a business	(51,700)	--
Proceeds from property damage claim	--	872
Other investing	(339)	(1,500)
NET CASH USED IN INVESTING ACTIVITIES	(58,548)	(10,531)
FINANCING ACTIVITIES:		
Cash overdraft	1,432	605
Net increase in short-term debt	12,403	313
Proceeds from long-term debt	1,590	11,046
Proceeds from issuance of redeemable preferred stock	45,000	--
Payments of long-term debt	(1,018)	(509)
Other financing	(942)	62
NET CASH PROVIDED BY FINANCING ACTIVITIES	58,465	11,517
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(164)	--
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,158	1,011
CASH AND CASH EQUIVALENTS at beginning of period	2,403	2,308
CASH AND CASH EQUIVALENTS at end of period	$ 7,561	$ 3,319

See notes to unaudited Condensed Consolidated Financial Statements

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

1. General

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of December 31, 2000 and the results of operations and cash flows for the three months and six months ended December 31, 2000 and 1999.

The condensed consolidated balance sheet as of June 30, 2000 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Additionally, it should be noted that the accompanying condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting standards appropriate for interim financial statements. While the Company believes that the disclosures presented are adequate to make the information contained herein not misleading, it is suggested that these financial statements be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2000.

Certain prior year amounts in the accompanying condensed consolidated financial statements and related notes have been reclassified to conform to the fiscal 2001 presentation. Such reclassifications include a reclassification of customer rebates of $2,198 and $2,430 for the three months and six months ended December 31, 1999, respectively, from selling, general and administrative expenses to net sales on the consolidated statements of operations and comprehensive income, as a result of the adoption of the Emerging Issues Task Force Issue No. 00-14 "Accounting for Certain Sales Incentives."

The Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on July 1, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks and foreign currency options as a means of hedging forecasted operating costs. The Company also utilizes, on a limited basis, certain commodity derivatives, primarily on copper used in its manufacturing process, to hedge the cost of its anticipated production requirements. During the quarter ended December 31, 2000, the Company's foreign currency options have been designated and qualify as cash flow hedges under the criteria of SFAS 133. SFAS 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in other comprehensive income while the ineffective portion of the derivative's change in fair value be recognized immediately in earnings. The Company's foreign currency forward contracts and commodity derivatives did not meet the criteria of SFAS 133 to qualify for hedge accounting. SFAS 133 requires that unrealized gains and losses on derivatives not qualifying for hedge accounting be recognized currently in earnings. The cumulative effect of a change in accounting principle due to the adoption of SFAS 133 as of July 1, 2000 was not material. The Company recorded a net gain of $168 in other comprehensive income for foreign currency options, a net loss of $391 in cost of goods sold for commodity contracts and a net gain of $565 in other expense for the foreign currency forward contracts and the ineffective portion of the option contracts for the three month period ended December 31, 2000 and net gains of $168, $4 and $627 for the six months ended December 31, 2000.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition", which provides guidelines in applying generally accepted accounting principles to selected revenue recognition issues. The SAB is effective in the fourth fiscal quarter of fiscal years beginning after December 15, 1999, or as of April 1, 2001 in the Company's case. The Company continues to evaluate the impact of SAB 101, but believes it is in compliance with the provisions of the SAB, and, accordingly, does not expect this statement to have a material impact on its financial statements.

In October 2000, the Emerging Issues Task Force ("EITF") issued guidance on how to classify certain revenues and costs in a company's financial statements. EITF No. 00-10 "Accounting for Shipping and Handling Revenues and Costs" requires that companies classify all amounts billed to customers related to shipping and handling cost as revenue.

This statement will be effective in the fourth fiscal quarter of fiscal years beginning after December 15, 1999 and is not expected to have any effect on the financial statements.

The results of operations for the three months and six months ended December 31, 2000 and 1999 may not be indicative of results for the full year.

2. Acquisition

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

The purchase price of $74,434 (including cost of acquisition) was paid with cash of $51,700 and the issue of a promissory note to Pfizer for $22,734, which matures in 2003 with interest payable semi-annually in arrears at 13%. The Company financed the $51,700 cash payment through the issuance of $40,808 of redeemable preferred securities ($45,000 of redeemable preferred securities, less costs connected with the issue of those securities of $4,192), and the remainder was financed through an amendment to existing bank credit facilities. In addition, under the terms of the purchase agreement, the Company is required to pay Pfizer contingent purchase price based on a percentage of future net revenues of a particular product. The term of the contingent payments is five years from November 30, 2000. The maximum contingent purchase price due under this arrangement is limited to $55,000, with a maximum annual payment of $12,000. Contingent purchase price paid will be allocated to related production equipment and product intangibles and the Company accrued $843 under this arrangement as of December 31, 2000. In addition, the Company is required to pay

