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PHILIPP BROTHERS CHEMICALS INC

Form 10-Q

May 14, 2003

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2003

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	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)

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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  | \_ |

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

Yes | |                                  No  | X |

Number of shares of each class of common stock outstanding as of March 31, 2003:

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

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

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

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## PHILIPP BROTHERS CHEMICALS, INC.

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This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in the Company's Annual Report on Form 10-K for its fiscal year ended June 30, 2002 and/or throughout this Form 10-Q and in particular in Item 2 of Part I of this

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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 Consolidated Financial Statements

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

(In Thousands)

	March 31, 2003	June 30, 2002
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,031	\$ 6,419
Trade receivables, less allowance for doubtful accounts of \$1,629 at March 31, 2003 and \$1,802 at June 30, 2002	59,902	61,157
Other receivables	2,669	3,184
Inventories	93,312	86,925
Prepaid expenses and other current assets	15,950	15,520
Current assets from discontinued operations	1,693	11,769
	-----	-----
TOTAL CURRENT ASSETS	185,557	184,974
PROPERTY, PLANT AND EQUIPMENT, net	73,368	76,496
INTANGIBLES	11,169	11,789
OTHER ASSETS	12,379	12,753
OTHER ASSETS FROM DISCONTINUED OPERATIONS	--	10,432
	-----	-----
	\$ 282,473	\$ 296,444
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Cash overdraft	\$ 4,646	\$ 7,767
Loans payable to banks	35,215	41,535
Current portion of long-term debt	29,741	8,851
Accounts payable	46,047	39,715
Accrued expenses and other current liabilities	52,096	29,985
Current liabilities from discontinued operations	1,148	6,660
	-----	-----
TOTAL CURRENT LIABILITIES	168,893	134,513
LONG-TERM DEBT	103,027	136,641
OTHER LIABILITIES	22,138	28,597
OTHER LIABILITIES FROM DISCONTINUED OPERATIONS	--	1,280
	-----	-----
TOTAL LIABILITIES	294,058	301,031
	-----	-----
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE SECURITIES:		

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Series B and C preferred stock	63,129	56,602
	-----	-----
STOCKHOLDERS' DEFICIT:		
Series A preferred stock	521	521
Common stock	2	2
Paid-in capital	740	740
Accumulated deficit	(66,442)	(49,652)
Accumulated other comprehensive (loss) income:		
Gain on derivative instruments	51	1,062
Cumulative currency translation adjustment	(9,586)	(13,862)
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT	(74,714)	(61,189)
	-----	-----
	\$ 282,473	\$ 296,444
	=====	=====

See notes to unaudited Condensed Consolidated Financial Statements.

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

(In Thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2003	2002	2003	2002
	-----	-----	-----	-----
NET SALES	\$ 93,739	\$ 88,164	\$ 280,614	\$ 265,614
COST OF GOODS SOLD	71,018	67,613	211,140	200,413
	-----	-----	-----	-----
GROSS PROFIT	22,721	20,551	69,474	65,201
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (includes income from litigation of \$2,195 and \$2,755 for the three months and nine months ended March 31, 2003, respectively)	18,453	18,469	51,559	54,214
	-----	-----	-----	-----
OPERATING INCOME	4,268	2,082	17,915	10,987
OTHER:				
Interest expense	3,978	4,609	12,138	13,914
Interest income	(39)	(8)	(135)	(31)
Other expense, net	112	511	1,317	2,414
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	217	(3,030)	4,595	(5,114)
PROVISION FOR INCOME TAXES	599	806	2,440	1,814
	-----	-----	-----	-----
(LOSS) INCOME FROM CONTINUING OPERATIONS	(382)	(3,836)	2,155	(6,928)
DISCONTINUED OPERATIONS:				
(Loss) from discontinued operations (net of income taxes)	(548)	(5,236)	(11,077)	(6,114)
(Loss) on disposal of discontinued				

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operations (net of income taxes)	(1,342)	--	(1,342)	--
NET LOSS	(2,272)	(9,072)	(10,264)	(13,116)
OTHER COMPREHENSIVE INCOME (LOSS):				
Gain (loss) on derivative instruments	230	109	(1,011)	5
Change in currency translation adjustment	7,930	(984)	4,276	(1,011)
COMPREHENSIVE INCOME (LOSS)	\$ 5,888	\$ (9,947)	(6,999)	\$ (12,776)

See notes to unaudited Condensed Consolidated Financial Statements.

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF  
CHANGES IN STOCKHOLDERS' DEFICIT (Unaudited)  
For the Three Months and Nine Months Ended March 31, 2003

(In Thousands)

	Preferred Stock	Common Stock		Paid-in Capital	Accumulated Deficit
	Series A	Class "A"	Class "B"		
BALANCE, JULY 1, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$(49,652)
Dividends on Series B and C redeemable preferred stock					(2,123)
Loss on derivative instruments					
Foreign currency translation adjustment					
Net loss					(157)
BALANCE, SEPTEMBER 30, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$(51,932)
Dividends on Series B and C redeemable preferred stock					(2,121)
Loss on derivative instruments					
Foreign currency translation adjustment					
Net loss					(7,835)
BALANCE, DECEMBER 31, 2002	\$ 521	\$ 1	\$ 1	\$ 740	\$(61,888)
Dividends on Series B and C redeemable preferred stock					(2,282)
Gain on derivative instruments					
Foreign currency translation adjustment					

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Net loss					(2,272)
BALANCE, MARCH 31, 2003	\$ 521	\$ 1	\$ 1	\$ 740	\$ (66,442)

See notes to unaudited Condensed Consolidated Financial Statements.

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PHILIPP BROTHERS CHEMICALS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
 For the Nine Months Ended March 31, 2003 and 2002

(In Thousands)

	2003	2002
OPERATING ACTIVITIES:		
Net loss	\$ (10,264)	\$ (13,136)
Adjustment for discontinued operations	12,419	6,171
Income (loss) from continuing operations	2,155	(6,965)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	10,891	10,041
Other	(488)	3,813
Changes in operating assets and liabilities:		
Accounts receivable	1,051	12,308
Inventories	(6,069)	(16,710)
Prepaid expenses and other current assets	(557)	(2,544)
Other assets	(2,190)	(842)
Accounts payable	15,078	(699)
Accrued expenses and other liabilities	5,806	2,450
Cash provided by (used in) discontinued operations	2,970	(438)
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,647	414
INVESTING ACTIVITIES:		
Capital expenditures	(7,778)	(7,881)
Acquisition of a business	--	(7,182)
Proceeds from sales of assets and other investing	3,321	469
Discontinued operations	1,877	(692)
NET CASH USED IN INVESTING ACTIVITIES	(2,580)	(15,286)
FINANCING ACTIVITIES:		
Cash overdraft	(3,121)	1,481
Net (decrease) increase in short-term debt	(6,012)	15,248
Proceeds from long-term debt	2,125	2,316
Payments of long-term debt	(13,720)	(4,324)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(20,728)	14,721
EFFECT OF EXCHANGE RATE CHANGES ON CASH	273	(110)
NET INCREASE (DECREASE) IN CASH		

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AND CASH EQUIVALENTS	5,612	(261)
CASH AND CASH EQUIVALENTS at beginning of period	6,419	14,845
	-----	-----
CASH AND CASH EQUIVALENTS at end of period	\$ 12,031	\$ 14,584
	=====	=====

See notes to unaudited Condensed Consolidated Financial Statements.

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

(In Thousands)

#### 1. General

In the opinion of Philipp Brothers Chemicals, Inc. (the "Company"), the accompanying unaudited condensed consolidated financials statements contain all adjustments (consisting only of normal recurring adjustments, except for asset writedowns) necessary to present fairly its financial position as of March 31, 2003 and its results of operations and cash flows for the three months and nine months ended March 31, 2003 and 2002.

