

AMERICAN VANGUARD CORP  
Form 10-Q  
November 09, 2006  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

.. **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 001-13795

---

**AMERICAN VANGUARD CORPORATION**

**Delaware**  
(State or other jurisdiction of

Incorporation or organization)

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

**95-2588080**  
(I.R.S. Employer

Identification Number)

**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)

## Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q

---

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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 26,104,413 shares as of November 6, 2006.

---

---

**Table of Contents**

**AMERICAN VANGUARD CORPORATION**

**INDEX**

	<b>Page Number</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (unaudited).</u>	
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005</u>	1
<u>Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005</u>	2
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income as of September 30, 2006</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<b><u>PART II OTHER INFORMATION</u></b>	
<b><u>SIGNATURES</u></b>	24
	27

**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)**

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net sales	\$ 51,244	\$ 49,754	\$ 138,709	\$ 128,309
Cost of sales	28,917	27,596	80,417	72,810
Gross profit	22,327	22,158	58,292	55,499
Operating expenses	14,735	13,263	39,773	36,433
Operating income	7,592	8,895	18,519	19,066
Interest expense	717	439	2,347	1,158
Interest income	(6)	(1)	(29)	(12)
Interest capitalized	(200)	(108)	(530)	(252)
Income before income taxes	7,081	8,565	16,731	18,172
Income tax expense	2,832	3,297	6,692	7,021
Net income	\$ 4,249	\$ 5,268	\$ 10,039	\$ 11,151
Earnings per common share basic	\$ .16	\$ .22	\$ .39	\$ .46
Earnings per common share assuming dilution	\$ .16	\$ .20	\$ .37	\$ .43
Weighted average shares outstanding basic (notes 5 & 6)	26,081	24,372	25,871	24,331
Weighted average shares outstanding assuming dilution (notes 5 & 6)	27,258	25,749	27,237	25,731

See notes to consolidated financial statements.

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands)****ASSETS (note 7)**

	<b>September 30, 2006 (Unaudited)</b>	<b>Dec. 31, 2005 (Note)</b>
Current assets:		
Cash	\$ 1,802	\$ 1,342
Receivables:		
Trade	61,596	58,955
Other	1,308	1,314
	62,904	60,269
Inventories (note 3)	60,550	44,359
Prepaid expenses	1,461	848
Total current assets	126,717	106,818
Property, plant and equipment, net (note 2)	36,592	34,339
Land held for development	211	211
Intangible assets	40,015	41,222
Other assets	775	637
	\$ 204,310	\$ 183,227

(Continued)

See notes to consolidated financial statements.

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

(In thousands)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	September 30, 2006 (Unaudited)	Dec. 31, 2005 (Note)
Current liabilities:		
Current installments of long-term debt	\$ 4,106	\$ 8,107
Accounts payable	15,344	28,392
Accrued program costs	28,497	18,954
Accrued expenses and other payables	6,533	6,067
Accrued royalty obligations	1,033	1,801
Income taxes payable	1,432	1,829
Total current liabilities	56,945	65,150
Long-term debt, excluding current installments	31,288	34,367
Deferred income taxes	1,262	1,262
Total liabilities	89,495	100,779
Stockholders' Equity:		
Preferred stock, \$.10 par value per share; authorized 400,000 shares; none issued		
Common stock, \$.10 par value per share; authorized 40,000,000 shares; issued 28,331,209 shares at September 30, 2006 and 26,614,607 shares at December 31, 2005	2,833	2,661
Additional paid-in capital	34,176	9,900
Accumulated other comprehensive income	(154)	(198)
Retained earnings	80,705	72,830
	117,560	85,193
Less treasury stock at cost 2,226,796 shares at September 30, 2006 and December 31, 2005	(2,745)	(2,745)
Total stockholders' equity	114,815	82,448
	\$ 204,310	\$ 183,227

Note: The balance sheet at December 31, 2005 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 STOCKHOLDERS

## EQUITY AND COMPREHENSIVE INCOME

September 30, 2006

(In thousands, except share and per share data)

(Unaudited)

	Common Stock		Accumulated			Treasury Stock		Total
	Shares	Amount	Additional		Income	Shares	Amount	
			Paid-in	Retained				
			Capital	Earnings				
<b>Balance, January 1, 2006</b>	26,614,607	\$ 2,661	\$ 9,900	\$ 72,830	\$ (198)	2,226,796	\$ (2,745)	\$ 82,448
Stocks issued under ESPP	36,029	4	590					594
Cash dividends on common stock (\$0.0825 per share)				(2,164)				(2,164)
Foreign currency translation adjustment, net					44			44
Private equity offering	1,386,666	138	22,395					22,533
Tax benefits from stock options plans			167					167
Stock options exercised and grants of restricted stock units	293,907	30	1,124					1,154
Net income				10,039				10,039
<b>Balance, September 30, 2006</b>	28,331,209	\$ 2,833	\$ 34,176	\$ 80,705	\$ (154)	2,226,796	\$ (2,745)	\$ 114,815

**Comprehensive income:**

Net income	\$ 10,039
Foreign currency translation adjustment, net	44
Comprehensive income	\$ 10,083

See notes to consolidated financial statements.

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****For The Nine Months Ended September 30, 2006 and 2005****(Unaudited)**

	<b>2006</b>	<b>2005</b>
<b>Increase (decrease) in cash</b>		
Cash flows from operating activities:		
Net income	\$ 10,039	\$ 11,151
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,791	5,199
Stock-based compensation expense related to stock options and employee stock purchases	419	
Changes in assets and liabilities associated with operations:		
Increase in receivables	(2,635)	(12,717)
Increase in inventories	(16,191)	(2,187)
Decrease (increase) in prepaid expenses and other assets	(756)	764
Increase (decrease) in accounts payable	(13,096)	4,919
Increase in other current liabilities	7,523	10,332
Net cash (used in) provided by operating activities	(9,906)	17,461
Cash flows from investing activities:		
Capital expenditures	(5,719)	(8,865)
Additions to intangible assets	(118)	(644)
Net decrease in other non-current assets	5	80
Net cash used in investing activities	\$ (5,832)	\$ (9,429)
Cash flows from financing activities:		
Net borrowings (repayments) under line of credit agreement	\$ 16,000	\$ (2,000)
Principal payments on long-term debt	(23,080)	(3,080)
Proceeds from the issuance of common stock (private equity placement, exercise of stock options and sale of stock under ESPP)	24,448	111
Payment of cash dividends	(1,381)	(1,002)
Tax benefits from stock-based compensation	167	
Net cash provided by (used in) financing activities	16,154	(5,971)
Net increase in cash	416	2,061
Cash at beginning of year	1,342	457
Effect of exchange rate changes on cash	44	14
Cash as of September 30	\$ 1,802	\$ 2,532

