

AMERICAN VANGUARD CORP
Form 10-Q/A
January 27, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 0-6354

AMERICAN VANGUARD CORPORATION

Delaware
(State or other jurisdiction of

Incorporation or organization)

95-2588080
(I.R.S. Employer

Identification Number)

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q/A

4695 MacArthur Court, Newport Beach, California
(Address of principal executive offices)

92660
(Zip Code)

(949) 260-1200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.10 Par Value 5,827,052 shares outstanding as of August 8, 2003.

Table of Contents

AMERICAN VANGUARD CORPORATION

INDEX

	<u>Page Number</u>
PART I FINANCIAL INFORMATION	
Item 1.	
Financial Statements.	
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2003 and 2002</u>	1
<u>Consolidated Balance Sheets as of June 30, 2003 and December 31, 2002</u>	2
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2003 and 2002</u>	4
<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
PART II <u>OTHER INFORMATION</u>	17
Item 6.	
<u>Exhibits</u>	17
<u>SIGNATURES AND CERTIFICATIONS</u>	18

Explanatory Note:

Items 1 and 2 listed above are each hereby amended by deleting the Item in its entirety and replacing it with the corresponding Item attached hereto and filed herewith. Item 6 listed above is hereby amended by replacing the specified portions indicated herein.

The purpose of this Amendment is to make certain changes to the above referenced Items in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003 that was originally filed on August 14, 2003 (the "Original Filing"). We are filing this amended Quarterly Report on Form 10-Q/A in response to comments received from the Securities and Exchange Commission (the "SEC") in connection with our Registration Statement on Form S-3 filed on September 30, 2003. This report continues to speak as of the date of the Original Filing and we have not updated the disclosure in this report to speak to any later date. While this report primarily relates to the historical period covered, events may have taken place since the date of the Original Filing that might have been reflected in this report if they had taken place prior to the Original Filing.

Any items in the Original Filing not expressly changed hereby shall be as set forth in the Original Filing. All information contained in this Amendment and the Original Filing is subject to updating and supplementing as provided in the Company's periodic reports filed with the SEC subsequent to the date of such reports.

Table of Contents**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands except per share amounts)

(Unaudited)

	For the three months ended June 30		For the six months ended June 30	
	2003	2002	2003	2002
Net sales	\$ 25,944	\$ 20,397	\$ 53,286	\$ 39,415
Cost of sales	13,991	11,042	29,965	22,354
Gross profit	11,953	9,355	23,321	17,061
Operating expenses	9,574	7,533	18,865	13,763
Operating income	2,379	1,822	4,456	3,298
Interest expense	308	272	575	475
Interest income	(304)	(6)	(312)	(12)
Interest capitalized	(148)	(244)	(290)	(244)
Income before income taxes	2,523	1,800	4,483	3,079
Income taxes	798	675	1,534	1,155
Net income	\$ 1,725	\$ 1,125	\$ 2,949	\$ 1,924
Earnings per common share	\$.30	\$.20	\$.51	\$.34
Earnings per common share assuming dilution	\$.28	\$.19	\$.48	\$.32
Weighted average shares outstanding (note 4)	5,827	5,744	5,826	5,743
Weighted average shares outstanding assuming dilution (note 4)	6,164	6,060	6,134	6,038

See notes to consolidated financial statements.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS (note 5)

	June 30, 2003	Dec. 31, 2002
	<u>(Unaudited)</u>	<u>(Note)</u>
Current assets:		
Cash	\$ 337	\$ 3,275
Receivables:		
Trade	19,691	16,975
Other	732	219
	<u>20,423</u>	<u>17,194</u>
Inventories	31,268	21,228
Prepaid expenses	1,078	870
Deferred tax asset	289	289
Income tax benefit	1,280	918
	<u>54,675</u>	<u>43,774</u>
Total current assets	54,675	43,774
Property, plant and equipment, net (note 2)	21,983	19,984
Land held for development	211	211
Intangible assets	16,400	10,878
Other assets	565	601
	<u>\$ 93,834</u>	<u>\$ 75,448</u>

(Continued)

See notes to consolidated financial statements.