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

The acquisition was accounted for in accordance with the purchase method and results of the MFA business have been included since the date of acquisition. The purchase price has been preliminarily allocated to inventory and property, plant, and equipment. Property, plant and equipment includes two facilities, Rixensart, Belgium and Guarulhols, Brazil. Following the closing, the Company is operating under a supply agreement with Pfizer in respect of the manufacturing facility in Belgium pending regulatory approval of the transfer of title, which is expected to occur in the quarter ending March 31, 2001. In addition, the transfer of employees in Belgium is also pending such regulatory approval and is also pending further negotiations of the settlement of the pensions. The Company expects the transfer of pension obligations to be fully funded by Pfizer. The Company is also currently assessing the results of an environmental review, which is expected to be finalized by March 31, 2001. The Company does not expect to incur any significant liabilities arising from the environmental review. The final allocation of the purchase price and the determination of the useful lives of the long-term assets acquired will be based on an independent valuation to be completed prior to the Company's fiscal 2001 year end.

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

	Six Months Ended December 31, 2000	1999
Net sales	$ 200,719	$ 236,453
Net (loss) income	(6,480)	6,025

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

3. Inventories

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

Inventories at December 31, 2000 and June 30, 2000 are based on perpetual records and consist of the following:

	December 31, 2000	June 30, 2000
Raw materials	$ 26,805	$21,457
Work-in-process	3,535	5,340
Finished goods	75,632	23,608
	$105,972	$50,405

4. Contingencies

a. Litigation

The Company's subsidiary, Phibro-Tech, Inc., has been named as a potentially responsible party ("PRP") in connection with an action commenced by the EPA, involving a third party fertilizer manufacturing site in South Carolina. While the outcome of ongoing negotiation is uncertain, the Company has accrued its best estimate of the amount for which this matter can be settled. Phibro-Tech, Inc. has also been named as a PRP involving a third party site in California. The Company is not, at this time, in a position to assess the extent of liability associated with this site.

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

The Company and its subsidiary, C.P. Chemicals, Inc., are involved in litigation alleging that operations at the Sewaren, New Jersey site have affected the adjoining owner's property. The Company is not, at this time, in a position to assess the extent of any liability.

The Company and its subsidiaries are a party to a number of claims and lawsuits arising in the normal course of business, including patent infringement, product liability and governmental regulation concerning environmental and other matters. Certain of these actions seek damages in various amounts.

All such claims are being contested, and management believes the resolution of these matters will not materially affect the consolidated financial position, results of operations or cash flows of the Company.

b. Environmental Remediation

The Company's domestic subsidiaries are subject to various federal, state and local environmental laws and regulations which govern the management of chemical wastes. The most significant regulation governing the Company's recycling activities is the Resource Conservation and Recovery Act of 1976 ("RCRA"). The Company has been issued final RCRA "Part B" permits to operate as hazardous waste treatment and storage facilities at its facilities in Santa Fe Springs, California; Garland, Texas; Joliet, Illinois; Sumter, South Carolina and Sewaren, New Jersey. The Company has also obtained an interim status RCRA permit for its Union City, California facility.

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

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

(In Thousands)

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 $1,484 as of December 31, 2000, which is included in current and long-term liabilities.

5. Business Segments

The Company operates in two business segments: AgChem and Industrial Chemicals. The AgChem segment manufactures and markets a variety of animal nutrition and health products, copper based fungicides and growth regulators. The MFA business is included in the AgChem segment. The Industrial Chemicals segment manufactures and markets a number of specialty organic and inorganic intermediate chemicals for use in a broad variety of industrial chemical applications. The Company aggregates certain operating segments into its reportable segments. Management evaluates the performance of its operating segments and allocates resources based on operating income. Transfers between segments are priced at amounts that include a manufacturing profit except that transfers of $3,062 and $2,030 for the three months ended December 31, 2000 and 1999, respectively, and $6,464 and $4,143 for the six months ended December 31, 2000 and 1999, respectively, from the Industrial Chemicals group to the AgChem group are recorded at the cost of product transferred. Other includes corporate expenses and elimination of intersegment revenues.

	AgChem Group	Industrial Chemicals Group	Other	Total
Three Months Ended December 31, 2000				
Revenues - external customers	$48,676	$ 33,098	$ --	$ 81,774
- intersegment	1,258	5,927	(7,185)	0
Total revenues	$49,934	$ 39,025	$(7,185)	$ 81,774
Operating income (loss)	$ 1,096	$ 467	$(3,955)(1)	$ (2,392)

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(1) Represents corporate expenses and intercompany profit eliminations.

