

AMERICAN VANGUARD CORP

Form 10-Q

August 03, 2012

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**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 June 30, 2012**

.. **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**

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<b>Delaware</b> (State or other jurisdiction of Incorporation or organization)	<b>95-2588080</b> (I.R.S. Employer Identification Number)
<b>4695 MacArthur Court, Newport Beach, California</b> (Address of principal executive offices)	<b>92660</b> (Zip Code)
<b>(949) 260-1200</b> (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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 27,922,786 shares as of July 27, 2012.

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**AMERICAN VANGUARD CORPORATION**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(In thousands, except per share data)****(Unaudited)**

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net sales	\$ 84,837	\$ 80,062	\$ 172,092	\$ 146,095
Cost of sales	46,491	48,381	96,368	87,503
Gross profit	38,346	31,681	75,724	58,592
Operating expenses	24,104	20,998	47,080	38,722
Operating income	14,242	10,683	28,644	19,870
Interest expense	721	978	1,456	1,785
Interest capitalized	(112)	(16)	(148)	(74)
Extinguishment of debt				546
Income before income tax	13,633	9,721	27,336	17,613
Income tax expense	4,889	3,714	9,858	6,594
Net income	8,744	6,007	17,478	11,019
Change in fair value of interest rate swaps	24	(700)	46	(946)
Foreign currency translation adjustment	(420)	197	122	434
Comprehensive income	\$ 8,348	\$ 5,504	\$ 17,646	\$ 10,507
Earnings per common share basic	\$ .31	\$ .22	\$ .63	\$ .40
Earnings per common share assuming dilution	\$ .30	\$ .22	\$ .61	\$ .40
Weighted average shares outstanding basic	27,858	27,548	27,740	27,538
Weighted average shares outstanding assuming dilution	28,737	27,838	28,544	27,813

See notes to consolidated financial statements.

**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****ASSETS (note 7)**

	<b>June, 2012 (Unaudited)</b>	<b>Dec. 31, 2011 (Note)</b>
Current assets:		
Cash	\$ 48,048	\$ 35,085
Receivables:		
Trade, net of allowance for doubtful accounts of \$561 and \$340, respectively	72,774	68,611
Other	886	1,187
	73,660	69,798
Inventories	79,922	71,068
Prepaid expenses	4,429	2,311
Income taxes receivable		203
Total current assets	206,059	178,465
Property, plant and equipment, net	48,449	39,273
Intangible assets	113,059	116,189
Other assets	4,077	5,214
	\$ 371,644	\$ 339,141

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Current installments of long-term debt	\$ 15,051	\$ 14,460
Current installments of other liabilities	1,072	1,038
Accounts payable	23,837	23,214
Deferred revenue	201	7,571
Accrued program costs	57,734	25,910
Accrued expenses and other payables	6,143	6,832
Income taxes payable	30	
Total current liabilities	104,068	79,025
Long-term debt, excluding current installments	41,027	51,917
Other liabilities, excluding current installments	5,563	5,955
Deferred income taxes	15,172	15,172
Total liabilities	165,830	152,069
Commitments and contingent liabilities		
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 30,158,615 shares at June 30, 2012 and 29,845,047 shares at December 31, 2011	3,016	2,985
Additional paid-in capital	48,411	45,966

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Accumulated other comprehensive loss	(2,082)	(2,250)
Retained earnings	159,622	143,524
	208,967	190,225
Less treasury stock, at cost, 2,260,996 shares at June 30, 2012 and at December 31, 2011	(3,153)	(3,153)
Total stockholders' equity	205,814	187,072
	\$ 371,644	\$ 339,141

Note: The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date.

See notes to consolidated financial statements

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## AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands, except per share data)

For The Three Months Ended March 31, 2012 and June 30, 2012

(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other	Treasury Stock		Total
	Shares	Amount			Comprehensive Income (Loss)	Shares	Amount	
<b>Balance, December 31, 2011</b>	29,845,047	\$ 2,985	\$ 45,966	\$ 143,524	\$ (2,250)	2,260,996	\$ (3,153)	\$ 187,072
Stocks issued under ESPP	19,766	2	266					268
Cash dividends on common stock (\$0.05 per share)				(1,380)				(1,380)
Foreign currency translation adjustment, net					542			542
Stock based compensation			422					422
Change in fair value of interest rate swaps					22			22
Stock options exercised and termination of restricted stock units	218,253	22	127					149
Excess tax benefits from share based payment arrangements			43					43
Net income				8,734				8,734
<b>Balance, March 31, 2012</b>	30,083,066	\$ 3,009	\$ 46,824	\$ 150,878	\$ (1,686)	2,260,996	\$ (3,153)	\$ 195,872
Foreign currency translation adjustment, net					(420)			(420)
Stock based compensation			609					609
Change in fair value of interest rate swaps					24			24
Stock options exercised and termination of restricted stock units	75,549	7	861					868
Excess tax benefits from share based payment arrangements			117					117
Net income				8,744				8,744
<b>Balance, June 30, 2012</b>	30,158,615	\$ 3,016	\$ 48,411	\$ 159,622	\$ (2,082)	2,260,996	\$ (3,153)	\$ 205,814

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, 2012 and 2011****(Unaudited)**

	<b>2012</b>	<b>2011</b>
<b>Increase (decrease) in cash</b>		
Cash flows from operating activities:		
Net income	\$ 17,478	\$ 11,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed and intangible assets	7,046	6,733
Amortization of other long term assets	1,574	1,934
Amortization of discounted liabilities	396	988
Stock-based compensation	1,031	1,031
Tax benefit from exercise of stock options	(160)	
Changes in assets and liabilities associated with operations:		
Increase in net receivables	(3,862)	(41,019)
Increase in inventories	(8,854)	(6,566)
Increase in prepaid expenses and other assets	(2,555)	(1,791)
Decrease in income tax receivable/payable, net	393	8,133
Increase in accounts payable	668	9,089
Decrease in deferred revenue	(7,370)	(5,474)
Increase in other liabilities	30,883	18,220
<b>Net cash provided by operating activities</b>	<b>36,668</b>	<b>2,297</b>
Cash flows from investing activities:		
Capital expenditures	(13,061)	(2,322)
<b>Net cash used in investing activities</b>	<b>(13,061)</b>	<b>(2,322)</b>
Cash flows from financing activities:		
Net repayments borrowings under line of credit agreement		(7,300)
Principal payments on long-term debt	(4,000)	(4,004)
Tax benefit from exercise of stock options	160	
Borrowings on long-term debt		20,063
Decrease in other notes payable	(6,827)	
Payment of cash dividends	(1,380)	(826)
Proceeds from the issuance of common stock (sale of stock under ESPP and exercise of stock option)	1,285	550
<b>Net cash (used in) provided by financing activities</b>	<b>(10,762)</b>	<b>8,483</b>
<b>Net increase in cash</b>	<b>12,845</b>	<b>8,458</b>
Cash and cash equivalents at beginning of year	35,085	1,158
Effect of exchange rate changes on cash	118	342
<b>Cash and cash equivalents as of June 30</b>	<b>\$ 48,048</b>	<b>\$ 9,958</b>

See notes to consolidated financial statements





**Table of Contents****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(In thousands, except share data)****(Unaudited)****Summary of Significant Accounting Policies**

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 six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

