PHILIPP BROTHERS CHEMICALS INC
Form 10-K
October 11, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2001

OR

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

Commission File Number 333-64641

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act: none
Securities registered pursuant to Section 12(g) of the Act: none

(Title of Class)

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

Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the price at which such voting stock was sold was $0 as of June 30, 2001.

The number of shares outstanding of the Registrant's Common Stock as of June 30, 2001: 24,488.50

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

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PHILIPP BROTHERS CHEMICALS, INC.

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PART I

Item 1. Business.

General

Philipp Brothers Chemicals, Inc. ("Philipp Brothers" or the "Company") is a leading diversified global manufacturer and marketer of a broad range of specialty agricultural and industrial chemicals, which are sold world-wide for use in numerous markets including animal health and nutrition, agricultural, pharmaceutical, electronics, wood treatment, glass, construction and concrete. The Company also provides recycling and hazardous waste services primarily to the electronics and metal treatment industries. The Company believes it has leading positions in certain of its end markets, and has global marketing and manufacturing capabilities. Approximately 38% of the Company's fiscal 2001 net sales consisted of sales made by the Company outside the United States. During fiscal 2001, the Company's products were manufactured at eleven facilities in the United States, five facilities in Europe, two facilities in Israel, and two facilities in South America. Unless the context otherwise requires, references in this Report to the "Company" refer to the Company and/or one or more of its subsidiaries, as applicable.

The Company manufactures and markets more than 550 specialty agricultural and industrial chemicals, of which 50 products accounted for approximately 80% of fiscal 2001 net sales. The Company focuses on specialty agricultural and industrial chemicals for which it has a strong market position or an advantage in product development, manufacturing or distribution. Many of the Company's products provide critical performance attributes to its customers' products, while representing a relatively small percentage of total end-product costs.

On November 30, 2000, the Company purchased the medicated feed additives business of Pfizer, Inc. Operating results of this business, Phibro Animal Health ("PAH"), are included in operating results from the date of acquisition and are reflected in the Animal Health and Nutrition segment. PAH produces and sells a broad range of medicated feed additive products to the global poultry and livestock industries, either directly to large integrated livestock producers or through a network of independent distributors.

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. ("Phibro-Tech") subsidiary, to Nufarm, Inc. ("Nufarm"), the U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. Agtrol developed, manufactured and marketed crop protection products, including copper fungicides. The sale included inventory and intangible assets to Nufarm but did not include plant, equipment, or other

manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South Carolina plant for five years, and from its Bordeaux, France plant for three years. The operating results of Agtrol are included in the Company's consolidated statements of operations, up to the date of sale, and are reflected in the All Other segment for all periods presented.

The Company has four operating segments--Animal Health and Nutrition, Industrial Chemicals, Distribution and All Other. 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 to the animal feed, poultry and pet food industries. The Company distributes its products through major multinational life science and animal health companies.

The Company's Industrial Chemicals segment manufactures and markets pigments and other mineral products for use in the chemical, catalyst, pharmaceutical, construction, concrete, wood treatment, automotive, aerospace, glass and coal mining industries. Certain of these products are produced from the Company's recycling operations, including copper oxide, which is used in the production of water-borne wood preservatives. In addition to copper oxide, the Company supplies other mineral oxides, such as iron and manganese compounds, which are used as colorants and for other purposes in the brick, masonry, glass and other industries. The Company

also manufactures and recycles alkaline etchants in the United States and sells fresh etchant to printed circuit board manufacturers.

The Company's Distribution segment markets a variety of industrial, specialty and fine organic chemicals and intermediates. Most of these products are manufactured by third parties, with certain products being purchased from affiliates.

The Company's All Other segment manufactures and markets a variety of specialty custom chemicals, primarily for the polymer and pharmaceutical industries as well as copper-based fungicides and other agricultural products for the United States, French and other international markets. In addition, the Company provides management and recycling of coal combustion residues, including fly ash and bottom ash, and also mineral processing residues. Typically, these products are provided to customers directly from a utility's site or through the Company's terminals.

ANIMAL HEALTH AND NUTRITION

Through its subsidiary, Phibro Animal Health, Inc., the Company manufactures and markets a broad range of medicated feed additive products to the global poultry and livestock industries, either directly to large integrated producers or through a network of independent distributors. PAH products include anticoccidials, antibacterials, anthelmintics and other feed additives.

The anticoccidial products are marketed under the Aviax(R), Coxistac(R) and Posistac(R) brand names and are sold to integrated poultry producers and feed companies. Carbadox antibacterial is sold under the brand name Mecadox(R), for use in swine feeds to control salmonellosis and swine dysentry in young and

growing swine. Virginiamycin, an antibiotic marketed under the Stafac(R), Eskalin(R) and V-Max(R) brand names, is used to prevent and control diseases in poultry, swine and cattle, including necrotic enteritis in poultry and swine and liver abcesses in cattle. Antibacterials, including Terramycin(R), and Neo-Terramycin(R) which are derived from the active ingredient oxytetracycline, are effective against a range of diseases including: fowl cholera in chickens; airsacculitis in turkeys; bacterial enteritus in swine; and bacteria diarrhea and liver abcesses in cattle. Banmith(R), Oxibendazole(R) and Rumatel(R) are anthelmintics that are used to control internal parasites in cattle, sheep and goats. The use of these medicated feed additives assists the producer in maintaining healthy and productive animals which ensure the consumer of a safe, healthy and wholesome meat supply.

PAH manufactures bulk active ingredients at facilities located in Guarulhos, Brazil and Rixensart, Belgium. Other active ingredients are being supplied by Pfizer to PAH under a transition supply agreement. Alternate sources of these products have been identified and are being qualified. Also under a transition agreement, for many markets, Pfizer is formulating these active ingredients into the lower concentration products that are sold to feed mills and producers. PAH is in the process of transferring these operations to alternate sites. This effort is expected to be completed during calendar 2002/2003.

PAH has established sales and technical offices in 18 countries including: US, Canada, Mexico, Costa Rica, Venezuela, Colombia, Brazil, Argentina, Chile, Peru, Australia, Japan, Hong Kong, China, Thailand, Malaysia, South Africa and Belgium. Additional offices will be opened as the business grows. The top five markets in terms of sales in fiscal 2001 (7 months of operation) are the U.S., Brazil, China, Japan and Mexico. These countries accounted for 77% of PAH's global sales in fiscal 2001. The business is not dependent on any one customer.

The use of medicated feed additives are controlled by regulatory authorities that are specific to each country (i.e., the FDA in the US; Health Canada in Canada, etc.). Each product is registered separately. In most countries, these registrations have already been transferred from Pfizer to the Company. The transfers are continuing in several countries and under the asset purchase agreement, Pfizer will continue to support the registration transfer effort.

Currently, new product development at PAH is focused on geographical expansion of the present product line, new label claims and applications for existing active ingredients and new formulations. This effort is coordinated by product development personnel located in Belgium, Brazil, and the U.S. PAH also has an active program to identify and license new products and new technologies.

Through its subsidiary, Prince Agriproducts, Inc. ("Prince Agri"), the Company manufactures and markets trace minerals, trace mineral and selenium premixes and other ingredients to the animal and poultry feed and pet food industries, predominantly in the United States. These products generally fortify, enhance or make more nutritious or palatable the animal and poultry feeds and pet foods with which they are mixed. The Company is a basic producer of trace minerals for the U.S. animal feed industry. The majority of the other ingredients the Company sells are nutrients which are used as supplement for animal feed. The Company serves customers in major feed segments, including swine, dairy, poultry and beef as well as pet food and aquaculture. The Company's foundation and strength in the animal feed industry have come from its basic position in several trace minerals. The Company customizes trace mineral and selenium premixes at its blending facilities in Marion, Iowa, Bremen, Indiana and Bowmanstown, Pennsylvania, and markets a diverse line of other trace minerals and macro-minerals. The Company's major customers for these products are medium to large feed companies, co-ops,

blenders, integrated poultry operations and pet food companies. The Company sells other ingredients, such as buffers, yeast, palatants, vitamin K and amino acids, including lysine, tryptophan and threonine. The Company also markets copper sulfate as an animal feed supplement.

The Company's Israeli subsidiary, Koffolk (1949) Ltd. ("Koffolk Israel"), is a producer and distributor of vitamins and premixes for the animal feed and poultry industries in Israel, and also sells such products worldwide. Koffolk Israel also provides a wide range of services to the animal feed industry in Israel including mobile computer units for on-the-spot feed information, comprehensive feed laboratory services for both chemical and microbiological assay, and an experimental farm for field testing of feed additives and animal health products.

Koffolk Israel also produces fine chemicals and other intermediates used in the manufacture of certain pharmaceuticals, cosmetics and films. Koffolk Israel's plant in Ramat Hovav, Israel operates under the FDA's GMP regulations, and has received FDA approval for some of its processes and production operations.

Through Koffolk Israel and its Brazilian subsidiary, Planalquimica Industrial Ltda. ("Planalquimica"), the Company produces nicarbazin, and through Koffolk Israel the Company also produces amprolium for distribution to the world-wide poultry industry through major multinational life science and veterinary companies. The Company believes it is the sole world-wide producer of amprolium, and the largest volume world-wide producer of nicarbazin through its facilities in Israel and Brazil. The Company is the sole Latin American producer of nicarbazin. Modern, large scale poultry production is based on intensive animal management practices. This type of animal production requires routine prophylactic medications in order to prevent health problems. Coccidiosis is one of the critical disease challenges which poultry producers face, globally. Coccidiosis is an infection of coccidia, a microscopic parasite which routinely infects chickens. Nicarbazin and amprolium are among the most effective medications for the prevention of coccidiosis in chickens when used in rotation with other coccidiostats. In the United States, PAH distributes nicarbazin for Koffolk Israel under the trademark Nicarb(R), and amprolium under the trademark of Amprol(R).

INDUSTRIAL CHEMICALS

The Company manufactures and markets a number of inorganic and organic specialty chemicals for use in the chemical catalyst, construction, printed circuit board, automotive, aerospace, glass and coal mining industries. Some of these products are produced from raw materials derived from the Company's recycling operations. The Company also purchases crude inorganic minerals in the form of ores and processes these in various grades to produce chemicals for sale to manufacturers. These manufacturers incorporate the resultant products into their finished products in various industrial markets, including construction, with end-use applications in clay brick, ceramic, masonry colorant, coatings, heavy media, foundry, glass, electrodes, abrasives, dust control, and as an intermediate to various chemical applications.

