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PHILIPP BROTHERS CHEMICALS INC

Form 10-Q

November 13, 2001

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2001

OR

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

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

Commission File Number 333-64641

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

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

13-1840497  
(I.R.S. Employer  
Identification No.)

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

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

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

Yes

No

Number of shares of each class of common stock outstanding as of September 30, 2001:

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

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

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## PHILIPP BROTHERS CHEMICALS, INC.

### TABLE OF CONTENTS

	Page
	----
PART I FINANCIAL INFORMATION (UNAUDITED)	
Item 1. Condensed Financial Statements .....	3
Condensed Consolidated Balance Sheets .....	4
Condensed Consolidated Statements of Operations and Comprehensive Income .....	5
Condensed Consolidated Statements of Changes in Stockholders' Equity .....	6
Condensed Consolidated Statements of Cash Flows .....	7
Notes to Condensed Consolidated Financial Statements .....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk .....	21
 PART II OTHER INFORMATION	
Item 5. Other Information .....	22
Item 6. Exhibits and Reports on Form 8-K .....	22
 SIGNATURES .....	23

2

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

#### PART I -- FINANCIAL INFORMATION

##### Item 1. Condensed Financial Statements

3

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

	September 30, 2001	June 30, 2001
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,357	\$ 14,845

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Trade receivables, less allowance for doubtful accounts of \$2,486 at September 30, 2001 and \$2,369 at June 30, 2001	72,985	77,910
Other receivables	2,437	4,800
Inventories	88,245	83,796
Prepaid expenses and other current assets	16,297	17,448
	-----	-----
TOTAL CURRENT ASSETS	197,321	198,799
PROPERTY, PLANT AND EQUIPMENT, net	105,223	102,323
INTANGIBLES	5,873	5,832
OTHER ASSETS	23,492	23,065
	-----	-----
	\$ 331,909	\$ 330,019
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Cash overdraft	\$ 4,430	\$ 4,222
Loans payable to banks	31,540	28,463
Current portion of long-term debt	4,802	5,404
Accounts payable	51,636	51,304
Accrued expenses and other current liabilities	36,581	35,378
	-----	-----
TOTAL CURRENT LIABILITIES	128,989	124,771
LONG-TERM DEBT	139,467	139,464
OTHER LIABILITIES	14,759	12,926
	-----	-----
TOTAL LIABILITIES	283,215	277,161
	-----	-----
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		
Series B and C preferred stock	51,407	48,980
Common stock	--	378
Common stock of subsidiary	95	95
	-----	-----
TOTAL REDEEMABLE SECURITIES	51,502	49,453
	-----	-----
STOCKHOLDERS' EQUITY:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	878	878
Retained earnings	4,949	9,741
Accumulated other comprehensive income (loss) - gain on derivative instruments	145	--
cumulative currency translation adjustment	(9,303)	(7,737)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	(2,808)	3,405
	-----	-----
	\$ 331,909	\$ 330,019

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See notes to unaudited Condensed Consolidated Financial Statements.

4

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
 (Unaudited)  
 For the Three Months Ended September 30, 2001 and 2000  
 (In Thousands)

	2001	2000
	-----	-----
NET SALES	\$ 94,659	\$ 72,795
COST OF GOODS SOLD	67,596	52,290
	-----	-----
GROSS PROFIT	27,063	20,505
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	25,654	19,095
	-----	-----
OPERATING INCOME	1,409	1,410
OTHER:		
Interest expense	4,643	3,939
Interest income	(70)	(217)
Other (income)/expense, net	(195)	1,328
	-----	-----
LOSS BEFORE INCOME TAXES	(2,969)	(3,640)
BENEFIT FOR INCOME TAXES	(604)	(521)
	-----	-----
NET LOSS	(2,365)	(3,119)
OTHER COMPREHENSIVE INCOME (LOSS)-		
Gain on derivative instruments	145	--
Change in currency translation adjustment	(1,566)	(1,161)
	-----	-----
COMPREHENSIVE LOSS	\$ (3,786)	\$ (4,280)
	=====	=====

See notes to unaudited Condensed Consolidated Financial Statements.