**Property, Plant and Equipment**

2. Property, plant and equipment at June 30, 2012 and December 31, 2011 consists of the following:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Land	\$ 2,458	\$ 2,458
Buildings and improvements	10,265	10,172
Machinery and equipment	84,219	83,158
Office furniture, fixtures and equipment	8,132	7,884
Automotive equipment	311	282
Construction in progress	14,134	2,504
	119,519	106,458
Less accumulated depreciation	(71,070)	(67,185)
	<b>\$ 48,449</b>	<b>\$ 39,273</b>

**Inventories**

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>June 30, 2012</b>	<b>December 31, 2011</b>
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Finished products	\$ 70,092	\$ 61,023
Raw materials	9,830	10,045
	\$ 79,922	\$ 71,068

Inventories

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 June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Net sales:				
Insecticides	\$ 45,432	\$ 34,362	\$ 101,266	\$ 73,309
Herbicides	13,656	19,263	33,332	33,545
Other	16,204	19,627	20,583	23,968
	75,292	73,252	155,181	130,822
Non-crop	9,545	6,810	16,911	15,273
	\$ 84,837	\$ 80,062	\$ 172,092	\$ 146,095

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	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Net Sales:				
Domestic	\$ 65,792	\$ 63,899	\$ 135,335	\$ 121,832
Export	19,045	16,163	36,757	24,263
	\$ 84,837	\$ 80,062	\$ 172,092	\$ 146,095

**Cash Dividends**

5. On March 8, 2012, the Board of Directors declared a cash dividend of \$0.05 per share. The dividend was distributed on April 16, 2012 to stockholders of record at the close of business on April 1, 2012. Cash dividends paid in April 16, 2012 amounted to \$1,380.

On March 10, 2011, the Board of Directors declared a cash dividend of \$0.03 per share. The dividend was distributed on April 15, 2011 to stockholders of record at the close of business on April 1, 2011. Cash dividends paid April 12, 2011 totaled \$848.

**Earnings Per Share**

6. Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 260 *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 June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Numerator:				
Net income	\$ 8,744	\$ 6,007	\$ 17,478	\$ 11,019
Denominator:				
Weighted averages shares outstanding	27,858	27,548	27,740	27,538
Assumed exercise of stock options	879	290	804	275
	28,737	27,838	28,544	27,813

**Indebtedness**

7. Substantially all of the Company's assets are pledged as collateral with its banks.

The Company has various loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet at June 30, 2012 and December 31, 2011. These are summarized in the following table:

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Indebtedness \$000 s	June 30, 2012			December 31, 2011		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Term loan	\$ 41,000	\$ 9,000	\$ 50,000	\$ 46,000	\$ 8,000	\$ 54,000
Notes payable on product acquisitions and asset purchase	27	6,051	6,078	5,917	6,460	12,377
<b>Total indebtedness</b>	<b>\$ 41,027</b>	<b>\$ 15,051</b>	<b>\$ 56,078</b>	<b>\$ 51,917</b>	<b>\$ 14,460</b>	<b>\$ 66,377</b>

On January 10, 2011, the Company entered into a new \$137,000 senior secured credit facility with a syndicate of banks led by Bank of the West. The facility consists of a revolving commitment of \$75,000, and an initial term commitment of \$62,000. Both the revolving line of credit and the term loan mature on January 10, 2016. The facility replaces the Company's previous \$135,000 facility, which the Company has retired through borrowing from the new facility. As part of concluding this new credit agreement, the real estate loan was repaid in full. Finally, in January 2011, the Company took a one-time non-cash charge in the amount of \$546 related to extinguishment of the term loan.

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On March 31, 2011, as required under the terms of the amended and restated credit agreement, the Company entered into a fixed interest rate swap with an amortizing notional covering 75% or \$45,000 of term loan debt. The termination date for the interest rate swap is December 14, 2014. The interest rate swap has been designated and qualifies as a cash flow hedge. The effective portion of the gains or losses on the interest rate swap will be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

At June 30, 2012, the Company had in place one interest rate swap contract with a notional amount of \$42,375 or 84.75% of the outstanding term debt, that is accounted for under FASB ASC 815 as a cash flow hedge. The effective portion of the gains or losses on the interest rate swap is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Amounts in other comprehensive income expected to be reclassified to earnings in the coming 12 months are \$(671). Amounts recorded in earnings for hedge ineffectiveness for the period ending June 2012 were immaterial.

During 2011, the Company entered into two Euro exchange forward contract in the amounts of €4,500 each for Euro-denominated liabilities that are to be settled in January 2012 and January 2013. These transactions are accounted for in accordance with the ASC 815, as non-designated hedges. The fair value is being recorded in the Balance Sheet, with the change in value recorded in earnings, and generally offset by the gains and losses associated with the underlying foreign-currency-denominated balances, which are also reported in earnings.

The following tables illustrate the impact of derivatives on the Company's income statement for the three months and six months ended June 30, 2012.

**The Effect of Derivative Instruments on the Statement of Financial Performance****For the Period Ended June 30****For the three months ended June 30**

Derivatives in ASC 815	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2012	2011		2012	2011		2012	2011
Cash Flow								
Hedging Relationships								
Interest rate contracts	\$ (159)	\$ (891)	Interest Expense	\$ (183)	\$ (190)	Interest Expense	\$	\$
Foreign Exchange contracts			Cost of Sales					
Total	\$ (159)	\$ (891)		\$ (183)	\$ (190)		\$	\$

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2012	2011
Foreign Exchange contracts	Other income/(expense)	\$ (337)	\$
Total		\$ (337)	\$

**For the six months ended June 30**

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Derivatives in ASC 815 Cash Flow	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2012	2011		2012	2011		2012	2011
Interest rate contracts	\$ (322)	\$ (1,154)	Interest Expense	\$ (368)	\$ (207)	Interest Expense	\$ (1)	\$
Foreign Exchange contracts			Cost of Sales					
<b>Total</b>	<b>\$ (322)</b>	<b>\$ (1,154)</b>		<b>\$ (368)</b>	<b>\$ (207)</b>		<b>\$ (1)</b>	<b>\$</b>

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Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2012	2011
Foreign Exchange contracts	Other income/(expense)	\$ (192)	\$
Total		\$ (192)	\$

The Company has four key covenants to its senior, secured credit facility with its banking syndicate. The covenants are as follows: (1) the Company must maintain its borrowings below a certain consolidated funded debt ratio, (2) the Company has a limitation on its annual spending on the acquisition of fixed asset capital additions, (3) the Company must maintain a certain consolidated fixed charge coverage ratio, and (4) the Company must maintain a certain modified current ratio which compares the on hand value of receivables plus inventory with the level of its working capital revolver debt. As of June 30, 2012 the Company met all covenants in that credit facility.

At June 30, 2012, based on its performance against the most restrictive covenants listed above, the Company had the capacity to increase its borrowings by up to \$75,000 under the credit facility agreement.

On July 3, 2012, the Company entered into Amendment No. 1 to its senior credit facility agreement, which provides the Company permission to make investments in foreign subsidiaries in an aggregate amount not to exceed \$2,000.

**Reclassification**

8. Reclassification certain items may have been reclassified (if appropriate), in the prior period consolidated financial statements to conform to the most recent financial statements presented.

**Comprehensive Income**

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.

**Stock Based Compensation Expense**

10. Stock Based Compensation Expense The Company accounts for stock-based awards to employees and directors in accordance with FASB ASC 718, *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including shares of common stock granted for services, employee stock options, and employee stock purchases related to the Employee Stock Purchase Plan ( employee stock purchases ) based on estimated fair values.