**Supplemental schedule of non-cash investing and financial activities:**

On September 14, 2006, the Company announced that the Board of Directors declared a cash dividend of \$0.03 per share. The dividend was distributed on October 13, 2006, to stockholders of record at the close of business on September 29, 2006. Cash dividends paid October 13, 2006 totaled approximately \$783,000.



## Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q

On March 23, 2006, the Company announced that the Board of Directors declared a 4 for 3 stock split and a cash dividend of \$0.07 per share (\$0.0525 as adjusted for the 4 for 3 stock split). Both dividends were distributed on April 17, 2006 to stockholders of record at the close of business on April 3, 2006. The cash dividend was paid on the number of shares outstanding prior to the 4 for 3 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 April 3, 2006.

See notes to consolidated financial statements.

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(Columnar Numbers in thousands except for Note 10 and 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 nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

2. Property, plant and equipment at September 30, 2006 and December 31, 2005 consists of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Land	\$ 2,441	\$ 2,441
Buildings and improvements	5,645	5,202
Machinery and equipment	52,296	47,814
Office furniture, fixtures and equipment	4,781	3,685
Automotive equipment	209	209
Construction in progress	13,437	13,739
	78,809	73,090
Less accumulated depreciation	42,217	38,751
	\$ 36,592	\$ 34,339

3. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. The components of inventories consist of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Finished products	\$ 53,452	\$ 40,166
Raw materials	7,098	4,193
	\$ 60,550	\$ 44,359

4. Based on similar economic and operational characteristics, the Company's business is aggregated into one reportable segment. Selective enterprise information is as follows:

**Three Months Ended**

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q

	September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net sales:				
Crop	\$ 40,822	\$ 38,558	\$ 113,062	\$ 103,558
Non-crop	10,422	11,196	25,647	24,751
	\$ 51,244	\$ 49,754	\$ 138,709	\$ 128,309

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

5. On September 14, 2006, the Company announced that the Board of Directors declared a cash dividend of \$0.03 per share. The dividend was distributed on October 13, 2006, to stockholders of record at the close of business on September 29, 2006. Cash dividends paid October 13, 2006, totaled approximately \$783,000.

On March 23, 2006, the Company announced that the Board of Directors declared a 4 for 3 stock split and a cash dividend of \$0.07 per share (\$0.0525 as adjusted for the 4 for 3 stock split). Both dividends were distributed on April 17, 2006 to stockholders of record at the close of business on April 3, 2006. The cash dividend was paid on the number of shares outstanding prior to the 4 for 3 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 April 3, 2006. Accordingly, all share, weighted average share, and per share amounts have been restated to reflect the stock split.

6. 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		Nine Months Ended	
	September 30 2006	2005	September 30 2006	2005
<b>Numerator:</b>				
Net income	\$ 4,249	\$ 5,268	\$ 10,039	\$ 11,151
<b>Denominator:</b>				
Weighted averages shares outstanding	26,081	24,372	25,871	24,331
Assumed exercise of stock options	1,177	1,377	1,366	1,400
	27,258	25,749	27,237	25,731

7. In October 2004, the Company entered into an Amended and Restated Credit Agreement with a syndicate of commercial lenders led by the Company's primary bank as the administrative agent and a lender, two other banks as lenders and a fourth as a participant, for an \$80 million fully-secured credit facility. This credit facility replaced the Company's previous credit facility with its primary bank and one other bank entered into in May 2002 and amended in March 2004. The credit facility originally consisted of a \$45 million revolving line of credit and a \$35 million term loan. In November 2005, the \$35 million term loan was increased to \$40 million. In April 2006, the Amended and Restated Credit Agreement was amended to increase the \$45 million senior secured revolving line of credit to \$65 million. The Company had \$44 million in availability under its revolving line of credit as of September 30, 2006.

In connection with the acquisition of the global Phorate insecticide product line from BASF in November 2005, the Company initially borrowed \$20 million under its senior secured revolving line of credit which was converted to a term loan to finance the acquisition (Delayed Term Loan). The Company paid off the Delayed Term Loan from the net proceeds received from the Private Equity Offering concluded in February 2006 (refer to Note 11).

The revolving line of credit and term loan bear interest at the prime rate ( Referenced Loans ), or at the Company's option, a fixed rate of interest offered by the Bank (such as adjusted LIBOR rate plus certain



**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

margins, in each case dependent on certain debt ratios ( Fixed Loans ). The principal payments of the term loan are payable in equal quarterly installments of \$1 million on or before the last business day of each February, May, August and November, commencing November 30, 2004 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. Interest accruing 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 and unpaid. Interest accruing 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 and term loan both mature on October 7, 2009 (five years from the closing date) and contain certain covenants (with which the Company is in compliance) as defined in the agreement.

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 2) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

8. Reclassification Certain items may have been reclassified (if appropriate), in the prior period consolidated financial statements to conform with the September 30, 2006 presentation.

9. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$ 4,249	\$ 5,268	\$ 10,039	\$ 11,151
Foreign currency translation adjustment	53	2	44	14
<b>Comprehensive income</b>	<b>\$ 4,302</b>	<b>\$ 5,270</b>	<b>\$ 10,083</b>	<b>\$ 11,165</b>

10. Stock Based Compensation Expense On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, ( SFAS 123(R) ) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the Employee Stock Purchase Plan ( employee stock purchases ) based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's Consolidated Financial Statements as of and for the three and nine months ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the three and nine months ended September 30, 2006 was \$160,000 and \$484,000, respectively. Stock based compensation expensed recognized consisted of the following:

	<b>Three months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30, 2006</b>	<b>September 30, 2006</b>
Expense related to employee stock options	\$ 140,000	\$ 420,000
Expense related to employee stock purchases	20,000	64,000
<b>Total SFAS 123(R) expense</b>	<b>\$ 160,000</b>	<b>\$ 484,000</b>

Basic and diluted earnings per share for the three months September 30, 2006 would have been \$.17 and \$.16, respectively, if the Company had not adopted SFAS 123(R), compared to reported basic and diluted earnings per share of \$.16 and \$.16, respectively. Basic and diluted earnings per share for the nine months September 30, 2006 would have been \$.40 and \$.38, respectively, if the Company had not adopted SFAS 123(R), compared to reported basic and diluted earnings per share of \$.39 and \$.37, respectively.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Consolidated Statement of Operations, other than as related to acquisitions and investments, because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations for the three and nine months ended September 30, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation to expense from the accelerated multiple-option approach to the straight-line single option method. Compensation expense for all share-based payment awards granted on or prior to December 31, 2005 will continue to be recognized using the accelerated multiple-option approach while compensation expense for all share-based payment awards granted subsequent to December 31, 2005 is recognized using the straight-line single-option method. Stock-based compensation expense recognized in the Consolidated Statement of Operations for periods subsequent to December 31, 2005 has not been reduced for forfeitures as estimated forfeitures are anticipated to be immaterial. Instead forfeitures are being recognized as they occur. SFAS 123(R) requires forfeitures to be estimated, if material, at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

Upon adoption of SFAS 123(R), the Company continued its method of valuation for share-based awards granted beginning in fiscal 2006 from the Black-Scholes option-pricing model (Black-Scholes model) which was previously used for the Company's pro forma information required under SFAS 123.

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

There were no options granted during the three and nine months ended September 30, 2006.

The expected volatility and expected life assumptions are highly complex and subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company estimates expected term using the safe harbor provisions of SAB 107. The Company used historical volatility as a proxy for estimating expected volatility.

On November 10, 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. FAS 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ( APIC pool ) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

As of September 30, 2006, the Company had approximately \$485,000 of unamortized stock-based compensation expenses, which will be recognized over the weighted-average period of 1.6 years. This projected expense will change if any stock options are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

Option activity within each plan is as follows:

	Incentive Stock Option Plans	Non-Statutory Stock Option Plans	Weighted Average Price per Share	Exercisable Weighted Average Price per Share
Balance outstanding, December 31, 2002	1,623,581	74,213	1.43	1.32
Options granted	1,130,000	69,371	5.10	
Options exercised	(540,960)	(16,131)	(1.56)	
Balance outstanding, December 31, 2003	2,212,621	127,453	3.49	2.39
Options granted	41,333	58,080	13.69	
Options exercised	(339,861)	(16,133)	(1.18)	
Options cancelled/forfeited/expired	(27,360)		(1.16)	
Balance outstanding, December 31, 2004	1,886,733	169,400	\$ 4.35	\$ 3.26
Options granted	276,933		14.75	
Options exercised	(61,333)	(8,805)	(1.84)	
Options cancelled/forfeited/expired	(16,000)	(875)	(1.76)	
Balance outstanding, December 31, 2005	2,086,333	159,720	5.71	\$ 6.06



Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q

Options granted				
Options exercised	(245,462)	(29,040)	3.39	
Options cancelled/forfeited/expired				
Balance outstanding, September 30, 2006	1,840,871	130,680	\$ 6.07	\$ 5.80

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

Information relating to stock options at September 30, 2006 summarized by exercise prices is as follows:

Exercise price per share	Shares	Outstanding		Exercisable	
		Weighted Average Remaining	Exercise Price	Weighted Average	Exercise Price
		Life (Months)		Shares	
<b>Incentive Stock Option Plans:</b>					
\$1.76	415,068	23	\$ 1.76	415,068	\$ 1.76
\$3.19	18,667	34	\$ 3.19	18,667	\$ 3.19
\$3.52 - \$8.10	1,098,000	50	\$ 5.11	817,800	\$ 4.36
\$11.30 - \$12.94	41,334	57	\$ 12.62	25,334	\$ 12.59
\$14.74 - \$14.99	267,802	72	\$ 14.74	267,802	\$ 14.74
	1,840,871		\$ 5.90	1,544,671	\$ 5.59
<b>Non-statutory Stock Option Plans:</b>					
\$3.03	29,040	9	\$ 3.03	29,040	\$ 3.03
\$4.68	29,040	22	\$ 4.68	29,040	\$ 4.68
\$7.05	24,200	23	\$ 7.05	24,200	\$ 7.05
\$14.45	48,400	32	\$ 14.45	48,400	\$ 14.45
	130,680		\$ 8.37	130,680	\$ 8.37

The weighted average exercise prices for options granted and exercisable and the weighted average remaining contractual life for options outstanding as of December 31, 2005 and September 30, 2006 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Months)	Intrinsic Value
<i>As of December 31, 2005:</i>				
<b>Incentive Stock Option Plans:</b>				
Outstanding	2,086,333	\$ 5.56	54	\$ 37,809,000
Expected to Vest	2,086,333	\$ 5.56	54	\$ 37,809,000
Exercisable	1,508,770	\$ 5.62	55	\$ 26,892,000
<b>Non-statutory Stock Option Plans:</b>				
Outstanding	159,720	\$ 8.11	31	\$ 2,449,000
Expected to Vest	159,720	\$ 8.11	31	\$ 2,449,000
Exercisable	159,720	\$ 8.11	31	\$ 2,449,000

Edgar Filing: AMERICAN VANGUARD CORP - Form 10-Q

*As of September 30, 2006:*

Incentive Stock Option Plans:				
Outstanding	1,840,871	\$ 5.90	47	\$ 15,105,000
Expected to Vest	1,840,871	\$ 5.90	47	\$ 15,105,000
Exercisable	1,544,671	\$ 5.59	47	\$ 13,197,000
Non-statutory Stock Option Plans:				
Options Outstanding	130,680	\$ 8.37	23	\$ 758,000
Expected to Vest	130,680	\$ 8.37	23	\$ 758,000
Options Exercisable	130,680	\$ 8.37	23	\$ 758,000

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements, Continued**

The total intrinsic value of options exercised during 2003, 2004 and 2005 was \$790,000, \$1,693,000 and \$554,000, respectively. Cash received from stock options exercised during 2003, 2004 and 2005 was \$417,000, \$449,000 and \$417,000, respectively. The total fair value of shares vested during 2003, 2004 and 2005 was approximately \$700,000, \$1,829,000 and \$4,284,744, respectively.