5

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)  
 For the Three Months Ended September 30, 2001  
 (In Thousands)

Preferred Common Stock

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	Stock ----- Series A -----	Class "A" -----	Class "B" -----	Paid-in Capital -----	Retain Earni -----
BALANCE, JULY 1, 2001	\$ 521	\$ 1	\$ 1	\$ 878	\$ 9,7
Accretion of redeemable preferred securities to fair market value					(5
Dividends on Series B and C redeemable preferred stock					(1,8
Gain on derivative instruments					
Foreign currency translation adjustment					
Net loss					(2,3
BALANCE, SEPTEMBER 30, 2001	\$ 521	\$ 1	\$ 1	\$ 878	\$ 4,9

See notes to unaudited Condensed Consolidated Financial Statements.

6

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
For the Three Months Ended September 30, 2001 and 2000  
(In Thousands)

	2001 -----	2000 -----
OPERATING ACTIVITIES:		
Net loss	\$ (2,365)	\$ (3,119)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,158	3,129
Other	789	(53)
Changes in operating assets and liabilities:		
Accounts receivable	5,525	12,018
Inventories	(4,383)	(4,402)
Prepaid expenses and other current assets	2,606	3,195
Other assets	(815)	(1,958)
Accounts payable	(1,334)	(761)
Accrued expenses and other current liabilities	872	2,369
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,053	10,418

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INVESTING ACTIVITIES:		
Capital expenditures	(3,626)	(3,248)
Other investing	79	(85)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(3,547)	(3,333)
	-----	-----
FINANCING ACTIVITIES:		
Cash overdraft	99	1,264
Net increase (decrease) in short-term debt	1,917	(1,040)
Proceeds from long-term debt	11	732
Payments of long-term debt	(1,073)	(4,350)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	954	(3,394)
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	52	(230)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,512	3,461
CASH AND CASH EQUIVALENTS at beginning of period	14,845	2,403
	-----	-----
CASH AND CASH EQUIVALENTS at end of period	\$ 17,357	\$ 5,864
	=====	=====

See notes to unaudited Condensed Consolidated Financial Statements.

7

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 September 30, 2001 and the results of operations and cash flows for the three months ended September 30, 2001 and 2000.

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

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

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fiscal 2002 presentation. Such reclassifications include a reclassification of freight income of \$1,443 for the three months ended September 30, 2000 from selling, general and administrative expenses to net sales on the consolidated statements of operations and comprehensive income, as a result of the adoption of the Emerging Issues Task Force Issue No. 00-10 "Accounting for Shipping and Handling Revenues and Costs."

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

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

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

The results of operations for the three months ended September 30, 2001 and 2000 may not be indicative of results for the full year.

### 2. Acquisition

On November 30, 2000, the Company purchased the Medicated Feed Additives (MFA) business of Pfizer, Inc. and certain of its subsidiaries ("Pfizer"). Under the terms of the purchase agreement, the Company is required to pay Pfizer contingent purchase price based on a percentage of future net revenues of a particular product. The term of the contingent payments is five years from November 30, 2000. The maximum contingent purchase price due under this arrangement is limited to \$55,000, with a maximum annual payment of \$12,000. Contingent purchase price paid will be allocated to related production equipment and product intangibles and the Company has recorded \$9,349 under this arrangement as of September 30, 2001, of which \$2,644 has been paid as of September 30, 2001. Under the terms of the agreement, the Company has elected to defer \$3,000 of the payment until June 30, 2006. The deferred payment bears interest at an annual rate of 13%. In addition, the Company is required to pay Pfizer contingent purchase price up to a maximum of \$10,000 over five years on

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

other products based on certain gross profit levels of the MFA business. No amounts have been accrued under this arrangement.

The unaudited consolidated results of operations on a pro-forma basis as if such acquisition had occurred at the beginning of the three-month period ended September 30, 2000 are as follows:

Net sales.....	\$97,063
Net (loss) income.....	(4,076)

The impact of purchase price adjustments to the inventory acquired from Pfizer increased the loss before income taxes for the three months ended September 30, 2001 by \$1,973.