The condensed consolidated balance sheet as of June 30, 2002 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Additionally, it should be noted that the accompanying condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting standards appropriate for interim financial statements. While the Company believes that the disclosures presented are adequate to make the information contained herein not misleading, it is suggested that these financial statements be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2002.

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

The results of operations for the three months and nine months ended March 31, 2003 may not be indicative of results for the full year.

Effective July 1, 2002 the Company adopted Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and No. 142 "Goodwill and Other Intangibles" ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 establishes specific criteria for recognition of intangible assets separately from goodwill. The statement requires that goodwill and indefinite lived intangible assets no longer be amortized and be tested for impairment at least annually. The amortization period of intangible assets with finite lives will no longer be limited to forty years. Identifiable intangible assets with determinable useful lives will continue to be amortized. The Company has no goodwill, but has assessed the useful lives of its intangible assets. The adoption of SFAS No. 141 and No. 142 did not result in an impact on the Company's financial statements.

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

Effective July 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 addresses significant issues relating to the implementation of FASB Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"), and the development of a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. As a result of the adoption of SFAS No. 144, the Company was required to classify the Odda and Carbide Industries businesses as discontinued operations.

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

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

(In Thousands)

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

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain



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guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are required for financial statements of periods ending after December 15, 2002. The initial measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 did not result in a material impact on the Company's financial statements.

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

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company is currently assessing the impact of this statement.

### 2. Reclassifications

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

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

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

(In Thousands)

### 3. Risks and Uncertainties

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As of March 31, 2003, the Company was in compliance with the financial covenants included in its amended senior credit facility ("credit facility") with its lending banks, for which PNC Bank serves as agent. The credit facility was amended in October 2002 to: waive noncompliance with financial covenants as of June 30, 2002; amend financial covenants prospectively until maturity; amend the borrowing base formula and also reduce maximum availability under the revolving credit portion of the credit facility from \$70 million to \$55 million; limit borrowings under the capital expenditure line of the credit facility to the outstanding balance as of the amendment date; and increase the interest rate from 1.5% to 1.75% per annum over the base rate (as defined in the agreement). Management believes that the reduced maximum availability and the revised borrowing base formula under the revolving credit portion of the credit facility will not adversely affect the Company's ability to meet its cash requirements through the remaining term of the credit facility (see below).

The Company's ability to fund its operating plan relies upon continued availability of the credit facility which, in turn, requires the Company to maintain compliance with the amended financial covenants. The Company believes that it will be able to comply with the terms of the amended covenants based on its forecasted operating plan. In the event of adverse operating results and resultant violation of the covenants through the remaining term of the credit facility (see below), there can be no assurance that the Company will be able to obtain waivers or amendments on favorable terms, if at all.

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

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

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

During the second quarter of fiscal year 2003, the Company completed the sale of certain fixed assets of Odda for proceeds of \$3,458 and certain assets of its Phibro-Tech etchant business for proceeds of \$2,530. Subsequent to March 31, 2003 the Company completed the sale of its Carbide Industries business; the proceeds were not material. The Odda and Carbide Industries businesses are classified as discontinued operations. The Company is actively pursuing the sale of certain other business operations to generate cash for debt repayment. However, there can be no assurance that such sales will be completed on terms acceptable to the Company, if at all. There are no other disposal transactions which the Company considered probable at March 31, 2003. Disposal transactions could result in recording losses for financial statement purposes.

The issue of the potential for increased bacterial resistance to certain

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

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

(In Thousands)

The Joint Expert Committee on Food Additives of the Food and Agricultural Organization of the United Nations and the World Health Organization, at its meeting held February 6-12, 2003, had determined to withdraw the maximum residue limits for Carbadox. A final report has not yet been issued. It is not known at this time whether any national regulatory authorities will adopt this determination, which could result in reduced overall sales of the product. Carbadox is a significant product for the Company's Phibro Animal Health business. The Company continues to assess the impact of this determination on the Company.

#### 4. Inventories

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

Inventories of continuing operations consist of the following:

	March 31, 2003	June 30, 2002
Raw materials	\$20,651	\$22,387
Work-in-process	1,517	2,098
Finished goods	71,144	62,440
Total inventory	\$93,312	\$86,925

#### 5. Discontinued Operations

In February 2003 the Company determined that it would permanently shutdown and no longer fund the operations of its Norwegian subsidiary, Odde Smelteverk ("Odde"). On February 28, 2003, Odde filed for bankruptcy in Norway and the bankruptcy is proceeding in accordance with Norwegian law. The Company has been advised that, as a result of the bankruptcy, the creditors of Odde have recourse only to the assets of Odde, except in the case of certain debt guaranteed by the Company. The Company has removed all assets, liabilities (except as noted below), and cumulative translation adjustments related to Odde from the Company's consolidated balance sheets as of March 31, 2003, and has recorded the net result as a Loss on disposal of discontinued operations. The Company is the guarantor of certain debt of Odde under two separate multi-currency revolving credit facilities. As of March 31, 2003, NOK 41,100 (\$5,731) was outstanding

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under these facilities and continues to be included in the Loans payable to banks and Current portion of long-term debt captions on the Company's consolidated balance sheets at March 31, 2003. The Company has entered into forbearance agreements with the two banks holding guarantees from the Company for the debt of Odda under which the banks have agreed not to demand immediate payment on those guarantees, and the Company has agreed to pay the principal amount plus interest in installments. The Company has been advised by Norwegian counsel that it will obtain the benefit of the banks' position as a secured creditor upon payment pursuant to the guarantees. The Company has obtained the consent of a majority of the holders of its outstanding Senior Subordinated Notes due 2008 to amend the Indenture governing these notes in such a manner that the bankruptcy of Odda does not create an event of default thereunder.

In February 2003 the Company decided to sell its Carbide Industries business in the U.K. which had been a sales distributor for one of Odda's product lines. Subsequent to March 31, 2003, the Company completed the sale of the Carbide Industries business. Odda was included in the Company's Industrial Chemicals segment and Carbide Industries was included in the Company's Distribution segment.

The Company's consolidated financial statements have been reclassified to report separately the operating results, financial position, and cash flows of the discontinued operations. Prior year financial statements have been restated to conform with the fiscal year 2003 presentation of discontinued operations.

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

(In Thousands)

Operating results and loss on disposal of the discontinued operations are as follows:

	3 Months Ended		9 Months Ended	
	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
	-----	-----	-----	-----
<b>OPERATING RESULTS:</b>				
Net sales	\$ 1,933	\$10,736	\$ 12,890	\$30,453
Cost of goods sold	1,623	14,748	15,396	34,323
Selling, general and administrative expenses	883	1,799	3,175	4,740
Asset writedowns	--	--	7,781	--
Other (expense) income	(59)	418	2,327	1,296
	-----	-----	-----	-----
(Loss) before income taxes	(632)	(5,393)	(11,135)	(7,314)
(Benefit) for income taxes	(84)	(157)	(58)	(1,143)
	-----	-----	-----	-----
(Loss) from operations	\$ (548)	\$ (5,236)	\$ (11,077)	\$ (6,171)
	=====	=====	=====	=====
Depreciation and amortization	\$ 192	\$ 5,562	\$ 894	\$ 7,118
	=====	=====	=====	=====

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LOSS ON DISPOSAL:				
Assets	\$ (4,018)	\$ --	\$ (4,018)	\$ --
Liabilities	6,432	--	6,432	--
Unsecured debt	2,488	--	2,488	--
Currency translation adjustment	(6,244)	--	(6,244)	--
	-----	-----	-----	-----
(Loss) on disposal	\$ (1,342)	\$ --	\$ (1,342)	--
	=====	=====	=====	=====

The balance sheet data for the discontinued operations is as follows:

	March 31, 2003	June 30, 2002
	-----	-----
Trade receivables	\$1,380	\$ 4,004
Other receivables	--	728
Inventories	305	6,592
Prepaid expenses and other current assets	8	445
	-----	-----
Current assets from discontinued operations	\$1,693	\$11,769
	=====	=====
Property, plant and equipment, net	\$ --	\$ 8,234
Intangibles	--	1,411
Other assets	--	787
	-----	-----
Other assets from discontinued operations	\$ --	\$10,432
	=====	=====
Accounts payable	\$ 773	2,565
Accrued expenses and other current liabilities	375	4,095
	-----	-----
Current liabilities from discontinued operations	\$1,148	\$ 6,660
	=====	=====

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

(In Thousands)

Other liabilities	\$ --	\$ 1,280
	-----	-----
Other liabilities from discontinued operations	\$ --	\$ 1,280
	=====	=====

In December 2002, the Company reevaluated the carrying value of Odda's long-lived assets (consisting of property, plant and equipment and certain other assets), based upon its estimate of future net cash flows under the possible scenarios then being considered by management. As a result, an impairment charge of \$7,781 was recorded during the second fiscal quarter to reduce the carrying value of Odda's long-lived assets to their estimated salvage values.

In November 2002, the Company announced a temporary shutdown of the Odda operation due to continuing operating losses, higher than planned operating costs, and delays in the market acceptance of calcium oxide, a by-product of the

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manufacturing process of its primary product, dicyandiamide.

### 6. Contingencies

#### (a) Litigation:

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

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

The Company and its subsidiaries are a party to a number of claims and lawsuits arising in the normal course of business, including patent infringement, product liabilities and governmental regulation concerning environmental and other matters. Certain of these actions seek damages in various amounts. All such claims are being contested, and management believes the resolution of these matters will not materially affect the consolidated financial position, results of operations or cash flows of the Company.

#### (b) Environmental Remediation:

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

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The South Carolina Department of Health and Environmental Conservation ("DHEC") has informed the Company that its Phibro-Tech, Inc. subsidiary must begin certain remediation activities and conduct additional RCRA Facility Investigations ("RFI's") leading to a Corrective Measures Study and Corrective Measures Implementation. Phibro-Tech, Inc. has proposed several alternative plans to the South Carolina DHEC and will enter into negotiations with the state regarding measures to be taken at its Sumter, South Carolina facility.

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

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

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

Based upon information available, management estimates the costs of further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites; closure costs for closed sites; and any penalties that may be assessed for environmental violations to be approximately \$2,071, which is included in current and long-term liabilities in the Company's condensed consolidated balance sheets at March 31, 2003.

### 8. Income from Litigation

The Company has recognized income of \$2,195 and \$2,766 for the three months and nine months ended March 31, 2003, respectively, resulting from the settlement of class action litigation against European vitamin manufacturers. This income is included in selling, general and administrative expenses on the Company's condensed consolidated statements of operations and comprehensive income.

### 9. Business Segments

The Company has four reportable segments--Animal Health and Nutrition, Industrial Chemicals, Distribution, and All Other. Reportable segments have been determined primarily on the basis of the nature of products and services and certain similar operating units have been aggregated. The Company's Animal Health and Nutrition segment manufactures and markets a broad range of feed additive products including trace minerals, anticoccidials, antibiotics, vitamins, vitamin premixes and other animal health products. The Company's Industrial Chemicals segment manufactures and markets pigments and other mineral products. Certain of these products include copper oxide, which is produced by the Company's recycling operation, mineral oxides, and alkaline etchants. The Company's Distribution segment markets and distributes a variety of industrial, specialty and fine organic chemicals and intermediates produced primarily by third parties. The Company's All Other segment manufactures and markets a variety of specialty custom chemicals and copper-based fungicides, as well as

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providing management and recycling of coal combustion residues.

The Industrial Chemicals and Distribution segments have been restated to give effect to the discontinued operations.

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

(In Thousands)

Segment data for the three months and nine months ended March 31, 2003 and 2002 is as follows:

	Animal Health & Nutrition	Industrial Chemicals	Distribution	All Other
Three Months Ended March 31, 2003				
Revenues -- external customers	\$ 62,675	\$ 12,192	\$ 7,612	\$ 11,26
-- intersegment	579	1,985	547	
Total revenues	\$ 63,254	\$ 14,177	\$ 8,159	\$ 11,26
Operating income/(loss)	\$ 8,122	\$ (716)	\$ 900	\$ (84
Depreciation and amortization	\$ 1,890	\$ 738	\$ 2	\$ 53
Three Months Ended March 31, 2002				
Revenues -- external customers	\$ 59,378	\$ 12,676	\$ 6,753	\$ 9,35
-- intersegment	874	1,286	372	8
Total revenues	\$ 60,252	\$ 13,962	\$ 7,125	\$ 9,44
Operating income/(loss)	\$ 6,246	\$ (117)	\$ 496	\$ (75
Depreciation and amortization	\$ 1,996	\$ 851	\$ 3	\$ 44
Nine Months Ended March 31, 2003				
Revenues -- external customers	\$189,301	\$ 37,317	\$ 22,905	\$ 31,09
-- intersegment	2,224	5,745	1,395	
Total revenues	\$191,525	\$ 43,062	\$ 24,300	\$ 31,09
Operating income/(loss)	\$ 29,852	\$ (1,538)	\$ 2,452	\$ (1,46



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Depreciation and amortization	\$ 5,702	\$ 2,495	\$ 8	\$ 1,53
	=====	=====	=====	=====
	Animal	Industrial		All
Nine Months Ended March 31, 2002	Health & Nutrition	Chemicals	Distribution	Other
Revenues -- external customers	\$180,477	\$ 35,800	\$ 20,983	\$ 28,34
-- intersegment	3,141	5,077	1,203	11
Total revenues	\$183,618	\$ 40,877	\$ 22,186	\$ 28,46
Operating income/(loss)	\$ 23,870	\$ (3,627)	\$ 1,652	\$ (86
Depreciation and amortization	\$ 5,395	\$ 2,545	\$ 9	\$ 1,29
	=====	=====	=====	=====

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

(In Thousands)

Identifiable Assets of Continuing Operations	Animal	Industrial		All
	Health & Nutrition	Chemicals	Distribution	Other
At June 30, 2002	\$186,118	\$ 38,985	\$ 8,059	\$ 30,
At March 31, 2003	\$199,763	\$ 33,747	\$ 10,082	\$ 28,
	=====	=====	=====	=====

10. Consolidating Financial Statements

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

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

Investments in subsidiaries are accounted for by the Parent using the

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equity method. Income tax expense (benefit) is allocated among the consolidating entities based upon taxable income (loss) by jurisdiction within each group.

