

AMERICAN VANGUARD CORP  
Form 10-Q/A  
January 28, 2004  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

Commission file number 0-6354-

**AMERICAN VANGUARD CORPORATION**

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

95-2588080  
(I.R.S. Employer  
Identification Number)

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

92660  
(Zip Code)

(949) 260-1200

(Registrant's telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$.10 Par Value 5,827,644 shares as of May 12, 2003

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**Explanatory Note:**

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

The purpose of this Amendment is to make certain changes to the above referenced Items in the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 that was originally filed on November 14, 2003 (the "Original Filing"). We are filing this amended Quarterly Report on Form 10-Q/A in response to comments received from the Securities and Exchange Commission (the "SEC") in connection with our Registration Statement on Form S-3 filed on May 14, 2003. This report continues to speak as of the date of the Original Filing and we have not updated the disclosure in this report to speak to any later date. While this report primarily relates to the historical period covered, events may have taken place since the date of the Original Filing that might have been reflected in this report if they had taken place prior to the Original Filing.

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

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands except per share amounts)

(Unaudited)

	<b>For the three months ended March 31</b>	
	<b>2003</b>	<b>2002</b>
Net sales	\$ 27,342	\$ 19,018
Cost of sales	15,974	11,312
Gross profit	11,368	7,706
Operating expenses	9,291	6,230
Operating income	2,077	1,476
Interest expense net	117	197
Income before income tax	1,960	1,279
Income taxes	736	480
Net income	\$ 1,224	\$ 799
Earnings per common share (notes 3 & 4)	\$ .21	\$ .14
Earnings per common share - assuming dilution (notes 3 & 4)	\$ .20	\$ .13
Weighted average shares outstanding (notes 3 & 4)	5,826	5,729
Weighted average shares outstanding - assuming dilution (notes 3 & 4)	6,090	5,995

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

(In thousands)

**ASSETS (note 5)**

	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	<b>(Note)</b>
Current assets:		
Cash	\$ 344	\$ 3,275
Receivables:		
Trade	31,762	16,975
Other	343	219
	<u>32,105</u>	<u>17,194</u>
Inventories	24,469	21,228
Prepaid expenses	879	870
Deferred tax asset	289	289
Income tax benefit	562	918
	<u>58,648</u>	<u>43,774</u>
Total current assets	58,648	43,774
Property, plant and equipment, net (note 2)	21,797	19,984
Land held for development	211	211
Intangible assets	16,741	10,878
Other assets	576	601
	<u>\$ 97,973</u>	<u>\$ 75,448</u>

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## AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2003	Dec. 31, 2002
	<u>(Unaudited)</u>	<u>(Note)</u>
Current liabilities:		
Current installments of long-term debt	\$ 4,824	\$ 1,949
Accounts payable	12,129	5,159
Accrued program costs	6,310	4,875
Accrued expenses and other payables	2,604	2,714
Accrued royalty obligations	1,308	1,215
	<u>27,175</u>	<u>15,912</u>
Total current liabilities	27,175	15,912
Long-term debt, excluding current installments	28,172	17,765
Deferred income taxes	1,528	1,528
	<u>56,875</u>	<u>35,205</u>
Total liabilities	56,875	35,205
Stockholders' Equity:		
Preferred stock, \$.10 par value per share. Authorized 400,000 shares; none issued		
Common stock, \$.10 par value per share. Authorized 10,000,000 shares; issued 6,367,477 shares	636	636
Additional paid-in capital	9,611	9,494
Accumulated other comprehensive income	(255)	(272)
Retained earnings	33,342	32,621
	<u>43,334</u>	<u>42,479</u>
Less treasury stock at cost, 539,833 shares at March 31, 2003 and December 31, 2002.	2,236	2,236
	<u>41,098</u>	<u>40,243</u>
Total stockholders' equity	41,098	40,243
	<u>\$ 97,973</u>	<u>\$ 75,448</u>

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

See notes to consolidated financial statements.