Through its U.S. subsidiaries comprising The Prince Manufacturing Group ("Prince"), the Company manufactures and markets various mineral oxides, including iron compounds and manganese compounds. The Company's iron compounds include red iron oxide (Hematite) (sold to the brick, masonry, glass, foundry, electrode, abrasive, feed, and various other chemical industries); black iron oxide (Magnetite) (sold under the Magna Float brand name to the heavy media,

coal, steel foundry, electrode, abrasive, colorant, fertilizer, and various other chemical industries); iron chromite (sold under the Chromox brand as a colorant or additive to the glass industry). The Company's manganese compounds include manganese dioxide (sold under the Brickox brand name, which is considered a standard color in many applications, to the brick, masonry, glass, and various other chemical industries); and manganous oxide (sold to customers requiring an acid soluble form of manganese, such as animal feed, fertilizer and chemical manufacturers).

Through Phibro-Tech, the Company manufactures and recycles alkaline etchants in the United States. Of the Company's five facilities involved with these products, four have final RCRA Part B hazardous waste treatment and storage permits and one is in an interim permit status. See "Environmental Matters." The Company's etchants are used to remove copper from printed circuit boards, leaving the desired circuit pattern. The Company sells fresh etchant to printed circuit board manufacturers and recycles spent etchants. Phibro-Tech generates revenue

from the sale of fresh etchants as well as the recovery of the dissolved copper contained in the spent etchants, which are processed into saleable copper-based products. The Company believes that it is the only national recycler of spent etchants generated principally from the printed circuit board industry, with an etchant plant in every major geographic area except New England. These plants generally allow the Company to distribute product and transport spent etchant, a freight intensive product which is classified as hazardous waste, over relatively short distances.

Phibro-Tech also manufactures and sells the following major products:

Copper Oxide. Copper oxide is used as an ingredient in the production of water-borne wood preservatives ("CCA"). Due to its recycling capabilities, the Company believes that it is a low cost supplier of copper oxide to the CCA market. The Company also sells copper oxide to the catalyst, dye, ceramic and feed industries.

Copper Sulfate. The Company sells a high purity copper sulfate to worldwide producers of electroless copper. Industrial uses of copper sulfate include the manufacturing of pigments, electroplating, catalysts and chemical intermediates in water treatment. The Company markets copper sulfate solution to the mining and wood treatment industries.

Phibro-Tech is a leading recycler in the United States of hazardous chemical waste streams that contain copper or nickel. Four of its facilities are permitted to handle hazardous waste and one is operating on an interim permit. These waste streams are generated principally by printed circuit board manufacturers and metal finishers. The metal finishing and printed circuit board industries also generate other spent chemicals, which are raw material sources of acid, copper and nickel, and the Company charges fees for processing such materials based on metal content. The Company also recycles a variety of other metal-containing chemical waste, including spent catalysts, pickling solutions and metal strippers containing brass, cobalt, copper, nickel, iron, tin and zinc, in liquid, solid or slurry form. The Company also uses these recovered materials to produce copper and nickel chemicals for use as raw materials in certain of its products.

Metal-containing waste is either collected by the Company or delivered directly to one of its facilities by the waste generator. The Company collects and transports chemical waste in its specially-constructed tankers and

semi-trailers and drum transporting trailers. In some locations, rail transportation by tank cars or piggyback trailers is also utilized. Upon arrival at one of the Company's recycling and processing facilities, and prior to unloading, a representative sample of the delivered waste is tested and analyzed to ensure that it conforms to the customer's contracted waste profile specifications. The Company recycles and processes metal-containing hazardous chemical waste streams using hydrometallurgical technology. This technology involves the reclamation of various metals and the production of finished chemical products using chemical reactions such as leaching, extraction and precipitation. The Company determines the precise chemical process required to treat each batch of hazardous waste based on the type and amount of the waste as well as the proportion of useful raw materials it contains.

Through its Norwegian subsidiary, Odda Smelteverk AS ("Odda"), which it acquired in October 1998 together with certain related distribution business assets, the Company manufactures and distributes calcium carbide and dicyandiamide. The principal uses of calcium carbide are in the production of acetylene for welding and cutting, as a desulphurization agent in the steel and foundry industry, and in the manufacture of chemicals. Dicyandiamide is used in several applications, including as a fire retardant for fiber, wood and paint, for producing epoxy laminates for circuit boards and adhesives, for producing paper chemicals, and as a dye fixative for textiles.

During 2000, Odda completed construction of a plant and began commercial production of hydrogen cyanimide ("CY-50"). CY-50 is a product that, like dicyandiamide, is derived from calcium carbide. CY-50 is marketed by the chemical industry as a nutritional supplement and in the production of intermediates, herbicides, fungicides and insecticides. It is also used by the life science industry for anticeptives and antiulceratives.

DISTRIBUTION

The Company's PhibroChem division markets and distributes fine and specialty chemicals to manufacturers of health and personal care products. Among the Company's major products for such applications are sodium fluoride and stannous fluoride, DL Panthenol and selenium disulfide. Sodium fluoride is the active anti-cavity ingredient in fluoride toothpaste, powders and mouthwashes. Selenium disulfide is used as a dandricide in shampoo and hair care preparations.

Through its U.K. subsidiary, Ferro Metal & Chemical Ltd. ("Ferro"), the Company markets dicyandiamides and calcium carbides. Ferro also markets fine and specialty chemicals to customers in the steel, gas production, chemical intermediates, health and personal care industries.

ALL OTHER

Through its subsidiary, Mineral Resource Technologies, L.L.C. ("MRT"), the Company manages combustion and mineral by-products. MRT provides management and recycling of coal combustion residues, including fly ash and bottom ash, and also mineral processing residues. Fly ash is the fine residue and bottom ash is the heavier particles that result from the combustion of coal in the electric power industry. Fly ash is a pozzolan, i.e. a mixture that, in the presence of water, combines with an activator, such as portland cement, to produce a cement-like material. This allows fly ash to be used as a less expensive substitute for other cementious materials, primarily portland cement. MRT typically provides these products to its customers directly from a utility's site or through its own terminals.

Through the MRT Technology Center in Atlanta, MRT seeks to develop new products consisting substantially of these combustion by-products. In March of 1998, MRT's research and development activity resulted in two U.S. patents being issued involving proprietary value-added products. These patents provide for the production of a family of hydraulic blended cements, a series of masonry and stucco cement products, and rapid hardening cement products. Since the initial success in development of these unique products, five additional patents have been issued for enhancement of these initial patents and for other future marketable value-added products. MRT introduced the first of the new cement products as EZ Joint Masonry Cement(TM) into the Georgia market beginning late in fiscal 2001. Performance in the field has been uniformly satisfactory with applications meeting all ASTM standards. Continued evaluation by MRT is underway and plans are being developed for introduction of these products into other major markets.

In connection with its fly ash management operations, MRT has entered into and will seek to enter long-term sales and distribution agreements with utilities providing for minimum payments and/or purchase obligations by MRT of varying durations. Certain of these contracts also require MRT to construct (at its expense) facilities to store and/or process ash. MRT's ability to achieve long-term revenue growth and profitability is dependent upon securing additional long-term ash management contracts with utilities and developing fly ash processing facilities. Consistent with industry practice, in connection with its long-term contracts, the Company has furnished and expects to furnish performance bonds or guarantees to such utilities.

Through its English subsidiary, Wychem Limited, the Company develops and markets a wide range of halogenated organic compounds, mainly brominated and fluorinated. These chemical intermediates are sold primarily into the pharmaceutical industry as building blocks for further synthesis. Wychem is able to tailor the quality and supply characteristics of its chemicals to those desired by its customers by close coordination with the customer at an early stage in the customer's product development. In certain cases the product supplied by Wychem is novel and included in the customer's regulatory submissions.

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary ("Phibro-Tech"), to Nufarm, Inc., the U.S. subsidiary of Nufarm Limited, a publicly listed Australian based company. On June 14, 2001, the Company sold its Agtrol international business to Nufarm. Agtrol developed, manufactured and marketed crop protection products, including copper fungicides. The sale included inventory and intangible assets to Nufarm but did not include plant, equipment, or other manufacturing assets. Phibro-Tech also entered into agreements to supply copper fungicide products to Nufarm from its Sumter, South

Carolina plant for five years, and from its Bordeaux, France plant for three years. The operating results of Agtrol are included in the Company's consolidated statements of operations, up to the date of sale, and are reflected in the All Other segment for all periods presented.

Nufarm is obligated to purchase all of its requirements for products and substitute products, up to the capacity of the facilities during the terms of the agreements. During the terms of the agreements, the product price will be the Company's full standard cost plus margin, as defined in the agreements. The agreements provide for minimum payments to the Company during each contract year equal to 70% of base volume multiplied by the product price.

Sales, Marketing And Distribution

The Company sells specialty chemicals to manufacturers who incorporate the Company's products into their finished goods. The Company has more than 3,500 customers. Sales to the top ten customers represented approximately 14% of the Company's 2001 net sales and no single customer represented more than 4% of the Company's 2001 net sales.

The Company's sales and marketing network consists of approximately 163 employees, 73 independent agents and 142 distributors who specialize in particular markets.

The Company's products are often critical to the performance of its customers' products while representing a relatively small percentage of the total end-product cost. Management believes that the three key factors to marketing its products successfully are high quality products, a highly trained and technical sales force, and customer service.

Raw Materials

The raw materials used in the Company's business consist chiefly of copper metal and a wide variety of organic intermediates and inorganic chemicals which are purchased from manufacturers in the United States, Europe and Asia. In fiscal 2001, no single raw material accounted for more than 8% of the Company's cost of goods sold. Total raw materials cost was approximately $153 million or 43% of net sales in 2001.

The Company believes that for most of its raw materials alternate sources of supply are available to the Company at competitive prices. In addition, the Company's ability to recycle hazardous waste streams allows the Company to recover certain metals and other raw materials that it substitutes in its products for virgin materials, thereby reducing the Company's cost of goods and its reliance on suppliers of certain virgin materials.

