

AMERICAN VANGUARD CORP

Form 10-K

March 10, 2011

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

Washington, D.C. 20549

**FORM 10-K**

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

For The Year Ended December 31, 2010

OR

.. **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><br>(State or other jurisdiction of<br>Incorporation or organization)               | <b>95-2588080</b><br>(I.R.S. Employer<br>Identification Number) |
| <b>4695 MacArthur Court, Newport Beach, California</b><br>(Address of principal executive offices) | <b>92660</b><br>(Zip Code)                                      |
| <b>(949) 260-1200</b><br>(Registrant's telephone number, including area code)                      |                                                                 |

**Securities registered pursuant to Section 12(b) of the Act:**

|                                                                         |                                                                              |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------|
| <b>Title of each class:</b><br>Common Stock, \$.10 par value            | <b>Name of each exchange on which registered:</b><br>New York Stock Exchange |
| <b>Securities registered pursuant to Section 12(g) of the Act: NONE</b> |                                                                              |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock of the registrant held by non-affiliates is \$162.0 million. This figure is estimated as of June 30, 2010 at which date the closing price of the registrant's Common Stock on the New York Stock Exchange was \$7.93 per share. For purposes of this calculation, shares owned by executive officers, directors, and 5% stockholders known to the registrant have been deemed to be owned by

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affiliates. The number of shares of \$.10 par value Common Stock outstanding as of June 30, 2010, was 27,373,657. The number of shares of \$.10 par value Common Stock outstanding as of February 28, 2011 was 27,544,124.

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**PART I**

*Unless otherwise indicated or in the context otherwise requires, the terms Company, we, us, and our refer to American Vanguard Corporation and its consolidated subsidiaries.*

Forward-looking statements in this report, including without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties. (Refer to PART II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, Risk Factors, of this Annual Report.)

**ITEM 1 BUSINESS**

American Vanguard Corporation was incorporated under the laws of the State of Delaware in January 1969 and operates as a holding company. Unless the context otherwise requires, references to the Company, or the Registrant in this Annual Report refer to American Vanguard Corporation and its consolidated subsidiaries. The Company conducts its business through its subsidiaries, AMVAC Chemical Corporation (AMVAC), GemChem, Inc. (GemChem), 2110 Davie Corporation (DAVIE), AMVAC Chemical UK Ltd. (Chemical UK), Quimica Amvac de Mexico S.A. de C.V. (Quimica Amvac), AMVAC Switzerland GmbH, AMVAC do Brasil Representações Ltda, Environmental Mediation, Inc, and AMVAC de Costa Rica Sociedad Anonima.

Based on similar economic and operational characteristics, the Company's business is aggregated into one reportable segment. Refer to Part I, Item 7 for selective enterprise information.

**AMVAC**

AMVAC is a California corporation that traces its history from 1945. AMVAC is a specialty chemical manufacturer that develops and markets products for agricultural and commercial uses. It manufactures and formulates chemicals for crops, human and animal health protection. These chemicals, which include insecticides, fungicides, herbicides, molluscicides, growth regulators, and soil fumigants, are marketed in liquid, powder, and granular forms. Years ago AMVAC considered itself a distributor-formulator, but now AMVAC primarily manufactures, distributes, and formulates its own proprietary products or custom manufactures or formulates for others. AMVAC has historically expanded its business through both the acquisition of established chemistries (which it has revived in the marketplace) and the development and commercialization of new compounds through licensing arrangements. Below is a description of the Company's acquisition/licensing activity over the past five years.

On December 20, 2010 AMVAC completed the acquisition of a global product line relating to the active ingredient Tebupirimfos from Bayer CropScience AG (BCS AG). The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, and the trademarks Aztec®, Azteca® and Capinda®. When combined in a mixture with another active ingredient Cyfluthrin, the resulting dual AI product is a leading insecticide that is registered in the United States as Aztec and Mexico as Azteca, where it is used to combat such soil borne insects as rootworm, cutworm, wireworm, seed corn maggots/beetles and white grub in a variety of corn crops. Additionally, it is also registered in South Korea (and sold under the trade name Capinda) for use primarily in vegetable crops such as Chinese cabbage and ginseng.