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30,	Dec. 31,
	2003	2002
	(Unaudited)	(Note)
Current liabilities:		
Current installments of long-term debt	\$ 4,824	\$ 1,949
Accounts payable	10,744	5,159
Accrued program costs	8,033	4,875
Accrued expenses and other payables	2,434	2,714
Accrued royalty obligations	938	1,215
	<hr/>	<hr/>
Total current liabilities	26,973	15,912
Long-term debt, excluding current installments	22,529	17,765
Deferred income taxes	1,528	1,528
	<hr/>	<hr/>
Total liabilities	51,030	35,205
Stockholders' Equity:		
Preferred stock, \$.10 par value per share; Authorized 400,000 shares; none issued		
Common stock, \$.10 par value per share, authorized 10,000,000 shares; issued 6,366,885 shares at June 30, 2003 and 6,357,034 shares at December 31, 2002	637	636
Additional paid-in capital	9,608	9,494
Accumulated other comprehensive income	(268)	(272)
Retained earnings	35,063	32,621
	<hr/>	<hr/>
	45,040	42,479
Less treasury stock at cost, 539,833 shares at June 30, 2003 and December 31, 2002	(2,236)	(2,236)
	<hr/>	<hr/>
Total stockholders' equity	42,804	40,243
	<hr/>	<hr/>
	\$ 93,834	\$ 75,448
	<hr/>	<hr/>

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date.

See notes to consolidated financial statements.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

For The Six Months Ended June 30, 2003 and 2002

(Unaudited)

Increase (decrease) in cash	2003	2002
Cash flows from operating activities:		
Net income	\$ 2,949	\$ 1,924
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,806	1,137
Changes in assets and liabilities associated with operations:		
Decrease (increase) in receivables	(3,590)	4,483
Increase in inventories	(10,040)	(2,744)
Increase in prepaid expenses	(208)	(176)
Increase (decrease) in accounts payable	5,586	(3,751)
Increase (decrease) in other payables and accrued expenses	2,601	(1,240)
Net cash used in operating activities	(896)	(367)
Cash flows from investing activities:		
Capital expenditures	(3,206)	(4,892)
Additions to intangible assets	(3,321)	(1,774)
Net decrease (increase) in other noncurrent assets	37	(150)
Net cash used in investing activities	(6,490)	(6,816)

(Continued)

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

For The Six Months Ended June 30, 2003 and 2002

(Unaudited)

Increase (decrease) in cash	2003	2002
Cash flows from financing activities:		
Proceeds from (payments on) lines of credit agreement	\$ 5,500	\$ (2,200)
Proceeds from issuance of long-term debt		10,000
Payments on long-term debt	(661)	(197)
Exercise of stock options	113	19
Payment of cash dividends	(508)	(404)
Purchase of treasury stock		(19)
Net cash provided by financing activities	4,444	7,199
Increase (decrease) in cash	(2,942)	16
Cash at beginning of year	3,275	853
Effect of exchange rate changes on cash	4	
Cash as of June 30	\$ 337	\$ 869

Supplemental schedule of non-cash investing and financial activities:

On March 19, 2003, the Company announced that the Board of Directors declared a cash dividend of \$.13 per share (\$.087 as adjusted for a 3-for-2 stock split) as well as a 3-for-2 stock split. Both the cash dividend and stock split were distributed on April 11, 2003 to stockholders of record at the close of business on March 28, 2003. The cash dividend was paid on the number of shares outstanding prior to the 3-for-2 stock split. Stockholders entitled to fractional shares resulting from the stock split received cash in lieu of such fractional share based on the closing price of the Company's stock on March 28, 2003.

During the period ended June 30, 2003, the Company completed the acquisition of six product lines, one related to the herbicide business and five related to a pre-harvest crop protection business. In connection with these acquisitions, the Company recorded intangible assets in the amount of \$6,121 of which \$3,321 was paid during the period.

See notes to consolidated financial statements.