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

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PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)  
As of March 31, 2003  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantor
-----			
Assets			
Current Assets:			
Cash and cash equivalents	\$ 43	\$ 1,884	\$ 10,1
Trade receivables	3,220	28,792	27,8
Other receivables	184	698	1,7
Inventory	2,874	54,115	36,3
Prepaid expenses and other	2,106	2,283	11,5
Current assets from discontinued operations	--	--	1,6
	-----	-----	-----
Total current assets	8,427	87,772	89,3
	-----	-----	-----
Property, plant & equipment, net	206	27,086	46,0
Intangibles	210	1,303	9,6
Investment in subsidiaries	101,810	3,621	
Intercompany	40,033	(36,683)	4,1
Other assets	10,490	1,369	5
Other assets from discontinued operations	--	--	
	-----	-----	-----
Total assets	\$ 161,176	\$ 84,468	\$ 149,7
	=====	=====	=====
Liabilities and Stockholders' Equity			
Current Liabilities:			
Cash overdraft	\$ 578	\$ 4,068	\$
Loan payable to banks	32,382	--	2,8
Current portion of long term debt	23,283	458	6,0
Accounts payable	2,265	28,360	15,4
Accrued expenses and other	11,145	8,031	32,9
Current liabilities from discontinued operations	--	--	1,1
	-----	-----	-----
Total current liabilities	69,653	40,917	58,3
	-----	-----	-----
Long term debt	100,081	(69,891)	80,3
Other liabilities	3,027	14,594	4,5
Other liabilities from discontinued operations	--	--	
Redeemable securities:			

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Series B and C preferred stock	63,129	--	
Stockholders' Equity			
Series A preferred stock	521	--	
Common stock	2	32	
Paid in capital	740	110,885	5,1
(Accumulated deficit) retained earnings	(66,442)	(12,040)	10,9
Accumulated other comprehensive income (loss)-			
gain (loss) on derivative instruments	51	51	
currency translation adjustment	(9,586)	(80)	(9,5
	-----	-----	-----
Total stockholders' equity	(74,714)	98,848	6,5
	-----	-----	-----
Total liabilities and equity	\$ 161,176	\$ 84,468	\$ 149,7
	=====	=====	=====

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PHILIPP BROTHERS CHEMICALS, INC.  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)  
For The Three Months Ended March 31, 2003  
(In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guara
Net sales	\$ 6,500	\$ 57,536	\$ 31,97
Cost of goods sold	5,065	45,289	22,93
	-----	-----	-----
Gross profit	1,435	12,247	9,03
Selling, general, and administrative expenses	4,109	9,531	4,81
	-----	-----	-----
Operating (loss) income	(2,674)	2,716	4,22
Interest expense	543	667	2,76
Interest income	(1)	--	(3
Other expense (income)	129	(308)	29
Intercompany allocation	(3,754)	3,592	16
(Profit) loss relating to subsidiaries	791	--	-
	-----	-----	-----
(Loss) income before income taxes	(382)	(1,235)	1,04
Provision for income taxes	--	281	31
	-----	-----	-----
(Loss) income from continuing operations	(382)	(1,516)	72
DISCONTINUED OPERATIONS:			
Profit (loss) relating to discontinued operations	28,129	--	-
(Loss) from discontinued operations (net of income taxes)	--	--	(54
(Loss) on disposal of discontinued operations (net of income taxes)	(30,019)	--	28,67
	-----	-----	-----
Net (loss) income	\$ (2,272)	\$ (1,516)	\$ 28,85
	=====	=====	=====

PHILIPP BROTHERS CHEMICALS, INC.  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)  
 For The Nine Months Ended March 31, 2003  
 (In Thousands)

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guara
Net sales	\$ 19,643	\$172,552	\$ 95,96
Cost of goods sold	15,605	134,776	68,30
Gross profit	4,038	37,776	27,66
Selling, general, and administrative expenses	13,863	23,881	13,81
Operating (loss) income	(9,825)	13,895	13,84
Interest expense	1,215	2,154	8,76
Interest income	(2)	--	(13
Other expense (income)	438	(308)	1,18
Intercompany allocation	(12,395)	11,927	46
(Profit) loss relating to subsidiaries	(1,392)	--	-
Income (loss) before income taxes	2,311	122	3,55
Provision for income taxes	156	507	1,77
Income (loss) from continuing operations	2,155	(385)	1,77
DISCONTINUED OPERATIONS:			
Profit (loss) relating to discontinued operations	17,600	--	-
(Loss) from discontinued operations (net of income taxes)	--	--	(11,07
(Loss) on disposal of discontinued operations (net of income taxes)	(30,019)	--	28,67
Net (loss) income	\$(10,264)	\$ (385)	\$ 19,37

PHILIPP BROTHERS CHEMICALS INC.  
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)  
 For the Nine Months Ended March 31, 2003  
 (In Thousands)

	U.S. Guarantor	Foreign Subsidiar
--	----------------	----------------------

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	Parent	Subsidiaries	Non-Guara
-----			
Operating activities:			
Net (loss) income	\$ (10,264)	\$ (385)	\$ 19,377
Adjustment for discontinued operations	12,419	--	(17,600)
	-----	-----	-----
Income (loss) from continuing operations	2,155	(385)	1,777
Adjustments to reconcile income			
(loss) from continuing operations to cash			
provided by operating activities:			
Depreciation and amortization	1,155	4,170	5,566
Other	319	(557)	(250)
Changes in operating assets and liabilities:			
Accounts receivable	(137)	797	391
Inventory	(167)	(10,024)	4,122
Prepaid expenses and other	1,112	(139)	(1,530)
Other assets	(2,135)	894	(949)
Intercompany	2,505	(3,114)	(783)
Accounts payable	1,241	13,147	690
Accrued expenses and other	4,274	(1,119)	2,651
Operating cash flows from discontinued			
operations	--	--	2,970
	-----	-----	-----
Net cash provided by operating activities	10,322	3,670	14,655
	-----	-----	-----
Investing activities:			
Capital expenditures	--	(3,126)	(4,652)
Proceeds from asset sales and other investing	--	2,530	791
Discontinued operations	--	--	1,877
	-----	-----	-----
Net cash used in investing activities	--	(596)	(1,984)
	-----	-----	-----
Financing activities:			
Cash overdraft	2	(1,434)	(1,689)
Net increase (decrease) in short term debt	(5,609)	--	(403)
Proceeds from long term debt	--	--	2,125
Payments of long term debt	(5,129)	(410)	(8,181)
	-----	-----	-----
Net cash used in financing activities	(10,736)	(1,844)	(8,148)
	-----	-----	-----
Effect of exchange rate changes on cash	--	2	271
	-----	-----	-----
Net (decrease) increase in cash and			
cash equivalents	(414)	1,232	4,794
Cash and cash equivalents at			
beginning of period	457	652	5,310
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 43	\$ 1,884	\$ 10,104
	=====	=====	=====

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	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guara
Assets			
Current Assets:			
Cash and cash equivalents	\$ 457	\$ 130	\$ 5,832
Trade receivables	3,150	28,671	29,336
Other receivables	392	855	1,937
Inventory	2,707	44,929	39,289
Prepaid expenses and other	3,010	2,460	10,050
Current assets from discontinued operations	--	--	11,769
	-----	-----	-----
Total current assets	9,716	77,045	98,213
	-----	-----	-----
Property, plant & equipment, net	409	29,781	46,306
Intangibles	32	1,495	10,262
Investment in subsidiaries	82,540	3,621	--
Intercompany	73,359	(36,074)	(5,240)
Other assets	9,738	1,918	1,097
Other assets from discontinued operations	--	--	10,432
	-----	-----	-----
Total assets	\$175,794	\$ 77,786	\$161,070
	=====	=====	=====
Liabilities and Stockholders' Deficit			
Current Liabilities:			
Cash overdraft	\$ 576	\$ 5,502	\$ 1,689
Loan payable to banks	37,991	--	3,544
Current portion of long term debt	3,216	530	5,105
Accounts payable	1,024	24,716	13,975
Accrued expenses and other	7,579	8,092	14,314
Current liabilities from discontinued operations	--	--	6,660
	-----	-----	-----
Total current liabilities	50,386	38,840	45,287
	-----	-----	-----
Long term debt	127,643	(68,271)	109,314
Other liabilities	2,352	6,156	20,089
Other liabilities from discontinued operations	--	--	1,280
Redeemable securities:			
Series B and C preferred stock	56,602	--	--
Stockholders' Deficit			
Series A preferred stock	521	--	--
Common stock	2	32	--
Paid in capital	740	110,885	8,166
(Accumulated deficit) retained earnings	(49,652)	(10,271)	(9,852)
Accumulated other comprehensive income (loss)-			
gain (loss) on derivative instruments	1,062	384	678
cumulative currency translation adjustment	(13,862)	31	(13,892)
	-----	-----	-----
Total stockholders' deficit	(61,189)	101,061	(14,900)
	-----	-----	-----