On December 13, 2010 AMVAC completed the acquisition of a global insecticide product line relating to the active ingredient Ethoprophos (sold under the trade name Mocap®) from BCS AG. The acquired assets include

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registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, the Ultima® packaging system and the trademarks Mocap and Ultima. Mocap is a leading soil insecticide that is registered in 50 countries where it is used to combat nematode species in wide range of crops.

On December 7, 2010 AMVAC completed the acquisition of a global (except for Europe and Argentina) insecticide product line relating to the active ingredient Fenamiphos (sold under the trade name Nemacur®) from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories and the trademark Nemacur. Nemacur is a leading soil insecticide that is registered in 30 countries for use primarily as a nematicide with additional efficacy against above ground sucking insects.

On October 14, 2010 AMVAC and Kanesho Soil Treatment completed agreements with Certis-USA regarding the crop protection product Basamid® (dazomet) under which AMVAC will become the exclusive distributor and registration holder for this granular soil fumigant in the United States. Certis-USA, will continue to market Basamid into non-food crop applications under a distribution agreement with Amvac. Basamid complements the strong market position of AMVAC's Vapafl® & K-Pam® soil fumigant brands. The Company will be developing the use of Basamid for high-valued crop segments such as strawberries, tomatoes, lettuce & spinach and will be responsible for the re-registration of dazomet in the United States.

On July 21, 2010 AMVAC completed the acquisition of the U.S. cotton defoliant product Tribufos (sold under the trade name Def®) from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, and the trademark Def. Def complements AMVAC's existing cotton defoliant product Folex®, which it has marketed since 2002. Both are fast and effective cotton defoliants that facilitate the removal of leaves surrounding the cotton boll and in combination with other products function as a harvest aid.

On May 16, 2008, AMVAC completed the acquisition of the Thimet insecticide product line from Aceto Agricultural Chemicals Corporation (Aceto Ag). Thimet is used on agricultural crops, mainly potatoes, corn, cotton, rice, sugarcane and peanuts, to protect against chewing and piercing-sucking insects. Purchased assets included registrations, data, know-how and certain inventories. The acquisition was made in connection with the settlement of litigation between AMVAC and Aceto Ag.

On March 7, 2008, AMVAC acquired from Bayer Cropscience LP (BCS LP) certain assets at BCS's facility located in Marsing, ID, (the Marsing Facility). The Marsing Facility consists of approximately 17 acres of improved real property, 15 of which are now owned by AMVAC and two of which are leased by AMVAC from the City of Marsing for a term of 25 years. The acquired assets, primarily include real property, buildings and manufacturing equipment. In connection with the acquisition, AMVAC and BCS agreed to enter into a master processor agreement under which AMVAC is providing certain tolling services to BCS for a period of four years.

On January 16, 2008, AMVAC, pursuant to the provisions of a definitive Sale and Purchase Agreement (the Agreement), acquired from Valent U.S.A. Corporation the Orthene® insecticide product line. Orthene is used on agricultural crops, including beans, brussels sprouts, cauliflower, celery, cotton, cranberries, head lettuce, mint and ornamental and forests. Under the Agreement, AMVAC purchased the proprietary formulation information, registration rights, marketing materials, certain intellectual property rights and existing inventories of the agricultural and professional product lines.

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*Seasonality*

The agricultural chemical industry in general is cyclical in nature. The demand for AMVAC's products tends to be seasonal. Seasonal usage, however, does not necessarily follow calendar dates, but more closely follows varying growing seasonal patterns, weather conditions and weather related pressure from pests, and customer marketing programs and requirements.

*Backlog*

AMVAC does not believe that backlog is a significant factor in its business. AMVAC primarily sells its products on the basis of purchase orders, although it has entered into requirements contracts with certain customers.