	AgChem Group	Industrial Chemicals Group	Other	Total
Three Months Ended December 31, 1999				
Revenues - external customers	$42,256	$ 34,033	$ --	$ 76,289
- intersegment	1,715	5,726	(7,441)	0
Total revenues	$43,971	$ 39,759	$(7,441)	$ 76,289
Operating income (loss)	$ 2,354	$ 3,698	$(2,708)(2)	$ 3,344

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(2) Represents corporate expenses and intercompany profit eliminations.

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

	AgChem Group	Industrial Chemicals Group	Other	Total
Six Months Ended December 31, 2000				
Revenues - external customers	$88,223	$ 64,903	$ --	$153,126
- intersegment	2,274	12,178	(14,452)	0
Total revenues	$90,497	$ 77,081	$(14,452)	$153,126
Operating income (loss)	$ 2,521	$ 1,778	$ (5,281)(1)	$ (982)

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(1) Represents corporate expenses and intercompany profit eliminations.

	AgChem Group	Industrial Chemicals Group	Other	Total
Six Months Ended December 31, 1999				
Revenues - external customers	$78,681	$ 68,537	$ --	$147,218
- intersegment	2,848	10,869	(13,717)	0
Total revenues	$81,529	$ 79,406	$(13,717)	$147,218
Operating income (loss)	$ 3,137	$ 5,845	$ (4,853)(2)	$ 4,129

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(2) Represents corporate expenses and intercompany profit eliminations.

6. Credit Facility

The Company has amended its existing $35,000 revolving credit facility with PNC Bank to increase the facility to $70,000 and to provide for an additional $15,000 facility for capital expenditure spending. The Company, under the amended credit agreement, may choose between two interest options: (i) base rate, as defined and (ii) Euro Rate, as defined, plus 21/4% - 3% per annum, depending on the Company's operating performance and whether the drawdowns are under the revolving credit facility or the capital expenditure facility. The facilities have a maturity date of three years from December 1, 2000 and required the grant of security interests in substantially all the Company's domestic assets as well as certain of the capital stock of the Company's foreign subsidiaries. Due to the nature and terms of the amended credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lock box arrangement, all borrowings against this facility are now classified as a current liability.

7. Redeemable Preferred Stock

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

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

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

The redeemable preferred stock is entitled to cumulative cash dividends, payable semi-annually, at 15% per annum of the liquidation value. The liquidation value of the Preferred B stock is an amount equal to $1 per share plus all accrued and unpaid dividends (the "Liquidation Value"). The redeemable Preferred C stock is entitled to the Liquidation Value plus a percentage of the equity value of the Company, as defined in the amended Certificate of Incorporation. The equity value is calculated as a multiple of the earnings before interest, tax, depreciation and amortization ("EBITDA") of the

combined Company business ("Equity Value"). The Company may, at the date of the annual closing anniversary, redeem the Preferred B stock, in whole or in part at the Liquidation Value, for cash, provided that if Preferred B is redeemed separately from the Preferred C, then the Preferred B must be redeemed for the Liquidation Value plus an additional amount which would generate an internal rate of return of 20% to Palladium on the Preferred B investment. Redemption in part of Preferred B is only available if at least 50% of the outstanding Preferred B is redeemed. On the third closing anniversary and on each closing anniversary thereafter, the Company may redeem for cash only in whole the Preferred C, at the Liquidation Value plus the Equity Value payment.

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

The redeemable preferred securities were initially recorded at $40,808, representing proceeds of $45,000, net of costs of issuance of $4,192. The Company has recorded a charge of $4,192 to retained earnings to reflect the accretion of the preferred securities to their fair market value as at the closing date. A dividend of $563 has been accrued on the preferred securities and charged to retained earnings as of December 31, 2000. No equity value accretion was required as of December 31, 2000 under the applicable formula.

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

8. Condensed Consolidating Financial Statements

In June 1998, the Company issued $100 million of its 97/8% Senior Subordinated Notes due 2008 (the "Notes"). In connection with the issuance of these Notes, the Company's U.S. Subsidiaries fully and unconditionally guaranteed such Notes on a joint and several basis. Foreign subsidiaries do not presently guarantee the Notes.