Stock Options During the six months ended June 30, 2012, the Company did not grant any employees options to acquire shares of common stock.

Option activity within each plan is as follows:

Incentive Stock Option	Weighted Average Price Per	Exercisable Weighted
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	Plans	Share	Average Price Per Share
Balance outstanding, December 31, 2011	1,388,514	\$ 7.44	\$ 7.26
Options granted			
Options exercised, range from \$7.50-\$14.74	(35,340)	13.37	
Options expired or forfeited			
Balance outstanding, March 31, 2012	1,353,174	\$ 7.28	\$ 6.95
Options granted			
Options exercised, range from \$7.50-\$14.74	(64,712)	13.77	
Options expired or forfeited	(14,000)	7.50	
Balance outstanding, June 30, 2012	1,274,462	\$ 6.94	\$ 6.27

Information relating to stock options at June 30, 2012 summarized by exercise price is as follows:

Exercise Price Per Share	Outstanding Weighted Average Remaining			Exercisable Weighted Average	
	Shares	Life (Months)	Exercise Price	Shares	Exercise Price
Incentive Stock Option Plan:					
\$3.67	450,000	6	\$ 3.67	450,000	\$ 3.67
\$7.50	678,666	101	\$ 7.50	69,667	\$ 7.50
\$11.32 \$14.99	145,796	20	\$ 14.41	129,129	\$ 14.75
	1,274,462		\$ 6.94	648,796	\$ 6.27

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The weighted average exercise prices for options granted and exercisable and the weighted average remaining contractual life for options outstanding as of June 30, 2012 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Months)	Intrinsic Value (thousands)
<i>As of June 30, 2012:</i>				
Incentive Stock Option Plans:				
Outstanding	1,274,462	\$ 6.94	58	\$ 25,044
Expected to Vest	1,263,083	\$ 6.93	58	\$ 24,829
Exercisable	648,796	\$ 6.27	17	\$ 13,183

During the six months ended June 30, 2012 and 2011, the Company recognized stock-based compensation expense, excluding expense related to modifications, related to stock options of \$432 and \$438, respectively.

As of June 30, 2012, the Company had approximately \$1,346 of unamortized stock-based compensation expenses related to unvested stock options outstanding. This amount will be recognized over the weighted-average period of 1.5 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.

Restricted Shares A status summary of non-vested shares as of and for the six months ended June 30, 2012 is presented below:

	Number of Shares	Weighted Average Grant- Date Fair Value
Nonvested shares at December 31, 2011	101,640	\$ 11.37
Granted	207,184	\$ 20.45
Vested	(82,640)	\$ 11.73
Forfeited		
Nonvested shares at March 31, 2012	226,184	\$ 19.55
Granted		
Vested		
Forfeited	(1,367)	\$ 20.47
Nonvested shares at June 30, 2012	224,817	\$ 19.55

Restricted stock grants During the six months ended June 30, 2012, the Company granted a total of 207,184 of common stock. The shares will cliff vest after three years of service. The shares granted in 2012 were average fair valued at \$20.45 per share. The fair value was determined by using the publicly traded share price as of the date of grant. The Company is recognizing as expense the value of restricted shares over the required service period of three years. During the six months ended June 30, 2012, there were 82,640 restricted shares that vested, which had an average grant-date value of \$11.73 per share and an average vest-date value of \$17.58 per share. During the six months ended June 30, 2012, there were 1,367 restricted shares that were forfeited, which had an average grant date value of \$20.47 per share.

During the six months ended June 30, 2011, no restricted shares were granted. There were 3,886 restricted shares of common stock that were forfeited during the six months ended June 30, 2011. These shares were not vested when terminated.

During the six months ended June 30, 2012 and 2011, the Company recognized stock-based compensation expense related to restricted shares of \$599 and \$626, respectively.



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As of June 30, 2012, the Company had approximately \$3,937 of unamortized stock-based compensation expenses related to unvested restricted shares. This amount will be recognized over the weighted-average period of 2.7 years. This projected expense will change if any restricted shares are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

## **Legal Proceedings**

11. Legal Proceedings Summarized below are litigation matters in which there has been material activity or developments during the three month period ended June 30, 2012.

### **A. PCNB Matters**

In August 2010, the USEPA issued a Stop Sale, Use and Removal Order ( SSURO ) relating to the Company s USEPA-registered pentachloronitrobenzene ( PCNB ) product line. The Company sells PCNB primarily for use on turf with the bulk of sales occurring in September and October. In issuing the SSURO, the USEPA alleged that the Company s product did not comply with the confidential statement of formula ( CSF ) due to the presence of trace impurities that were not listed on the CSF. Following the issuance of the SSURO, the Company brought an action against USEPA in the United States District Court for the District of Columbia seeking injunctive relief. On August 17, 2011, the Chief Justice of that court granted the Company s motion for summary judgment and vacated the SSURO on the ground that the signatory of the SSURO lacked the requisite authority to sign the order. Following the court s action, the Company continued working with USEPA both to revise the CSF and to consolidate product labels. On November 23, 2011, the USEPA approved registrations for the PCNB product line for all major commercial uses (including golf course, turf, certain potato uses, cotton, ornamental bulb and cole crops). Since that time, the Company has been negotiating with the agency on expanding the label to include certain minor uses and as to the proper labeling and disposition of some existing stocks. As of June 30, 2012, the Company held PCNB inventories in the amount of \$20,036 and associated intangible assets of \$4,943. At this point the Company cannot conclude that a loss relating to either inventory or intangible value is probable or reasonably estimable.

### **B. DBCP Cases**

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, Shell Oil Company and AMVAC and was approved by the USEPA to control nematodes. DBCP was also applied on banana farms in Latin America. The USEPA suspended registrations of DBCP in October 1979, except for use on pineapples in Hawaii. The USEPA 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. There are approximately 100 lawsuits, foreign and domestic, filed by former banana workers in which AMVAC has been named as a party. Fifteen of these suits have been filed in the United States (with prayers for unspecified damages) and the remainder has been filed in Nicaragua. All of these actions are in various stages and allege injury from exposure to DBCP, including claims for sterility.

### **California Matter**

On August 8, 2011, an action captioned *Macasa v. The Dole Food Company, Inc. et al.*, was filed with the Superior Court for the State of California for the County of Los Angeles (No. BC 467134) on behalf of 2,444 individual plaintiffs from the Philippines against several defendants, including, among others, The Dole Food Company, Del Monte Foods, Inc., Shell Chemical Company, the Dow Chemical Company and AMVAC. Plaintiffs, all of whom worked on banana plantations in the Philippines, have alleged physical injury (namely, sterility) arising from alleged exposure to DBCP for an indeterminate period of time commencing in the 1970 s. AMVAC answered the complaint on October 3, 2011. On February 9, 2012, plaintiffs filed a first amended complaint increasing the number of claimants to 2,939 and stating, among other things, that plaintiffs had alleged identical claims against defendants in 1998. Defendants believe that all claims are barred by the applicable statutes of limitation. Following the filing of a demurrer by defendants in the action and in light of the fact that, among other things, Amvac had not been served with a complaint until more than two years after the expiration of applicable statutes of limitation, on June 22, 2012, plaintiff dismissed Amvac from the action with prejudice.