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Total liabilities and deficit	\$175,794	\$ 77,786	\$161,070
	=====	=====	=====

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiar Non-Guara
Net sales	\$ 6,337	\$ 53,002	\$ 36,16
Cost of goods sold	5,189	41,629	28,13
Gross profit	1,148	11,373	8,03
Selling, general, and administrative expenses	4,247	9,070	5,15
Operating (loss) income	(3,099)	2,303	2,87
Interest expense	574	427	3,60
Interest income	(5)	--	(
Other expense (income)	6	(79)	58
Intercompany allocation	(4,843)	4,843	--
Loss (profit) relating to subsidiaries	3,342	--	--
(Loss) income before income taxes	(2,173)	(2,888)	(1,31
Provision (benefit) for income taxes	1,663	(1,049)	19
(Loss) income from continuing operations	(3,836)	(1,839)	(1,50
DISCONTINUED OPERATIONS:			
(Loss) profit relating to discontinued operations	(5,236)	--	--
(Loss) from discontinued operations (net of income taxes)	--	--	(5,23
Net (loss) income	\$ (9,072)	\$ (1,839)	\$ (6,73
	=====	=====	=====

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

	U.S. Guarantor	Foreign Subsidiar
--	----------------	----------------------

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	Parent	Subsidiaries	Non-Guarantors
Net sales	\$ 19,516	\$160,863	\$106,350
Cost of goods sold	15,849	125,650	80,060
Gross profit	3,667	35,213	26,288
Selling, general, and administrative expenses	11,841	26,183	16,240
Operating (loss) income	(8,174)	9,030	10,040
Interest expense	1,769	1,995	10,160
Interest income	(15)	--	(29)
Other (income) expense	(298)	(72)	2,780
Intercompany allocation	(9,778)	9,778	--
Loss (income) relating to subsidiaries	5,730	--	--
(Loss) income before income taxes	(5,582)	(2,671)	(2,600)
Provision (benefit) for income taxes	1,383	(185)	64
(Loss) income from continuing operations	(6,965)	(2,486)	(3,240)
DISCONTINUED OPERATIONS:			
(Loss) profit relating to discontinued operations	(6,171)	--	--
(Loss) from discontinued operations (net of income taxes)	--	--	(6,171)
Net (loss) income	\$ (13,136)	\$ (2,486)	\$ (9,411)

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

	Parent	U.S. Guarantor Subsidiaries	Foreign Subsidiaries Non-Guarantors
Operating activities:			
Net (loss) income	\$ (13,136)	\$ (2,486)	\$ (9,415)
Adjustment for discontinued operations	6,171	--	6,171
(Loss) income from continuing operations	\$ (6,965)	\$ (2,486)	\$ (3,244)
Adjustments to reconcile (loss) income from continuing operations to cash (used in) provided by operating activities:			
Depreciation and amortization	795	3,986	5,260
Other	(594)	136	4,271
Changes in operating assets and liabilities:			
Accounts receivable	1,278	6,163	4,867
Inventory	318	(3,521)	(13,507)
Prepaid expenses and other	892	(909)	(2,527)



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Other assets	260	(838)	(264)
Intercompany	(10,614)	3,675	12,669
Accounts payable	(1,095)	343	53
Accrued expenses and other	902	(5,130)	6,678
Operating cash flows from discontinued operations	--	--	(438)
	-----	-----	-----
Net cash (used in) provided by operating activities	(14,823)	1,419	13,818
	-----	-----	-----
Investing activities:			
Capital expenditures	(74)	(3,918)	(3,889)
Acquisition of a business	--	--	(7,182)
Other investing	--	412	57
Discontinued operations	--	--	(692)
	-----	-----	-----
Net cash used in investing activities	(74)	(3,506)	(11,706)
	-----	-----	-----
Financing activities:			
Cash overdraft	(13)	1,494	--
Net increase (decrease) in short term debt	16,093	--	(845)
Proceeds from long term debt	2,000	316	--
Payments of long term debt	(2,533)	(395)	(1,396)
	-----	-----	-----
Net cash provided by (used in) financing activities	15,547	1,415	(2,241)
	-----	-----	-----
Effect of exchange rate changes on cash	--	--	(110)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	650	(672)	(239)
Cash and cash equivalents at beginning of period	1,292	1,210	12,343
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 1,942	\$ 538	\$ 12,104
	=====	=====	=====

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

General

The Company is a diversified global manufacturer and marketer of a broad range of specialty agricultural and industrial chemicals, which are sold world-wide for use in numerous markets, including animal health and nutrition, agriculture, pharmaceutical, electronics, wood treatment, glass, construction and concrete. The Company also provides recycling and hazardous waste services primarily to the electronics and metal treatment industries. These operations are classified into four segments: Animal Health and Nutrition; Industrial Chemicals; Distribution; and All Other.

In February 2003 the Company determined that it would permanently shutdown and no longer fund the operations of its Norwegian subsidiary, Odda Smelteverk ("Odda"). On February 28, 2003, the management of Odda filed for bankruptcy in Norway and the bankruptcy is proceeding in accordance with Norwegian law. As a result of the bankruptcy, the creditors of Odda have recourse only to the assets of Odda, except in the case of certain debt guaranteed by the Company. The

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Company has removed all assets, liabilities (except as noted below) and cumulative translation adjustments related to Odda from the Company's consolidated balance sheet as of March 31, 2003, and has recorded the net result as a Loss on disposal of discontinued operations. Philipp Brothers Chemicals, Inc is the guarantor of certain debt of Odda under two separate multi-currency revolving credit facilities of Odda. As of March 31, 2003, NOK 41,100 (\$5,731) was outstanding under these facilities and continues to be included in Loans payable to banks and Current portion of long-term debt captions on the Company's Consolidated Balance Sheet at March 31, 2003. The Company has entered into forbearance agreements with the two banks holding guarantees from the Company for the debt of Odda under which the banks have agreed not to demand immediate payment on those guarantees, and the Company has agreed to pay the principal amount plus interest in installments. The Company has been advised by Norwegian counsel that it will obtain the benefit of the banks' position as a secured creditor upon payment pursuant to the guarantees. The Company has obtained the consent of a majority of the holders of its outstanding Senior Subordinated Notes to amend the Indenture governing these notes in such a manner that the bankruptcy of Odda does not create an event of default thereunder. The results of Odda's operations are reflected as a discontinued operation and the operating results have been excluded from the Industrial Chemical segment. All prior periods have been restated for consistency of presentation.

In November 2002, the Company had announced a temporary shutdown of Odda due to continuing operating losses, higher than planned operating costs and delays in the market acceptance of calcium oxide, a by-product of the manufacturing process to produce dicyandiamide. The Company recorded an asset write-down charge of \$7.8 million at December 31, 2002 to reflect impairment of long-lived assets at the Odda facility to their estimated salvage values.

In April 2003, the Company completed the sale of its Carbide business which distributed calcium carbide previously produced by Odda. The Company recorded a loss on sale of approximately \$1.0 million. Proceeds were not material. The results of Carbide's operations are reflected as a discontinued operation and the operating results have been excluded from the Distribution segment. All prior periods have been restated for consistency of presentation.

The Company recorded operating income, after the classification of its Odda and Carbide businesses as discontinued operations, of \$17.9 million for the nine months ended March 31, 2003 compared to operating income of \$10.9 million in the prior year nine-month period. The period-to-period comparison was also affected by purchase accounting adjustments relating to inventory acquired in the acquisition of the Phibro Animal Health ("PAH") business, that resulted in a \$3.3 million increase to cost of goods sold for the nine months ended March 31, 2002.