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## AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

For The Three Months Ended March 31, 2003 and 2002

(Unaudited)

Increase (decrease) in cash	2003	2002
Cash flows from operating activities:		
Net income	\$ 1,224	\$ 799
Adjustments to reconcile net income loss to net cash used in operating activities:		
Depreciation and amortization	761	507
Changes in assets and liabilities associated with operations:		
Increase in receivables	(14,911)	(3,899)
Decrease (increase) in inventories	(3,241)	1,031
Decrease (increase) in prepaid expenses and other current assets	347	(59)
Increase (decrease) in accounts payable	6,971	(2,951)
Increase (decrease) in other payables and accrued expenses	914	(1,252)
	(7,935)	(5,824)
Net cash used in operating activities		
Cash flows from investing activities:		
Capital expenditures	(2,323)	(2,560)
Additions to intangible assets	(3,314)	
Other noncurrent assets	26	(340)
	(5,611)	(2,900)
Net cash used in investing activities		

(Continued)



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**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**

(In thousands)

For The Three Months Ended March 31, 2003 and 2002

(Unaudited)

	<u>2003</u>	<u>2002</u>
Cash flows from financing activities:		
Net borrowings under line of credit agreement	\$ 10,500	\$ 8,800
Principal payments on long-term debt	(18)	(98)
Exercise of stock options	116	
Purchase of treasury stock		(19)
	<u>10,598</u>	<u>8,683</u>
Net cash provided by financing activities	10,598	8,683
Net (decrease) increase in cash	(2,948)	(41)
Cash at beginning of year	3,275	853
Effect of exchange rate changes on cash	17	
	<u>\$ 344</u>	<u>\$ 812</u>
Cash at end of period	\$ 344	\$ 812

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

On March 19, 2003, the Company announced that the Board of Directors declared a cash dividend of \$.13 per share (\$.087 as adjusted for a 3-for-2 stock split) as well as a 3-for-2 stock split. Both dividends will be distributed on April 11, 2003 to stockholders of record at the close of business on March 28, 2003. The cash dividend will be paid on the number of shares outstanding prior to the 3-for-2 stock split. Stockholders entitled to fractional shares resulting from the stock split will receive cash in lieu of such fractional share based on the closing price of the Company's stock on March 28, 2003. Cash dividends to be paid April 11, 2003, will total approximately \$504,000.

During the quarter ended March 31, 2003, the Company completed the acquisition of six product lines, one related to the herbicide business and five related to a pre-harvest crop protection business. In connection with these acquisitions, the Company recorded intangible assets in the amount of \$6,114 (and a corresponding debt obligation of \$2,800), of which \$3,314 was paid during the period.

On March 18, 2002, the Company announced that its Board of Directors declared a cash dividend of \$.14 per share (\$.07 as adjusted for the 3-for-2 stock split and 4-for-3 stock split of April 2003 and April 2002, respectively) as well as a 4-for-3 stock split. Both dividends were

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distributed on April 12, 2002 to stockholders of record at the close of business on March 29, 2002. 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 dividend received cash in lieu of such fractional share based on the closing price of the Company's stock on March 29, 2002. Cash dividends paid April 12, 2002 totaled \$404.

See notes to consolidated financial statements.

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

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

## Notes to Consolidated Financial Statements

(Numbers in thousands except for share data)

(Unaudited)

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

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

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2003</b>	<b>2002</b>
	<u>          </u>	<u>          </u>
Land	\$ 2,441	\$ 2,441
Buildings and improvements	4,792	4,792
Machinery and equipment	27,921	25,922
Office furniture and fixtures	2,542	2,538
Automotive equipment	124	124
Construction in progress	11,474	11,154
	<u>          </u>	<u>          </u>
	49,294	46,971
Less accumulated depreciation	27,497	26,987
	<u>          </u>	<u>          </u>
	<u>\$ 21,797</u>	<u>\$ 19,984</u>

3. On March 19, 2003, the Company announced that the Board of Directors declared a cash dividend of \$.13 per share (\$.087 as adjusted for a 3-for-2 stock split) as well as a 3-for-2 stock split. Both dividends will be distributed on April 11, 2003 to stockholders of record at the close of business on March 28, 2003. The cash dividend will be paid on the number of shares outstanding prior to the 3-for-2 stock split.