### **Delaware Matters**

On or about July 21, 2011, an action captioned, *Blanco v. AMVAC Chemical Corporation et al.*, was filed with the Superior Court of the State of Delaware in and for New Castle County (No. N11C-07-149 JOH) on behalf of an individual plaintiff residing in Costa Rica against several defendants, including, among others, AMVAC, The Dow Chemical Company, Occidental Chemical Corporation, and Dole Food Company. In the action, plaintiff claims personal injury (sterility) arising from the alleged exposure to DBCP between 1979 and 1980 while working as a

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contract laborer in a banana plantation in Costa Rica. Defendant Dow has filed a motion to dismiss the action as being barred under the applicable statute of limitations, as this same plaintiff filed the same claim in Florida 1995 and subsequently withdrew the matter. Plaintiff

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contends that the statute of limitations was tolled by a prior motion for class certification, which was denied. AMVAC also contends that the plaintiff could not have been exposed to any AMVAC supplied DBCP in Costa Rica. On May 31, 2012, the court informed defendants of its intention to deny the motion to dismiss based upon applicable statutes of limitation. Accordingly, AMVAC intends to defend the matter vigorously. The Company does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency for the matter.

On or about May 31, 2012 (the day on which the *Blanco* court determined to deny defendants' motion to dismiss), the Hendler law firm, which represents plaintiffs in seven related matters currently pending before the United States District Court for the Eastern District of Louisiana (the Hendler-Louisiana Cases referred to in the Company's Form 10-K for the period ended December 31, 2011 as *Aguilar et al., v. Dole Fruit Company, Inc., et al* (U.S.D.C., E.D. of LA No. CV-01305-CJB-SS)), filed nine separate actions, eight with the United States District Court for the District of Delaware (the Hendler Delaware Cases (USDC< DE No. 1:12-CV-00696-RGA)) and one with the Superior Court of the State of Delaware (which, for purposes of this filing shall be referred to as *Chaverri et al. v. Dole Food Company, Inc. et al.*, case no. N12C-06-017-JOH). Amvac received these complaints by mail on or about July 21, 2012. Six of the eight Hendler Delaware cases and *Chaverri* involve claims for personal injury allegedly arising from exposure to DBCP on behalf of 235 banana workers from Costa Rica, Ecuador and Panama. Dole has brought a motion to dismiss these seven matters under the first-to-file theory of jurisdiction, specifically in light of the fact that they involve identical claims and claimants as those appearing in the Hendler Louisiana cases, (where a motion for summary judgment is currently pending seeking dismissal based upon the applicable statutes of limitation), that plaintiffs' counsel has informed the Louisiana court that it was filing the actions in Delaware in case it obtained an unfavorable ruling in Louisiana, and that this is a clear case of forum shopping. The Company has joined in Dole's motion to dismiss and, with respect to the subject matters, at this stage of the proceedings does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency.

Two of the eight Hendler-Delaware Cases (namely, *Abad-Castillo* and *Marquez*) are unrelated to the Hendler-Louisiana Cases and, involve claims for physical injury arising from alleged exposure to DBCP over the course of the late 1960's through the mid-1980's on behalf of 2,700 banana plantation workers from Costa Rica, Ecuador, Guatemala and Panama. Defendants are investigating possible defenses to *Abad-Castillo* and *Marquez*, including whether any of the claimants had appeared in prior actions that may have been settled or dismissed, what statutes of limitation may apply, and whether claimants used any of defendants' products. Amvac intends to defend these matters vigorously. No discovery has commenced in any of these matters, and it is too early to predict whether a loss is either probable or reasonably estimable; accordingly, the company has not set up a loss contingency for these two matters.

## Recently Issued Accounting Guidance

12. Recently Issued Accounting Guidance In December 2011, FASB issued ASU No. 2011-11, *Balance Sheet*. In response to the requests from financial users for comparability on the differences that resulted in offsetting assets and liabilities under U.S. generally accepted accounting principles (U.S. GAAP) requirements versus International Financial Reporting Standards (IFRS) requirements, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board, (IASB) jointly issued this update to enhance current disclosures. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. AVD is evaluating the effect of this guidance but does not expect it to have a significant impact on its financial statements.

## Fair Value of Financial Instruments

13. 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.



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The Company's cash flow hedge related to a variable debt instrument and outstanding foreign currency derivatives used to hedge foreign currency balances are measured at fair value on a recurring basis, and the balances as of June 30, 2012 and December 31, 2011 (which are included in other assets, net and accrued and other liabilities in the consolidated balance sheets) were as follows:

	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Level 3
<b>As of June 30, 2012:</b>			
Liability:			
Foreign currency derivative financial instrument	\$	\$ 429	\$
Interest rate derivative financial instruments (1)	\$	\$ 1,407	\$
<b>As of December 31, 2011:</b>			
Liability:			
Foreign currency derivative financial instrument	\$	\$ 399	\$
Interest rate derivative financial instruments (1)	\$	\$ 1,453	\$

(1) Includes accrued interest expense

The valuation techniques used to measure the fair value of the derivative financial instruments above in which the counterparties have high credit ratings, were derived from pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data. The Company's discounted cash flow techniques use observable market inputs, such as LIBOR-based yield curves and foreign currency forward rates.

**Subsequent Event**

14. Subsequent Event On July 6, 2012, the Company filed Form 8-K, announcing the formation of AMVAC Netherlands BV, a Netherlands-based entity that will serve as the principal operating unit in that region and will be tasked with responsibility for managing sales, marketing, finance, regulatory and supply chain matters relating to the Company's ex-US sales. In addition, the Company has formed AMVAC CV, a Netherlands-based entity which will serve in large part as a holding company for AMVAC Netherlands BV. Also filed in Form 8-K, the Company announced that it had hired Ad de Jong to serve as Managing Director of AMVAC Netherlands BV.



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(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 1A., Risk factors and Item 7A., Quantitative and Qualitative Disclosures about Market Risk, in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**RESULTS OF OPERATIONS****Quarter Ended June 30, 2012**

	2012	2011	Change
Net sales:			
Insecticides	\$ 45,432	\$ 34,362	\$ 11,070
Herbicides	13,656	19,263	(5,607)
Other	16,204	19,627	(3,423)
Total Crop	75,292	73,252	2,040
Non-crop	9,545	6,810	2,735
	\$ 84,837	\$ 80,062	\$ 4,775
Gross profit:			
Crop	\$ 33,562	\$ 29,075	\$ 4,487
Non-crop	4,784	2,606	2,178
	\$ 38,346	\$ 31,681	\$ 6,665

Overall financial performance including net sales and net income for the quarter ended June 30, 2012 showed improvement as compared to the same period in 2011. Our net sales for the period were up approximately 6% to \$84,837 compared to \$80,062 for the second quarter of 2011. Further, net income was up approximately 46% to \$8,744 as compared to \$6,007 for the same period in 2011. Net sales for our crop business were up by approximately 3%, while net sales for non-crop products were up by about 40% for the comparable period. A more detailed discussion of general market conditions and sales performance by category of products appears below.

While overall financial performance for the second quarter was improved, particularly with respect to net income, sales performance by category of product was mixed. Demand for insecticides continued to be strong, due in part to increased peanut acres, healthy demand in sugar cane, and replenishment of channel inventory within the cotton sector ahead of the main usage season. While areas of the Midwest and Southwest experienced persistent drought conditions, demand for many of our pre-plant products were relatively unaffected. Further, a renewed interest in following a program of integrated pest management and, in particular, our yield enhancement solutions ( "YES" ) program, increased demand for conventional chemical solutions, such as our granular soil insecticides, despite challenging weather conditions.