### 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 September 30, 2001 and June 30, 2001 consist of the following:

	Sept. 30, 2001	June 30, 2001
	-----	-----
Raw materials .....	\$28,918	\$22,614
Work-in-process .....	2,437	4,257
Finished goods .....	56,890	56,925
	-----	-----
	\$88,245	\$83,796
	=====	=====

### 4. Contingencies

#### a. Litigation

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

The Company and its subsidiary, C.P. Chemicals, Inc., are involved in litigation alleging that operations at the Sewaren, New Jersey site have affected the adjoining owner's property. 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



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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. The Company anticipates curtailing operations at this facility in the fourth quarter of 2001.

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.

9

PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
(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 \$1,984 as of September 30, 2001, which is included in current and long-term liabilities.

### 5. Business Segments

The Company has four reportable segments--Animal Health and Nutrition, Industrial Chemicals, Distribution, and All Other. The Company previously reported two reportable segments - Agchem and Industrial Chemicals; however, due principally to organizational changes during fiscal 2001, including those associated with the acquisition of the animal health business from Pfizer and the sale of the Agtrol crop protection business, segment reporting has been revised. Prior period segment information has been revised to conform to the fiscal 2001 segment presentation. Reportable segments have been determined primarily on the basis of the nature of products and services and certain similar operating units have been aggregated. The Company's Animal Health and Nutrition segment manufactures and markets a broad range of feed additive products including trace minerals, anticoccidials, antibiotics, vitamins, vitamin premixes, and other animal health products. The Company's Industrial Chemicals segment manufactures and markets pigments and other mineral products. 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 by others. The Company's All Other segment manufactures and markets a variety of specialty

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custom chemicals and copper-based fungicides, as well as providing management and recycling of coal combustion residues.

Segment data for the three months ended September 30, 2001 and 2000 are as follows:

	2001 -----	2000 -----
Net Sales		
Animal Health and Nutrition .....	\$ 59,353	\$ 34,630
Industrial Chemicals .....	21,011	25,475
Distribution .....	9,989	11,399
All Other .....	9,947	10,448
Intersegment .....	(5,641)	(9,157)
	-----	-----
Net Sales .....	\$ 94,659 =====	\$ 72,795 =====
 Intersegment Sales		
Animal Health and Nutrition .....	\$ 1,410	\$ 968
Industrial Chemicals .....	3,666	7,708
Distribution .....	554	481
All Other .....	11	0
	-----	-----
Intersegment Sales .....	\$ 5,641 =====	\$ 9,157 =====
 Operating Income (Loss)		
Animal Health and Nutrition .....	\$ 7,365	\$ 3,047
Industrial Chemicals .....	(4,200)	445
Distribution .....	838	918
All Other .....	119	(1,674)
Corporate expenses and adjustments .....	(2,713)	(1,326)
	-----	-----
Operating Income .....	\$ 1,409 =====	\$ 1,410 =====

10

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

### 6. Divestitures

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm, Inc. ("Nufarm"), the U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. The sales included inventory and intangible assets to Nufarm and did not include plant, equipment, or other manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant for five years, and from its Bordeaux, France plant for three years.

Revenues and operating losses relating to the Agtrol business amounted to \$6,367 and \$2,003, respectively, for the three months ended September 30, 2000.

### 7. Condensed Consolidating Financial Statements

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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, Guarantor Subsidiaries and Non-Guarantor Subsidiaries. The Parent is Philipp Brothers Chemicals, Inc. ("PBC"). The U.S. Guarantor Subsidiaries include all domestic subsidiaries of PBC including the following: C.P. Chemicals, Inc., Phibro-Tech, Inc., 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.

11

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
-----			
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,416	\$ 769	\$ 15,172
Trade receivables	4,399	29,262	39,324
Other receivables	1,131	120	1,186
Inventory	3,033	43,670	41,542
Prepaid expenses and other	4,544	2,905	8,848
	-----		
Total current assets	14,523	76,726	106,072
	-----		
Property, plant & equipment, net	606	30,212	74,405
Intangibles	32	1,948	3,893
Investment in subsidiaries	62,069	1,542	(6,138)
Intercompany	58,420	(25,497)	969