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Stockholders entitled to fractional shares resulting from the stock split will receive cash in lieu of such fractional share based on the closing price of the Company's stock on March 28, 2003. Accordingly, all weighted average share and per share amounts have been restated to reflect the stock split.

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

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## Notes to Consolidated Financial Statements, Continued

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

	Three Months Ended	
	March 31	
	2003	2002
<b>Numerator:</b>		
Net income	\$ 1,224	\$ 799
<b>Denominator:</b>		
Weighted averages shares outstanding	5,826	5,729
Assumed exercise of stock options	264	266
	<u>6,090</u>	<u>5,995</u>

- Substantially all of the Company's assets not otherwise specifically pledged as collateral on existing loans and capital leases, are pledged as collateral under the Company's credit agreement with a bank. As referenced in note 1, for further information, refer to the consolidated financial statements and footnotes thereto (specifically note 3) included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
- Reclassification - Certain items have been reclassified in the prior period consolidated financial statements to conform with the March 31, 2003 presentation.
- Recent Accounting Pronouncements - In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), effective January 2003. SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the estimated useful life of the asset. The Company adopted SFAS 143 on January 1, 2003, and does not believe that the adoption had a material impact on the Company's financial statements.

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

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

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

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

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## Notes to Consolidated Financial Statements, Continued

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

	March 31, 2003	March 31, 2002
Net income, as reported	\$ 1,224	\$ 799
Employee compensation expense	\$ (20)	\$
Pro forma	\$ 1,204	\$ 799
Earnings per common share, as reported	\$ .21	\$ .14
Pro forma	\$ .21	\$ .14
Earnings per common share assuming dilution, as reported	\$ .20	\$ .13
Pro forma	\$ .20	\$ .13

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 (in thousands):

	Three Months Ended	
	March 31,	
	2003	2002
Net income	\$ 1,224	\$ 799
Foreign currency translation adjustment	17	—
Comprehensive income	\$ 1,241	\$ 799

10. During the quarter ended March 31, 2003, the Company completed the acquisition of six product lines, one related to the herbicide business and five related to a pre-harvest crop protection business. In connection with these acquisitions, the Company recorded intangible assets in the amount of \$6,114 (and a corresponding debt obligation of \$2,800), of which \$3,314 was paid during the period. These intangible assets are being amortized over their useful lives of 15 years.

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

	<b>Amount</b>
Intangible assets at December 31, 2002	\$ 10,878
Acquisitions during the period	6,114
Amortization expense during the period	(251)
Intangible assets at September 30, 2003	\$ 16,741



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

**FORWARD-LOOKING STATEMENTS/RISK FACTORS:**

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

**RESULTS OF OPERATIONS**

**Quarter Ended March 31:**

The Company reported net income of \$1,224,000 or \$.20 per diluted share in the quarter ended March 31, 2003 as compared to \$799,000 or \$.13 per diluted share for the same period in 2002.

Net sales increased by 44% or \$8,324,000 to \$27,342,000 for quarter ended March 31, 2003 from \$19,018,000 for the same period in 2002. A significant portion of the sales increase came from the Company's corn soil insecticides combined with the Smartbox® delivery system. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impact net sales.

The gross profit margin for the quarter ended March 31, 2003 remained relatively unchanged at 42% as compared to 41% for the same period in 2002.

Operating expenses, which are net of other income, increased by \$3,061,000 to \$9,291,000 for the quarter ended March 31, 2003 as compared to \$6,230,000 for the same period in 2002. The differences in operating expenses by specific departmental costs are as follows:

Selling expenses increased by \$1,437,000 or 57% to \$3,945,000 for the quarter ended March 31, 2003 from \$2,508,000 for the same period in 2002. Programs and related costs accounted for 61% of the increase while increases in insurance costs, payroll, payroll related costs and marketing and promotional costs accounted for 12%, 7% and 6%, respectively, of the increase with increases in other variable costs accounting for the balance.