Net sales of our insecticides as a group were up about 32% (\$45,432 as compared to \$34,362) during the second quarter of 2012. Within this segment, net sales of our granular soil insecticides ( "GSI" ) as a group were up approximately 14% over that of the comparable quarter in 2011, led by Thimet (which benefited from increased peanut acres as well as continued strong demand in sugar cane), Nemacur (which continues to

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penetrate international markets) and Aztec (for which a greater supply of goods were available during this period). Net sales of Counter (for which we experienced earlier-than-usual demand in 2012) and Mocap (which was in short supply), dropped below that of the comparable quarter in 2011 and offset the increases within this category of products. Our non-GSI insecticides experienced very strong growth during the second quarter (about 80%) led by our cotton product Bidrin (which drew support from our retail customers wanting to replenish their stocks ahead of the main usage season).

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Within the group of herbicides/fungicides/fumigants, net sales for the second quarter of 2012 dropped by approximately 29% to \$13,656 from \$19,263 in the comparable period of 2011. Net sales of our herbicide products were down by about half quarter-over-quarter, due primarily to the fact that we had largely sold out of our inventory of our post-emergent corn herbicide, Impact, in the prior two quarters. Partially offsetting this drop, we experienced an increase in net sales of about 39% for our general purpose herbicide Dacthal®, due to low channel inventories driving customers to re-stock in preparation for the later summer/early fall market and an increase of about 12% in net sales of our soil fumigants during the period.

Within the group of other products (which includes plant growth regulators, molluscicides and tolling activity), our net sales dropped by about 17% as compared to those in the second quarter of 2011. This decrease was due largely to a decline in sales of our cotton harvest aid, Folex, for which our supply was limited during the period; the company is close to completing construction of a standalone production unit for this compound, which will enable us to address customer demand in the second half of the year.

Our non-crop sales ended the second quarter of 2012 at \$9,545 as compared to \$6,810 for the same period of the prior year. This increase was due largely to sales of our mosquito adulticide Dibrom®, which rose in light of wet conditions in both the Mid-Atlantic and Southeast regions.

Cost of sales for the quarter ended June 30, 2012, was \$46,491 or about 55% of net sales compared to \$48,381 or about 60% of net sales for the same period of 2011. Consequently, gross margins for the quarter were up to 45% of net sales from 40% of net sales for the comparable 2011 period. This improvement was partly due to increased prices of our insecticide product lines in the face of heavy demand for our higher margin products.

It should be noted that, when making comparisons with other companies' financial statements, the Company reports distribution costs in operating expenses and not as part of cost of sales.

Operating expenses increased by \$3,106 to \$24,104 for the three months ended June 30, 2012 as compared to the same period in 2011. The differences in operating expenses by department are as follows:

	2012	2011	Change
Selling	\$ 6,401	\$ 6,271	\$ 130
General and administrative	7,776	6,094	1,682
Research, product development and regulatory	4,967	4,628	339
Freight, delivery and warehousing	4,960	4,005	955
	\$ 24,104	\$ 20,998	\$ 3,106

Selling expenses increased by approximately 2% over the comparable quarter. The main driver for increased overall expenses was field stewardship activities.

General and administrative expenses increased by about 28% quarter over quarter, the main drivers for the increase are primarily related to increased incentive compensation as a result of significantly stronger financial performance and additional legal costs relating to prosecution of data compensation matters.

Research, product development costs and regulatory expenses increased by about 7% over the comparable three month period, this was mainly due to increased labor costs related to studies on our new and existing products that are offset by slightly lower external regulatory costs.

Freight, delivery and warehousing costs increased by about 24%, this change is driven primarily by volume overall and by export sales which were up 18% as compared to the same quarter prior year. We continue to focus on managing logistics expenses throughout our supply chain. As a percentage of sales, freight ended at 5.8% of sales for the three months ended June 30, 2012 as

compare to 5.0% for the same period of the prior year.

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Interest costs net of capitalized interest, were \$609 in the three months to June 30, 2012 as compared to \$962 in the same period of 2011. Interest costs are summarized in the following table:

**Average Indebtedness and Interest expense**

	Average Debt	Q2 2012 Interest Expense	Interest Rate	Average Debt	Q2 2011 Interest Expense	Interest Rate
Term loan	\$ 51,956	\$ 477	3.7%	\$ 59,978	\$ 526	3.5%
Working capital revolver				7,313	81	4.3%
<b>Average</b>	<b>51,956</b>	<b>477</b>	<b>3.7%</b>	<b>67,291</b>	<b>607</b>	<b>3.6%</b>
Other notes payable	6,223	54	12.8%	12,970	108	3.6%
Interest income					(2)	
Capitalized interest		(112)			(16)	
Amortization of deferred loan fees		32			32	
Amortization of other deferred liabilities		143			227	
Other interest expense		15			6	
<b>Adjusted average indebtedness</b>	<b>\$ 58,179</b>	<b>\$ 609</b>	<b>4.2%</b>	<b>\$ 80,261</b>	<b>\$ 962</b>	<b>4.8%</b>

The Company's average overall debt for the three months ended June 30, 2012 was \$58,179 as compared to \$80,261 for the three months ended June 30, 2011. During the quarter we continued to operate without utilizing the revolving line of credit, as a result of our continued strong focus on working capital. Furthermore, during the three months to June 30, 2012, we incurred non-cash costs related to amortization of discounting of deferred payments and other interest expense in the amount of \$132 as compared to \$353 for the same period of the prior year. As can be seen from the table above, the effective rate on our bank borrowings was 3.7% for the period to June 30, 2012 as compared to 3.6% for the same period of the prior year. Our overall effective interest rate was 4.2% for the three months ended June 30, 2012 as compared to 4.8% at June 30, 2011.

Income tax expense has increased by \$1,175 to end at \$4,889 for the three months ended June 30, 2012 as compared to \$3,714 for the comparable period in 2011. The effective tax rate for the quarter was 35.86% as compared to 38.21% in the same period of the prior year. The reduction in the rate is primarily driven by the US domestic production and higher foreign income.

Our overall net income for the three months ended June 30, 2012 was \$8,744 or \$0.30 per share (diluted) as compared to \$6,007 or \$0.22 per share (basic and diluted) in the same quarter of 2011.

**Six Months Ended June 30**

	2012	2011	Change
Net sales:			
Insecticides	\$ 101,266	\$ 73,309	\$ 27,957
Herbicides	33,332	33,545	(213)
Other	20,583	23,968	(3,385)
<b>Total Crop</b>	<b>155,181</b>	<b>130,822</b>	<b>24,359</b>
Non-crop	16,911	15,273	1,638
	<b>\$ 172,092</b>	<b>\$ 146,095</b>	<b>\$ 25,997</b>

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Gross profit:			
Crop	\$ 67,565	\$ 52,197	\$ 15,368
Non-crop	8,159	6,395	1,764
	\$ 75,724	\$ 58,592	\$ 17,132

Overall financial performance including net sales and net income for the six month period ended June 30, 2012 showed considerable improvement as compared to the same period in 2011. Net sales for the period were up approximately 18% to \$172,092 compared to \$146,095 for the first half of 2011. Further, net income was up approximately 59% to \$17,478 as compared to \$11,019 for the same period in 2011. Net sales for our crop business were up by approximately 19%, while net sales for non-crop products were up by about 11% for the comparable period. A more detailed discussion of general market conditions and sales performance by category of products appears below.