*Customers*

Tenkoz, Crop Production Services, Inc (formerly United Agri Products, Western Farm Services and Crop Production Services), and Helena Chemical Co. accounted for 23%, 19%, and 13%, respectively of the Company's sales in 2010; 21%, 20% and 8% in 2009; and 18%, 19%, and 9% in 2008.

*Competition*

AMVAC faces competition from many domestic and foreign manufacturers in its marketplaces. Competition in AMVAC's marketplace is based primarily on quality efficacy, price, safety and ease of application. Many of our competitors are larger and have substantially greater financial and technical resources than AMVAC. AMVAC's ability to compete depends on its ability to develop additional applications for its current products and expand its product lines and customer base. AMVAC competes principally on the basis of the quality and efficacy of its products, its price and the technical service and support given to its customers.

Generally, the treatment against pests of any kind is broad in scope, there being more than one way or one product for treatment, eradication, or suppression. In most cases, AMVAC has attempted to position itself in smaller niche markets which are no longer of strong focus to larger companies.

*Intellectual Property*

AMVAC's proprietary product formulations are protected, to the extent possible, as trade secrets and, to a lesser extent, by patents. Further, AMVAC's trademarks bring value to its products in both domestic and foreign markets. Although AMVAC considers that, in the aggregate, its trademarks, licenses, and patents constitute a valuable asset, it does not regard its business as being materially dependent upon any single trademark, license, or patent.

*EPA Registrations*

AMVAC's products also receive protection afforded by the effect of the Federal Insecticide, Fungicide and Rodenticide Act ( FIFRA ) legislation that makes it unlawful to sell any pesticide in the United States unless such pesticide has first been registered by the United States Environmental Protection Agency ( USEPA ) as well as under similar state laws. Substantially all of AMVAC's products are subject to USEPA registration and re-registration requirements and are conditionally registered in accordance with FIFRA. This registration by USEPA is based, among other things, on data demonstrating that the product will not cause unreasonable adverse

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effects on human health or the environment when it is used according to approved label directions. All states where any of AMVAC's products are used require a registration by that specific state before it can be marketed or used in that state. State registrations are renewed annually, as appropriate. The USEPA and state agencies have required, and may require in the future, that certain scientific data requirements be performed on registered products sold by AMVAC. AMVAC, on its own behalf and in joint efforts with other registrants, has furnished, and is currently furnishing, certain required data relative to specific products.

Under FIFRA, the federal government requires registrants to submit a wide range of scientific data to support U.S. registrations. This requirement results in operating expenses in such areas as testing and the production of new products. AMVAC expensed \$5,874, \$4,714, and \$3,410 during 2010, 2009 and 2008, respectively, related to gathering this information. Because scientific analyses are constantly improving, it cannot be determined with certainty whether or not new or additional tests may be required by the regulatory authorities. Additionally, while FIFRA Good Laboratory Practice standards specify the minimum practices and procedures which must be followed in order to ensure the quality and integrity of data related to these tests submitted to the USEPA, there can be no assurance the USEPA will not request certain tests/studies be repeated. AMVAC expenses these costs on an as incurred basis. See also PART II, Item 7 of this Annual Report for discussions pertaining to research and development expenses.

*Raw Materials*

AMVAC utilizes numerous firms as well as internal sources to supply the various raw materials and components used in manufacturing its products. Many of these materials are readily available from domestic sources. In those instances where there is a single source of supply or where the source is not domestic, AMVAC seeks to secure its supply by either long-term arrangements or advance purchases from its suppliers. AMVAC believes that it is considered to be a valued customer to such sole-source suppliers.

*Environmental*

During 2010, AMVAC continued activities to address environmental issues associated with its facility (the Facility) in Commerce, CA. An outline of the history of those activities follows.

In 1995, the California Department of Toxic Substances Control (DTSC) conducted a Resource Conservation and Recovery Act (RCRA) Facility Assessment (RFA) of those facilities having hazardous waste storage permits. During that same year, ten underground storage tanks located at the Facility were closed. In March 1997, the RFA culminated in DTSC accepting the Facility into its Expedited Remedial Action Program. Under this program, the Facility was required to prepare and implement an environmental investigation plan. Depending on the findings of the investigation, the Facility might also be required to develop and implement remedial measures to address any historical environmental impairment.