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General and administrative expenses increased by \$298,000 or 18% to \$1,996,000 for the quarter ended March 31, 2003 as compared to \$1,698,000 for the same period in 2002. Increased costs related to the amortization of newly acquired product lines, increased outside professional fees and payroll and payroll related costs accounted for the increase.

Research and product development costs and regulatory registration expenses increased by \$831,000 or 85% to \$1,814,000 for the quarter ended March, 2003 as compared to \$983,000 for the same period in 2002. The increase was due to increased costs incurred to generate scientific data related to the registration and possible new uses of the Company's products. Most of the increase were costs related to scientific data generation for the international marketplace. The Company expects that its investment in data generation related to the international marketplace will continue and it will protect the Company's ability to sell into the export market.

Freight, delivery, storage and warehousing increased by \$495,000 or 48% to \$1,535,000 for the quarter ended March 31, 2003 as compared to \$1,040,000 for the same period in 2002. The increase was related to increased sales.

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Interest costs before capitalized interest and interest income were \$267,000 during the quarter ended March 31, 2003 as compared to \$204,000 for same period in 2002. The Company's average overall debt for the quarter ended March 31, 2003 was \$23,286,000 as compared to \$13,644,000 for the same period in 2002. The higher overall debt levels accounted for the higher gross interest costs. The Company capitalized \$142,000 of interest costs related to construction in progress during the first quarter ended March 31, 2003 as compared to no capitalized interest in the same period of 2002.

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

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

**LIQUIDITY AND CAPITAL RESOURCES**

The Company used \$7,935,000 in operating activities for the three months ended March 31, 2003. Net income of \$1,244,000, non-cash depreciation and amortization of \$761,000, a decrease of \$347,000 in prepaid expenses, an increase of \$6,971,000 in accounts payable and an increase of \$894,000 in other payables and accrued expenses provided \$10,217,000 of cash for operations. This was more than offset by increases in receivables and inventory of \$14,911,000 and \$3,241,000, respectively; which used \$18,152,000 in operating activities.

The Company used \$5,611,000 in investing activities during the first quarter ended March 31, 2003. It invested \$6,114,000 in the acquisition of new products (of which, \$3,314,000 was disbursed in cash) and \$2,323,000 in capital expenditures while other noncurrent assets declined by \$26,000.

Financing activities provided \$10,598,000 for the first three months of 2003. Net borrowings under the Company's fully-secured revolving line of credit increased by \$10,500,000. The Company made payments of its long-term debt of \$18,000 and received \$116,000 from the issuance of common stock.

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

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use of its current products, on discussions with companies that in this time of consolidation in the Company's industry, may be interested in utilizing the Company's toll manufacturing capabilities of AAA.

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

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commencing May 31, 2003 and in one final installment in the amount necessary to repay the remaining outstanding principal balance of the term loan in full on the maturity date. The Company had \$16,500,000 in availability under its fully-secured revolving line of credit as of March 31, 2003.

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

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

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

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

financial position and results of operations.

**CRITICAL ACCOUNTING POLICIES**

The Company's accounting policies are more fully described preceding the Company's consolidated financial statements. Certain of the Company's policies require the application of judgment by management in selecting the appropriate assumptions for calculating financial estimates. These 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:

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### Revenue Recognition

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

### Programs

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

### Advertising Expense

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

### Freight, Delivery and Warehousing Expense

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

### Inventories

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

### Long-lived Assets

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

Property, Plant and Equipment and Depreciation

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

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, have been translated at 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 loss.

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.



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### **Fair Value of Financial Instruments**

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

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

### **Income Taxes**

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

### **Goodwill and Other Intangible Assets**

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

## **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

There are no material changes from the disclosures in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission for the year ended December 31, 2002.

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

### **Disclosure Controls and Procedures**

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the Securities and Exchange Commission ( SEC ), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures, and as required by the rules of the SEC, evaluate their effectiveness. Based on their evaluation of the Company's disclosure controls and procedures which took place as of a date within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

### **Internal Controls**

The Company maintains a system of internal controls designed to provide a reasonable assurance that transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

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**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

Exhibits

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

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

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