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Other assets	92,912	(71,163)	1,743
	-----	-----	-----
Total assets	\$ 228,562	\$ 13,768	\$ 180,944
	=====	=====	=====
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	\$ 13	\$ 4,417	\$ --
Loan payable to banks	28,665	--	2,875
Current portion of long term debt	2,540	491	1,771
Accounts payable	1,240	22,068	28,328
Accrued expenses and other	8,736	11,680	16,165
	-----	-----	-----
Total current liabilities	41,194	38,656	49,139
	-----	-----	-----
Long term debt	127,255	(66,672)	112,776
	-----	-----	-----
Other liabilities	2,021	5,119	7,619
	-----	-----	-----
Redeemable securities:			
Series B and C preferred stock	51,407	--	--
Common stock	479	--	(479)
Common stock of subsidiary	--	95	--
	-----	-----	-----
	51,886	95	(479)
	-----	-----	-----
Stockholders' Equity			
	-----	-----	-----
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	878	34,041	--
Retained earnings	4,949	2,322	21,078
Accumulated other comprehensive (loss) income-			
gain on derivative instruments	--	145	--
cumulative currency translation adjustment	(144)	30	(9,189)
	-----	-----	-----
Total stockholders' equity	6,206	36,570	11,889
	-----	-----	-----
Total liabilities and equity	\$ 228,562	\$ 13,768	\$ 180,944
	=====	=====	=====

12

PHILIPP BROTHERS CHEMICALS, INC.  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)  
 For The Three Months Ended September 30, 2001  
 (In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
-----	-----	-----	-----

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Net sales	\$ 7,108	\$ 51,594	\$ 42,404
Cost of goods sold	5,632	36,172	32,239
Gross profit	1,476	15,422	10,165
Selling, general, and administrative expenses	3,737	13,531	8,386
Operating (loss) income	(2,261)	1,891	1,779
Interest expense	674	933	3,036
Interest income	3	--	(73)
Other expense (income)	117	19	(331)
Intercompany allocation	(993)	993	--
Loss (profit) relating to subsidiaries	1,098	--	--
(Loss) income before income taxes	(3,160)	(54)	(853)
(Benefit) provision for income taxes	(795)	320	(129)
Net (loss) income	\$ (2,365)	\$ (374)	\$ (724)

13

PHILIPP BROTHERS CHEMICALS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)  
For the Three Months Ended September 30, 2001  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Operating activities:			
Net (loss) income	\$ (2,365)	\$ (374)	\$ (724)
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:			
Depreciation and amortization	264	1,344	2,550
Other	(211)	65	935
Changes in operating assets and liabilities:			
Accounts receivable	210	2,369	2,946
Inventory	220	(1,401)	(3,202)
Prepaid expenses and other	362	1,843	401
Other assets	264	(996)	(83)
Intercompany	(3,000)	(718)	4,816
Accounts payable	(502)	(1,861)	1,029
Accrued expenses and other	1,462	1,093	(1,683)

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Net cash (used in) provided by operating activities	(3,296)	1,364	6,985
Investing activities:			
Capital expenditures	(70)	(1,426)	(2,130)
Other investing	--	--	79
Net cash used in investing activities	(70)	(1,426)	(2,051)
Financing activities:			
Cash overdraft	--	246	(147)
Net increase (decrease) in short term debt	3,498	--	(1,581)
Proceeds from long term debt	--	11	--
Payments of long term debt	(8)	(126)	(939)
Net cash provided by (used in) financing activities	3,490	131	(2,667)
Effect of exchange rate changes on cash	--	--	52
Net increase in cash and cash equivalents	124	69	2,319
Cash and cash equivalents at beginning of year	1,292	700	12,853
Cash and cash equivalents at end of year	\$ 1,416	\$ 769	\$ 15,172

14

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiary Non-Guarant
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 1,292	\$ 1,210	\$ 12,343
Trade receivables	4,624	32,291	40,995
Other receivables	791	1,913	2,096
Inventory	2,715	44,050	37,031
Prepaid expenses and other	5,461	2,745	9,242

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Total current assets	14,883	82,209	101,707
Property, plant & equipment, net	626	30,143	71,554
Intangibles	87	1,915	3,830
Investment in subsidiaries	63,490	1,542	(6,138)
Intercompany	54,322	(22,808)	3,852
Other assets	93,466	(71,571)	1,170
Total assets	\$226,874	\$ 21,430	\$175,975