This activity then took two paths: the RCRA permit closure and the larger site characterization. With respect to the permit closure, in 1998, AMVAC began the formal process to close its hazardous waste permit at the Facility (which had allowed AMVAC to store hazardous waste longer than 90 days) as required by federal regulations. Formal regulatory closure actions began in 2005 and were completed in 2008, as evidenced by DTSC's October 1, 2008 acknowledgement of AMVAC's Closure Certification Report.

With respect to the site characterization, soil and groundwater characterization activities began in December 2002 in accordance with the Site Investigation Plan that was approved by the DTSC. Additional activities were conducted from 2003 to 2011 with oversight provided by the DTSC. Additional analysis of

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groundwater and soil are being conducted in response to federally-mandated initiatives of similarly affected sites. Area-wide groundwater studies of perchlorate (typically associated with rocket fuel, explosives and fertilizer) require the Facility and neighboring sites to monitor existing wells for perchlorate in groundwater. Risk Assessment activities have commenced and are likely to continue over the next year under the oversight of the DTSC. Following such risk assessment activities, further investigation and/or potential remediation activities may be initiated in 2011 or 2012. At this stage, the extent of further investigation and potential remediation activities is uncertain. Further, it is uncertain whether the cost associated with such investigation and potential remediation activities will have a material impact on the Company's financial statements. Because the risk assessment has yet to be completed, the Company is unable to determine whether remediation is reasonably probable, nor can the cost of remediation be reasonably estimated (the scope can vary depending upon the risk assessment and many other factors). Accordingly, the Company has not set up a loss contingency with respect thereto.

AMVAC is subject to numerous federal and state laws and governmental regulations concerning environmental matters and employee health and safety at the Commerce, CA; Marsing, ID; Hannibal, MO and Axis, AL facilities. AMVAC continually adapts its manufacturing process to the environmental control standards of the various regulatory agencies. The USEPA and other federal and state agencies have the authority to promulgate regulations that could have an impact on AMVAC's operations.

AMVAC expends substantial funds to minimize the discharge of materials in the environment and to comply with the governmental regulations relating to protection of the environment. Wherever feasible, AMVAC recovers raw materials and increases product yield in order to partially offset increasing pollution abatement costs.

The Company is committed to a long-term environmental protection program that reduces emissions of hazardous materials into the environment, as well as to the remediation of identified existing environmental concerns. As part of its continuing environmental program, except as disclosed in PART I, Item 3, Legal Proceedings, of this form 10K, the Company has been able to comply with such proceedings and orders without any materially adverse effect on its business.

*Employees*

As of December 31, 2010, the Company employed approximately 350 employees. AMVAC, on an ongoing basis, due to the seasonality of its business, uses temporary contract personnel to perform certain duties primarily related to packaging of its products. The Company believes it is cost beneficial to employ temporary contract personnel. None of the Company's employees are subject to a collective bargaining agreement. The Company believes it maintains positive relations with its employees.

*Export Operations*

The Company opened an office in 2008 in Costa Rica to conduct business in the country. The office operates under the name AMVAC de Costa Rica Sociedad Anonima and markets chemical products for agricultural and commercial uses.

The Company opened an office in Basel, Switzerland in 2006. The office operates under the name AMVAC Switzerland GmbH. The Company formed the new subsidiary to expand its resources dedicated to non-U.S. opportunities, primarily in the European Union.

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The Company also formed a Brazilian entity in 2006 operating under the name AMVAC do Brasil Representações Ltda. It functions primarily to import technical grade agricultural chemicals and to sell them to local formulators and distributors.

The Company opened an office in 1998 in Mexico to conduct business primarily in Mexico. The office operates under the name Quimica AMVAC de Mexico S.A. de C.V. and markets chemical products for agricultural and commercial uses.