Pro Forma Information under SFAS 123 for the three and nine months ended September 30, 2005 (periods prior to fiscal 2006) is as follows: (amounts in thousands, except for per share data)

	<b>Three Months</b>	<b>Nine Months</b>
Net income, attributable to stockholders	\$ 5,268	\$ 11,151
Stock-based employee compensation expense included in reported net income, net of related tax effects	-0-	-0-
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(147)	(442)
Pro forma	\$ 5,121	\$ 10,709
Earnings per common share basic, as reported	\$ 0.22	\$ 0.46
Pro forma	\$ 0.21	\$ 0.44
Earnings per common share diluted, as reported	\$ 0.20	\$ 0.43
Pro forma	\$ 0.20	\$ 0.42

11. Private Equity Offering On February 8, 2006, the Company entered into Stock Purchase Agreements with several institutional investors for the purchase and sale of, in the aggregate, 1,040,000 (before giving effect for the 4 for 3 stock split distributed April 17, 2006) shares of the Company's common stock for a purchase price of \$22.50 per share (before giving effect for the 4 for 3 stock split distributed April 17, 2006) in connection with a private placement of such shares. The shares were registered under the Company's Registration Statement on Form S-3 (No. 333,122981) which was filed with the Securities Exchange Commission on February 25, 2005. (Refer to the Company's Report on Form 8-K dated February 7, 2006, and filed with the Securities and Exchange Commission.)

12. Recently Issued Accounting Guidance In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108 ( SAB No. 108 ), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 will require companies to quantify misstatements using both the balance sheet and income statement approaches to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the initial adoption is determined to be material, SAB No. 108 allows companies to record that effect as a cumulative effect adjustment to beginning-of-the-year retained earnings. The accounting provisions of SAB No. 108 are effective for the Company's fiscal year ending December 31, 2006. The Company is in the process of determining the effect, if any; the adoption of SAB No. 108 will have on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that



**Table of Contents**

**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

funded status in the year in which the changes occur through comprehensive income. This statement is effective as of the end of the fiscal year ending after December 15, 2006. The Company does not currently believe that the adoption of SFAS 158 will have a material impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not currently believe that the adoption of SFAS 157 will have a material impact on the consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ( FIN 48 ) an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. FIN 48 requires that subsequent to initial adoption a change in judgment that results in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. Currently, we record such changes in judgment, including audit settlements, as a component of the Company's income tax provision. Thus, the Company's reported quarterly income tax rate may become more volatile upon adoption of FIN 48. This change will not impact the manner in which we record income tax expense on an annual basis. FIN 48 also requires expanded disclosures including identification of tax positions for which it is reasonably possible that total amounts of unrecognized tax benefits will significantly change in the next twelve months, a description of tax years that remain subject to examination by major tax jurisdiction, a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of each annual reporting period, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate and the total amounts of interest and penalties recognized in the statements of operations and financial position. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

In March 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (SFAS 156). SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. This statement is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of SFAS 156 on the consolidated financial statements.

In September 2005, the FASB reached a final consensus on Emerging Issues Task Force ( EITF ) Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty* ( EITF 04-13 ). EITF 04-13 concludes that two or more legally separate exchange transactions with the same counterparty should be combined and considered as a single arrangement for purposes of applying Accounting Principles Board ( APB ) Opinion No. 29, *Accounting for Non monetary Transactions*, when the transactions were entered into in contemplation of one another. The consensus contains several indicators to be considered in assessing whether

**Table of Contents**

**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

two transactions are entered into in contemplation of one another. If, based on consideration of the indicators and the substance of the arrangement, two transactions are combined and considered a single arrangement, an exchange of finished goods inventory for either raw material inventory or work-in-process inventory should be accounted for at fair value. The provisions of EITF 04-13 are effective for transactions beginning in the Company's fourth quarter of 2006. The Company is currently evaluating the impact of EITF 04-13 on the consolidated financial statements; however, the Company does not currently believe that the adoption of EITF 04-13 will have a material impact on the consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* ( SFAS 154 ). SFAS 154 requires retrospective application to prior-period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also redefines *restatement* as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on the consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ( FIN 47 ) to clarify the term *conditional asset retirement* as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position No. 109-1, *Application of FASB Statement No. 109* ( SFAS 109 ), *Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* ( FSP 109-1 ). FSP 109-1 clarifies that the manufacturer's deduction provided for under the American Jobs Creation Act of 2004 ( AJCA ) should be accounted for as a special deduction in accordance with SFAS 109 and not as a tax rate reduction. Pursuant to the AJCA, the deduction for qualified production activities was effective for the Company's 2005 tax year. The effect of the deduction in the consolidated federal income tax return is not material.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Columnar Numbers in thousands)**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 (the "SEC"). It is not possible to foresee or identify all such factors. 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, 2005.

**RESULTS OF OPERATIONS****Quarter Ended September 30 (columnar numbers in thousands):**

	2006	2005	Change
Net sales:			
Crop	\$ 40,822	\$ 38,558	\$ 2,264
Non-crop	10,422	11,196	(774)
	\$ 51,244	\$ 49,754	\$ 1,490
Gross profit:			
Crop	\$ 17,558	\$ 16,968	\$ 590
Non-crop	4,769	5,190	(421)
	\$ 22,327	\$ 22,158	\$ 169

The Company reported net income of \$4,249,000 or \$.16 per diluted share for the third quarter ended September 30, 2006 as compared to net income of \$5,268,000 or \$.20 per diluted share for the same period in 2005. (Net income and per share data have been restated to reflect the effect of a 4 for 3 stock split that was distributed on April 17, 2006.)