Research and Development

Research, development and technical service efforts are conducted by over 100 chemists and technicians at the various facilities of the Company. The Company operates a Research and Development Center in Sumter, South Carolina, relating to inorganic chemicals and crop protection products, and at Stradishall, England, relating to organic chemical intermediates. In addition, Koffolk Israel conducts substantial research and development at its Ramat Hovav facility. The Company also conducts research and development at its MRT Technology center in Atlanta, GA for concrete and cement products. Finally, Phibro Animal Health's Rixensart, Belgium facility provides a base for fermentation development in the areas of microbiological strain improvement as well as process scale-up. Most of the Company's plants have chemists and technicians on staff involved in product development, quality assurance, quality control and also providing technical services to customers. Technical assurance is an important aspect of the Company's overall sales effort.

Technology is an important component of the Company's competitive position, providing the Company with a low cost position and enabling the Company to produce high quality products. Patents protect some of the Company's technology, but a great deal of the Company's competitive advantage revolves around know-how built up over many years of commercial operation.

The Company entered into a research and development joint venture agreement with IMI (TAMI) Institute for R&D Ltd. ("IMI") to develop custom made specialty fine chemicals. As part of the agreement, the parties have also entered into an agreement with the Israel-U.S. Binational Industrial Research and Development ("BIRD") Foundation, whereby development costs, subject to a cap of $1.7 million, are reimbursed 50%. On commercialization of developed products, royalties will be due to BIRD based on achieved sales levels. Should commercialization not occur, receipts from BIRD need not be returned.

The Company and its predecessors have over 20 years experience in the use of hydrometallurgical technology for recycling metal-containing by-products and a strong technological position in the production of metal-containing chemicals.

Patents and Trademarks

The Company owns certain patents, tradenames and trademarks and uses know-how, trade secrets, formulae and manufacturing techniques which assist in maintaining the competitive positions of certain of its products. Formulae and know-how are of particular importance in the manufacture of a number of the products sold in the Company's specialty chemical business. The Company believes that no single patent or trademark is of material importance to its business, and, accordingly, that the expiration or termination thereof would not materially affect its business. See "Government Regulation."

Customers

The Company does not consider its business to be dependent on a single customer or a few customers, and the loss of any of its customers would not have a material adverse effect on the Company's results. No single customer accounted for more than 4% of the Company's 2001 net sales. The Company typically does not enter into long-term contracts with its customers. However, the Company has entered into certain long-term contracts with respect to nicarbazin and amprolium, as well as its ferric chloride recycling and fly ash management activities.

Competition

The Company is engaged in highly competitive industries and, with respect to all of its major products, faces competition from a substantial number of global and regional competitors. Some of the companies with which the Company competes have greater financial, research and development, production and other resources than the Company. The Company's competitive position is based principally on customer service and support, product quality, manufacturing technology, facility location and price.

The Company has competitors in every market in which it participates. Many of the Company's products face competition from products which may be used as an alternative or substitute. The Company competes with several regional companies of varying sizes and financial resources in the hazardous metal-containing chemical waste recycling industry. The Company also competes with large national companies which offer alternative methods of treatment or disposal of hazardous metal-containing chemical waste and which have substantially greater financial resources than the Company. While these national companies do not currently offer recycling services similar to those offered by the Company, their entry into the recycling business could have a material adverse effect on the Company. In addition, the Company competes with several large chemical companies in the chemical production business, none of which obtains a significant portion of its raw materials from recycling. To the extent these companies, or new entrants into the market, offer comparable finished chemical products at lower prices, the Company's business could be adversely affected.

Employees

As of June 30, 2001, the Company had approximately 1,550 employees worldwide. Of these, 324 employees were in management and administration, 163 in sales and marketing, 112 were chemists or technicians

and 956 were in production. Approximately 3% of the Company's domestic employees were covered by collective bargaining agreements with two unions. These agreements expire from 2002 through 2005. Certain employees are covered by individual employment agreements. Koffolk Israel continues to operate under the terms of Israel's national collective bargaining agreement, portions of which expired in 1994. In Norway, approximately 80% of employees are covered by collective bargaining agreements.

The Company considers its relations with both its union and non-union employees to be good.

Environmental Matters

Like similar companies, the Company and its subsidiaries are subject to a wide variety of complex and stringent federal, state, local and foreign environmental laws and regulations, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes, the manufacture, sale and use of pesticides and the health and safety of employees. Pursuant to environmental laws, subsidiaries of the Company are required to obtain and retain numerous governmental permits and approvals to conduct various aspects of their operations, any of which may be subject to revocation, modification or denial under certain circumstances. Under certain circumstances, the Company or any of its subsidiaries might be required to curtail operations until a particular problem is remedied. Known costs and expenses under environmental laws incidental to ongoing operations are generally included within operating budgets. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under environmental laws or to investigate or remediate potential or actual contamination and from time to time the Company establishes reserves for such contemplated investigation and remediation costs. In many instances, the ultimate costs under environmental laws and the time period during which such costs are likely to be incurred are difficult to predict.

Subsidiaries of the Company have from time to time implemented procedures at their facilities designed to respond to obligations to comply with environmental laws. The Company believes that its operations are currently in material compliance with such environmental laws, although at various sites the Company's subsidiaries are engaged in continuing investigation and/or remediation efforts to address contamination associated with their historic operations. As many environmental laws impose a strict liability standard, however, there can be no assurance that future environmental liability will not arise.

In addition, the Company cannot predict the extent to which any future environmental laws may affect any market for the Company's products or services or its costs of doing business. For instance, if governmental enforcement efforts should lessen, the market for Phibro-Tech's recycling services could decline. Alternatively, changes in environmental laws might increase the cost of the Company's products and services by imposing additional requirements on the Company. States that have received authorization to administer their own hazardous waste management programs may also amend their applicable statutes or regulations, and may impose requirements which are stricter than those imposed

by U.S. Environmental Protection Agency (the "EPA"). No assurance can be provided that such changes will not adversely affect the Company's ability to provide products and services at competitive prices and thereby reduce the market for the Company's products and services.

As such, the nature of the current and former operations of the Company and its subsidiaries exposes them to the risk of claims with respect to such matters and there can be no assurance that material costs and liabilities will not be incurred in connection with such claims. Based upon its experience to date, the Company believes that the future cost of compliance with existing environmental laws, and liability for known environmental claims pursuant to such environmental laws, will not have a material adverse effect on the Company. However, future events, such as new information, changes in existing environmental laws or their interpretation, and more vigorous enforcement policies of regulatory agencies, may give rise to additional expenditures or liabilities that could be material. For all purposes of the discussion under this caption, under "--Litigation," and elsewhere in this Report, it should be noted that the Company takes and has taken the position that neither the parent company, Philipp Brothers Chemicals, Inc., nor any of its subsidiaries is liable for environmental or other claims made against one or more of its other subsidiaries or for which any of such other subsidiaries may ultimately be

responsible. References to the Company should accordingly not be read or interpreted as a statement or admission that Philipp Brothers or any of its subsidiaries is liable for activities of or claims made against any of its other subsidiaries.

Regulation

The following summarizes the principal federal environmental laws affecting the business of the Company:

Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). Congress enacted RCRA to regulate, among other things, the generation, transportation, treatment, storage and disposal of solid and hazardous wastes. RCRA required the EPA to promulgate regulations governing the management of hazardous wastes, and to allow individual states to administer and enforce their own hazardous waste management programs as long as such programs were equivalent to and no less stringent than the federal program.

The EPA's regulations, and most state regulations in authorized states, establish categories of regulated entities and set standards and procedures those entities must follow in their handling of hazardous wastes. The three general categories of waste handlers governed by the regulations are hazardous waste generators, hazardous waste transporters, and owners and operators of hazardous waste treatment, storage and/or disposal facilities. Generators are required, among other things, to obtain identification numbers and to arrange for the proper treatment and/or disposal of their wastes by licensed or permitted operators and all three categories of waste handlers are required to utilize a document tracking system to maintain records of their activities. Transporters must obtain permits, transport hazardous waste only to properly permitted treatment, storage or disposal facilities, and maintain required records of their activities. Treatment, storage and disposal facilities are subject to extensive regulations concerning their location, design and construction, as well as the operating methods, techniques and practices they may use. Such facilities are also required to demonstrate their financial responsibility with respect to compliance with RCRA, including closure and post-closure requirements.

The Federal Water Pollution Control Act, as amended (the "Clean Water Act"). The Clean Water Act prohibits the discharge of pollutants to the waters of the United States without governmental authorization. Like RCRA, the Clean Water Act provides that states with programs approved by the EPA may administer and enforce their own water pollution control programs. Pursuant to the mandate of the Clean Water Act, the EPA has promulgated "pretreatment" regulations, which establish standards and limitations for the introduction of pollutants into publicly owned treatment works.

Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA" or "Superfund"). Under CERCLA and similar state laws, the Company and its subsidiaries may have strict and, under certain circumstances, joint and several liability for the investigation and remediation of environmental pollution and natural resource damages associated with real property currently and formerly owned or operated by the Company or a subsidiary and at third-party sites at which the Company's subsidiaries disposed of or treated, or arranged for the disposal of or treatment of, hazardous substances.

Federal Insecticide, Fungicide and Rodenticide Act, as amended ("FIFRA"). FIFRA governs the manufacture, sale and use of pesticides, including the copper-based fungicides sold by the Company. FIFRA requires such products and the facilities at which they are formulated to be registered with the EPA before they may be sold. If the product in question is generic in nature (i.e., chemically identical or substantially similar to a previously registered product), the new applicant for registration is entitled to cite and rely on the test data supporting the original registrant's product in lieu of submitting data of its own. Should the generic applicant choose this citation option, it must offer monetary compensation to the original registrant and must agree to binding arbitration if the parties are unable to agree on the terms and amount of compensation. The Company has elected this citation option in the past and intends to use the citation option in the future should it conclude it is economically desirable to do so. While there are cost savings associated with the opportunity to avoid one's own testing and demonstration to the EPA of test data, there is, in each instance, a risk that the level of compensation ultimately required to be paid to the original registrant will be substantial.

Under FIFRA, the EPA also has the right to "call in" additional data from existing registrants of a pesticide, should the EPA determine, for example, that the data already in the file need to be updated or that a specific issue or concern needs to be addressed. The existing registrants have the option of submitting data separately or by joint agreement. Alternatively, if one registrant agrees to generate and submit the data, the other(s) may meet their obligations under the statute by making a statutory offer to jointly develop or share in the costs of developing the data. In that event, the offering party must, again, agree to binding arbitration to resolve any dispute as to the terms of the data development arrangement.