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(Numbers in thousands except for share data)

(Unaudited)

1. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation, have been included. Operating results for the three and six-month periods ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Effective January 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products (EITF 01-9). Upon adoption of EITF 01-9, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified certain of these payments as operating expenses in the consolidated statement of income. Additionally, the Company engages in various customer programs. The Company accounts for these programs as operating expenses in accordance with EITF 01-9 as the Company receives an identifiable benefit in exchange for the consideration.

2. Property, plant and equipment at June 30, 2003 and December 31, 2002 consists of the following:

	June 30, 2003	December 31, 2002
Land	\$ 2,441	\$ 2,441
Buildings and improvements	4,804	4,792
Machinery and equipment	38,354	25,922
Office furniture and fixtures	2,708	2,538
Automotive equipment	124	124
Construction in progress	1,747	11,154
	50,178	46,971
Less accumulated depreciation	28,195	26,987
	<u>\$ 21,983</u>	<u>\$ 19,984</u>

3. On March 19, 2003 the Company announced that the Board of Directors declared a cash dividend of \$.13 per share (\$.087 as adjusted for a 3-for-2 stock split) as well as a 3-for-2 stock split. Both were distributed on April 11, 2003 to stockholders of record at the close of business on March 28, 2003. The cash dividend was paid on the number of shares outstanding prior to the 3-for-2 stock split. Stockholders entitled to fractional shares resulting from the stock split received cash in lieu of such fractional share based on the closing price of the

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q/A

Company's stock on March 28, 2003. Accordingly, all weighted average share and per share amounts have been restated to reflect the stock split.

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**

Notes to Consolidated Financial Statements, Continued

4. Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share (EPS) requires dual presentation of basic EPS and diluted EPS on the face of all income statements. Basic EPS is computed as net income divided by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects potential dilution that could occur if securities or other contracts, which, for the Company, consists of options to purchase shares of the Company's common stock are exercised.

The components of basic and diluted earnings per share were as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2003	2002	2003	2002
Numerator:				
Net income	\$ 1,725	\$ 1,125	\$ 2,949	\$ 1,924
Denominator:				
Weighted averages shares outstanding	5,827	5,744	5,826	5,743
Assumed exercise of stock options	337	316	308	295
	<u>6,164</u>	<u>6,060</u>	<u>6,134</u>	<u>6,038</u>

5. Substantially all of the Company's assets not otherwise specifically pledged as collateral on existing loans and capital leases, are pledged as collateral under the Company's credit agreement with a bank. As referenced in note 1, for further information, refer to the consolidated financial statements and footnotes thereto (specifically note 3) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
6. Reclassification Certain items have been reclassified in the prior period consolidated financial statements to conform with the June 30, 2003 presentation.
7. Total comprehensive income includes, in addition to net income, changes in equity that are excluded from the consolidated statements of operations and are recorded directly into a separate section of stockholders' equity on the consolidated balance sheets.

Comprehensive income and its components consist of the following (in thousands):

Three Months Ended Six Months Ended

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q/A

	June 30,		June 30,	
	2003	2002	2003	2002
Net income	\$ 1,725	\$ 1,125	\$ 2,949	\$ 1,924
Foreign currency translation adjustment	(13)		4	
Comprehensive income	\$ 1,712	\$ 1,125	\$ 2,953	\$ 1,924

8. **Recent Accounting Pronouncements** In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, *Accounting for Asset Retirement Obligations* (SFAS 143), effective January 2003. SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the estimated useful life of the asset. The Company adopted SFAS 143 on January 1, 2003, and does not believe that the adoption had a material impact on the Company's financial statements.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), effective for exit or disposal activities initiated after December 31, 2002, SFAS 146 addresses the financial accounting and reporting for certain costs associated with exit or disposal activities, including restructuring actions. SFAS 146 excludes from its scope severance benefits that are subject to an on-going benefit arrangement governed by SFAS 112, *Employer's Accounting for Post employment Benefits*, and asset impairments governed by SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company does not believe that the adoption of SFAS 146 will have a material impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45) *Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The following is a summary of the Company's agreements that the Company has determined is within the scope of FIN 45.

Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a directors and officers liability insurance policy that reduces its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liability recorded for these agreements as of June 30, 2003.