The Company opened an office in 1994 in the United Kingdom to conduct business in the European chemical market. The office, operating under the name AMVAC Chemical UK Ltd., focuses on developing product registration and distributor networks for AMVAC's product lines throughout Europe. The office is located in Surrey, England, to the southwest of London. The operating results of this operation were not material to the Company's total operating results for the years ended December 31, 2010, 2009 and 2008.

The Company classifies as export sales all products bearing foreign labeling shipped to a foreign destination.

|                         | 2010      | 2009      | 2008      |
|-------------------------|-----------|-----------|-----------|
| Export Sales            | \$ 39,049 | \$ 37,964 | \$ 41,250 |
| Percentage of Net Sales | 17.0%     | 18.1%     | 17.4%     |

*Risk Management*

The Company continually evaluates insurance levels for product liability, property damage and other potential areas of risk. Management believes its facilities and equipment are adequately insured against loss from usual business risks. The Company has purchased claims made products liability insurance. In addition, the Company regularly monitors matters, whether insurable or not, that could pose material risk to its operations. The Company's Board of Directors has formally assumed responsibility for risk oversight; in 2010, the Board formed a Risk Committee, consisting of four members of the Board of Directors, which meets regularly with senior management to evaluate the company's risk profile, to identify mitigation measures and to ensure that the company is prudently managing these risks. In the spirit of helping the Risk Committee oversee risk management, senior management has appointed a risk manager and a team of executives to serve as a management risk committee; this group performs analysis with the benefit of operational knowledge. In 2010, working with Lockton Insurance, Andersen Consulting, and Deloitte & Touche LLP, the company began to implement an enterprise risk management program. The program extends to all areas of potential risk and is intended to serve as a permanent feature in the company's operation. The Company has attempted to identify some of the more salient risks in the risk factors contained within this Form 10-K.

**GEMCHEM, INC.**

GemChem is a California corporation incorporated in 1991 and purchased by the Company in 1994. GemChem is a national chemical distributor. GemChem, in addition to purchasing key raw materials for the Company, also sells into the pharmaceutical, cosmetic and nutritional markets. Prior to the acquisition, GemChem acted in the capacity as the domestic sales force for the Company (from September 1991).

**2110 DAVIE CORPORATION**

DAVIE currently owns real estate for corporate use only. See also PART I, Item 2 of this Annual Report.

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***ENVIRONMENTAL MEDIATION, INC.***

EMI is an environmental consulting firm.

\* \* \*

***Available Information***

The Company makes available free of charge (through its website, [www.american-vanguard.com](http://www.american-vanguard.com)), its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission ( SEC ). Such reports are also available free of charge on the Securities and Exchange Commission ( SEC ) website, [www.sec.gov](http://www.sec.gov). Also available free of charge on the Company's website are the Company's Audit Committee, Compensation Committee, Finance Committee and Nominating and Corporate Governance Committee Charters, the Company's Corporate Governance Guidelines, the Company's Code of Conduct and Ethics, the Company's Employee Complaint Procedures for Accounting and Auditing Matters and our policy on Stockholder Nomination and Communication. The Company's Internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

\* \* \*

**ITEM 1A. RISK FACTORS**

***The regulatory climate has grown increasingly challenging to the Company's interests both domestically and internationally.***

Under the current U.S. Administration, various agencies within the Federal government have begun to exercise increased scrutiny in permitting continued uses (or the expansion of such uses) of older chemistries, including many of the Company's products and, in some cases, have initiated or entertained challenges to these uses. At the regulatory level, the principles of sound science to which the Company has always subscribed have been adulterated, in some cases, by political considerations. The challenge of the regulatory climate is even more pronounced in certain other geographical regions, most especially the European Union and Brazil, where the Company faces resistance toward the continued use of certain of its products. There is no guarantee that this climate will change in the near term. Nor is there any guarantee that the Company will be able to maintain or expand the uses of many of its products in the face of these regulatory challenges.