Over the course of the first half of 2012, the Company experienced very favorable conditions in many of its markets, particularly in the crop sector. Mild winter conditions across the continental United States expanded the growing season and permitted growers to prepare and plant their crops early. In many crops, especially corn, growers had experienced strong market

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conditions in 2011 and were financially prepared to invest in their 2012 crops. Consequently, the Company saw early demand for many of its crop-related products, including granular insecticides and herbicides. Toward the second half of the period, weather conditions deteriorated in certain growing regions of the Midwest and Southeast in the form of a persistent drought. However, these conditions did not affect the pre-plant products sold by the Company. Further, growers have continued to embrace the importance of conventional chemistry solutions for yield enhancement and in integrated pest management.

Net sales of our insecticides as a group were up about 38% (\$101,266 as compared to \$73,309) during the first half of 2012. Within this segment, net sales of our granular soil insecticides ( GSIs ) as a group were up approximately 43% over that of the comparable period in 2011. Most of our GSI brands contributed to this increase, including our premier corn soil insecticide Aztec (with net sales double that of the prior period), Counter (which continues to gain acceptance for use in nematode control in corn and for sugar beets), Thimet (which benefited from increased peanut acres as well as continued strong demand in sugar cane), SmartChoice (which offers growers an excellent value proposition) and Force 3G (which experienced a jump in net sales as more supply was available). Net sales of our non-GSI insecticides experienced healthy growth during the first half of 2012, (about 19% over the comparable period) led by our cotton foliar insecticide Bidrin (which drew support from our retail customers wanting to replenish their stocks ahead of season.)

Within the group of herbicides/fungicides/fumigants, net sales for the second quarter of 2012 were essentially flat compared to the first half of 2011. Net sales of our herbicide products were down by about 25% during this period primarily because we had largely sold out of our inventory of our post-emergent corn herbicide, Impact, in response to early demand starting in the fourth quarter of 2011 and were without further supply in the second quarter. Partially offsetting this drop, we experienced an increase in net sales of about 39% for our general purpose herbicide Dacthal® as retailers refilled the channel inventory. In addition, we experienced solid demand and firmer pricing for our soil fumigants for the first half of the 2012 year, recording an increase in net sales of approximately 25% as compared to the prior period.

Within the group of other products (which includes plant growth regulators, molluscicides and tolling activity), our net sales dropped by about 14% as compared to those in the first half of 2011. This decrease was due largely to an approximately 39% decline in sales of our cotton harvest aid, Folex, for which our supply was limited during the period; the company is close to completing construction of a standalone production unit for this compound, which will enable us to address customer demand in the second half of the year.

Our non-crop sales for the first half of 2012 were \$16,911 as compared to \$15,273 for the same period of the prior year; this represents an increase of about 11%. Sales of our mosquito adulticide Dibrom®, were up, due in part to storm conditions in both the Mid-Atlantic and Southeast regions.

Cost of sales for the six month period ended June 30, 2012, was \$96,368 or about 56% of net sales compared to \$87,503 or about 60% of net sales for the same period of 2011. Accordingly, gross margins for the quarter were up to 44% of net sales from 40% of net sales for the comparable period in 2011 period. This improvement was due, for the most part, to price increases in our insecticide product lines in the face of heavy demand at the start of planting season and specific mix of sales including many of the company's strongest brands.

It should be noted that, when making comparisons with other companies' financial statements, the Company reports distribution costs in operating expenses and not as part of cost of sales.

Operating expenses increased by \$8,358 to \$47,080 for the six months ended June 30, 2012 as compared to the same period in 2011. The differences in operating expenses by department are as follows:

	2012	2011	Change
Selling	\$ 12,115	\$ 11,167	\$ 948
General and administrative	13,828	12,046	1,782
Research, product development and regulatory	10,472	7,640	2,832
Freight, delivery and warehousing	10,665	7,869	2,796
	\$ 47,080	\$ 38,722	\$ 8,358

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Selling expenses for the period increased by about 8% over the comparable period, the change arose primarily from increased advertising as we drive our brands at the start of the growing season and increased field sales stewardship expenses in response to customer demand.

General and administrative expenses increased by about 15% over the same period of 2011. The main drivers for the increased costs were related to increased incentive compensation as a result of better financial performance and increase in legal fees relating to the prosecution of data compensation matters offset by a settlement related to a legal dispute in the first quarter of the year.



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Research, product development costs and regulatory expenses increased by about 37% when compared to the same period of 2011. This is mainly due to increased studies on our new and existing products.

Freight, delivery and warehousing costs for the six months ended June 30, 2012 were \$10,665 or 6.2% of sales as compared to \$7,869 or 5.3% of sales for the same period in 2011. This reflects sales which were up 18% including an increase in export sales that were up 51% as compared to the same period of the prior year. We continue to focus on managing logistics expenses throughout our supply chain.

Interest costs net of capitalized interest, were \$1,308 in the six months of 2012 as compared to \$1,711 in the same period of 2011. Interest costs are summarized in the following table:

**Average Indebtedness and Interest expense**

	Six months ended June 30, 2012			Six months ended June 30, 2011		
	Average Debt	Interest Expense	Interest Rate	Average Debt	Interest Expense	Interest Rate
Term loan	\$ 52,956	\$ 973	3.7%	\$ 59,757	\$ 955	3.2%
Real estate				108	1	
Working capital revolver				3,907	76	3.8%
Average	52,956	973	3.7%	63,772	1,032	3.2%
Other notes payable	6,453	110	3.4%	13,070	213	3.5%
Interest income					(3)	
Capitalized interest		(148)			(58)	
Amortization of deferred loan fees		64			64	
Amortization of other deferred liabilities		284			448	
Other interest expense		25			15	
Adjusted average indebtedness	\$ 59,409	\$ 1,308	4.4%	\$ 76,842	\$ 1,711	4.5%

The Company's average overall debt for the six months ended June 30, 2012 was \$59,409 as compared to \$76,842 for the same period of 2011. During the period we continued to operate without accessing the working capital revolving credit line. The Company now achieved twelve months without revolving debt. This is driven by continued focus on key working capital elements including receivables, inventory, programs, and payables. Furthermore, during the six months to June 30, 2012, we incurred non-cash costs related to amortization of discounting of deferred payments and other interest expense in the amount of \$335 as compared to \$679 for the same period of the prior year. As can be seen from the table above, the effective rate on our bank borrowings was 3.7% for the period to June 30, 2012 as compared to 3.2% for the same period of the prior year. This increase reflects the impact of putting in place the swap derivative, required as part of the credit facility agreement. This swap was in place for a partial period in 2011. Our overall effective interest rate was 4.4% for the six months ended June 30, 2012 as compared to 4.5% in the same period of 2011.

Income tax expense has increased by \$3,264 to end at \$9,858 for the six months ended June 30, 2012 as compared to \$6,594 for the comparable period in 2011. The effective tax rate for the six months is 36.06% as compared to 37.44% in the same period of the prior year. The reduction in the rate is primarily driven by the US domestic production and higher foreign income.

Our overall net income for the six months of 2012 was \$17,478 or \$0.61 per share (diluted) as compared to \$11,019 or \$0.40 per share (basic and diluted) in the same period of 2011.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company generated \$36,668 of cash in operating activities during the six months ended June 30, 2012. This compared to \$2,297 in the same period of last year. Net income of \$17,478, non-cash depreciation, amortization of intangibles, other assets and discounted future liabilities of \$9,016 and stock based compensation expense of \$871 provided a net cash inflow \$27,365 compared to \$21,705 for the same period last year.