The Company enters into indemnification provisions under its agreements with other companies in its ordinary course of business (typically customers). Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. The indemnification provisions may survive the termination of the underlying agreement. In addition, in some cases, the Company has agreed to reimburse employees for certain expenses and to provide salary continuation during short-term disability. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions may be unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the Company believes the estimated fair value of these provisions is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of June 30, 2003.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock Based Compensation* an Amendment of SFAS No. 123 (SFAS 148). This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted SFAS 148 on January 1, 2003, and has elected to continue to use the intrinsic method to account for employee stock options and accordingly, the adoption does not have a material impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). This Interpretation requires that variable interest entities created after January 31, 2003, and variable interest entities in which an interest is obtained after that date, be evaluated for consolidation into an entity's financial statements. This Interpretation also applies, beginning July 1, 2003 for the Company, to all variable interest entities in which an enterprise holds an interest that it acquired before February 1, 2003. We are in the process of evaluating all of our investments and other interests in entities under the provisions of FIN 46 and have not yet determined the effect of its adoption on our financial position and results of operations.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity*, (SFAS 150) which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The Company does not believe the adoption of SFAS 150 will have a material impact on its financial statements.

8. Stock-Based Compensation SFAS No. 123 *Accounting for Stock-Based Compensation* , allows companies to measure compensation cost in connection with employee share option plans using a fair value based method or to continue to use an intrinsic value based method as defined by APB No. 25 *Accounting for Stock Issued to Employees* , which generally does not result in a compensation cost. The Company accounts for stock-based compensation under APB 25, and does not recognize stock-based compensation expense upon the issuance of its stock options because the option terms are fixed and the exercise price equals the market price of the underlying stock on the grant date. The following table illustrates the effect on net earnings and basic and diluted earnings per share if the Company had recognized compensation expense upon issuance of the options, based on the Black-Scholes option pricing model:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 1,725	\$ 1,125	\$ 2,949	\$ 1,924
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects				
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(27)	(9)	(47)	(19)
Pro forma	\$ 1,698	\$ 1,116	\$ 2,902	\$ 1,905
Earnings per common share, as reported	\$.30	\$.20	\$.51	\$.34
Pro forma	\$.29	\$.19	\$.50	\$.33
Earnings per common share diluted, as reported	\$.28	\$.19	\$.48	\$.32
Pro forma	\$.27	\$.18	\$.47	\$.32

9. During the period ended June 30, 2003, the Company completed the acquisition of six product lines, one related to the herbicide business and five related to a pre-harvest crop protection business. In connection with these acquisitions, the Company recorded intangible assets in the amount of \$6,121 of which \$3,321 was paid during the period. These intangible assets are being amortized over their useful lives of 15 years.

The following schedule represents intangible assets recognized in connection with product acquisitions:

	<u>Amount</u>
Intangible assets at December 31, 2002	\$ 10,878
Acquisitions during the period	6,121
Amortization expense during the period	(599)
	<u> </u>
Intangible assets at June 30, 2003	\$ 16,400
	<u> </u>

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS/RISK FACTORS:

The Company, from time-to-time, may discuss forward-looking statements including assumptions concerning the Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to a number of risks, uncertainties and other factors. In connection with the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statements identifying important factors which, among other things, could cause the actual results and events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions contained in the entire Report. Such factors include, but are not limited to: product demand and market acceptance risks; the effect of economic conditions; weather conditions; changes in regulatory policy; the impact of competitive products and pricing; changes in foreign exchange rates; product development and commercialization difficulties; capacity and supply constraints or difficulties; availability of capital resources general business regulations, including taxes and other risks as detailed from time-to-time in the Company's reports and filings filed with the U.S. Securities and Exchange Commission. It is not possible to foresee or identify all such factors. The Company makes no commitment to update any forward-looking statement or to disclose any facts, events, or circumstances after the date hereof that may affect the accuracy of any forward-looking statement. For more detailed information, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

RESULTS OF OPERATIONS

Quarter Ended June 30:

The Company reported net income of \$1,725,000 or \$.28 per diluted share in the quarter ended June 30, 2003 as compared to \$1,125,000 or \$.19 per diluted share for the same period in 2002.