The Clean Air Act. The federal Clean Air Act of 1970 ("Clean Air Act") and Amendments to the Clean Air Act ("Clean Air Act Amendments"), and corresponding state laws regulate the emissions of materials into the air.

Such laws affect the coal industry both directly and indirectly and, therefore, MRT. The coal industry is directly affected by Clean Air Act permitting requirements and/or emissions control requirements relating to particulate matter (such as "fugitive dust"), and may also be impacted by future regulation of fine particulate matter. Every five years, the EPA reviews and revises, if necessary, its National Ambient Air Quality Standards ("NAAQS"),

which is a set of national air quality standards relating to fine particulate matter and ozone, among other criteria air pollutants. In July 1997, the EPA adopted stringent new NAAQS, and the impact of such new standards on the coal industry will depend on the policies and control strategies associated with the state implementation process under the Clean Air Act, as well as on pending legislative proposals to delay or eliminate aspects of the new NAAQS.

The Clean Air Act indirectly affects operations of the Company and its subsidiaries by extensively regulating the air emissions of sulfur dioxides and other compounds emitted by coal-fired utility power plants. Title IV of the Clean Air Act Amendments places limits on sulfur dioxide emissions from electric power generation plants, setting baseline emission standards for such facilities. The effect of the Clean Air Act Amendments on MRT cannot be completely ascertained at this time.

The Clean Air Act Amendments also require utilities that currently are major sources of nitrogen oxides in moderate or higher ozone NAAQS nonattainment areas to install reasonably available control technology for nitrogen oxides, which are precursors to the atmospheric formation of ozone. In October 1998, the EPA released a ruling (the "NOx SIP Call") requiring 22 eastern states to revise their state implementation plans to substantially reduce emissions of nitrogen oxide. The EPA expects that states will achieve these reductions by requiring power plants to make substantial reductions in their nitrogen oxide emissions. Installation of reasonably available control technology and additional control measures required under the NOx SIP Call will make it more costly to operate coal-fired utility power plants and, depending on the requirements of individual state implementation plans and the development of revised new source performance standards, could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future. Numerous states, municipalities, industry trade groups, manufacturers and utilities have filed petitions in federal court challenging the NOx SIP Call. The effect of the NOx SIP Call and other regulations or requirements that may be imposed in the future on the coal industry in general and on MRT in particular cannot be predicted with certainty. No assurance can be given that the implementation of the Clean Air Act Amendments, state implementation plans or any future regulatory provisions will not materially adversely affect MRT.

In addition, the Clean Air Act Amendments require a study of utility power plant emissions of certain toxic substances, including mercury, and direct the EPA to regulate these substances, if warranted. Future federal or state regulatory or legislative activity may seek to reduce mercury emissions and such requirements, if enacted, could result in reduced use of coal if utilities switch to other sources of fuel.

Phibro-Tech is also impacted by the Clean Air Act and has various air quality permits, including a Title V operating air permit at its Sumter, South Carolina facility.

State and Local Regulation

In addition to those federal programs described above, a number of states and some local governments have also enacted laws and regulations similar to the federal laws described above governing hazardous waste generation, handling and disposal, emissions to the water and air and the design, operation and maintenance of recycling facilities.

Foreign Regulation

The Company's foreign subsidiaries are subject to a variety of foreign environmental laws relating to pollution and protection of the environment, including the generation, handling, storage, management, transportation, treatment and disposal of solid and hazardous materials and wastes, the manufacture and processing of pesticides and animal feed additives, emissions to the air, discharges to land, surface water and subsurface water, human exposure to hazardous and toxic materials and the remediation of environmental pollution relating to their past and present properties and operations.

Regulation of Recycling Activities

The Company's recycling activities may be broken down into the following segments for purposes of regulation under RCRA or equivalent state programs: (i) transport of wastes to the Company's facilities, (ii) storage of wastes prior to processing, (iii) treatment and/or recycling of wastes, and (iv) corrective action at its RCRA facilities. Although all aspects of the treatment and recycling of waste at its recycling facilities are not currently the subject of federal RCRA regulation, subsidiaries of the Company made decisions to permit its recycling facilities as RCRA regulated facilities. Final RCRA "Part B" permits to operate as hazardous waste treatment and storage facilities have been issued at its facilities in Santa Fe Springs, California; Garland, Texas; Joliet, Illinois; Sumter, South Carolina; and Sewaren, New Jersey. Part B renewal applications have been submitted for the Santa Fe Springs and Sumter sites. The applications are being reviewed. Phibro-Tech has also obtained an interim status RCRA permit from the California Department of Health Services and has filed a Part B permit application with the Department for its Union City, California facility.

In connection with RCRA Part B permits for the waste storage and treatment units of various facilities, the Company's subsidiaries have been required to perform extensive site investigations at such facilities to identify possible contamination and to provide regulatory authorities with plans and schedules for remediation. Soil and groundwater contamination has been identified at several plant sites and has required and will continue to require corrective action and monitoring over future years. In order to maintain compliance with RCRA Part B permits, which are subject to suspension, revocation, modification or denial under certain circumstances, the Company has been, and in the future may be, required to undertake additional capital improvements or corrective action.

Subsidiaries of the Company are required by RCRA and their Part B permits to develop and incorporate in their Part B permits estimates of the cost of closure and post-closure monitoring for their operating facilities. In general, in order to close a facility which has been the subject of a RCRA Part B permit, a RCRA Part B closure permit is required which approves the investigation, remediation and monitoring closure plan, and requires post-closure monitoring and maintenance for up to 30 years. Accordingly, additional costs are incurred in connection with any such closure. These cost estimates are updated annually for inflation, developments in available technology and corrective actions already undertaken. The Company has in most instances chosen to provide the regulatory guarantees required in connection with these matters by means of its coverage under an environmental impairment liability insurance policy. There can be no assurance that such policy will continue to be available in the future at economically acceptable rates, in which event other methods of financial assurance will be necessary.

In addition to certain operating facilities, the Company or its subsidiaries have been and will be required to investigate and remediate certain environmental contamination at shutdown plant sites. The Company or its subsidiaries are also required to monitor such sites and continue to develop controls to manage these sites within the requirements of RCRA corrective action programs.

Based upon available information, accruals for management estimates of the cost of further environmental investigation and remediation at operating, curtailed and closed sites are approximately $2.2 million as of June 30, 2001.

Waste Byproducts

In connection with the Company's subsidiaries' production of finished chemical products, limited quantities of waste by-products are generated primarily in the form of sludge. Depending on the contents of the sludge, the subsidiaries of the Company either send it to smelters for metal recovery or send it for treatment or disposal to regulated facilities.

Particular Facilities

The following is a description of certain environmental matters relating to certain facilities of certain subsidiaries of the Company. References throughout to the Company are intended to refer only to the applicable subsidiary unless the context otherwise requires. These matters should be read in conjunction with the description of litigation matters below under Item 3, certain of which involve such facilities, and Note 12 to the Company's Consolidated Financial Statements.

In 1984, Congress enacted certain amendments to RCRA under which facilities with RCRA permits were required to have RCRA facility assessments ("RFA") by the EPA or the authorized state agency. Following an RFA, a RCRA facility investigation, a corrective measures study, and corrective measure implementation must, if warranted, be developed and implemented. As indicated below, the Company's subsidiaries are in the process of developing or completing various actions associated with these regulatory phases at certain of their facilities.

Sewaren, New Jersey. In April 1989, the New Jersey Department of Environmental Protection, Division of Waste Management and Division of Water Resources (collectively the "DEP"), issued an Administrative Order and Notice of Civil Administrative Penalty Assessment against C.P. Chemicals, Inc. ("CP"), a subsidiary of the Company, relating to CP's recycling and manufacturing facility in Sewaren, New Jersey. This proceeding resulted in an Administrative Consent Order (the "ACO"), effective March 11, 1991. The ACO mandates the development and implementation of an environmental remediation plan and requires payment of a penalty in the amount of $2.2 million plus interest calculated at 8.57% per annum, to be paid in ten yearly installments. This charge was previously reflected in the Company's consolidated financial statements. In addition, the ACO sets forth stipulated penalties for specified violations of the ACO and requires reimbursement by CP to the DEP for prior costs and future oversight costs. CP has posted $500,000 in financial assurances which amount may be modified based on cost reviews which CP is required to submit annually as part of its investigation and remediation program. CP has substantially completed its investigation and remediation efforts which include installation of a hydraulic control system and pre-treatment of ground water on the site and capping to address soil contamination concerns and satisfy storm water management requirements. Such efforts remain subject to continuing review by the DEP. In 1998, operations at the Sewaren facility were curtailed.

In June 2000, CP transferred title to the Sewaren property to the local township. At the same time, CP entered into a 10-year lease with the township, providing for lease payments aggregating $2,000,000, and covering certain areas of the property, in order to allow it to conduct operations relating to its RCRA Part B Facility Permit. While the township took title to the property and

assumed basic property related obligations, including the operation and maintenance of the ground water control system called for by the ACO, the Company retained other environmental obligations under the ACO and also entered into an indemnification agreement with the township regarding environmental conditions existing at the time of the transfer.

Sumter, South Carolina. In 1991, in connection with the RCRA Part B permit for its Sumter, South Carolina facility, Phibro-Tech undertook the closure of certain waste water treatment impoundments pursuant to RCRA closure requirements and installed a waste water treatment system at the plant and is engaged in an additional phase of facility investigation at the site. Phibro-Tech has completed remedial action to remove material from an area used by a former owner of the site. The South Carolina Department of Health and Environmental Control

("SCDHEC") has requested additional sampling in this area. Separately, Phibro-Tech and certain adjacent land owners have entered into a consent agreement to conduct an environmental investigation regarding certain property located next to the Sumter facility, including a small portion of the Sumter facility property, which has been identified as containing debris, and to remove such debris. An engineering firm has been hired to investigate the situation and to make recommendations. Phibro-Tech has also received certain notices of violations from SCDHEC alleging certain permit violations. Phibro-Tech does not believe that these claims are material and fully expects these claims to be resolved in a mutually acceptable manner.