Net sales for the third quarter 2006 increased by 3% to \$51,244,000 from \$49,754,000 in the same period of 2005. The increase sales levels were as a result of increased sales (primarily attributable to higher sales volume) of the Company's product lines used for crop protection. The Company's modest sales growth reflects the adverse impact of the pest and weather related factors on two of its products. Sales of the Company's cotton insecticide declined by 70% and sales of its crop protection insecticide and mosquito adulticide had a 21% decline. Sales of the Company's corn soil insecticides rose 18% during the third quarter ended September 30, 2006 as compared to the same period in 2005. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impacted net sales. (Weather patterns can have an impact on the Company's operations. Refer to the disclosure below.)

Gross profits increased to \$22,327,000 for the three months ended September 30, 2006 from \$22,158,000 in the third quarter of 2005. Gross profit margins declined slightly to 44% in the quarter ended September 30, 2006



**Table of Contents**

from 45% in the same period in 2005. The decline in gross profit margins was due to the changes in the sales mix of the Company's products.

Gross profit margins may not be comparable to those of other companies, since some companies include their distribution network costs in cost of goods sold and the Company, as well as others, include distribution costs in operating expenses (or other line items other than cost of goods sold).

Operating expenses, which are net of other income and expenses, increased by \$1,472,000 to \$14,735,000 in the third quarter of 2006 from \$13,263,000 in the same period of 2005. The differences in operating expenses by specific departmental costs are as follows:

	2006	2005	Change
Selling	\$ 5,268	\$ 4,733	\$ 535
General and administrative	3,049	3,115	(66)
Research, product development and regulatory	1,757	2,146	(389)
Freight, delivery and warehousing	4,661	3,269	1,392
	\$ 14,735	\$ 13,263	\$ 1,472

Selling expenses increased by \$535,000 to \$5,268,000 in the third quarter of 2006 from \$4,733,000 in the same period of 2005. An increase in programs and related costs accounted for the increase.

General and administrative expenses declined by \$66,000 to \$3,049,000 in the quarter ended September 30, 2006, as compared to \$3,115,000 in the same period in 2005. The overall decline was primarily due to a decline in legal costs. The Company adopted SFAS No. 123R effective January 1, 2006 and began expensing its previously issued equity awards (Employee Stock Options) for which service has not been rendered on that date which was approximately \$140,000 for the quarter ended September 30, 2006.

Research and product development costs and regulatory registration expenses declined by \$389,000 to \$1,757,000 in the quarter ended September 30, 2006 from \$2,146,000 in the same period of 2005. Lower costs incurred to generate scientific data related to the registration accounted for the decline.

Freight, delivery and warehousing costs increased \$1,392,000 to \$4,661,000 for the third quarter of 2006 as compared to \$3,269,000 in the same period of 2005. Increases in freight and delivery accounted for 75% of the increase with increases in warehousing and storage costs primarily accounting for the balance of the increase.

Interest costs before capitalized interest and interest income were \$717,000 in the quarter ended September 30, 2006 as compared to \$439,000 in the same period in 2005. The Company's average overall debt for the quarter ended September 30, 2006 was \$41,925,000 as compared to \$33,054,000 for the same period in 2005. Higher effective interest rates coupled with higher overall debt levels accounted for the higher gross interest costs. The Company capitalized \$200,000 of interest costs related to construction in progress during the third quarter of 2006 as compared to \$108,000 in 2005. The Company also recognized \$6,000 in interest income for the quarter ended September 30, 2006 as compared to \$1,000 in 2005.

Income tax expense declined by \$465,000 to \$2,832,000 for the quarter ended September 30, 2006 as compared to \$3,297,000 for the same period 2005. The Company's effective tax rate for the period ended September 30, 2006 was 40% as compared to 38.5% in the same period in 2005.

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.



**Table of Contents**

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 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. Because of the Company's cost structure, the combination of variable revenue streams, and the changing product mixes, results in varying quarterly levels of profitability.

**Nine Months Ended September 30 (columnar numbers in thousands):**

	2006	2005	Change
Net sales:			
Crop	\$ 113,062	\$ 103,558	\$ 9,504
Non-crop	25,647	24,751	896
	\$ 138,709	\$ 128,309	\$ 10,400
Gross profit:			
Crop	\$ 46,794	\$ 44,293	\$ 2,501
Non-crop	11,498	11,206	292
	\$ 58,292	\$ 55,499	\$ 2,793

The Company reported net income of \$10,039,000 or \$.37 per diluted share for the nine months ended September 30, 2006 as compared to net income of \$11,151,000 or \$.43 per diluted share for the same period in 2005. (Net income and per share data have been restated to reflect the effect of a 4 for 3 stock split that was distributed on April 17, 2006.)

Net sales for the first nine months of 2006 increased by 8% to \$138,709,000 from \$128,309,000 in the same period of 2005. The increase sales levels were achieved through growth (primarily attributable to higher sales volume) of the Company's product lines used for crop protection. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impacted net sales. (Weather patterns can have an impact on the Company's operations. Refer to the disclosure above.)

Gross profits increased to \$58,292,000 for the nine months ended September 30, 2006 from \$55,499,000 in the same period in 2005. Gross profit margins declined to 42% in the nine months ended September 30, 2006 from 43% in the same period in 2005. The decline in gross profit margins was due to the changes in the sales mix of the Company's products.

As stated above, gross profit margins may not be comparable to those of other companies, since some companies include their distribution network costs in cost of goods sold and the Company, as well as others, include distribution costs in operating expenses (or other line items other than cost of goods sold).