Liabilities and Stockholders' Equity

Current Liabilities:			
Cash overdraft	\$ 13	\$ 4,209	\$ --
Loan payable to banks	24,471	--	3,992
Current portion of long term debt	2,541	493	2,370
Accounts payable	1,743	23,359	26,202
Accrued expenses and other	7,859	11,780	15,739
Total current liabilities	36,627	39,841	48,303
Long term debt	127,263	(60,654)	108,221
Other liabilities	2,129	5,731	5,066
Redeemable securities:			
Series B and C preferred stock	48,980	--	--
Common stock	877	--	(499)
Common stock of subsidiary	--	95	--
	49,857	95	(499)

Stockholders' Equity

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

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	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Net sales	\$ 8,521	\$ 42,814	\$ 28,097
Cost of goods sold	6,791	29,917	22,219
Gross profit	1,730	12,897	5,878
Selling, general, and administrative expenses	3,472	11,468	4,155
Operating (loss) income	(1,742)	1,429	1,723
Interest expense	2,470	66	1,403
Interest income	(36)	--	(181)
Other expense	89	--	1,239
Intercompany allocation	(3,324)	3,067	257
Loss (profit) relating to subsidiaries	1,505	--	--
(Loss) income before income taxes	(2,446)	(1,704)	(995)
Provision (benefit) for income taxes	673	(712)	(482)
Net (loss) income	\$ (3,119)	\$ (992)	\$ (513)

16

PHILIPP BROTHERS CHEMICALS INC.  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)  
For the Three Months Ended September 30, 2000  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiari Non-Guarant
Operating activities:			
Net (loss) income	\$ (3,119)	\$ (992)	\$ (513)
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Depreciation and amortization	116	1,213	1,800
Other	186	(60)	(179)
Changes in operating assets and liabilities:			
Accounts receivable	459	8,367	3,192
Inventory	93	(4,987)	492



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Prepaid expenses and other	3,441	(135)	(111)
Other assets	(788)	(1,216)	46
Intercompany	84	(900)	2,321
Accounts payable	(450)	403	(714)
Accrued expenses and other	3,991	(25)	(1,597)
-----			
Net cash provided by operating activities	4,013	1,668	4,737
-----			
Investing activities:			
Capital expenditures	(23)	(2,617)	(608)
Other investing	--	--	(85)
-----			
Net cash used in investing activities	(23)	(2,617)	(693)
-----			
Financing activities:			
Cash overdraft	114	1,810	(660)
Net decrease in short term debt	(104)	--	(936)
Proceeds from long term debt	--	--	732
Payments of long term debt	(4,008)	(195)	(147)
-----			
Net cash (used in) provided by financing activities	(3,998)	1,615	(1,011)
-----			
Effect of exchange rate changes on cash	--	--	(230)
-----			
Net (decrease) increase in cash and cash equivalents	(8)	666	2,803
-----			
Cash and cash equivalents at beginning of year	11	99	2,293
-----			
Cash and cash equivalents at end of year	\$ 3	\$ 765	\$ 5,096
=====			

17

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

General

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

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

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presentation.

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

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm, Inc. ("Nufarm"), a U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. Agtrol developed, manufactured and marketed crop protection products, including copper fungicides. The sale included inventory and intangible assets to Nufarm but did not include plant, equipment, or other manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant for five years, and from its Bordeaux, France plant for three years. The operating results of Agtrol are included in the Company's consolidated statements of operations up to the date of disposition and are included in the All Other segment.