Santa Fe Springs, California. In connection with its request for renewal of its RCRA Part B permit for its Santa Fe Springs, California facility, and the administrative order noted below for this facility, Phibro-Tech has implemented various phases of environmental investigation and corrective measure study and assessments. It is currently in a continuing investigation and corrective measure phase, which will involve additional sampling to determine the level of corrective action. At this time it is anticipated that this will involve a pump and treat system through an existing on-site pre-treatment plant. Phibro-Tech is also subject to an investigative and enforcement order, the ultimate scope and disposition of which is currently being discussed with the California Department of Toxic Substances Control ("DTSC"). The principal outstanding issue under the order was the requirement of further soil investigation and the development of a remediation plan, if necessary, beyond that already covered by the facility investigation originally conducted. The study has been completed and Phibro-Tech's consulting environmental engineers have recommended to DTSC no further action in this regard. Separately, Phibro-Tech has reached an accord with Communities for a Better Environment regarding allegations that Phibro-Tech violated Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of 1985, and the California Health and Safety Code.

Phibro-Tech has also received a summary of violations from the DTSC for its Santa Fe Springs facility alleging certain permit violations as well as violations of the California Health and Safety Code and corresponding regulations. Phibro-Tech is in contact with the DTSC with regard to these claims, in an attempt to determine whether they can be resolved through a mutually acceptable compliance schedule.

Union City, California. Phibro-Tech's Union City, California facility is an interim status facility with an application for a RCRA Part B permit pending. In lieu of conducting investigation activities under a final Part B permit, Phibro-Tech entered into a consent order with the California DTSC requiring the assessment and investigation of soil and ground water quality and remediation, if required, similar to that which would be required under a Part B permit.

Phibro-Tech completed the first phase of the investigation process and has submitted reports and assessments to the DTSC which are currently under review. Further limited characterization has been requested but Phibro-Tech and its consulting engineers do not currently anticipate any extensive ongoing corrective measures. This facility is also the subject of a DTSC summary of violations alleging certain permit violations and violations of the California Health and Safety Code and corresponding regulations. Phibro-Tech is in contact with the DTSC with regard to this matter in an attempt to determine whether it can be resolved through a mutually acceptable compliance schedule.

Joliet, Illinois. In connection with the RCRA Part B permit for this facility, Phibro-Tech completed an initial RCRA facility investigation and an additional sampling and investigative phase. The results of such sampling and investigation were submitted to the Illinois Environmental Protection Agency, and, based on the agency's response, Phibro-Tech will develop a plan for further investigation or monitoring, or, if necessary, corrective action.

Garland, Texas. In connection with the RFA for its Garland, Texas facility, no action was recommended. However, during a subsequent inspection some discoloration of soil was noted. Accordingly, Phibro-Tech developed a corrective action plan to address discolored top soil at the site. The project included the upgrading of pollution control equipment. The next phase is additional site characterization, which is presently being undertaken.

Powder Springs, Georgia. Phibro-Tech's facility in Powder Springs, Georgia has been operationally closed since 1985. Phibro-Tech retains environmental compliance responsibility for this facility and has effected a

RCRA closure of the regulated portion of the facility, a surface impoundment. Post-closure monitoring and the implementation of a corrective measures plan are required. Phibro-Tech has submitted and received Georgia Department of Environmental Protection approval for a remedial investigation plan, and has granted Phibro-Tech's Part B permit renewal application. The permit calls for a Phase II work plan for corrective action.

Rixensart, Belgium and Guarulhos, Sao Paulo, Brazil. In connection with the acquisition of the medicated feed additives business from Pfizer, Inc., the Company acquired manufacturing and laboratory facilities in Rixensart, Belgium and Guarulhos, Sao Paulo, Brazil. Both of these facilities operate pursuant to the environmental and related laws of their respective countries as well as, in the case of Rixensart, the EU. Although the Company has operated these facilities for less than a year, the Company is not aware of any material environmental liabilities in connection with these sites and further believes that indemnification agreements from Pfizer, Inc. are adequate to protect the Company in the event of discovery of covered environmental liabilities at the respective sites.

Union, Illinois. Phibro-Tech's facility in Union, Illinois has also been operationally closed since 1986. Phibro-Tech has performed additional soil sampling and submitted a closure plan to the Illinois EPA, which is under review.

Third Party Sites. The Company has, and certain of the Company's subsidiaries have, sent products to customers at chemical processing or manufacturing sites and sent wastes from their operations to various third party waste disposal sites. In addition to the litigation described below with respect to the Jericho, South Carolina site and the Casmalia, California site, from time to time the Company or a subsidiary receives notice from representatives of

governmental agencies and private parties, or is named as a potentially responsible party in legal proceedings, in which claims are made that it is potentially liable for a portion of the investigation and remediation costs and natural resource damages at such third party sites. Such claims are for strict liability and carry with them the possibility of joint and several liability under applicable Environmental Laws such as CERCLA, regardless of the relative fault or level of involvement of the Company and other potentially responsible parties. Although there can be no assurance, the Company does not believe that liabilities in connection with such third party sites as to which claims have been received to date will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Ramat Hovav, Israel. Koffolk Israel's Ramat Hovav plant produces a wide range of organic chemical intermediates for the chemical, pharmaceutical, fragrance and veterinary industries. Israeli legislation enacted in 1997 amended certain environmental laws by authorizing the relevant administrative and regulatory agencies to impose certain sanctions, including issuing an order against any person that violates such environmental laws to remove the environmental hazard. In addition, such law imposes criminal liability on the officers and directors of a corporation that violates such environmental related laws, and increases the monetary sanctions that such officers, directors and corporations may be ordered to pay as a result of such violations. The Ramat Hovav plant operates under the supervision of the Ministry of Environment of the State of Israel. The sewage system of the plant is connected to the Ramat Hovav Local Industrial Council's central installation, where Koffolk Israel's sewage is treated together with sewage of other local plants. Owners of the plants in the area, including Koffolk Israel, have been required by the Israeli Ministry of Environment to build facilities for pre-treatment of their sewage.

Odda, Norway. Like other Norwegian companies, Odda has to ensure that the activities of the enterprise are planned, organized, performed and maintained in conformity with requirements laid down in or pursuant to Norwegian health, environmental and safety legislation. Norwegian law requires the person responsible for an enterprise to ensure compliance with the requirements of, among other laws, the Working Environment Act, the Pollution Control Act, the Products Control Act, the Civil Defense Act and the Electrical Installations and Electrical Equipment Act.

The applicable supervisory authority pursuant to such legislation is responsible for supervising and providing guidance on implementation of and compliance with such regulations. The supervisory authorities can

respond to violations of health, environmental and safety legislation with various sanctions, including orders, fines, pollution charges and/or notification to the police.

Norwegian legislation requires that Odda produce its products according to its discharge permit and implementation system for environmental control and improvements. Both local and central authorities are now focusing on the environmental situation in the fjord at Odda and on waste disposal there by the three primary manufacturers in the area, including Odda. In Odda's case, the focus has been on the discharge of polynucleated aromatic hydrocarbons ("PAHY") from the Venturi scrubber in the calcium carbide plant and the nitrogen content in the filtercake (1%) discharge from the dicyandiamide plant. In a meeting between Odda and SFT (Norwegian Pollution Control Authority) in June 1998, SFT indicated that Odda should make a diligent effort to develop a commercial use for filtercake within three years, and consider the reduction of discharges of PAHY from existing levels (which discharges are in compliance with Odda's

permits). Projects involving a new filter to reduce emissions of soluble nitrogen and a facility to dry and bulk ship filtercake are being pursued in consultation with the SFT.

Government Regulation

Certain agricultural feed products offered by the Company, namely nicarbazin and amprolium products, require licensing by a governmental agency before marketing. In the United States, governmental oversight of animal nutrition and health products is shared primarily by the United States Department of Agriculture ("USDA") and the Food and Drug Administration. A third agency, the Environmental Protection Agency, has jurisdiction over certain products applied topically to animals or to premises to control external parasites.

The FDA is responsible for the safety and wholesomeness of the human food supply. It regulates foods intended for human consumption and, through The Center for Veterinary Medicine, regulates the manufacture and distribution of animal drugs, including feed additives and drugs that will be given to animals from which human foods are derived, as well as feed additives and drugs for pet (or companion) animals.

To protect the food and drug supply for animals, the FDA develops technical standards for animal drug safety and effectiveness and evaluates data bases necessary to support approvals of veterinary drugs. The USDA monitors the food supply for animal drug residues.

The Office of New Animal Drug Evaluation ("NADE") is responsible for reviewing information submitted by drug sponsors who wish to obtain approval to manufacture and sell animal drugs. A new animal drug is deemed unsafe unless there is an approved new animal drug application ("NADA"). Virtually all animal drugs are "new animal drugs" within the meaning of the term in the Federal Food, Drug, and Cosmetic Act. Although the procedure for licensing products by the USDA are formalized, the acceptance standards of performance for any product are agreed upon between the manufacturer and the NADE. An NADA in animal health is analogous to a New Drug Application ("NDA") in human pharmaceuticals. Both are administered by the FDA. The drug development process for human therapeutics can be more involved than that for animal drugs. However, for food-producing animals, food safety residue levels are an issue, making the approval process longer than for animal drugs for non-food producing animals, such as pets.

The FDA may deny a NADA if applicable regulatory criteria are not satisfied, require additional testing or information, or require postmarketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurances that FDA approval of any NADA will be granted on a timely basis or at all. Moreover, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Finally, product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. Among the conditions for NADA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to GMP regulations. In complying with standards set forth in these regulations, manufacturers must continue to expend time, monies and effort in the area of production and quality control to ensure compliance.

For clinical investigation and marketing outside the United States, the Company is also subject to foreign regulatory requirements governing investigation, clinical trials and marketing approval for animal drugs. The

foreign regulatory approval process includes all of the risks associated with FDA approval set forth above. Currently, in the European Union ("EU"), feed additives which are successfully sponsored by a manufacturer are assigned to an Annex. Initially, they are assigned to Annex II. During this period, member states may approve the feed additive for local use. After five years or earlier, the product passes to Annex I if no adverse reactions or trends develop over the probationary period.

The Company currently markets nicarbazin in the EU. Nicarbazin holds an Annex I registration. This means that the compound must be registered in each of the member states and can be used legally by customers in the EU. Any manufacturer, including generic producers, is permitted to sell nicarbazin in the EU on the basis of a Certificate of Analysis. The distributor selling the product warrants that it contains what is indicated on the label. The registration may not be transferred in a manner similar to an FDA registration. The originator of the registration, however, retains certain rights. For one, the originator or a successor to the rights of the originator may refer to the data file of the originator and any predecessors when making a submission.