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

In light of continued declines in the printed circuit board business in the United States, during the second quarter of fiscal 2003, Phibro-Tech disposed of that portion of its ammoniacal etchant business associated with its Joliet, Illinois and Sumter, South Carolina facilities. The transaction included the migration of the customers of such business to the purchaser and the

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exclusive license to the purchaser of know-how for the fresh ammoniacal etchant sold in certain states. No manufacturing facilities, equipment or inventory was included in the transaction. The purchaser has agreed to pay future royalties based on sales levels exceeding certain specified minimums. The gain on the transaction was not material.

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Certain prior year amounts have been reclassified to conform to the fiscal 2003 presentation. Freight and warehousing expenses of \$6.4 million and \$20.0 million for the three and nine months ended March 31, 2002, respectively, were reclassified from general and administrative expenses to cost of goods sold.

### Results of Operations

Operating Segments	Sales (\$000's)		
	Three Months Ended March 31,		Nine Mo Mar
	2003	2002	2003
Animal Health and Nutrition.....	\$63,254	\$60,252	\$191,525
Industrial Chemicals.....	14,177	13,962	43,062
Distribution.....	8,159	7,125	24,300
All Other.....	11,261	9,444	31,099
Elimination of inter-segment sales.....	(3,112)	(2,619)	(9,372)
	\$93,739	\$88,164	\$280,614

Operating Segments	Operating Income (Loss) (\$000's)		
	Three Months Ended March 31,		Nine
	2003	2002	2003
Animal Health and Nutrition .....	\$ 8,122	\$ 6,246	\$ 29,852
Industrial Chemicals.....	(716)	(117)	(1,538)
Distribution.....	900	496	2,452
All Other.....	(846)	(750)	(1,464)
Corporate expenses and eliminations.....	(3,192)	(3,793)	(11,387)
	\$ 4,268	\$ 2,082	\$ 17,915

### Comparison of Three Months Ended March 31, 2003 and 2002

**Net Sales.** Net sales increased by \$5.6 million, or 6%, to \$93.7 million in the three months ended March 31, 2003, as compared to the same period of the prior year. Each of the Company's segments reported higher sales over the prior period.

Animal Health and Nutrition net sales increased by \$3.0 million, or 5%, to \$63.3 million for the three months ended March 31, 2003. The Company's PAH

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operations improved due to higher unit volume sales of its antibacterial and anticoccidial products offset in part by lower average selling prices. Higher revenues were also recorded at the Company's Prince Agri operations due to higher unit volumes associated with its core inorganic materials, trace mineral premixes and other specialty ingredients. The Company's Koffolk sales declined due to lower unit volume sales of its core organic materials.

Industrial Chemicals net sales increased by \$.2 million, or 2%, to \$14.2 million in the three months ended March 31, 2003 as compared to the prior period. The Company's Prince operations improved due to higher unit volumes over the prior year comparable period. Sales by the Company's Phibro-Tech subsidiary decreased from the prior year due to lower recycling fees and sales volumes. During the quarter ended December 31, 2002, Phibro-Tech disposed of its etchant business operated out of the Joliet, Illinois and Sumter, South Carolina facilities. Phibro-Tech continues its existing etchant business at its other facilities.

Net sales for the Distribution segment increased by \$1.0 million, or 15%, to \$8.2 million in 2003, as compared to the prior period. Higher unit sales volumes at the Company's Ferro operations and improved product mix changes in the Company's PhibroChem operations accounted for the increase.

Net sales for the All Other segment increased by \$1.8 million, or 19%, to \$11.2 million in 2003, as compared to the prior period. Higher sales of crop protection chemicals increased revenues by approximately \$1.2 million. The Company's fly ash

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business increased revenues by approximately \$.5 million due to higher unit volumes offset in part by declines in average selling prices. An increase in specialized lab projects and formulations at the segment's U.K. operations accounted for the balance of the increase.

Gross Profit. Gross profit increased by \$2.2 million, or 11%, to \$22.7 million in the three months ended March 31, 2003, as compared to the prior period. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of \$0 and \$.3 million for the three months ended March 31, 2003 and 2002, respectively. Excluding the purchase accounting adjustments, gross profit increased by approximately \$1.7 million in the Animal Health segment primarily due to higher unit volume sales. The Industrial Chemicals segment decreased by approximately \$.9 million primarily due to lower revenues and production levels at Phibro-Tech facilities and also higher manufacturing costs at the Company's Prince Manufacturing operations. The Distribution segment increased \$.4 million primarily as a result of higher unit volume sales and product mix. The All Other segment approximated the prior year due to higher sales of crop protection chemicals offset by the Company's fly ash operations. Elimination of inter-company profit in inventory accounted for the remainder.

Selling, General and Administrative Expenses. Costs for the current quarter were \$18.5 million, approximately the same as the comparable prior year period. During the current quarter, the Company recognized a gain of \$2.2 million resulting from a settlement of a class action suit against European vitamin manufacturers. Costs declined primarily at the Company's Phibro-Tech and Koffolk operations due to cost reduction programs and lower levels of production activity. Costs increased due to environmental accruals of \$.7 million primarily related to the Company's Sumter, S.C. facility, severance costs of \$.4 million, resolution of a disputed claim related to a divested business of \$.2 million, actuarial revisions in pension expense of \$.3 million and higher insurance costs

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of \$.4 million. Further, Corporate expenses increased due to costs related to debt restructuring activities and higher staff levels.

**Operating (Loss) Income.** Operating income increased by \$2.2 million to \$4.3 million in 2003, as compared to the prior period. The Animal Health and Nutrition segment, after the exclusion of purchase accounting adjustments in fiscal 2002, increased due to higher unit volumes and cost reductions. The Industrial Chemicals segment worsened due to higher environmental expense accruals at Phibro-Tech and higher manufacturing costs at Prince Manufacturing, offset in part by lower general and administrative expenses at Phibro-Tech. The Company's Distribution segment increased as a result of higher unit volume sales and product mix. The All Other segment declined slightly from the prior period. In addition, the Company recognized a gain of \$2.2 million during the current quarter resulting from a settlement of a class action suit against European vitamin manufacturers.

**Interest Expense, Net.** Costs decreased by \$.7 million or 14% to \$3.9 million for the three months ended March 31, 2003 as compared to the prior period primarily due to lower weighted-average interest rates and lower average borrowing levels.

**Other Expense, Net.** Other (income) expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries.

**Income Taxes.** An income tax provision of \$.6 million was reported on a consolidated pre-tax income of \$.2 million in fiscal 2003 primarily due to income tax provisions in profitable foreign jurisdictions and also for state income taxes. The Company continues to carry a full valuation allowance related to its domestic and Brazilian operating losses. These deferred tax assets will continue to be evaluated each reporting period based on actual and expected operating performance.

**Loss from Discontinued Operations.** Net sales, loss and depreciation and amortization from the discontinued operations for the three months ended March 31 were as follows, amounts in \$000s:

	Odda		
	2003	2002	2003
	-----	-----	-----
Gross sales, including intercompany.....	\$     --	\$  8,877	\$  1,93
	=====	=====	=====
Pre-tax income (loss) from discontinued operations....	\$   (500)	\$ (5,502)	\$   (132)
Provision (benefit) for income tax .....	--	166	(84)
	-----	-----	-----
Net income (loss) from discontinued operations.....	\$   (500)	\$ (5,336)	\$    (48)
	=====	=====	=====
Depreciation and amortization.....	\$     --	\$  5,513	\$     192
	=====	=====	=====

**Loss on Disposal of Discontinued Operations.** The Company recorded charges of \$.3 million and \$1.0 million related to the disposal of Odda and Carbide, respectively. Such costs were related to the write-off of foreign currency cumulative

translation adjustments, fixed assets, intangibles and other net assets of the divested operations and also costs associated with their disposition.