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

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

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

13

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)
AS OF DECEMBER 31, 2000
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Assets			
Current Assets:			
Cash and cash equivalents	$ 126	$ 1,009	$ 6,426
Trade receivables	5,108	36,165	30,121
Other receivables	1,159	6,504	2,582
Inventory	3,573	53,591	48,808
Prepaid expenses and other	4,857	3,737	2,377
Total current assets	14,823	101,006	90,314
Property, plant & equipment, net	591	27,216	71,947
Intangibles	86	2,103	4,203
Investment in subsidiaries	71,411	1,534	(6,130)
Intercompany	71,414	(36,084)	942
Other assets	95,391	(69,226)	2,766

Total assets	$ 253,716	$ 26,549	$ 164,042
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	$ --	$ 2,892	$ 1,409
Loan payable to banks	42,390	--	6,905
Current portion of long term debt	32	879	88
Accounts payable	2,324	15,575	18,690
Other loans payable	--	--	--
Accrued expenses and other	12,230	14,435	7,947
Total current liabilities	56,976	33,781	35,039
Long term debt	123,896	(51,272)	99,065
Other liabilities	2,035	5,159	4,246
Redeemable securities:			
Series B and C preferred stock	45,563	--	--
Common stock	1,673	--	607
Common stock of subsidiary	--	202	--
	47,236	202	607
Stockholders' Equity			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,040	--
Retained earnings	22,316	4,410	28,333
Accumulated other comprehensive income (loss)			
gain on derivative instruments	--	168	--
cumulative currency translation adjustment	(144)	29	(3,248)
Total stockholders' equity	23,573	38,679	25,085
Total liabilities and equity	$ 253,716	$ 26,549	$ 164,042

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$ 8,133	$ 47,438	$ 35,391
Cost of goods sold	6,656	34,690	29,152

Gross profit	1,477	12,748	6,239
Selling, general, and administrative expenses	3,542	12,968	6,346
Operating loss	(2,065)	(220)	(107)
Interest expense	2,773	(5)	1,312
Interest income	(8)	(1)	(177)
Other expense (income)	32	(4)	(1,259)
Intercompany allocation	(3,571)	3,442	129
Loss (profit) relating to subsidiaries	2,112	--	--
(Loss) income before income taxes	(3,403)	(3,652)	(112)
Benefit for income taxes	(785)	(1,307)	(345)
Net (loss) income	$ (2,618)	$ (2,345)	$ 233

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$ 16,644	$ 88,819	$ 63,488
Cost of goods sold	13,447	64,607	51,371
Gross profit	3,197	24,212	12,117
Selling, general, and administrative expenses	7,004	23,003	10,501
Operating (loss) income	(3,807)	1,209	1,616
Interest expense	5,243	61	2,715
Interest income	(44)	(1)	(358)

Other expense	121	(4)	(20)
Intercompany allocation	(6,895)	6,509	386
Loss (profit) relating to subsidiaries	3,617	--	--
(Loss) income before income taxes	(5,849)	(5,356)	(1,107)
Benefit for income taxes	(112)	(2,019)	(827)
Net (loss) income	$ (5,737)	$ (3,337)	$ (280)

16

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Operating activities:			
Net (loss) income	$ (5,737)	$ (3,337)	$ (280)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	273	2,551	3,816
Other	(565)	(22)	(997)
Changes in operating assets and liabilities:			
Accounts receivable	1,048	9,128	(2,400)
Inventory	(306)	(5,619)	1,908
Prepaid expenses and other	1,904	(2,248)	(469)
Other assets	(957)	(1,948)	(9)
Intercompany	(891)	2,620	1,888
Accounts payable	184	552	3,065
Accrued expenses and other	438	2,082	(267)
Net cash (used in) provided by operating activities	(4,609)	3,759	6,255
Investing activities:			
Capital expenditures	(47)	(4,099)	(2,363)
Acquisition of a business	(51,700)	--	--
Other investing	--	--	(339)
Net cash used in investing activities	(51,747)	(4,099)	(2,702)

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

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Assets			
Current Assets:			
Cash and cash equivalents	$ 11	$ 99	$ 2,293
Trade receivables	6,172	45,378	27,826
Other receivables	4,855	550	3,074
Inventory	3,267	25,072	22,066
Prepaid expenses and other	3,065	2,443	3,590
Total current assets	17,370	73,542	58,849
Property, plant & equipment, net	702	25,032	50,446
Intangibles	87	2,292	3,918
Investment in subsidiaries	78,028	1,533	(6,129)
Intercompany	63,874	(32,463)	3,197

Other assets	15,236	8,542	2,435
Total assets	$ 175,297	$ 78,478	$ 112,716
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	$ 158	$ 1,302	$ 660
Loan payable to banks	--	--	8,650
Current portion of long term debt	31	893	1,372
Accounts payable	2,140	14,999	15,503
Accrued expenses and other	3,892	13,118	7,147
Total current liabilities	6,221	30,312	33,332
Long term debt	130,600	1,435	42,295
Other liabilities	2,022	4,431	6,829
Redeemable Securities:			
Common stock	2,389	--	1,124
Common stock of subsidiary	--	451	--
	2,389	451	1,124
Stockholders' Equity			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,040	--
Retained earnings	32,808	7,747	31,613
Accumulated other comprehensive (loss) income - cumulative currency translation adjustment	(144)	30	(2,477)
Total stockholders' equity	34,065	41,849	29,136
Total liabilities and equity	$ 175,297	$ 78,478	$ 112,716