The EU is in the process of centralizing the regulatory process for animal drugs for member states. In 1997, the EU drafted new regulations requiring the re-registration of feed additives, including coccidiostats. Part of these regulations include a provision for manufacturers to submit quality data for their own formulation, in effect adopting a Product License procedure similar to that of the FDA. The provision is known as Brand Specific Approval ("BSA"), and provides manufacturers with the opportunity to register their own unique brands, instead of simply the generic compound. The BSA process is being implemented over time. The new system is more like the U.S. system, where regulatory approval is for the formulated product or "brand." The Company has taken the necessary steps to apply for a BSA for nicarbazin in the EU. The European Commission has proposed withdrawal of authorization for certain products, including nicarbazin, alleging certain technical deficiences with the applications. The Company has taken the necessary steps to counter the Commission's proposal and believes that the Commission's proposal will not be upheld. However, there is no assurance that the Company will receive a BSA for nicarbazin in the EU, or if its does receive such BSA, when it will be granted or whether it will be unlimited.

CONDITIONS IN ISRAEL

The following information discusses certain conditions in Israel that could affect the Company's Israeli subsidiary, Koffolk Israel. As of June 30, 2001 and for the year then ended, Israeli operations (excluding Koffolk Israel's non-Israeli subsidiaries) accounted for approximately 12% of the Company's consolidated assets and approximately 14% of its consolidated net sales. All figures and percentages are approximate. A portion of the information with respect to Israel presented hereunder has been taken from Annual Reports of the Bank of Israel.

Political Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. However, a peace agreement between Israel and Egypt was signed in 1979, a peace agreement between Israel and Jordan was signed in 1994 and, since 1993, several agreements between Israel and the Palestine Liberation Organization ("PLO")--Palestinian Authority representatives

have been signed. However, since October 2000, there has been an increase in violence in the Middle East, primarily in the West Bank and Gaza Strip, and negotiations between Israel and the PLO have ceased. In addition, in February 2001, a new prime minister was elected in Israel and a new government has been formed. As of the date hereof, Israel has not entered into any peace agreement with Syria or Lebanon. The Company cannot predict whether any other agreements will be entered into between Israel and its neighboring countries, whether a final resolution of the area's problems will be achieved, or whether the current civil unrest will continue and to what extent this unrest, coupled with the September 11, 2001 attacks on the United States and the effects of such attacks on various sectors of the U.S. and world economies, will have an adverse impact on Israel's economic development or on the Company's operations.

Certain countries, companies and organizations continue to participate in a boycott of Israeli firms and other companies doing business in Israel or with Israel companies. Despite measures to counteract the boycott, including anti-boycott legislation in the United States, the boycott has had an indeterminate negative effect upon trade with and foreign investment in Israel. The Company does not believe that the boycott has had a material adverse effect on the Company, but there can be no assurance that restrictive laws, policies or practices directed toward Israel or Israeli businesses will not have an adverse impact on the operation or expansion of the Company's business.

Generally, all male adult citizens and permanent residents of Israel under the age of 54 are, unless exempt, obligated to perform certain military duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Some of the employees of the Company's Israeli subsidiaries currently are obligated to perform annual reserve duty. While the Company's Israeli subsidiaries have operated effectively under these and similar requirements in the past, no assessment can be made of the full impact of such requirements on the Company in the future, particularly if emergency circumstances occur.

Economic Conditions

Israel's economy has been subject to numerous destabilizing factors, including a period of rampant inflation in the early to mid-1980s, low foreign exchange reserves, fluctuations in world commodity prices, military conflicts and security incidents. The Israeli government has, for these and other reasons, intervened in the economy by utilizing, among other means, fiscal and monetary policies, import duties, foreign currency restrictions and control of wages, prices and exchange rates. The Israeli government periodically changes its policies in all these areas.

Israel has a high balance of payments deficit, primarily as a result of its defense burden, the absorption of immigrants, especially from the former Soviet Union, the provision of a minimum standard of living for lower income segments of the community and the maintenance of a minimum level of net foreign reserves. In order to finance this deficit, Israel must sustain an adequate inflow of capital from abroad. The major sources of the country's capital imports include U.S. military and economic aid, personal remittances from abroad, sales of Israeli government bonds (primarily in the United States) and loans from foreign governments, international institutions and the private sector.

Assistance from the United States

The State of Israel receives significant amounts of economic and military

assistance from the United States. There is no assurance that foreign aid from the United States will continue at or near amounts received in the past, and if it does not, the Israeli economy could suffer material adverse consequences.

Trade Agreements

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia and Canada. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs. Israel has also entered into preferential trade agreements with the European Union and the European Free Trade Association. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China and nations in Eastern Europe, with which Israel had not previously had such relations.

Employees

Most of Koffolk Israel's employees are members of the Histadrut, and are represented by collective bargaining units. Koffolk Israel is subject to various Israeli labor laws and collective bargaining agreements between Histadrut and the federation of industrial employers. Such laws and agreements cover a wide range of areas, including hiring practices, wages, promotions, employment conditions (such as working hours, overtime payment, vacations, sick leave and severance pay), benefits programs (such as pension plans and education funds) and special issues, such as equal pay for equal work, equal opportunity in employment and employment of women. The collective bargaining agreements also cover the relations between management and the employees' representatives, including Histadrut's involvement in certain aspects of hiring and dismissing employees and procedures for settling labor disputes.

Koffolk Israel continues to operate under the terms of Israel's national collective bargaining agreement, portions of which expired in 1994. Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, an organization similar to the United States Social Security Administration. These contributions entitle the employees to receive a range of medical services and other benefits. Certain employees of Koffolk Israel are covered by individual employment agreements.

Investment Incentives

Certain of the Israeli production facilities of the Company have been granted Approved Enterprise status pursuant to the Law for the Encouragement of Capital Investments, 1959, and consequently may enjoy certain tax benefits and investment grants. Taxable income of Koffolk Israel derived from these production facilities is subject to a lower rate of company tax than the normal rate applicable in Israel. Dividends distributed by Koffolk Israel out of the same income are subject to lower rates of withholding tax than the rate normally applicable to dividends distributed by an Israeli company to a non-resident corporate shareholder. The grant available to newly

Approved Enterprises was decreased throughout recent years. Certain of the Israeli production facilities of the Company further enjoyed accelerated depreciation under regulation extended from time to time and other deductions.

There can be no assurance that the Company will, in the future, be eligible for or receive such or similar grants.

Item 2. Properties.

The Company maintains its principal executive offices and a sales office in Fort Lee, New Jersey. The Company has 20 manufacturing facilities. The chart below sets forth the locations and sizes of the principal manufacturing and other facilities operated by the Company and uses of such facilities for non-manufacturing purposes , all of which are owned, except as noted.

Location	Approximate Square Footage	Uses
Atlanta, Georgia (a)	43,000	All Other; Administrative, Sales, Res and Distribution Center
Bowmanstown, Pennsylvania	56,500	Industrial Chemicals
Bordeaux, France	141,000	All Other; Administrative and Sales
Braganca Paulista, Brazil	35,000	Animal Health and Nutrition; Administ
Bremen, Indiana	50,000	Animal Health and Nutrition; Warehous
Fairfield, New Jersey (a)	9,600	Animal Health and Nutrition; Administ
Fort Lee, New Jersey (a)	23,500	Corporate Headquarters
Garland, Texas	20,000	Industrial Chemicals
Guarulhos, Brazil	1,234,000	Animal Health and Nutrition; Administ Warehouse
Joliet, Illinois	34,500	Industrial Chemicals
Kuala Lumpur, Malaysia (a)	7,300	Animal Health and Nutrition; Warehous
Ladora, Iowa	9,500	Animal Health and Nutrition; Warehous
Lee Summit, Missouri (a)	1,500	Animal Health and Nutrition; Administ
Marion, Iowa	32,500	Animal Health and Nutrition
Odda, Norway	364,000	Industrial Chemicals; Warehouse, Administrative and Sales
Petach Tikva, Israel	60,000	Animal Health and Nutrition; Administ
Phenix City, Alabama	6,000	Industrial Chemicals
Pretoria, South Africa (a)	3,200	Administrative and Sales
Quincy, Illinois (b)	197,000	Animal Health and Nutrition; Warehous Administrative and Sales
Ramat Hovav, Israel (a)	140,000	Animal Health and Nutrition; Research
Reading, Berks, United Kingdom (a)	3,100	Administrative and Sales
Rixensart, Belgium	865,000	Animal Health and Nutrition, Sales, Administrative and Research
Santa Fe Springs, California (c)	90,000	Animal Health and Nutrition; Industri
Santiago, Chile (a)	6,500	Animal Health and Nutrition; Administ
Scunthorpe, United Kingdom (a)	93,000	Industrial Chemicals; Warehouse
Stradishall, United Kingdom	20,000	Industrial Chemicals; Administrative, Sales and Research
Sumter South Carolina	123,000	Industrial Chemicals; Research
Tokyo, Japan (a)	2,100	Animal Health and Nutrition; Administ
Union City, California	20,600	Industrial Chemicals; Manufacturing
Valencia, Venezuela (a)	1,100	Animal Health and Nutrition; Administ
Wilmington, Illinois	119,000	Industrial Chemicals; Warehouse

(a) This facility is leased. The Company's leases expire from 2000 to 2027. For information concerning the Company's rental obligations, see Note 12 to the Company's Consolidated Financial Statements included herein.

(b) Comprises six facilities, including three warehouses, two manufacturing and one sales facility.

(c) The Company leases the land under this facility from a partnership owned by Jack Bendheim, Marvin Sussman and James Herlands. See "Certain Relationships and Related Transactions."

The Company's subsidiary, C.P. Chemicals, Inc., leases portions of a previously owned inactive, former manufacturing facility in Sewaren, New Jersey, and another subsidiary of the Company owns inactive, former manufacturing facilities in Powder Springs, Georgia and Union, Illinois. MRT leases property and operates terminal facilities in Atlanta, Georgia, South Beloit, Illinois, Pittsburg, California and Corona, California, and operates loading and storage facilities in Pryor, Oklahoma, Joppa, Illinois, St. John, Arizona, Gentry, Arkansas, Labadie, Missouri, Rush Island, Missouri and Presque Isle, Michigan.

The Company believes that its existing and planned facilities are and will be adequate for the conduct of its business as currently conducted and as currently contemplated to be conducted.