#### Comparison of Nine Months Ended March 31, 2003 and 2002

**Net Sales.** Net sales increased by \$15.0 million, or 6%, to \$280.6 million in the nine months ended March 31, 2003, as compared to the same period of the prior year. Each of the Company's segments reported higher sales over the prior period.

Animal Health and Nutrition net sales increased by \$7.9 million, or 4%, to \$191.5 million for the nine months ended March 31, 2003. The Company's PAH operations improved due to higher unit volume sales of its antibacterial products offset in part by lower average selling prices. Higher revenues were also recorded at the Company's Prince Agri operations due to higher unit volumes associated with its core inorganic materials, trace mineral premixes and other specialty ingredients. The Company's Koffolk sales declined due to unfavorable currency impacts at its Brazilian subsidiary offset in part by improved sales of its core organic materials.

Industrial Chemicals net sales increased by \$2.2 million, or 5%, to \$43.1 million in the nine months ended March 31, 2003 as compared to the prior period. Sales by the Company's Phibro-Tech subsidiary decreased due to lower unit volumes over the prior year comparable period. During the quarter ended December 31, 2002, Phibro-Tech divested its etchant business operated out of the Joliet, Illinois and Sumter, South Carolina facilities. Phibro-Tech continued its existing etchant business at its other facilities. The Company's Prince operations also reported higher sales due to higher unit volumes over the prior year comparable period.

Net sales for the Distribution segment increased by \$2.1 million, or 10%, to \$24.3 million in 2003, as compared to the prior period. Higher unit sales volumes at the Company's Ferro operations and improved product mix changes in the Company's PhibroChem operations accounted for the increase.

Net sales for the All Other segment increased by \$2.6 million, or 9%, to \$31.1 million in 2003, as compared to the prior period. The Company's fly ash business increased revenues by approximately \$2.1 million due to higher unit volumes offset in part by declines in average selling prices. Higher sales of crop protection chemicals increased revenues by approximately \$1.1 million over the prior year comparable period. A decrease in specialized lab projects and formulations at the segment's U.K. operations lowered revenues by \$.6 million.

**Gross Profit.** Gross profit increased by \$4.3 million, or 7%, to \$69.5 million in the nine months ended March 31, 2003, as compared to the prior period. Purchase accounting adjustments relating to inventory acquired in the PAH acquisition resulted in an increase to cost of goods sold of \$0 and \$3.3 million for the nine months ended March 31, 2003 and 2002, respectively. Excluding the purchase accounting adjustments, gross profit increased by approximately \$1.4 million in the Animal Health segment primarily due to higher unit volume sales, lower manufacturing costs offset in part by lower average selling prices. The Industrial Chemicals segment decreased by approximately \$1.7 million primarily due to lower revenues and higher production costs at Phibro-Tech facilities, offset in part by higher margins at the Company's Prince Manufacturing operations. The Distribution segment increased \$.7 million primarily as a result of higher unit volume sales and product mix. The All Other segment declined by approximately \$.6 million primarily due to higher freight and warehouse costs associated with the Company's fly ash operations and

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decreases in specialized lab projects and formulations at the segment's U.K. facility offset in part by higher margins on the sale of crop protection chemicals. Elimination of inter-company profit in inventory accounted for the remainder.

**Selling, General and Administrative Expenses.** Costs decreased by \$2.7 million, or 5% to \$51.6 million in 2003, as compared to the prior period. During the current period, the Company recognized a gain of \$2.8 million resulting from a settlement of a class action suit against European vitamin manufacturers. Costs declined primarily at the Company's Phibro-Tech and Koffolk operations due to cost reduction programs and lower levels of production activity. The prior period included a \$.4 million non-cash gain to reflect the decrease in repurchase value of redeemable common stock of a minority shareholder; no amount was recorded in the current period. Costs increased due to environmental accruals of \$.7 million primarily related to the Company's Sumter, S.C. facility, severance costs of \$.4 million, resolution of a disputed claim related to a divested business of \$.2 million, actuarial revisions in pension expense of \$.3 million and higher insurance costs of \$.4 million. Further, Corporate expenses increased due to costs related to debt restructuring activities and higher staff levels.

**Operating (Loss) Income.** Operating income increased by \$7.0 million to \$17.9 million in 2003, as compared to the prior period. The Animal Health and Nutrition segment, after the exclusion of purchase accounting adjustments in fiscal 2002, increased due to higher unit volume sales and lower manufacturing costs, offset in part by lower average selling prices. The

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Industrial Chemicals segment improved primarily due to lower general and administrative costs at the Company's Phibro-Tech facilities. The Company's Distribution segment increased as a result of higher unit volume sales and product mix. The All Other segment declined from the prior period due to higher costs at MRT and sales decreases at the Company's U.K. facility offset in part by higher margins on the sale of crop protection chemicals. In addition, the Company recognized a gain of \$2.8 million during the current period resulting from a settlement of a class action suit against European vitamin manufacturers.

**Interest Expense, Net.** Costs decreased by \$1.6 million or 12% to \$12.0 million for the nine months ended March 31, 2003 as compared to the prior period primarily due to lower weighted-average interest rates and slightly lower average borrowing levels.

**Other Expense, Net.** Other (income) expense, net principally reflects foreign currency transaction/translation gains and losses of the Company's foreign subsidiaries.

**Income Taxes.** An income tax provision of \$2.4 million was reported on a consolidated pre-tax income of \$4.6 million in fiscal 2003 primarily due to income tax provisions in profitable foreign jurisdictions and also for state income taxes. In addition, domestic pre-tax income was recorded without a tax provision due to the utilization of net operating loss carryforwards with a full valuation allowance. The Company's Odda facility losses were not given any tax benefit. The Company continues to carry a full valuation allowance related to its domestic, Brazilian and Norwegian operating losses. These deferred tax assets will continue to be evaluated each reporting period based on actual and expected operating performance.

**Loss from Discontinued Operations.** Net sales, loss and depreciation and amortization from the discontinued operations for the nine months ended March 31

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were as follows, amounts in \$000s:

	2003	Od ----- 2002	Carbi ----- 2003
Gross Sales, including intercompany.....	\$ 7,781	\$ 24,841	\$ 1,933
	=====	=====	=====
Pre-tax income (loss) from discontinued operations....	\$ (11,193)	\$ (7,932)	\$ 58
Provision (benefit) for income tax .....	--	(1,254)	(58)
	-----	-----	-----
Net income (loss) from discontinued operations.....	\$ (11,193)	\$ (6,678)	\$ 116
	=====	=====	=====
Depreciation and amortization.....	\$ 643	\$ 6,967	\$ 251
	=====	=====	=====

Loss on Disposal of Discontinued Operations. The Company recorded charges of \$.3 million and \$1.0 million related to the operations of Od and Carbide, respectively. Such costs were related to the write-off of foreign currency cumulative translation adjustments, fixed assets, intangibles and other net assets of the divested operations and also costs associated with their disposition.

### Liquidity and Capital Resources

Net Cash Provided by Operating Activities. Cash provided by operations for the nine months ended March 31, 2003 and 2002 was \$28.6 million and \$.4 million, respectively. Cash provided by operating activities increased in the nine months ended March 31, 2003, compared with the nine months ended March 31, 2002, primarily due to improvements in working capital management and higher operating income.

Net Cash Used in Investing Activities. Net cash used in investing activities for the nine months ended March 31, 2003 and 2002 was \$2.6 million and \$15.3 million, respectively. The prior year included contingent purchase price payments of \$7.2 million. Capital expenditures of \$7.8 million and \$7.9 million in the respective 2003 and 2002 periods, were for new product capacity, maintaining the Company's existing asset base and for environmental, health and safety projects. Proceeds from sales of fixed assets and discontinued operations accounted for the remainder of cash provided by investing activities.