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Accounts receivables ended at \$72,774 as compared to \$68,611 at the start of the year. This increase of \$3,862 is significantly lower than the increase of \$41,019 recorded during the same period of the prior year when accounts receivables ended at \$74,953. There are a couple of reasons for this difference. First, the Company experienced significant take up of cash discount programs in the final quarter of 2010 resulting in very low receivables at December 31, 2010. By contrast, there was a much lower level of customer participation in cash discount programs during the final quarter of 2011. Secondly, the timing of sales and receivables due dates occurred earlier in the current year than in the comparable period last year; this resulted in customer payments falling in the second quarter of this year as opposed to the third quarter of last year.

Inventories ended at \$79,922 which was an increase of \$8,854 as compared to the level reported at December 31, 2011. In the prior year, inventories amounted to \$80,620 at June 30, 2011 which was an increase of \$6,566 in comparison to the level reported at December 31, 2010. The Company continues to focus on managing this aspect of working capital at the same time as it increases sales; in fact, net sales for the first half of 2012 were up 18% and export sales were up 51% as compared to the same period prior year.

The deferred revenues at December 31, 2011 have been fully realized during the six months of the year. Finally, as the Company has built momentum for the 2012 growing season, prepaid expenses increased by \$2,555, accounts payable increased by \$668, and income tax payable increased by \$393.

The movement in other current liabilities of \$30,883 is predominantly driven by customer program accruals which increased during the first six months of 2012 as compared to the same period in 2011. The increase is primarily the result of expanded programs on certain product lines, increased sales of our corn products and finally the timing of program payments.

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The Company used \$13,061 in investing activities during the six months ended June 30, 2012. The business is spending primarily to expand manufacturing capacity in response to demand for certain core products including some additional manufacturing steps related to products acquired during the 2010 financial year. During the six months ended June 30, 2011, the Company spent \$2,322.

Financing activities used \$10,762 during the six months ended June 30, 2012, compared to providing \$8,483 in the same period of the prior year. This included normal amortization payments on our senior credit facility and deferred payments on notes related to product acquisition completed during the final three months of the 2010 financial year. The Company made dividend payments in the amount of \$1,380 as compared to \$826 in the same period of last year. Finally, the Company received \$1,285 from the exercise of stock options and the sale of common stock under its Employee Stock Purchase Plan as compared to \$550 for the same period last year.

The Company has various different loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet at June 30, 2012 and December 31, 2011. These are summarized in the following table:

Indebtedness \$000 s	June 30, 2012			December 31, 2011		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Term Loan	\$ 41,000	\$ 9,000	\$ 50,000	\$ 46,000	\$ 8,000	\$ 54,000
Notes payable on product acquisitions and asset purchase	27	6,051	6,078	5,917	6,460	12,377
<b>Total Indebtedness</b>	<b>\$ 41,027</b>	<b>\$ 15,051</b>	<b>\$ 56,078</b>	<b>\$ 51,917</b>	<b>\$ 14,460</b>	<b>\$ 66,377</b>

On January 10, 2011, the Company entered into a new \$137,000 senior secured credit facility with a syndicate of banks led by Bank of the West. The facility consists of a revolving commitment of \$75,000, and an initial term commitment of \$62,000. Both the revolving line of credit and the term loan mature on January 10, 2016. The facility replaces the Company's previous \$135,000 facility, which the Company has retired through borrowing from the new facility. As part of concluding this new credit agreement, the real estate loan was repaid in full. Finally, in January 2011, the Company took a one-time non-cash charge in the amount of \$546 related to extinguishment of the term loan.

On March 31, 2011, as required under the terms of the amended and restated credit agreement, the Company entered into a fixed interest rate swap with an amortizing notional covering 75% or \$45,000 of term loan debt. The termination date for the interest rate swap is December 14, 2014. The interest rate swap has been designated and qualifies as a cash flow hedge. The effective portion of the gains or losses on the interest rate swap will be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Amounts in other comprehensive income expected to be reclassified to earnings in the coming 12 months are \$683. Amounts recorded in earnings for hedge ineffectiveness for the period ending June 30, 2011 were immaterial.

At June 30, 2012, the Company had in place one interest rate swap contract with a notional amount of \$43,275 or 84.75% of outstanding term debt, that is accounted for under FASB ASC 815 as a cash flow hedge. The effective portion of the gains or losses on the interest rate swap are reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Amounts in other comprehensive income expected to be reclassified to earnings in the coming 12 months are \$(671). Amounts recorded in earnings for hedge ineffectiveness for the period ending June 2012 were immaterial.

The Company has four key covenants under the New Credit Agreement (with which AMVAC is in compliance). The covenants are as follows: The Company must (1) maintain its borrowings below a certain consolidated funded debt ratio, (2) limit its annual spending on the acquisition of fixed asset capital additions, (3) maintain a certain consolidated fixed charge coverage ratio, and (4) maintain a certain modified current ratio.

At June 30, 2012, based on its performance against the most restrictive covenants listed above, the Company had the capacity to increase its borrowings by up to \$75,000 under the credit facility agreement.

On July 3, 2012, the Company entered into Amendment No. 1 to the credit facility agreement which provides that it may make investments in foreign subsidiaries in an amount not to exceed \$2,000 in the aggregate.

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***RECENTLY ISSUED ACCOUNTING GUIDANCE***

In December 2011, FASB issued ASU No. 2011-11, *Balance Sheet*. In response to the requests from financial users for comparability on the differences that resulted in offsetting assets and liabilities under U.S. generally accepted accounting principles (U.S. GAAP) requirements versus International Financial Reporting Standards (IFRS) requirements, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board, (IASB) jointly issued this update to enhance current disclosures. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. AVD is evaluating the effect of this guidance but does not expect it to have a significant impact on its financial statements.

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

The Company continually re-assesses the critical accounting policies used in preparing its financial statements for inclusion in the American Vanguard published financial statements. In the Company's statement 10-K for the financial year ended December 31, 2011, the Company provided a comprehensive statement of critical accounting policies. These policies have been reviewed in detail as part of the preparation work for this 10-Q statement. All the policies listed in the Company's Form 10-K for the year ended December 31, 2011 remain valid and is hereby incorporated by reference.

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**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, 2011. The Company uses derivative financial instruments for trading purposes to protect trading performance from exchange rate fluctuations on material contracts; also, as a condition of the Company's credit agreement with its banks, the Company is required to maintain in effect interest rate swap agreement(s) for a notional amount not less than one-half of the principal amount of its term loan.

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. The Company has mitigated and will continue to mitigate a portion of its currency exchange exposure through natural hedges based on the operation of decentralized foreign operating companies in which the majority of all costs are local-currency based. Furthermore, the Company has established a procedure for covering forward exchange rates on specific purchase orders when appropriate. 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***

As of June 30, 2012, the Company has established a comprehensive set of disclosure controls and procedures designed to ensure that all information required to be disclosed in our filings under the Securities Exchange Act (1934) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As at June 30, 2012, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the Company's disclosure controls and procedures are effective to provide reasonable assurance of the achievement of the objectives described above.

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 controls over financial reporting.

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**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.

Legal Proceedings Summarized below are litigation matters in which there has been material activity or developments during the three month period ended June 30, 2012.