Net sales increased by 27% or \$5,547,000 to \$25,944,000 for quarter ended June 30, 2003 from \$20,397,000 for the same period in 2002. Increased sales of the Company's corn soil insecticides combined with the Smartbox® delivery system accounted for 38% of the increase with increased sales of the Company's molluscicide line accounting for 22% of the increase. Increased sales of the Company's herbicide, pest strips, plant growth regulators, soil fungicide and defoliant product lines accounted for the balance of the increase. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impact net sales.

The gross profit margin for the quarter ended June 30, 2003 remained unchanged at 46% as compared to the same period in 2002.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Operating expenses, which are net of other income, increased by \$2,041,000 to \$9,574,000 for the quarter ended June 30, 2003 as compared to \$7,533,000 for the same period in 2002. The differences in operating expenses by specific departmental costs are as follows:

Selling expenses increased by \$1,155,000 or 43% to \$3,858,000 for the quarter ended June 30, 2003 from \$2,703,000 for the same period in 2002. Programs and related costs accounted for 39% of the increase while increased payroll and payroll related costs, marketing and promotion, and insurance costs, accounted for 18%, 13% and 9%, respectively, of the increase with other variable costs accounting for the balance.

General and administrative expenses declined by \$97,000 or 4% to \$2,142,000 for the quarter ended June 30, 2003 as compared to \$2,239,000 for the same period in 2002. A decline in legal expenses served to more than offset increases in costs related to the amortization of newly acquired product lines, outside professional fees and payroll and payroll related costs.

Research and product development costs and regulatory registration expenses increased by \$723,000 or 62% to \$1,889,000 for the quarter ended June 30, 2003 as compared to \$1,166,000 for the same period in 2002. The increase was due to increased costs incurred to generate scientific data related to the registration and possible new uses of the Company's products. Most of the increase were costs related to scientific data generation for the international marketplace. The Company expects that its investment in data generation related to the international marketplace will continue and it will protect the Company's ability to sell into the export market.

Freight, delivery, storage and warehousing increased by \$260,000 or 18% to \$1,685,000 for the quarter ended June 30, 2003 as compared to \$1,425,000 for the same period in 2002. The increase was related to increased sales.

Interest costs before capitalized interest and interest income were \$308,000 during the quarter ended June 30, 2003 as compared to \$272,000 for same period in 2002. The Company's average overall debt for the quarter ended June 30, 2003 was \$31,168,000 as compared to \$23,046,000 for the same period in 2002. The higher overall debt levels accounted for the higher gross interest costs. The Company recorded \$304,000 in interest income that relates to income taxes receivable from the state of California as a result of filing amended tax returns for the years ended December 31, 1995 through 1998. (The overall after tax effect of recording the receivable due from California (franchise tax) generated \$.05 per diluted share in the three months ended June 30, 2003. The refund was received in July 2003.) The Company capitalized \$148,000 of interest costs related to construction in progress during the second quarter ended June 30, 2003 as compared to \$244,000 in the same period of 2002.

Weather patterns can have an impact on the Company's operations. Weather conditions influence pest population by impacting gestation cycles for particular pests and the effectiveness of some of the Company's products, among other factors. The end user of some of the Company's products may, because of weather patterns, delay or intermittently disrupt field work during the planting season which may result in a reduction of the use of some of the Company's products. Weather patterns did not have a material adverse effect on the Company's results of operations.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Because of elements inherent to the Company's business, such as differing and unpredictable weather patterns, crop growing cycles, changes in product mix of sales, ordering patterns that may vary in timing, and promotional/early order programs, measuring the Company's performance on a quarterly basis, (gross profit margins on a quarterly basis may vary significantly) even when such comparisons are favorable, is not as meaningful an indicator as full-year comparisons. The primary reason is that the use cycles do not necessarily coincide with financial reporting cycles. The combination of variable revenue streams, and changing product mixes, results in varying quarterly levels of profitability.

Six Months Ended June 30:

The Company reported net income of \$2,949,000 or \$.48 per diluted share in the six months ended June 30, 2003 as compared to \$1,924,000 or \$.32 per diluted share for the same period in 2002.