The Company and its subsidiaries are subject to extensive regulation by numerous governmental authorities, including the FDA and corresponding state and foreign agencies, and to various domestic and foreign safety standards. Manufacturing facilities of the Company in Ramat Hovav and Brazil manufacture products that conform to the FDA's GMP regulations. Of the Company's five domestic facilities involved with recycling, four have final RCRA Part B hazardous waste storage and treatment permits and one is in an interim permit status. The Company's regulatory compliance programs include plans to achieve compliance with international quality standards known as ISO 9000 standards, which became mandatory in Europe in 1999 and environmental standards known as ISO 14000. The FDA is in the process of adopting the ISO 9000 standards as regulatory standards for the United States, and it is anticipated that these standards will be phased in for U.S. manufacturers over a period of time. The Company's plants in Bowmanstown, Pennsylvania and Petach Tikva, Israel have achieved ISO 9000 certification. The Company's Union City, California plant has achieved certification for both ISO 9000 and ISO 14000. The Company does not believe that adoption of the ISO 9000 standards by the FDA will have a material effect on its financial condition, results of operations or cash flows.

Item 3. Legal Proceedings.

Reference is made to the discussion above under "Environmental Matters" in Item 1 for information as to various environmental investigation and remediation obligations of the Company's subsidiaries associated principally with their recycling and production facilities and to certain legal proceedings associated with such facilities.

In addition to such matters, the Company or certain of its subsidiaries is subject to certain litigation described below.

On or about April 17, 1997, CP and the Company were served with a complaint filed by Chevron USA, Inc. ("Chevron") in the United States District Court for the District of New Jersey, alleging that operations of CP at its

Sewaren plant affected adjoining property owned by Chevron and that Philipp Brothers, as the parent of CP, is also responsible to Chevron. The complaint includes statutory claims under RCRA and common law claims. There are several other defendants in the action, including the former owner of the Sewaren site and Chevron's site and a prior tenant of the Chevron site. Additional parties have been brought into the action. Interrogatories have been exchanged and depositions are being conducted. The Company is not, at this time, in a position to assess the extent of any ultimate liability it may have in connection with this suit or the potential responsibility of other defendants, or the future cost of remediation of the Chevron site, and is actively defending the action. Nevertheless, the Company is actively involved in discussions among all the parties in an effort to find a mutually satisfactory resolution.

The Company's Phibro-Tech subsidiary was named in 1993 as a potentially responsible party ("PRP") in connection with an action commenced under CERCLA by the EPA, involving a former third party fertilizer manufacturing site in Jericho, South Carolina. Phibro-Tech responded that it had supplied a useful product to the operator of the site and that it believes this constitutes a defense to the claims brought against it. The South Carolina Department of Health and Environmental Control, which had assumed oversight of this site, filed suit in United States District Court to approve a settlement with certain steel company PRPs. Other parties intervened and filed administrative actions to contest the substantive and procedural fairness of that settlement. The Court permitted other PRPs to intervene and, in August 1999, disapproved the settlement. Discussions between

representatives of the original group of settling PRPs and of the other PRPs have taken place in an effort to prepare a joint settlement proposal. A tentative agreement has been reached and, while the outcome is still uncertain, the Company has accrued its best estimate of the settlement amount.

In February, 2000, the EPA notified numerous parties of potential liability for waste disposed of at a licensed Casmalia, California disposal site, including a business, assets of which were originally acquired by a subsidiary of the Company in 1984. Phibro-Tech responded, requested further information and joined a PRP working group which engaged in discussions with the EPA. A tentative settlement has been reached in this matter as well and the Company has accrued its best estimate of the settlement amount.

The Company and its subsidiaries are party to a number of claims and lawsuits arising out of the normal course of business including product liabilities and governmental regulation. Certain of these actions seek damages in various amounts. In most cases, such claims are covered by insurance. The Company believes that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year ended June 30, 2001.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

(a) Market Information. There is no public trading market for the Company's common equity securities.

(b) Holders. As of June 30, 2001, there was one holder of the Company's Class A Common Stock and two holders of the Company's Class B Common Stock.

(c) Dividends. The Company did not declare dividends on any of its common stock during the two years ended June 30, 2001.

Item 6. Selected Financial Data.

The following table sets forth summary consolidated financial data for the Company for the past five years ended June 30, 2001. The summary consolidated financial data for the five years are derived from the Company's audited consolidated financial statements. The consolidated financial data set forth below should be read in conjunction with the Company's Consolidated Financial Statements and related Notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

SUMMARY OF CONSOLIDATED FINANCIAL DATA

	Year Ended June 30,			
	2001(a)	2000	1999(a)	1998(g)
Income Statement Data:				
Net sales	$364,410	$323,026	$302,057	$275,577
Net income (loss) before extraordinary items	(14,895)	10,053	(466)	(7,065)
Extraordinary items	--	--	--	(1,962)
Net income (loss) (b) (c) (d)	(14,895)	10,053	(466)	(9,027)
Balance Sheet Data:				
Total assets	$330,019	$258,451	$238,779	$192,196
Debt (e)	173,331	150,772	140,103	104,296
Redeemable Preferred Stock (f)	48,980	--	--	--

Notes to Summary Consolidated Financial Data:

(a) Reflects the acquisitions of Odda and the Pfizer medicated feed additive business effective October 1, 1998 and November 30, 2000, respectively. Also reflects the sale in the fourth quarter of 2001 of the Company's Agtrol crop protection business and resultant pre-tax gain of $1.5 million.

(b) In 2000, includes a $13.7 million gain resulting from Odda's sale of its minority equity interest in a local Norwegian hydroelectric power company and related power rights. In 2000, also includes $1.5 million of income resulting from the transfer of title of property in Sewaren, New Jersey.

(c) In 2000 and 1999, includes $.9 million and $3.7 million, respectively, of property damage insurance gains as a result of a fire at the Bowmanstown, Pennsylvania facility. In 1997, includes $5.6 million gain related to proceeds from the life insurance policy received on the death of the then Chairman of the Board of the Company.

(d) In 2001 and 1999, includes $1.3 and $1.5 million charges, respectively, related to the severance of senior executives. In 1998, includes a $10

million nonrecurring plant curtailment charge and $5.6 million for the forgiveness of limited recourse notes receivable from certain executives of the Company and payment for related income taxes resulting from the cancellation.

(e) Debt is equal to loans payable to banks, long-term debt and current portion of long-term debt.

(f) Issuance of redeemable preferred securities in connection with acquisition of the Pfizer medicated feed additives business in 2001.

(g) Included in net sales is shipping and handling income of $6.1, $5.4 and $4.8 million for the fiscal years ended June 30, 2001, 2000 and 1999, respectively. Amounts for prior periods are not readily determinable and restatements have not been made.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This information should be read in conjunction with the Company's Consolidated Financial Statements, including the notes thereto, contained in this Report.

General

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

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

On October 1, 1998, the Company acquired all of the outstanding capital stock of Odda Smelteverk AS, a Norwegian company, and certain assets of the business of BOC Carbide Industries in the United Kingdom (together "Odda") from the BOC Group. The operating results of these businesses are included in the Company's consolidated statements of operations from the date of acquisition and are included in the Industrial Chemicals and Distribution segments.

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

On May 4, 2001, the Company sold its Agtrol U.S. business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm, Inc, the U.S. subsidiary

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

Results of Operations

	Sales ($000's) Year Ended June 30,		
Operating Segments:	2001	2000	1999
Animal Health and Nutrition.....	$202,573	$135,088	$132,845
Industrial Chemicals.....	107,455	109,318	107,611
Distribution.....	44,452	49,254	47,646
All Other.....	46,979	69,198	58,037
Elimination of intersegment sales...	(37,049)	(39,832)	(44,082)
	$364,410	$323,026	$302,057

	Operating Income (Loss) ($000's) Year Ended June 30,		
Operating Segments:	2001	2000	1999
Animal Health and Nutrition.....	$ 17,562	$ 11,539	$ 8,763
Industrial Chemicals.....	(3,350)	5,355	4,988
Distribution.....	3,936	3,817	3,643
All Other.....	(7,086)	4,045	3,097
Corporate expenses and intercompany profit elimination.....	(10,086)	(9,082)	(10,136)
	$ 976	$ 15,674	$ 10,355

Comparison of Fiscal Year Ended June 30, 2001 to Fiscal Year Ended June 30, 2000.

Net Sales. Net sales increased by $41.4 million, or 13%, to $364.4 million in 2001, as compared to the prior year. The increase was primarily due to the purchase of the PAH business offset in part by the sale of the Company's Agtrol operations.

The Animal Health and Nutrition segment's net sales increased by $67.5 million, or 50%, to $202.6 million in 2001, as compared to the prior year. The

net sales increase was due to increased unit volume primarily as a result of the PAH purchase. Excluding PAH, sales for the segment in 2001 were slightly above the prior year. Increased volumes contributed to an increase in sales, but were offset by lower average sales prices, including the impact of foreign exchange, in 2001.

The Industrial Chemicals segment's net sales decreased by $1.9 million, or 2%, to $107.4 million in 2001, as compared to the prior year. Sales of Phibro-Tech, excluding recycling fees, were down by $2.8 million due to volume declines related to the printed circuit board industry. Lower sales of Odda's carbide and dicyandiamide products also accounted for the decrease. These decreases were offset in part by higher recycling fees ($2.4 million) due to increased demand.

Net sales for the Distribution segment decreased by $4.8 million, or 10%, to $44.5 million in 2001, as compared to the prior year. The net sales decrease was due to lower average sales prices, including foreign exchange, offset in part by higher unit volume. The Company experienced sharp declines in selling prices for carbide, dicyandiamide and copper cyanide products during the current year.