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31, 1999
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$ 8,735	$ 42,810	$ 34,596
Cost of goods sold	6,974	32,506	25,360

Gross profit	1,761	10,304	9,236
Selling, general, and administrative expenses	3,295	8,936	5,726
Operating (loss) income	(1,534)	1,368	3,510
Interest expense	1,947	77	1,574
Interest income	(5)	(1)	(77)
Other expense	(1,000)	--	2,134
Intercompany allocation	(2,622)	2,622	--
Loss (profit) relating to subsidiaries	1,286	--	--
(Loss) income before income taxes	(1,140)	(1,330)	(121)
(Benefit) provision for income taxes	(394)	(484)	319
Net (loss) income	$ (746)	$ (846)	$ (440)

19

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Net sales	$ 17,445	$ 80,339	$ 67,591
Cost of goods sold	14,032	60,507	49,676
Gross profit	3,413	19,832	17,915
Selling, general, and administrative expenses	6,473	18,552	12,006
Operating (loss) income	(3,060)	1,280	5,909
Interest expense	3,879	119	2,990
Interest income	(12)	(1)	(162)

Other expense	(912)	--	2,947
Intercompany allocation	(5,212)	5,212	--
Loss (profit) relating to subsidiaries	2,712	--	--
(Loss) income before income taxes	(3,515)	(4,050)	134
(Benefit) provision for income taxes	(784)	(1,465)	261
Net (loss) income	$ (2,731)	$ (2,585)	$ (127)

20

PHILIPP BROTHERS CHEMICALS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guarantors
Operating activities:			
Net (loss) income	$ (2,731)	$ (2,585)	$ (127)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	273	2,197	3,512
Other	1,106	(407)	(359)
Changes in operating assets and liabilities:			
Accounts receivable	1,297	4,357	6,507
Inventory	(1,842)	(4,819)	979
Prepaid expenses and other	(2,243)	533	3,380
Other assets	6	(76)	(207)
Intercompany	(3,607)	7,426	(1,107)
Accounts payable	(570)	(2,550)	(4,343)
Accrued expenses and other	323	(3,835)	(463)
Net cash (used in) provided by operating activities	(7,988)	241	7,772
Investing activities:			
Capital expenditures	(62)	(3,085)	(6,756)
Proceeds from property damage claim	--	872	--
Other investing	(1,500)	--	--

Net cash used in investing activities	(1,562)	(2,213)	(6,756)
Financing activities:			
Cash overdraft	256	878	(529)
Net (decrease) increase in short term debt ..	(32)	--	345
Proceeds from long term debt	9,015	1,545	486
Payments of long term debt	(75)	(109)	(325)
Other financing	--	--	62
Net cash provided by financing activities ...	9,164	2,314	39
Net (decrease) increase in cash and cash equivalents	(386)	342	1,055
Cash and cash equivalents at beginning of year	393	166	1,749
Cash and cash equivalents at end of year	$ 7	$ 508	$ 2,804

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

This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed throughout this Form 10-Q and are discussed under the caption of this Item 2 entitled "Certain Factors Affecting Future Operating Results".

General

Philipp Brothers Chemicals, Inc. (together with its subsidiaries, the "Company"), is a leading diversified global manufacturer and marketer of a broad range of specialty agricultural and industrial chemicals, which are sold world-wide for use in numerous markets, including animal nutrition and health, agriculture, pharmaceutical, electronics, wood treatment, glass, construction and concrete. The Company also provides recycling and hazardous waste services primarily to the electronics and metal treatment industries. Unless the context otherwise requires, references herein to the Company are intended to refer to Philipp Brothers Chemicals, Inc. and/or one or more of its subsidiaries, as applicable.

Acquisition

On November 30, 2000, the Company purchased (see Note 2 of the Notes to the Condensed Consolidated Financial Statements) the Medicated Feed Additives (MFA) business of Pfizer, Inc. (Pfizer). The MFA business produces and sells a broad range of medicated feed additive products to the global livestock industry, either directly to large integrated livestock producers or through a network of independent distributors.