Net sales increased by 35% or \$13,871,000 to \$53,286,000 for the six months ended June 30, 2003 from \$39,415,000 for the same period in 2002. Increased sales of the Company's corn soil insecticides combined with the Smartbo® delivery system accounted for 64% of the increase. Increased sales of the Company's molluscicides, herbicide, pest strips, plant growth regulators, soil fungicide and defoliant product lines accounted for the balance of the increase. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impact net sales.

The gross profit margin for the six months ended June 30, 2003 remained relatively unchanged at 44% as compared to 43% for the same period in 2002.

Operating expenses, which are net of other income, increased by \$5,102,000 to \$18,865,000 for the six months ended June 30, 2003 as compared to \$13,763,000 for the same period in 2002. The differences in operating expenses by specific departmental costs are as follows:

Selling expenses increased by \$2,593,000 or 50% to \$7,805,000 for the six months ended June 30, 2003 from \$5,212,000 for the same period in 2002. Programs and related costs accounted for 52% of the increase while increased payroll and payroll related costs, marketing and promotion, and insurance costs, accounted for 15%, 15% and 11%, respectively, of the increase with increases in other variable costs accounting for the balance.

General and administrative expenses increased by \$201,000 or 5% to \$4,136,000 for the six months ended June 30, 2003 as compared to \$3,935,000 for the same period in 2002. Costs related to the amortization of newly acquired product lines, and payroll and payroll related costs accounted for the increase which was partially offset by a decline in legal expenses.

Research and product development costs and regulatory registration expenses increased by \$1,553,000 or 72% to \$3,704,000 for the six months ended June 30, 2003 as compared to \$2,151,000 for the same period in 2002. This was due to increased costs incurred to generate scientific data related to the registration and possible new uses of the Company's products. A significant portion of the increase were costs related to scientific data generation for the international marketplace. The Company expects that its investment in data generation related to the international marketplace will continue and it will protect the Company's ability to sell into the export market.

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q/A

Freight, delivery, storage and warehousing increased by \$755,000 or 31% to \$3,220,000 for the six months ended June 30, 2003 as compared to \$2,465,000 for the same period in 2002. This was related to increased sales.

Interest costs before capitalized interest and interest income were \$575,000 during the six months ended June 30, 2003 as compared to \$475,000 for same period in 2002. The Company's average overall debt for the six months ended June 30, 2003 was \$26,469,000 as compared to \$20,842,000 for the same period in 2002. The higher overall debt levels accounted for the higher gross interest costs. The Company recorded \$304,000 in interest income that relates to income taxes receivable from the state of California as a result of filing amended tax returns for the years ended December 31, 1995 through 1998. (The overall after tax effect of recording the receivable due from California (franchise tax) generated \$.05 per diluted share in the six months ended June 30, 2003. The refund was received in July 2003.) The Company capitalized \$290,000 of interest costs related to construction in progress during the first six months of 2003 as compared to \$244,000 in the same period of 2002.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES

The Company used \$896,000 in operating activities for the six months ended June 30, 2003. Net income of \$2,949,000, non-cash depreciation and amortization of \$1,806,000, an increase of \$5,586,000 in accounts payable and an increase of \$2,601,000 in other payables and accrued expenses provided \$12,942,000 of cash for operations. This was more than offset by increases in inventory, receivables and prepaid expenses of \$10,040,000, \$3,590,000, and \$208,000 respectively; which used \$13,838,000 in operating activities.

The Company used \$6,490,000 in investing activities during the first six months ended June 30, 2003. It invested \$6,121,000 in the acquisition of new products (of which, \$3,321,000 was disbursed in cash) and \$3,206,000 in capital expenditures while other noncurrent assets declined by \$37,000.

Financing activities provided \$4,444,000 for the first six months of 2003. Net borrowings under the Company's fully-secured revolving line of credit increased by \$5,500,000. The Company made payments on its long-term debt of \$661,000 and received \$113,000 from the issuance of common stock and paid cash dividends of \$508,000.