Net Cash (Used In) Provided by Financing Activities. Net cash (used in) provided by financing activities for the nine months ended March 31, 2003 and 2002 was (\$20.7) million and \$14.7 million, respectively. Borrowings under the domestic credit facility and other long-term debt were reduced in fiscal 2003 from cash generated by operating activities.

Liquidity. At March 31, 2003, the Company was in compliance with the financial covenants included in its amended credit facility with its lending banks. The credit facility was amended in October 2002 to: waive noncompliance with financial covenants as of June 30, 2002; amend financial covenants prospectively until maturity; amend the borrowing base formula and also reduce



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maximum availability under the revolving credit portion of the facility from \$70 million to \$55 million; limit borrowings under the capital expenditure line of the facility outstanding balance as of the amendment date; and revise the interest rate to 1.5% to 1.75% per annum over the base rate (as defined in the agreement). Management believes that the reduced maximum availability and the revised borrowing base formula under the revolving credit portion of the credit facility will not affect the Company's ability to meet its cash requirements during fiscal 2003.

The Company's ability to fund its operating plan relies upon continued availability of the credit facility, which in turn, requires the Company to maintain compliance with the amended financial covenants. The Company believes that it will be able to comply with the terms of the amended covenants based on its forecasted operating plan. In the event of adverse operating results and resultant violation of the covenants, through the remaining term of the credit facility, there can be no assurance that the Company will be able to obtain waivers or amendments on favorable terms, if at all.

The Company's credit facility and its note payable to Pfizer mature in November 2003 and March 2004, respectively. The Company may not have sufficient cash resources to repay this debt and management has undertaken actions to improve the Company's operating performance and overall liquidity in order to reduce debt levels and allow for ultimate refinancing of this debt in fiscal 2004. These actions include cost reduction activities, working capital improvement programs, shutdown of unprofitable operations, and possible sale of certain business operations and other assets. The Company completed the sale of certain fixed assets of Odda and certain assets of its Phibro-Tech etchant business during the second quarter of fiscal year 2003 for aggregate proceeds of \$5,956. The Company is actively pursuing the sale of certain business operations to generate cash for debt repayment. However, there can be no assurance that such sales will be completed on terms acceptable to the Company, if at all, and there are no disposal transactions which the Company considers probable at March 31, 2003. Disposal transactions could result in recording losses for financial statement purposes.

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

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

In February 2003 the Company determined that it would permanently shutdown and no longer fund the operations of its Norwegian subsidiary, Odda Smelteverk ("Odda"). On February 28, 2003, Odda filed for bankruptcy in Norway and the bankruptcy is proceeding in accordance with Norwegian law. The Company has been advised that, as a result of the bankruptcy, the creditors of Odda have recourse only to the assets of Odda, except in the case of certain debt guaranteed by the Company. The Company has removed all assets, liabilities, and cumulative translation adjustments related to Odda from the Company's consolidated balance sheets as of March 31, 2003, and has recorded the net result as a Loss on disposal of discontinued operations. The Company is the guarantor of certain debt of Odda under two separate multi-currency revolving credit facilities. As of March 31, 2003, NOK 41,100 (\$5,731) was outstanding under these facilities and continues to be included in the Loans payable to banks and Current portion

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of long-term debt captions on the Company's consolidated balance sheets at March 31, 2003. The Company has entered into forbearance agreements with the two banks holding guarantees from the Company for the debt of Odda under which the banks have agreed not to demand immediate payment on those guarantees, and the Company has agreed to pay the principal amount plus interest in installments. The Company has been advised by Norwegian counsel that it will obtain the benefit of the banks' position as a secured creditor upon payment pursuant to the guarantees. The Company has obtained the consent of a majority of the holders of its outstanding Senior Subordinated Notes due 2008 to amend the Indenture governing these notes in such a manner that the bankruptcy of Odda does not create an event of default thereunder.

Working capital as of March 31, 2003 was \$16.7 million compared to \$50.5 million at fiscal year end June 30, 2002. The decrease in working capital was primarily due to the reclassification to Current Liabilities of certain obligations, now due within one year, previously classified as non-current Other Liabilities. These reclassified items include: the Note Payable to Pfizer of approximately \$20.1 million, due March 2004, included in Current portion of long-term debt; accrued royalties payable of \$9.0 million, due March 2004, included in Other current liabilities; and, other payables and accruals of \$6.5 million included in Accounts payable and other current liabilities.

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At March 31, 2003, the amount of credit extended under the Company's credit facility totaled \$32.4 million and the Company had \$12.0 million available under the borrowing base formula in effect under the credit facility. In addition, certain of the Company's foreign subsidiaries also had availability totaling \$8.7 million under their respective loan agreements.

The Company anticipates spending approximately \$9.0 million for capital expenditures related to continuing operations in fiscal 2003, primarily to cover the Company's asset replacement needs, improve processes, and for environmental and regulatory compliance, subject to the availability of funds.

### Critical Accounting Policies

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

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

Significant estimates underlying the accompanying consolidated financial statements include inventory valuation, allowance for doubtful accounts, useful

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lives of tangible and intangible assets and various other operating allowances and accruals.

### New Accounting Pronouncements

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

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

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

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or

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modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company is currently assessing the impact of this statement.

### Seasonality of Business

There is some seasonality in the Company's results as sales of certain industrial chemicals to the wood treatment industry as well as sales of coal fly ash are typically highest during the peak construction periods of the first and fourth fiscal quarters.

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### 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 fiscal year ended June 30, 2002 and to Note 14 to the Consolidated Financial Statements of the Company included therein.

### Certain Factors Affecting Future Operating Results

This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include, among other factors noted herein, the following: the Company's substantial leverage and potential inability to service its debt; the Company's dependence on distributions from its subsidiaries; risks associated with the Company's international operations; the Company's dependence on its Israeli operations; competition in each of the Company's markets; potential environmental liability; extensive regulation by numerous government authorities in the United States and other countries; significant cyclical price fluctuation for the principal raw materials used by the Company in the manufacture of its products; the Company's reliance on the continued operation and sufficiency of its manufacturing facilities; the Company's dependence upon unpatented trade secrets; the risks of legal proceedings and general litigation expenses; potential operating hazards and uninsured risks; the risk of work stoppages; the Company's dependence on key personnel; and the uncertain impact of the Company's divestiture plans. See also the discussion under "Risks and Uncertainties" in Note 3 of the Notes to Condensed Consolidated Financial Statements included in this Report and matters referred to throughout Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

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

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

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

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

### Item 4. Control and Procedures

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- (a) Based upon an evaluation by the Company's Chief Executive Officer, Chairman of the Board and Chief Financial Officer within 90 days prior to the filing date of this Quarterly Report on Form 10-Q they have concluded that the Company's disclosure controls and procedures as defined in Rule 15d-14(c) under the

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Securities Exchange Act of 1934, as amended, are effective for gathering, analyzing and disclosing information contained in the Company's periodic reports provided to the Securities and Exchange Commission.

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

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PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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.

None.

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SIGNATURES

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

PHILIPP BROTHERS CHEMICALS, INC.

Date: May 14, 2003

By: /s/ JACK C. BENDHEIM  
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Jack C. Bendheim  
Chairman of the Board

Date: May 14, 2003

By: /s/ GERALD K. CARLSON

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Gerald K. Carlson  
Chief Executive Officer

Date: May 14, 2003

By: /s/ RICHARD G. JOHNSON

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

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CERTIFICATIONS

I, Gerald K. Carlson, certify that:

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

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controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/Gerald K. Carlson

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Gerald K. Carlson,  
Chief Executive Officer

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I, Jack C. Bendheim, certify that:

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

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

Date: May 14, 2003

/s/Jack C. Bendheim

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Jack C. Bendheim,  
Chairman of the Board

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I, Richard G. Johnson, certify that:

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



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

Date: May 14, 2003

/s/Richard G. Johnson

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Richard G. Johnson,  
Chief Financial Officer

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