### Results of Operations

	Sales (\$000's)	
	Three Months Ended September 30,	
	2001	2000
Operating Segments:		
Animal Health and Nutrition .....	\$ 59,353	\$ 34,630
Industrial Chemicals .....	21,011	25,475
Distribution .....	9,989	11,399
All Other .....	9,947	10,448
Elimination of intersegment sales .....	(5,641)	(9,157)
	\$ 94,659	\$ 72,795
	=====	=====

	Operating Income (Loss) (\$000's)	
	Three Months Ended September 30,	
	2001	2000
Operating Segments:		
Animal Health and Nutrition .....	\$ 7,365	\$ 3,047
Industrial Chemicals .....	(4,200)	445
Distribution .....	838	918
All Other .....	119	(1,674)
Corporate expenses and intercompany profit elimination .....	(2,713)	(1,326)
	\$ 1,409	\$ 1,410
	=====	=====

### Comparison of Three Months Ended September 30, 2001 and 2000

Net Sales. Net sales increased by \$21.9 million, or 30%, to \$94.7 million in the three months ended September 30, 2001, as compared to same period of the prior year. The increase was primarily due to the purchase of the PAH business

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offset in part by the sale of the Company's Agtrol operations.

The Animal Health and Nutrition segment's net sales increased by \$24.7 million, or 71%, to \$59.4 million in the three months ended September 30, 2001, as compared to the prior period. The net sales increase was due to increased unit volume primarily as a result of the PAH purchase. Excluding PAH, sales for the segment in 2001 were \$1.1 million below the prior year primarily due to lower average selling prices.

The Industrial Chemicals segment's net sales decreased by \$4.5 million, or 18%, to \$21.0 million in the three months ended September 30, 2001, as compared to the prior period. Due to the sale of Agtrol to Nufarm, the Company no longer has intersegment sales in the Industrial segment which accounted for \$4.0 million of the decline in revenues. Sales by the Company's Phibro-Tech subsidiary, excluding recycling fees, were down by \$1.4 million due to volume declines related to the printed circuit board industry. Lower recycling fees of \$.4 million were due to decreased demand. Higher unit volume sales at the Company's Odda subsidiary increased revenues by \$1.7 million and partially offset the decrease. Lower unit sales of iron oxide and manganese dioxide primarily accounted for the balance of the change.

Net sales for the Distribution segment decreased by \$1.4 million, or 12%, to \$10.0 million in 2001, as compared to the prior period. The net sales decrease was due to lower unit volumes. Significant declines in the segment's trace minerals, cyanide and dicyandiamide products occurred during the current quarter.

Net sales for the All Other segment decreased by \$.5 million, or 5%, to \$9.9 million in 2001, as compared to the prior period. Approximately \$2.4 million of this decrease related to lower sales of crop protection chemicals. The Company's Agtrol crop protection business was sold during the fourth quarter of 2001 and sales are currently being made under supply agreements to Nufarm. Excluding Agtrol, sales for the segment in 2001 were \$1.9 million above the prior year. The Company's fly ash business increased by \$1.3 million primarily due to increased volume as a result of additional contracts with utilities in Missouri and Michigan and improved average selling prices. Revenues at the Company's Wychem, U.K. facility improved by \$.6 million due to an increase in specialized lab projects and formulations.

Gross Profit. Gross profit increased by \$6.6 million, or 32.0%, to \$27.1 million in the three months ended September 30, 2001, as compared to the prior period. The increase was primarily due to the purchase of the PAH business offset in part by the sale of the Company's Agtrol operations. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of \$2.0 million during fiscal 2002. The remainder of the inventory purchase adjustment, approximately \$1.3 million, will be charged to cost of goods sold during the balance of the fiscal year. Lower production volumes at the Company's Phibro-Tech facilities and higher utility and raw material costs at Odda adversely affected margins in the Industrial Chemical segment. Margin declines in the All Other segment were due to sales of crop protection products sold to Nufarm under a supply agreement in the current period as opposed to higher margin sales to third parties in the prior period. In addition, the declines in average selling prices in the Animal Health and Nutrition segment described above further reduced the Company's margin.

Selling, General and Administrative Expenses. Costs increased by \$6.6 million to \$25.7 million in 2001, as compared to the prior period. Excluding PAH and Agtrol, costs were up approximately \$2.4 million principally due to management advisory fees to Palladium Equity Partners, LLC (\$.6 million), higher warehousing and distribution primarily relating to sales growth in the Company's fly ash business (\$.8 million), environmental remediation (\$.3 million) and

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other general spending increases (\$.7 million).