**A. PCNB Matters**

In August 2010, the USEPA issued a Stop Sale, Use and Removal Order ( SSURO ) relating to the Company s USEPA-registered pentachloronitrobenzene ( PCNB ) product line. The Company sells PCNB primarily for use on turf with the bulk of sales occurring in September and October. In issuing the SSURO, the USEPA alleged that the Company s product did not comply with the confidential statement of formula ( CSF ) due to the presence of trace impurities that were not listed on the CSF. Following the issuance of the SSURO, the Company brought an action against USEPA in the United States District Court for the District of Columbia seeking injunctive relief. On August 17, 2011, the Chief Justice of that court granted the Company s motion for summary judgment and vacated the SSURO on the ground that the signatory of the SSURO lacked the requisite authority to sign the order. Following the court s action, the Company continued working with USEPA both to revise the CSF and to consolidate product labels. On November 23, 2011, the USEPA approved registrations for the PCNB product line for all major commercial uses (including golf course, turf, certain potato uses, cotton, ornamental bulb and cole crops). Since that time, the Company has been negotiating with the agency on expanding the label to include certain minor uses and as to the proper labeling and disposition of some existing stocks. As of June 30, 2012, the Company held PCNB inventories in the amount of \$20,036 and associated intangible assets of \$4,943. At this point the Company cannot conclude that a loss relating to either inventory or intangible value is probable or reasonably estimable.

**B. DBCP Cases**

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, Shell Oil Company and AMVAC and was approved by the USEPA to control nematodes. DBCP was also applied on banana farms in Latin America. The USEPA suspended registrations of DBCP in October 1979, except for use on pineapples in Hawaii. The USEPA 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. There are approximately 100 lawsuits, foreign and domestic, filed by former banana workers in which AMVAC has been named as a party. Fifteen of these suits have been filed in the United States (with prayers for unspecified damages) and the remainder has been filed in Nicaragua. All of these actions are in various stages and allege injury from exposure to DBCP, including claims for sterility.

**California Matter**

On August 8, 2011, an action captioned *Macasa v. The Dole Food Company, Inc. et al.*, was filed with the Superior Court for the State of California for the County of Los Angeles (No. BC 467134) on behalf of 2,444 individual plaintiffs from the Philippines against several defendants, including, among others, The Dole Food Company, Del Monte Foods, Inc., Shell Chemical Company, the Dow Chemical Company and AMVAC. Plaintiffs, all of whom worked on banana plantations in the Philippines, have alleged physical injury (namely, sterility) arising from alleged exposure to DBCP for an indeterminate period of time commencing in the 1970 s. AMVAC answered the complaint on October 3, 2011. On February 9, 2012, plaintiffs filed a first amended complaint increasing the number of claimants to 2,939 and stating, among other things, that plaintiffs had alleged identical claims against defendants in 1998. Defendants believe that all claims are barred by the applicable statutes of limitation. Following the filing of a demurrer by defendants in the action and in light of the fact that, among other things, Amvac had not been served with a complaint until more than two years after the expiration of applicable statutes of limitation, on June 22, 2012, plaintiff dismissed Amvac from the action with prejudice.

**Delaware Matters**

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On or about July 21, 2011, an action encaptioned, *Blanco v. AMVAC Chemical Corporation et al.*, was filed with the Superior Court of the State of Delaware in and for New Castle County (No. N11C-07-149 JOH) on behalf of an individual plaintiff residing in Costa Rica against several defendants, including, among others, AMVAC, The Dow Chemical Company, Occidental Chemical Corporation, and Dole Food Company. In the action, plaintiff claims personal injury (sterility) arising from the alleged exposure to DBCP between 1979 and 1980 while working as a contract laborer in a banana plantation in

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Costa Rica. Defendant Dow has filed a motion to dismiss the action as being barred under the applicable statute of limitations, as this same plaintiff filed the same claim in Florida 1995 and subsequently withdrew the matter. Plaintiff contends that the statute of limitations was tolled by a prior motion for class certification, which was denied. AMVAC also contends that the plaintiff could not have been exposed to any AMVAC supplied DBCP in Costa Rica. On May 31, 2012, the court informed defendants of its intention to deny the motion to dismiss based upon applicable statutes of limitation. Accordingly, AMVAC intends to defend the matter vigorously. The Company does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency for the matter.

On or about May 31, 2012 (the day on which the *Blanco* court determined to deny defendants' motion to dismiss), the Hendler law firm, which represents plaintiffs in seven related matters currently pending before the United States District Court for the Eastern District of Louisiana (the Hendler-Louisiana Cases referred to in the Company's Form 10-K for the period ended December 31, 2011 as *Aguilar et al., v. Dole Fruit Company, Inc., et al* (U.S.D.C., E.D. of LA No. CV-01305-CJB-SS)), filed nine separate actions, eight with the United States District Court for the District of Delaware (the Hendler Delaware Cases (USDC< DE No. 1:12-CV-00696-RGA)) and one with the Superior Court of the State of Delaware (which, for purposes of this filing shall be referred to as *Chaverri et al. v. Dole Food Company, Inc. et al.*, case no. N12C-06-017-JOH). Amvac received these complaints by mail on or about July 21, 2012. Six of the eight Hendler Delaware cases and *Chaverri* involve claims for personal injury allegedly arising from exposure to DBCP on behalf of 235 banana workers from Costa Rica, Ecuador and Panama. Dole has brought a motion to dismiss these seven matters under the first-to-file theory of jurisdiction, specifically in light of the fact that they involve identical claims and claimants as those appearing in the Hendler Louisiana cases, (where a motion for summary judgment is currently pending seeking dismissal based upon the applicable statutes of limitation), that plaintiffs' counsel has informed the Louisiana court that it was filing the actions in Delaware in case it obtained an unfavorable ruling in Louisiana, and that this is a clear case of forum shopping. The Company has joined in Dole's motion to dismiss and, with respect to the subject matters, at this stage of the proceedings does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency.

Two of the eight Hendler-Delaware Cases (namely, *Abad-Castillo* and *Marquinez*) are unrelated to the Hendler-Louisiana Cases and, involve claims for physical injury arising from alleged exposure to DBCP over the course of the late 1960's through the mid-1980's on behalf of 2,700 banana plantation workers from Costa Rica, Ecuador, Guatemala and Panama. Defendants are investigating possible defenses to *Abad-Castillo* and *Marquinez*, including whether any of the claimants had appeared in prior actions that may have been settled or dismissed, what statutes of limitation may apply, and whether claimants used any of defendants' products. Amvac intends to defend these matters vigorously. No discovery has commenced in any of these matters, and it is too early to predict whether a loss is either probable or reasonably estimable; accordingly, the company has not set up a loss contingency for these two matters.

**Item 1A. Risk Factors**

The Company continually re-assesses the business risks, and as part of that process detailed a range of risk factors in the disclosures in American Vanguard's Report on Form 10-K for the fiscal year ended December 31, 2011, filed on March 9, 2012. In preparing this document, we have reviewed all the risk factors included in that document and find that there are no material changes to those risk factors.



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**Item 6. Exhibits**

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

**Exhibit**

<b>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.
101	The following materials from American Vanguard Corp s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Cash Flows; (iv) Condensed Consolidated Statements of Shareholders Equity; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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**SIGNATURES**

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

AMERICAN VANGUARD CORPORATION

Dated: August 3, 2012

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

**Chief Executive Officer and Chairman of the Board**

Dated: August 3, 2012

BY: /s/ DAVID T. JOHNSON  
**David T. Johnson**

**Chief Financial Officer & Principal Accounting Officer**