The purchase price for this acquisition was $74.4 million, of which $51.7 million was paid in cash with the remainder being financed through the issuance of a promissory note to Pfizer for $22.7 million. The note is payable in 2003 and bears interest at 13% payable semi-annually in arrears. The Company financed the $51.7 million cash payment through net cash proceeds of $40.8 million from the issuance of redeemable preferred securities (see Note 7 of the Notes to Condensed Consolidated Financial Statements) and the remainder through an amendment to existing bank credit facilities (see Note 6 of the Notes to Condensed Consolidated Financial Statements). In addition, under the terms of the purchase agreement, the Company is required to pay Pfizer contingent purchase price based on a percentage of future net revenues of a particular product. The term of the contingent payments is five years from November 30, 2000. The maximum contingent purchase price due under this arrangement is limited to $55.0 million, with a maximum annual payment of $12.0 million. In addition, the Company is required to pay Pfizer contingent payments to a maximum of $10.0 million over five years on other products based on certain gross profit levels of the MFA business.

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

Results of Operations

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

	Sales ($000's)			
	Three Months Ended December 31,		Six Months Ended December 31,	
Operating Segments	2000	1999	2000	1999
AgChem	$49,934	$43,971	$ 90,497	$ 81,5
Industrial Chemicals	39,025	39,759	77,081	79,4
Elimination of intersegment sales	(7,185)	(7,441)	(14,452)	(13,7
	$81,774	$76,289	$153,126	$147,2

	Operating Income ($000's)			
	Three Months Ended December 31,		Six Months Ended December 31,	
Operating Segments	2000	1999	2000	1999
AgChem	$ 1,096	$ 2,354	$ 2,521	$ 3,1
Industrial Chemicals	467	3,698	1,778	5,8
Corporate expenses and eliminations	(3,955)	(2,708)	(5,281)	(4,8

$(2,392)	$ 3,344	$ (982)	$ 4,1
=======	=======	========	======

Comparison of Three Months Ended December 31, 2000 and 1999

Net Sales. Net sales increased by $5.5 million, or 7.2% to $81.8 million in the three months ended December 31, 2000 as compared to the same period of the prior year. AgChem sales increased by $6.0 million, primarily due to $10.4 million of sales from the newly acquired MFA business. This was partially offset by a $3.9 million reduction in sales of crop protection chemicals primarily due to heavier than normal sales volume during the second quarter of fiscal 2000 as one customer purchased additional product to meet their minimum purchase commitments for the calendar year. Sales to this customer during fiscal 2001 have followed a more normalized sales pattern. Industrial Chemicals sales were lower by $.7 million primarily due to lower sales of calcium carbide ($1.3 million) as the continuing weak market negatively impacted both pricing and volume. Increased demand for coal fly ash ($.9 million) and higher recycling fees ($.7 million) were offset by reduced sales of halogenated organic compounds ($1.0 million) as lower priced competitive products from China has resulted in reduced market share.

Gross Profit. Gross profit decreased by $.8 million, or 3.9% to $20.5 million as compared to the same period of the prior year. In AgChem, gross profits generated by one month of operations of the MFA business were $3.6 million, which were partially offset by reduced profits from crop protection chemicals ($1.9 million). Gross profit (and operating income) of the MFA business would have been $1.1 million higher than reported if not for purchase price adjustments to the value of inventory acquired from Pfizer. Lower profits in the Industrial Chemicals segment were primarily due to increased raw material and utility costs in the production of calcium carbide and dicyandiamide which, in conjunction with the reduced volume and pricing on calcium carbide, negatively impacted gross profit by $2.5 million. The stronger demand for coal fly ash and the increase in recycling fees was partially offset by the reduction in profits from halogenated organic compounds.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $4.9 million, or 27.3% to $22.9 million for the three months ended December 31, 2000 as compared to the same period of the prior year. This increase was primarily due to the MFA acquisition ($3.2 million) and compensation expense associated with the separation of employment of a senior executive of the Company ($1.3 million). Expenses of the MFA business included $.9 million of pre-operating costs associated with the start-up of operations. Offsetting these items were lower expenses ($.6 million) at the Company's Norwegian subsidiary, primarily the result of cost containment measures taken over the past year.

Operating Income. Operating income decreased by $5.7 million to a loss of $2.4 million for the three months ended December 31, 2000 as compared to the same period of the prior year. Operating income of the AgChem segment decreased by $1.3 million as reduced profitability from crop protection chemicals ($1.3 million) was partially offset by income generated from the MFA acquisition ($.4 million). Operating income of the Industrial Chemicals segment was lower by $3.2 million primarily due to lower profitability of dicyandiamide and calcium carbide ($2.0 million) and halogenated organic compounds ($.6 million). In addition, corporate expenses were higher by $1.2 million due to the employment separation discussed above.