Operating expenses, which are net of other income and expenses, increased by \$3,340,000 to \$39,773,000 in the first nine months of 2006 from \$36,433,000 in the same period of 2005. The differences in operating expenses by specific departmental costs are as follows:

	2006	2005	Change
Selling	\$ 13,201	\$ 13,748	\$ (547)
General and administrative	9,423	9,770	(347)
Research, product development and regulatory	5,637	5,283	354
Freight, delivery and warehousing	11,512	7,632	3,880
	\$ 39,773	\$ 36,433	\$ 3,340



---

**Table of Contents**

Selling expenses declined by \$547,000 to \$13,201,000 in the first nine months of 2006 from \$13,748,000 in the same period of 2005. A decline in programs and related costs accounted for the decline as well as serving to offset increases in advertising and promotion costs and payroll and payroll related costs.

General and administrative expenses declined by \$347,000 to \$9,423,000 in the nine months ended September 30, 2006, as compared to \$9,770,000 in the same period in 2005. The overall decline was primarily due to a decline in legal costs which served to offset increases in payroll and payroll related items, other outside professional fees and expensing of stock options. The Company adopted SFAS No. 123R effective January 1, 2006 and began expensing its previously issued equity awards (Employee Stock Options) for which service has not been rendered on that date which was approximately \$420,000 for the nine months ended September 30, 2006.

Research and product development costs and regulatory registration expenses increased by \$354,000 to \$5,637,000 in the nine months ended September 30, 2006 from \$5,283,000 in the same period of 2005. The increase was primarily a result of higher licenses and registration costs and payroll and payroll related costs.

Freight, delivery and warehousing costs increased by \$3,880,000 to \$11,512,000 for the first nine months of 2006 as compared to \$7,632,000 in the same period of 2005. Increases in freight and delivery accounted for 65% of the increase with increases in warehousing and storage costs primarily accounting for the balance of the increase.

Interest costs before capitalized interest and interest income were \$2,347,000 in the nine months ended September 30, 2006 as compared to \$1,158,000 in the same period in 2005. The Company's average overall debt for the nine months ended September 30, 2006 was \$46,252,000 as compared to \$29,536,000 for the same period in 2005. Higher effective interest rates coupled with higher overall debt levels accounted for the higher gross interest costs. The Company capitalized \$530,000 of interest costs related to construction in progress during the first nine months of 2006 as compared to \$252,000 in 2005. The Company also recognized \$29,000 in interest income for the nine months ended September 30, 2006 as compared to \$12,000 in the same period in 2005.

Income tax expense declined by \$329,000 to \$6,692,000 for the nine months ended September 30, 2006 as compared to \$7,021,000 for the same period 2005. The effective tax rate for the nine months ended September 30, 2006 was 40% as compared to 38.6% in the same period in 2005.

***LIQUIDITY AND CAPITAL RESOURCES***

The Company used \$9,906,000 of cash in operating activities during the nine months ended September 30, 2006. Net income of \$10,039,000, non-cash depreciation and amortization of \$4,791,000, an increase in other liabilities of \$7,523,000, and stock-based compensation expense of \$419,000 provided \$22,772,000 of cash for operations. Increases in inventories, receivables and prepaid expenses of \$16,191,000, \$2,635,000, and \$756,000 respectively, coupled with a decline in accounts payable of \$13,096,000 used \$32,678,000 in cash for operating activities.

The Company used \$5,832,000 in investing activities during the nine months ended September 30, 2006. It invested \$5,719,000 in capital expenditures, \$118,000 in intangible assets while other non-current assets declined by \$5,000.

Financing activities provided \$16,154,000 during the first nine months ended September 30, 2006. Net borrowings under the Company's fully-secured revolving line of credit increased by \$16,000,000. The Company received \$24,448,000 in net proceeds from a private equity placement, exercise of stock options and the sale of common stock under its ESPP. The Company also received \$167,000 from tax benefits from stock-based compensation. The Company made payments on its other long-term debt of \$23,080,000 and paid cash dividends of \$1,381,000.

---

**Table of Contents**

In October 2004, the Company entered into an Amended and Restated Credit Agreement with a syndicate of commercial lenders led by the Company's primary bank as the administrative agent and a lender, two other banks as lenders and a fourth as a participant, for an \$80 million fully-secured credit facility. This credit facility replaced the Company's previous credit facility with its primary bank and one other bank entered into in May 2002 and amended in March 2004. The new credit facility consists of a \$45 million revolving line of credit and a \$35 million term loan. In November 2005, the \$35 million term loan was increased to \$40 million. In April 2006, the Amended and Restated Credit Agreement was amended to increase the \$45 million senior secured revolving line of credit to \$65 million. The Company had \$44 million in availability under its revolving line of credit as of September 30, 2006.

In connection with the acquisition of the global Phorate insecticide product line from BASF in November 2005, the Company initially borrowed \$20 million under its senior secured revolving line of credit which was subsequently converted to a term loan (Delayed Term Loan) to finance the acquisition. The Company paid off the Delayed Term Loan from the net proceeds received from the Private Equity Offering concluded in February 2006 (refer to Note 11).

The revolving line of credit and term loan bear interest at the prime rate ( Referenced Loans ), or at the Company's option, a fixed rate of interest offered by the Bank (such as adjusted LIBOR rate plus certain margins, in each case dependent on certain debt ratios ( Fixed Loans ). The principal payments of the term loan are payable in equal quarterly installments of \$1 million on or before the last business day of each February, May, August and November, commencing November 30, 2004 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. Interest accruing 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 and unpaid. Interest accruing 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 and term loan both mature on October 7, 2009 (five years from the closing date) and contain certain covenants (with which the Company is in compliance) as defined in the agreement.

Management continues to believe, to continue to improve its working capital position and maintain flexibility in financing interim needs, it is prudent to explore all available sources of financing. Accordingly, the Company filed a universal shelf registration statement on Form S-3 (No. 333-122981) with the SEC on February 25, 2005 pursuant to which, the Company may issue common and preferred stock, warrants and debt securities, from time to time, up to an aggregate offering price of \$50,000,000. The terms of any future offering will be established at the time of the offering. Accordingly, on February 8, 2006, the Company entered into Stock Purchase Agreements with several institutional investors for the purchase and sale of, in the aggregate, 1,040,000 (before giving effect for the 4 for 3 stock split distributed April 17, 2006) shares, all of which were purchased, of the Company's common stock for a purchase price of \$22.50 per share (before giving effect for the 4 for 3 stock split distributed April 17, 2006) in connection with a private placement of such shares. The shares were registered under the Company's Form S-3 (filed February 25, 2005).