In May 2001, the Company announced that Amvac Chemical Corporation, a wholly-owned subsidiary of the Company, completed the acquisition of a manufacturing facility from E.I. Du Pont de Nemours and Company (DuPont). The facility, termed Amvac Axis, Alabama (AAA) is one of three such units located on DuPont's five hundred and ten acre complex in Axis, Alabama. The acquisition of AAA consisted of a long-term ground lease of twenty-five acres and the purchase of all improvements thereon. AAA is a multipurpose plant designed primarily to manufacture pyrethroids and organophosphates, including Fortress®, a corn soil insecticide that the Company purchased from DuPont in 2000. The acquisition of AAA significantly increased the Company's capacity while also providing flexibility and geographic diversity. Management believes, as the Company looks to acquire additional product lines, AAA will allow the Company to produce compounds that could not be manufactured at the Company's Los Angeles (Commerce, California) facility and will further complement the Company's toll manufacturing capabilities. The Company began the commissioning phase of AAA during the third quarter of 2001 and, for the most part, completed the re-commissioning the latter part of 2002. The Company intends to continue to focus its efforts, in addition to acquiring new product lines and expanding the use of its current products, on discussions with companies that in this time of consolidation in the Company's industry, may be interested in utilizing the Company's toll manufacturing capabilities of AAA.

In May 2002, the Company entered into a new \$45,000,000 fully-secured long-term credit agreement. The Company's primary bank (the Bank) acted as sole administrative agent arranger and syndication agent. The Bank syndicated the new credit facility with another bank. The \$45,000,000 credit facility consists of a senior secured revolving line of credit of \$35,000,000 and a \$10,000,000 senior secured term loan. The borrowings under the credit agreement bear interest at the prime rate (Referenced Loans), or at the Company's option, a fixed rate of interest offered by the Bank (Fixed Loans) for terms of one, two, three, six, nine or twelve months. Interest on the Referenced Loans are payable quarterly, in arrears, on the last day of each March, June, September, and December, and on the maturity date of such loan in the amount of interest then accrued but unpaid. Interest on the Fixed Loans are payable on the last day of the interest period, provided that, with an interest period longer than three months, interest is payable on the last day of each three-month period after the commencement of such interest period. The senior secured revolving line of credit matures on May 31, 2005. The term loan matures on May 31, 2007. The principal of the term loan is payable in equal quarterly installments of \$625,000 each, on or before the last business day of each February, May, August and November, commencing May 31, 2003 and in one final installment in the amount necessary to repay the remaining outstanding principal balance of the term loan in full on the maturity date. The Company had \$21,500,000 in availability under its fully-secured revolving line of credit as of June 30, 2003.

Management continues to believe, to continue to improve its working capital position, and maintain flexibility in financing interim needs, it will continue to explore alternate sources of financing.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), effective January 2003. SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the estimated useful life of the asset. The Company adopted SFAS 143 on January 1, 2003, and does not believe that the adoption had a material impact on the Company's financial statements.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 addresses the financial accounting and reporting for certain costs associated with exit or disposal activities, including restructuring actions. SFAS 146 excludes from its scope severance benefits that are subject to an on-going benefit arrangement governed by SFAS 112, *Employer's Accounting for Post employment Benefits*, and asset impairments governed by SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company does not believe that the adoption of SFAS 146 will have a material impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of this Interpretation are currently effective and did not impact the Company's financial position and results of operations. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock Based Compensation - an Amendment of SFAS No. 123* (SFAS 148). This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted SFAS 148 on January 1, 2003, and has elected to continue to use the intrinsic method to account for employee stock options and accordingly, the adoption does not have a material impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). This Interpretation requires that variable interest entities created after January 31, 2003, and variable interest entities in which an interest is obtained after that date, be evaluated for consolidation into an entity's financial statements. This Interpretation also applies, beginning July 1, 2003 for the Company, to all variable interest entities in which an enterprise holds an interest that it acquired before February 1, 2003. We are in the process of evaluating all of our investments and other interests in entities under the provisions of FIN 46 and have not yet determined the effect of its adoption on our financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity*, (SFAS 150) which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities

and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The Company does not believe the adoption of SFAS 150 will have a material impact on its financial statements.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are more fully described preceding the Company's consolidated financial statements. Certain of the Company's policies require the application of judgment by management in selecting the appropriate assumptions for calculating financial estimates. These judgements are based on historical experience, terms of existing contracts, commonly accepted industry practices and other assumptions that the Company believes are reasonable under the circumstances. These estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. The Company's critical accounting policies and estimates include:

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

Revenue Recognition

Revenue from sales is recognized at the time title and the risks of ownership passes. This is when the customer has made the fixed commitment to purchase the goods, the products are shipped per the customers' instructions, the sales price is determinable, and collection is reasonably assured.

Programs

Effective January 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products* (EITF 01-9). Upon adoption of EITF 01-9, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified certain of these payments as operating expenses in the consolidated statement of income. Additionally, the Company engages in various customer programs. The Company accounts for these programs as operating expenses in accordance with EITF 01-9 as the Company receives an identifiable benefit in exchange for the consideration.

Advertising Expense

The Company expenses advertising costs in the period incurred. Advertising expenses, which include promotional costs, are recognized in operating costs (specifically in selling expenses) in the consolidated statements of income.

Freight, Delivery and Warehousing Expense

Freight, delivery and warehousing costs incurred by the Company are reported as operating expenses. All amounts billed to a customer in a sales transaction related to freight, delivery and warehousing are recorded as a reduction in operating expenses.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Long-lived Assets

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q/A

The carrying value of long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

Property, Plant and Equipment and Depreciation

Property, plant and equipment includes the cost of land, buildings, machinery and equipment, office furniture and fixtures, automobiles, and construction projects and significant improvements to existing plant and equipment. Interest costs related to significant construction projects may be capitalized at the Company's weighted average cost of capital. Expenditures for maintenance and minor repairs are expensed as incurred. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss realized on disposition is reflected in earnings. All plant and equipment is depreciated using the straight-line method, utilizing estimated useful property lives. Building lives range from 10 to 30 years; machinery and equipment lives range from 3 to 15 years; office furniture and fixture lives range from 3 to 10 years, automobile lives range from 3 to 6 years; construction projects and significant improvements to existing plant and equipment lives range from 3 to 15 years when placed in service.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, have been translated at the exchange rates at the end of the period and profit and loss accounts have been translated using year to date weighted average exchange rates. Adjustments resulting from translation have been recorded in the equity section of the balance sheet as cumulative translation adjustments in other comprehensive loss.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

The effect of foreign currency exchange gains and losses on transactions that are denominated in currencies other than the entity's functional currency are remeasured into the functional currency using the end of the period exchange rates. The effects of remeasurement related to foreign currency transactions are included in current profit and loss accounts.

Fair Value of Financial Instruments

The carrying values of cash, receivables and accounts payable approximate their fair values because of the short maturity of these instruments.

The fair value of the Company's long-term debt and note payable to bank is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. Such fair value approximates the respective carrying values of the Company's long-term debt and note payable to bank.

Income Taxes

The Company uses the asset and liability method to account for income taxes, including recognition of deferred tax assets for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases. Income tax expense is recognized currently for taxes payable. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change.

Goodwill and Other Intangible Assets

The primary identifiable intangible assets of the Company relate to product rights associated with its product acquisitions. The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Under the provisions of SFAS No. 142, identifiable intangibles with finite lives are amortized and those with indefinite lives are not amortized. The estimated useful life of an identifiable intangible asset to the Company is based upon a number of factors including the effects of demand, competition, and expected changes in the marketability of the Company's products. The Company tests identifiable intangible assets for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate elements of property. The impairment test for identifiable intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss, if any, is recognized for the amount by which the carrying value exceeds the fair value of the asset. As of January 1, 2002, the Company had an immaterial amount of goodwill and amortization related to the goodwill. As such, the adoption of SFAS 142, did not have a material impact on the Company's financial statements.

Table of Contents

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibits

Exhibit 31.1 Certification Pursuant to 18 U.S.C Section 1350 as Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to 18 U.S.C Section 1350 as Adopted Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