Operating Income. Operating income was \$1.4 million for the three months ended September 30, 2001, approximately the same as the prior period. The Animal Health and Nutrition segment increased due to the inclusion of PAH for the period. Operating income would have been \$2.0 million higher than reported if not for purchase accounting adjustments to the sale of inventory acquired from Pfizer as part of the PAH acquisition. Operating income declined in the Industrial Chemicals segment primarily due to lower sales and production volumes. The Company is implementing cost reduction programs and other initiatives in this segment in reaction to current market conditions. The improvement in operating income of the All Other segment is primarily the result of the sale of Agtrol as the Company is no longer materially impacted by the seasonal nature of the crop protection business. The Distribution segment was slightly below the prior year due to sales volume declines.

19

Interest Expense, Net. Costs increased by \$.9 million or 23% to \$4.6 million for the three months ended September 30, 2001 as compared to the prior period primarily due to debt incurred in connection with the PAH acquisition and higher levels of average bank borrowings.

Other Expense, Net. Other expense, net principally reflects foreign currency transaction losses of the Company's foreign subsidiaries and the quarter over quarter change reflects the strengthening of currencies against the U.S. dollar in 2001 (principally Norwegian Kroner) versus weakening of these currencies in the September 2000 quarter.

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

### Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the three months ended September 30, 2001 was \$5.1 million. The increase in cash from the collection of receivables from our crop protection business was partially offset by higher inventories at the Phibro Animal Health business unit. This build up of inventories is necessary to ensure an adequate availability of product as the Company continues to refine its supply chain and expand into new markets.

Net Cash Used by Investing Activities. Net cash used in investing activities for the three months ended September 30, 2001 was \$3.5 million. Capital expenditures of \$3.6 million were primarily for maintaining the Company's existing asset base and for environmental, health and safety projects.

Net Cash Provided by Financing Activities. Net cash provided by financing activities totaled \$1.0 million. Borrowings under the domestic revolving credit agreement were partially offset by paydowns of debt at several of the Company's international subsidiaries.

Liquidity. At September 30, 2001, working capital totaled \$68.3 million compared to \$74.0 million at the fiscal year end. Due to the nature and terms of the revolving credit agreement, which includes both a subjective acceleration clause and a requirement to maintain a lockbox arrangement, all borrowings

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against this facility are classified as a current liability. At September 30, 2001, the amount of credit extended under this agreement totaled \$28.7 million and the Company had \$17.3 million available under the borrowing base formula in this agreement. In addition, certain of the Company's foreign subsidiaries also had availability under their respective credit facilities totaling \$10.0 million.

The Company anticipates spending approximately \$13 million for capital expenditures in fiscal 2002, primarily to cover the Company's asset replacement needs, improve processes, and for environmental and regulatory compliance. The Company believes that cash flows from operations and available borrowing arrangements should provide sufficient working capital to operate the Company's existing business, to make budgeted capital expenditures, and to service interest and current principal coming due on outstanding debt.

### New Accounting Pronouncements

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

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

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 is effective for the Company on July 1, 2002. The statement addresses significant issues relating to the implementation of FASB Statement No.

20

121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS No. 121"), and the development of a single accounting model, based on the framework established in FAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The Company is currently assessing the impact of this statement.

### Seasonality of Business

Prior to the divestiture of the crop protection business, the Company's sales were typically highest in the fourth fiscal quarter due to the seasonal nature of the agricultural industry. With the sale of this business, as well as the acquisition of the non-seasonal PAH business, the Company's sales are

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expected to be less seasonal. However, some seasonality in the Company's results will remain as sales of certain industrial chemicals to the wood treatment industry as well as sales of coal fly ash are typically highest during the peak construction periods of the first and fourth fiscal quarters.

### Quantitative and Qualitative Disclosure About Market Risk

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

### Certain Factors Affecting Future Operating Results

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

21

## PART II -- OTHER INFORMATION

### Item 5. Other Information.

None.

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

#### (a) Exhibits

Exhibit No.	Description
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None.	

#### (b) Reports on Form 8-K.

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None.

22

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: November 13, 2001

By: /s/ DAVID C. STORBECK

-----  
David C. Storbeck  
Chief Financial Officer

Date: November 13, 2001

By: /s/ JOSEPH KATZENSTEIN

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Joseph Katzenstein, Treasurer  
and Secretary

23