***RECENTLY ISSUED ACCOUNTING GUIDANCE***

In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108 ( SAB No. 108 ), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 will require companies to quantify misstatements using both the balance sheet and income statement approaches to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the initial adoption is determined to be material, SAB No. 108 allows companies to record that effect as a cumulative effect adjustment to beginning-of-the-year retained earnings. The accounting provisions of SAB No. 108 are

---

**Table of Contents**

effective for the Company's fiscal year ending December 31, 2006. The Company is in the process of determining the effect, if any; the adoption of SAB No. 108 will have on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement is effective as of the end of the fiscal year ending after December 15, 2006. The Company does not currently believe that the adoption of SFAS 158 will have a material impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not currently believe that the adoption of SFAS 157 will have a material impact on the consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ( FIN 48 ) an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. FIN 48 requires that subsequent to initial adoption a change in judgment that results in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. Currently, we record such changes in judgment, including audit settlements, as a component of the Company's income tax provision. Thus, the Company's reported quarterly income tax rate may become more volatile upon adoption of FIN 48. This change will not impact the manner in which we record income tax expense on an annual basis. FIN 48 also requires expanded disclosures including identification of tax positions for which it is reasonably possible that total amounts of unrecognized tax benefits will significantly change in the next twelve months, a description of tax years that remain subject to examination by major tax jurisdiction, a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of each annual reporting period, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate and the total amounts of interest and penalties recognized in the statements of operations and financial position. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (SFAS 156). SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. This statement is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of SFAS 156 on the consolidated financial statements.

In September 2005, the FASB reached a final consensus on Emerging Issues Task Force ( EITF ) Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty* ( EITF 04-13 ). EITF 04-13 concludes that two or more legally separate exchange transactions with the same counterparty should be combined and considered as a single arrangement for purposes of applying Accounting Principles Board ( APB ) Opinion No. 29, *Accounting for Non monetary Transactions*, when the transactions were entered into in

**Table of Contents**

contemplation of one another. The consensus contains several indicators to be considered in assessing whether two transactions are entered into in contemplation of one another. If, based on consideration of the indicators and the substance of the arrangement, two transactions are combined and considered a single arrangement, an exchange of finished goods inventory for either raw material inventory or work-in-process inventory should be accounted for at fair value. The provisions of EITF 04-13 are effective for transactions beginning in the Company's fourth quarter of 2006. The Company is currently evaluating the impact of EITF 04-13 on the consolidated financial statements; however, the Company does not currently believe that the adoption of EITF 04-13 will have a material impact on the consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* ( SFAS 154 ). SFAS 154 requires retrospective application to prior-period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on the Consolidated Financial Statements.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ( FIN 47 ) to clarify the term conditional asset retirement as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation when incurred, if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation would be factored into the measurement of the liability when sufficient information exists. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position No. 109-1, *Application of FASB Statement No. 109* ( SFAS 109 ), *Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004* ( FSP 109-1 ). FSP 109-1 clarifies that the manufacturer's deduction provided for under the American Jobs Creation Act of 2004 ( AJCA ) should be accounted for as a special deduction in accordance with SFAS 109 and not as a tax rate reduction. Pursuant to the AJCA, the deduction for qualified production activities was effective for the Company's 2005 tax year. The effect of the deduction in the consolidated federal income tax return is not material.

***CRITICAL ACCOUNTING POLICIES***

Certain of the Company's policies require the application of judgment by management in selecting the appropriate assumptions for calculating financial estimates. These judgments 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:

*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 customer's instructions, the sales price is determinable, and collection is reasonably assured.



## **Table of Contents**

### *Long-lived Assets*

The carrying value of long-lived assets is 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 are 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 year end exchange rates and profit and loss accounts have been translated using weighted average yearly exchange rates. Adjustments resulting from translation have been recorded in the equity section of the balance sheet as cumulative translation adjustments in other comprehensive income.

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.

### *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 at least annually, 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. Fair value is typically estimated using a discounted cash flow analysis, which requires the Company to estimate the future cash flows anticipated to be generated by the particular asset(s) being tested for impairment as well as select a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, the Company considers historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by the Company in such areas as future economic conditions, industry-specific conditions, product pricing and necessary capital expenditures. The use of different assumptions or estimates for future cash flows

**Table of Contents**

could produce different impairment amounts (or none at all) for long-lived assets, goodwill and identifiable intangible assets.

**Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

The Company is exposed to market risk related to changes in interest rates, primarily from its borrowing activities. The Company's indebtedness to its primary lender is evidenced by a line of credit with a variable rate of interest, which fluctuates with changes in the lender's reference rate. For more information, please refer to the applicable disclosures in the Company's Form 10-K filed with the SEC for the year ended December 31, 2005. The Company does not use derivative financial instruments for speculative or trading purposes.

The Company conducts business in various foreign currencies, primarily in Europe and Mexico. Therefore changes in the value of the currencies of such countries or regions affect the Company's financial position and cash flows when translated into U.S. Dollars. As of September 30, 2006, the Company had not established a formal foreign currency hedging program. The Company has mitigated and will continue to mitigate a portion of its currency exchange exposure through operation of decentralized foreign operating companies in which the majority of all costs are local-currency based. A 10% change in the value of all foreign currencies would have an immaterial effect on the Company's financial position and cash flows.

**Item 4. *CONTROLS AND PROCEDURES***

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's disclosure controls and procedures are effective in all material respects in ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal controls over financial reporting that occurred during the most recent quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

***PART II. OTHER INFORMATION***

The Company was not required to report any matters or changes for any items of Part II except as disclosed below.

**Item 1. *Legal Proceedings***

On occasion, the Company and/or AMVAC Chemical Corporation ( AMVAC ), a wholly-owned subsidiary of the Company, are involved as either a plaintiff or defendant to claims and legal actions incidental to their operations.