Interest Expense, Net. Net interest expense increased by $.4 million, or 10.8% to $3.9 million in the three months ended December 31, 2000 as compared to the same period of the prior year. The additional debt taken on as part of the financing of the MFA acquisition as well as higher interest rates under the new credit facility with PNC Bank were the primary factors for the increase.

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

Income Taxes. The Company provides a benefit on interim period losses to the extent income is projected for the full fiscal year. The effective tax rate for the quarter is higher than the U.S. statutory rate due to the relationship of each domestic and international subsidiaries' individual income or loss position to the statutory tax rates in each country.

Comparison of Six Months Ended December 31, 2000 and 1999

Net Sales. Net sales increased by $5.9 million, or 4.0% to $153.1 million in the six months ended December 31, 2000 as compared to the same period of the prior year. AgChem sales increased by $9.0 million, primarily due to $10.4 million of sales from the MFA business as well as non-repeating sales of certain intermediates totaling $1.2 million. This was partially offset by a $2.8 million reduction in sales of crop protection chemicals primarily due to heavier than normal sales volume during the second quarter of fiscal 2000 as one customer purchased additional product to meet their minimum purchase commitments for the calendar year. Sales to this customer during fiscal 2001 have followed a more normalized sales pattern. Industrial Chemicals sales were lower by $2.3 million primarily due to lower sales of calcium carbide ($2.7 million) as the continuing weak market negatively impacted both pricing and volume. Increased demand for coal fly ash ($1.7 million) and higher recycling fees ($1.3 million) were partially offset by reduced sales of halogenated organic compounds ($2.1 million) due to the impact of competitive products from China and lower sales of dicyandiamide ($.6 million) resulting from manufacturing disruptions during the first quarter.

Gross Profit. Gross profit decreased by $1.6 million, or 4.0% to $39.5 million as compared to the same period of the prior year. In AgChem, gross profits generated by one month of operations of the MFA business were $3.6 million, which were partially offset by reduced profits from crop protection chemicals ($1.7 million). Lower profits in the Industrial Chemicals segment were primarily due to increased raw material and utility costs in the production of calcium carbide and dicyandiamide which, in conjunction with the reduced volume and pricing on calcium carbide, negatively impacted gross profit by $5.0 million. Profit margin on coal fly ash improved considerably as higher demand resulted in higher prices and increased production, resulting in additional gross profit of $1.4 million. The increase in recycling fees more than offset the reduction in profits from halogenated organic compounds.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $3.5 million, or 9.4% to $40.5 million for the six months ended December 31, 2000 as compared to the same period of the prior year. This increase was primarily due to the MFA acquisition ($3.2 million), compensation expense associated with the separation of employment of a senior executive of the Company ($1.3 million), and additional warehousing and distribution costs associated with the increased sales of coal fly ash ($1.2 million). Offsetting these items were lower expenses ($2.0 million) at the Company's Norwegian subsidiary, primarily the result of cost containment measures taken over the past year.

Operating Income. Operating income decreased by $5.1 million to a loss of $1.0 million for the six months ended December 31, 2000 as compared to the same period of the prior year. Operating income of the AgChem segment decreased by

$.6 million primarily due to reduced profitability from crop protection chemicals partially offset by income generated from the MFA acquisition. Operating income of the Industrial Chemicals segment was lower by $4.1 million primarily due to lower profitability of dicyandiamide and calcium carbide ($2.9 million) and halogenated organic compounds ($1.1 million).

Interest Expense, Net. Net interest expense increased by $.8 million, or 11.8% to $7.6 million in the six months ended December 31, 2000 as compared to the same period of the prior year. Increased average borrowings as well as higher interest rates were the primary factors for the increase.

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

Income Taxes. The Company provides a benefit on interim period losses to the extent income is projected for the full fiscal year.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the six months ended December 31, 2000 was $5.4 million. Included in this is $4.1 million as a final settlement from the Company's insurance carrier for business interruption and other reimbursable losses and expenses in connection with a fire, in April 1999, at its Bowmanstown, Pennsylvania facility.

Net Cash Used in Investing Activities. Cash used in investing activities for the six months ended December 31, 2000 was $58.5 million, primarily related to the MFA acquisition ($51.7 million). See Note 2 of the Notes to the Condensed Consolidated Financial Statements for details on the non-cash consideration for this acquisition. Capital expenditures of $6.5 million were primarily for improvements at the Company's ODDA (Norway) facility and expansion of the Company's coal fly ash operations.

24

Net Cash Provided by Financing Activities. Net cash provided by financing activities for the six months ended December 31, 2000 was $58.5 million, of which $51.7 million was used for the MFA acquisition. See Note 2 of the Notes to the Condensed Consolidated Financial Statements for the sources of funds used in financing this acquisition.