Net sales for the All Other segment decreased by $22.2 million, or 32%, to $47.0 million in 2001, as compared to the prior year. The net sales decrease was due to lower unit volume primarily as a result of the sale of the Agtrol crop protection business, which was sold during the fourth quarter of 2001. The crop protection business is highly seasonal and most of the sales are normally in the Company's fourth quarter. Excluding Agtrol, sales for the segment in 2001 were slightly above the prior year. Unit volume of the Company's fly ash business increased approximately 36% and was offset by lower average sales prices of 10% due to product and customer mix in 2001 compared to the prior year. The fly ash volume increase was the result of additional contracts with utilities in Missouri and Michigan. During the fourth quarter, the Company began commercialization of its cement business. Revenues at the Company's Wychem, U.K. facility decreased $2.4 million due to a decline in specialized lab projects and formulations

Gross Profit. Gross profit increased by $4.2 million, or 4.5%, to $98.1 million in 2001, as compared to the prior year. The increase was primarily due to the purchase of the PAH business offset in part by the sale of the Company's Agtrol operations during their major selling season. Purchase accounting adjustments relating to inventory resulted in an increase to cost of goods sold of $8.9 million during fiscal 2001. The remainder of the inventory purchase adjustment, approximately $3.2 million, will be charged to cost of goods sold in fiscal 2002. Higher costs for petroleum and metallurgical coke, which are used as raw materials at Odda, adversely affected margins in the Industrial Chemical segment. In addition, the declines in average selling prices described above further reduced the Company's margin.

Selling, General and Administrative Expenses. Costs increased by $17.5 million to $97.2 million in 2001, as compared to the prior year. Excluding PAH, costs were up approximately $.6 million principally due to management advisory fees to Palladium ($1.3 million), higher fly ash warehousing and distribution costs ($1.4 million), severance costs ($1.3 million) and research and development expenditures ($.7 million) offset by a reduction in the repurchase value of redeemable common stock of a minority shareholder ($4.3 million).

Operating Income. Operating income decreased by $14.7 million to $1.0 million in 2001, as compared to the prior year. Operating income would have been $8.9 million higher than reported if not for purchase

accounting adjustments to the sale of inventory acquired from Pfizer. Operating income declined in the Industrial Chemicals segment primarily due to lower selling prices and volumes. The Company is implementing cost reduction programs and other initiatives in this segment in reaction to current market conditions. The Company's All Other segment declined due to the sale of Agtrol and decreases in average selling prices offset in part by higher sales volumes of fly ash. The Distribution segment approximated the prior year despite a reduction in sales due to changes in product mix. The Animal Health and Nutrition segment increased due to the inclusion of PAH for the period and higher unit volumes.

Interest Expense, Net. Costs increased by $3.6 million or 25.3% to $17.7 million in fiscal 2001 as compared to the prior year primarily due to debt incurred in connection with the PAH acquisition and higher levels of average bank borrowings.

Other Expense, Net. Other expense, net principally reflects foreign currency transaction losses of the Company's foreign subsidiaries.

Gain from Sale of Assets. A gain from sale of assets ($1.5 million) resulted from the Company's sale of its Agtrol crop protection business, a division of the Company's Phibro-Tech, Inc. subsidiary, to Nufarm Inc. In addition, the Company's Odda subsidiary sold real estate resulting in a gain ($1.0 million).

Income Taxes. The 2001 and 2000 tax benefits and provisions differ from the amount calculated at the U.S. statutory rate, due primarily to the effect of non-deductible expenses and tax rate differences on foreign operations. Valuation allowances ($1.0 million in fiscal 2001) have been provided against deferred tax assets that are deemed by management as not likely of recovery in future periods. The 2000 tax expense includes a provision related to the gain on sale of assets at the Norwegian statutory rate of 28%.

Comparison of Fiscal Year Ended June 30, 2000 to Fiscal Year Ended June 30, 1999.

Net Sales. Net sales increased by $21.0 million, or 7%, to $323.0 million in fiscal 2000, as compared to the prior year. Increases were noted in all segments as more fully discussed below.

Animal Health and Nutrition net sales increased by $2.2 million, or 2%, to $135.1 million in 2000, as compared to the prior year. Sales were higher primarily due to higher sales volume of the Company's animal health and nutrition products, primarily coccidiostats ($1.5 million) and feed pre-mixes ($1.9 million). The increase in pre-mixes resulted from the December 1998 acquisition of a feed pre-mix business. These increases were somewhat offset by lower sales resulting from discontinued products at Koffolk, the Company's Israeli subsidiary.

Industrial Chemicals net sales increased by $1.7 million, or 2%, to $109.3 million in 2000, as compared to the prior year. Sales were higher due to a full year of dicyandiamide and calcium carbide sales ($5.6 million) by Odda (acquired in October 1998), and higher recycling fees ($1.1 million). Production disruptions for certain mineral oxides as a result of a fire in the Company's Bowmanstown, PA facility (and as a result purchases by the Animal Health and Nutrition segment were supplemented from third party sources) offset the above increases.

Distribution net sales increased by $1.6 million, or 3%, to $49.3 million in 2000, as compared to the prior year. The net sales increase was due to higher sales of the Company's dicyandiamide and carbide products. Improvements in average selling prices of other products also improved sales and operating results.

All Other net sales increased by $11.2 million, or 19%, to $69.2 million in 2000, as compared to the prior year. Higher volume sales of the Company's crop protection chemicals ($5.5 million) due to increased market penetration of generic fungicides and introduction of a new copper based fungicide contributed to the bulk of the increase. In addition, higher volume sales of coal fly ash ($5.3 million) also accounted for the bulk of the increase.

Gross Profit. Gross profit increased by $15.1 million, or 19.5%, to $93.9 million as compared to the prior year. This increase was primarily attributable to higher profits in the Animal Health and Nutrition segment ($4.3 million) primarily due to higher volume sales and lower costs, principally raw materials, at the Company's Israeli subsidiary (Koffolk) for coccidiostats. Increased profits from higher sales in the Company's Industrial Chemicals segment ($3.5 million) were due to the Odda acquisition and higher recycling fees. Increased sales prices and volumes for the Distribution segment improved results ($.8 million). Higher volume sales of coal ash also accounted for the increase in profit.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $10.7 million, or 15.6%, to $79.7 million in fiscal 2000 as compared to the prior year. The increase was primarily due to the Odda acquisition ($2.1 million), higher distribution expenses associated with increased sales of coal fly ash ($3.9 million) and higher distribution expenses ($1.1 million) associated with inorganic chemical sales. In fiscal 2000, corporate expenses included a $1.1 million non-cash charge to reflect the increase in repurchase value of redeemable common stock of a minority shareholder, as compared to income of $.2 million in the prior year. The prior year included an accrual for compensation expenses ($1.5 million) associated with the termination of employment of an executive of a subsidiary of the Company.

Curtailment of Operations. In June 2000, the Company transferred title to its property in Sewaren, New Jersey to the Township of Woodbridge. Simultaneously, the Company entered into a ten year lease agreement with payments aggregating $2 million for certain areas of the property in order to allow it to conduct operations related to its RCRA Part B Facility Permit. Pursuant to the Transfer Agreement, the Township of Woodbridge took title to the property and assumed obligations with regard to the property including maintaining the ground water recovery system required by the Administrative Consent Order between the Company and the New Jersey Department of Environmental Protection. In connection with the assumption of obligations by the Township in fiscal 2000, the Company has reversed $1.5 million to income representing amounts previously reserved for ground water monitoring and remediation net of the present value of its lease obligations. In fiscal 1999, the

Company reversed $.5 million of the original $10 million charge to income based upon a reassessment of site remediation and ongoing cost requirements.

Operating Income. Operating income increased by $5.3 million, or 51.3%, to $15.7 million in fiscal 2000, as compared to the prior year. The operating income of the Animal Health and Nutrition segment accounted for the largest part

of the increase and improvements in the fly ash business accounted for most of the improvements over the prior year.

Interest Expense, net. Interest expense increased by $1.6 million, or 13.1%, to $14.8 million in fiscal 2000 as compared to the prior year primarily due to an increased average level of bank borrowings and higher average interest rates.

Gain from Property Damage Claim. In April 1999, the Company suffered inventory, real property and equipment loss at its Bowmanstown, Pennsylvania facility resulting from a fire. In fiscal 2000, the Company settled all claims with its insurance carriers and recorded a gain of $.9 million (in addition to the $3.7 million booked in fiscal 1999) based on agreed upon final reimbursements for damaged property and equipment in excess of its net book value.

Other Expense, Net. Other expense, net, principally reflects foreign currency transaction losses of the Company's foreign subsidiaries.

Gain from Sale of Assets. Odda had a minority equity investment in a local hydroelectric power company and also held contracts for the purchase of hydroelectric power through the years 2006 to 2010. As a result of legislative, regulatory and market developments occurring in Norway since the 1998 acquisition, the Company was able to sell its investment and related power rights to a Norwegian "state-owned" power production company in January 2000. As a result of the sale, Odda's ability to purchase power at cost terminated and it now purchases a majority of its power at prevailing market rates. The Company realized net sale proceeds of $18.7 million and recorded a pre-tax gain of $13.7 million. Approximately $1.3 million of additional net gain has been deferred and will be recognized over the period of a related power purchase contract with the buyer.

Income Taxes. The 2000 and 1999 tax provisions differ from the amount calculated at the U.S. statutory rate, due primarily to the effect of non-deductible expenses and tax rate differences on foreign operations. The 2000 tax expense includes a provision related to the gain on sale of assets at the Norwegian statutory rate of 28%.

Liquidity and Capital Resources

Cash on hand as of June 30, 2001 totaled $14.8 million compared to $2.4 million as of the fiscal 2000 year end. Much of the increase in cash results from the funding requirements of the international operations of the PAH business.

Working capital as of June 30, 2001 and 2000 was $74.0 million and $79.9 million, respectively. Inventories increased by $33.4 million during the year, primarily due to inventory relating to the PAH business ($42.2 million), partially offset by the reduction in inventory from the sale of the Agtrol crop protection business ($6.9 million). Accounts payable and accrued expenses increased by $29.9 million from the prior year, all relating to the acquired PAH business. In addition, certain changes to the Company's revolving credit agreement during 2001 have resulted in borrowings under this agreement being classified as short-term debt.

Net Cash Provided by Operating Activities. Cash provided by operating activities in fiscal 2001 was $13.1 million, an improvement of $21.1 million from the prior year. This increase is primarily due to positive cash flow generated from the seven months of operations of the acquired PAH business unit. Cash used in operating activities in fiscal 2000 was $7.9 million, $4.8 million higher than 1999. This increase was primarily due to higher levels of accounts receivable from sales of crop protection chemicals during the last quarter of

fiscal 2000 compared to the prior year.

Net Cash Used in Investing Activities. Net cash used in investing activities in fiscal 2001 was $40.1, primarily related to the PAH acquisition ($51.7 million) offset by proceeds from the sale of the Agtrol crop protection business ($26.5 million). C