**Personal Injury Suits**

A number of suits have been filed against AMVAC, alleging injury from exposure to the agricultural chemical 1,2-dibromo-3-chloropropane ( DBCP ). DBCP was manufactured by several chemical companies, including Dow Chemical Company and Shell Oil Company and was approved by the U.S. EPA to control nematodes. DBCP was also applied on banana farms in Latin America. The U.S. EPA suspended registrations of DBCP in October 1979, except for use on pineapples in Hawaii. The EPA suspension was partially based on 1977 studies by other manufacturers that indicated a link between male sterility and exposure to DBCP among their factory production workers producing the product. The defendants contend there is currently no reliable evidence demonstrating that ordinary field application of DBCP leads to sterility among farm workers, especially to those not involved with its application.

Thus far there are approximately 90 lawsuits filed by former banana workers in which AMVAC has been named as a party. These claims are all in various stages and allege injury from exposure to DBCP, including claims for sterility. Two such lawsuits, currently involving a total of 42 Nicaraguan plaintiffs, are pending in the Los Angeles Superior Court; one of these matters is scheduled for trial in February 28, 2007. Most of the cases, however, are unserved suits pending in Nicaragua. All but one of the suits in Nicaragua have been filed pursuant to Public Law 364, an October 2000 Nicaraguan statute that contains substantive and procedural provisions that Nicaragua's Attorney General previously expressed as unconstitutional. In October 2003, the Nicaragua Supreme Court issued an advisory opinion, not in connection with any litigation, that Public Law 364 is constitutional. The suits pending in Nicaragua that name AMVAC have been filed on behalf of approximately 3,279 claimants. Each of the Nicaraguan plaintiffs claims \$1 million in compensatory damages and \$5 million in punitive damages. In all of these cases, AMVAC is a joint defendant with Dow Chemical and Dole Food Company, Inc.

AMVAC contends that the Nicaragua courts lack jurisdiction over AMVAC and that Public Law 364 violates international due process of law. AMVAC also contends that the plaintiffs will have difficulty in proving that they were exposed to or injured by any DBCP manufactured by AMVAC.

On October 6, 2006, AMVAC was served with seven suits filed in the Los Angeles County Superior Court and one suit in the United States District Court in Los Angeles that include a total of 668 residents of the Ivory Coast as plaintiffs. Each plaintiff claims personal injuries from exposure to DBCP on banana or pineapple plantations in that country. AMVAC denies any liability as none of its product was designated or marked for shipment to the Ivory Coast or anywhere in Africa. The suits name AMVAC, Dow Chemical, Shell Oil Company, and Dole Food as defendants. All these suits also seek punitive damages and the federal action alleges a claim under the Alien Tort Claims Act, alleging that the sale and use of DBCP amounted to genocide in the Ivory Coast.

While it is anticipated that additional lawsuits of this nature may be filed in the US as well as Nicaragua, as to all existing DBCP suits, AMVAC has denied liability and asserted substantial defenses.

The Company has and will continue to expend resources and incur expenses in connection with these proceedings. There can be no assurance that the Company and AMVAC will be successful in these proceedings.

## **Table of Contents**

While the Company continually evaluates insurance levels for product liability, property damage and other potential areas of risk, an adverse determination in one or more of these proceedings could subject the Company and/or AMVAC to significant liabilities, which could have a material adverse effect on their financial condition and operating results.

### **Other Matters**

On March 1, 2006, AMVAC and AVD accepted tender of defense and indemnity from Valent U.S.A. Corporation ( Valent ) with respect to an action entitled *Victoria Espinoza, et al. v. Does 1, et al., including Valent U.S.A. Corporation* filed in the Los Angeles Superior Court No. BC322590 in March 2005, in which plaintiff, who worked as a temporary employee intermittently in the packaging department at one of AMVAC s facilities between August 1994 and August 2000, seeks damages for injuries, specifically acute myelogenous leukemia, allegedly arising from exposure to chemical products at that AMVAC facility. The defense and indemnity obligations arise from a toll manufacturing and supply agreement dated in September 1991 between AMVAC and Valent s predecessor, and an asset purchase agreement dated in June 1998 between AMVAC and Valent by which the former purchased the Dibrom product line from the latter. The company believes that the action is without merit and plans to defend it vigorously. Although the punitive damages claim has been dismissed from the action, however, there is no guarantee that the Company will be able to avoid an adverse judgment or that the size of any such judgment will not have an adverse effect upon the Company s financial performance. Trial is currently scheduled for April 2007.

On July 19, 2006, AMVAC s registered agent was served with a complaint entitled *Latrice McLendon, et al. v. Philip Service Corporation etc. et al (including AMVAC)*, which was filed in the Superior State Court of Fulton County, State of Georgia No. 2006CN119863 and subsequently removed to the United States District Court for the Northern District of Georgia No. 1:06-CV-1770-CAP, in which a class of plaintiffs seek damages, including punitive damages, in an unspecified amount for personal injuries and diminution in property value allegedly arising from the airborne release of propyl mercaptan and ethoprop from a waste treatment facility operated by PSC Recovery Services ( PSC ) in Fairburn, Georgia. Plaintiffs, residents living in the vicinity of the PSC plant, allege trespass, nuisance and negligence on behalf of defendants in handling, storing and treating waste which was generated by AMVAC s Axis, Alabama facility. It is too early in the litigation to make an assessment of the likelihood of there being an adverse judgment against AMVAC or whether such judgment could have an adverse effect upon the Company s financial performance. AMVAC plans to defend the action vigorously.

**Table of Contents**

**Item 6. Exhibits**

**Exhibits required to be filed by Item 601 of Regulation S-K:**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

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

AMERICAN VANGUARD CORPORATION

Dated: November 8, 2006

By: /s/ ERIC G. WINTEMUTE  
**Eric G. Wintemute**

**President, Chief Executive Officer and Director**

Dated: November 8, 2006

By: /s/ JAMES A. BARRY  
**James A. Barry**

**Senior Vice President, Chief Financial Officer,**

**Secretary/Treasurer**