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

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

As of December 31, 2000, the Company had $80.3 million of working capital compared to $79.9 million as of June 30, 2000. Inventories increased by $55.6 million from the fiscal year end, primarily due to inventory purchased as part of the MFA acquisition ($51.7 million). Due to the nature and terms of the amended revolving credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lockbox arrangement, all borrowings against this facility are now classified as a current liability. At December 31, 2000, the amount of credit extended under this agreement totaled $42.4 million and the Company had $18.4 million available under the borrowing base formula in this agreement.

Commencing with the fourth quarter of fiscal 2000, due to competitive market conditions, the Company extended payment terms on selected AgChem sales representing $6.7 million of revenues. These terms defer cash inflows into the third and fourth quarters of fiscal 2001.

The Company anticipates spending approximately $16 million for capital expenditures in the 2001 fiscal year for its existing business, principally for improvements at its ODDA facility and for expansion of its coal fly ash operations. Depending on actual future operating results, the Company may, if necessary, postpone certain expenditures that are considered discretionary.

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

Seasonality of Business

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

Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rate Risk

The Company uses sensitivity analysis to assess the market risk of its debt-related financial instruments and derivatives. Market risk is defined for these purposes as the potential change in the fair value resulting from an adverse movement in interest rates. The carrying amounts of cash and cash equivalents, trade receivables, trade payables and short term debt is considered to be representative of their fair value because of their short maturities. As of December 31, 2000, the fair value of the Company's senior subordinated debt was estimated based on quoted market rates to be $71.8 million and the related carrying amount is $100 million. A 100 basis point increase in interest rates could result in an approximately $5.4 million reduction in the fair value of total debt.

Foreign Currency Exchange Rate Risk

A significant portion of the financial results of the Company is derived from activities conducted outside the U.S. and denominated in currencies other than the U.S. dollar. Because the financial results of the Company are reported in U.S. dollars, they are affected by changes in the value of the various foreign currencies in relation to the U.S. dollar. Exchange rate risks are reduced, however, by the diversity of the Company's foreign operations and the fact that international activities are not concentrated in any single non-U.S. currency. Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. The Company covers known and anticipated operating exposures by using purchased foreign currency exchange option and forward contracts. The primary currencies for which the Company has foreign currency exchange rate exposure are the Euro and Japanese yen.

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

Other

The Company obtains third party letters of credit and surety bonds in connection with certain inventory purchases and insurance obligations. At December 31, 2000, the contract values of these letters of credit and surety bonds were $.4 million and their fair values did not differ materially from their carrying amount.

Commodity Price Risk

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

The foregoing market risk discussion and the estimated amounts presented are Forward-Looking Statements that assume certain market conditions. Actual results in the future may differ materially from these projected results due to

developments in relevant financial markets and commodity markets. The methods used above to assess risk should not be considered projections of expected future events or results.

Certain Factors Affecting Future Operating Results

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

PART II -- OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.

On November 30, 2000, Philipp Brothers Chemicals, Inc. sold 25,000 Series B Redeemable Participating Preferred Shares, for gross proceeds of $25 million, and 20,000 Series C Redeemable Participating Preferred Shares, for gross proceeds of $20 million. The securities were sold in a privately negotiated transaction to Palladium Equity Partners II, L.P., Palladium Equity Partners II-A, L.P. and Palladium Equity Investors II, L.P. pursuant to the exemption from registration under the Securities Act of 1933, as amended (the "Act"), provided pursuant to Section 4(2) of the Act.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
3.1(a)	Certificate of Amendment of Certificate of Incorporation of Philipp Brothers Chemicals, Inc., dated November 30, 2000.*
10.2	Amended and Restated Revolving Credit, Capital Expenditure Line and Security Agreement, dated November 30, 2000, between Philipp Brothers Chemicals, Inc. and PNC Bank National Association.*
10.35	Stock Purchase Agreement, dated as of November 30, 2000, between Philipp Brothers Chemicals, Inc. and the Purchasers (as defined therein).*
10.36	Stockholders' Agreement, dated as of November 30, 2000, among Philipp Brothers Chemicals, Inc., the Investor Stockholders (as defined therein) and Jack C. Bendheim.*

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* Filed as an Exhibit to the registrant's Current Report on Form 8-K, dated November 30, 2000, filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K

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

28

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Philipp Brothers Chemicals, Inc.

Date: February 13, 2001

By: /s/ David Storbeck

David Storbeck,

Chief Financial Officer

Date: February 13, 2001

By: /s/ Joseph Katzenstein
Joseph Katzenstein, Treasurer and Secretary

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