In particular, as more fully described in Legal Proceedings below, the Company's fungicide, pentachloronitrobenzene ( PCNB ) is subject to a Stop Sale, Use and Restraining Order ( SSURO ) issued by the United States Environmental Protection Agency ( USEPA ) in August 2010 on the ground that the confidential statement of formula ( CSF ) supporting the product's registration does not list certain trace impurities. While the Company has filed an amended CSF, is negotiating with USEPA to effect the removal of the SSURO and has challenged the issuance of the SSURO through litigation (that is currently pending), as long as the SSURO remains pending, the Company is prohibited from selling PCNB products for domestic use. There is no guarantee that USEPA will lift the SSURO or will approve the amended CSF. Further, it is possible that, through this process, the Company will lose its PCNB registration in the US. If this comes to pass, then the Company would likely be required to write down intangibles and write off inventory, in whole or in part in a potentially material amount. Furthermore, the Company would incur other costs related to inventory disposal and decommission costs.

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***The Company may be subject to environmental liabilities.***

The Company, its facilities, and its products are subject to numerous federal and state laws and governmental regulations concerning hazardous materials, environmental matters and employee health and safety. The Company continually adapts its manufacturing process to the environmental control standards of the various regulatory agencies. The U.S. USEPA and other federal, state and foreign agencies have the authority to promulgate regulations that could have a significant impact on the Company's operations. The Company expends substantial funds to minimize the discharge of materials into the environment and to comply with governmental regulations relating to protection of the environment and its workforce. Federal and state authorities may seek fines and penalties for violation of the various laws and governmental regulations, and could, among other things, impose liability on the Company for cleaning up the damage resulting from release of pesticides and other agents into the environment. Further, while the Company continually adapts its manufacturing process to the environmental control standards of regulatory authorities, it cannot completely eliminate the risk of accidental contamination or injury from hazardous or regulated materials. In the event of such contamination or injury, the Company may be held liable for significant damages or fines. In the event that such damages or fines are assessed, it could have a material adverse effect on the Company's financial and operating results.

***Use of the Company's products is subject to continuing challenges from activist groups.***

Use of the Company's products is regularly challenged by activist groups in many jurisdictions under a multitude of federal and state statutes, including FIFRA, the Food Quality Protection Act, Endangered Species Act, and the Clean Water Act, to name a few. These challenges typically take the form of lawsuits or administrative proceedings against the USEPA and/or other federal or state agencies, the filing of amicus briefs in pending actions, the introduction of legislation that is inimical to the Company's interests, and/or adverse comments made in response to public comment invited by USEPA in the course of registration, re-registration or label expansion. The Company spends considerable resources anticipating and defending these challenges. While we have had some success in maintaining the continued uses of many of our products in the face of this onslaught, it is possible that one or more of these challenges could succeed, resulting in a material adverse effect upon one or more of our products.

***The Company's business may be adversely affected by cyclical and seasonal effects.***

The chemical industry in general is cyclical and demands for its products tend to be seasonal. Seasonal usage follows varying agricultural seasonal patterns, weather conditions and weather related pressure from pests, and customer marketing programs and requirements. Weather patterns can have an impact on the Company's operations. The end user of some of its 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 products and therefore may reduce our revenues and profitability. There can be no assurance that the Company will adequately address any adverse seasonal effects.

***The Company faces competition in certain markets from manufacturers of genetically modified seeds.***

The Company faces competition from larger chemical companies that market genetically modified (GMO) seeds in certain of the crop protection sectors in which the Company competes, particularly that of corn. Many growers that have chosen to use GMO seeds have reduced their use of pesticides sold by the Company. Further, the federally mandated refuge acre requirement for corn (which, in the name of preventing pest resistance, required growers using GMO seeds to set aside a percentage of their planting acres for non-GMO seed), has been sharply reduced. There is no guarantee that the Company will maintain its market share or pricing levels in sectors that are subject to competition from GMO seed marketers or that federal mandates to set aside acreage for non-GMO seed will continue.

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*The Company faces competition from generic competitors that source product from countries having lower cost structures.*

The Company continues to face competition from competitors that enter the market through making offers to pay data compensation and subsequently sourcing material from countries having low cost structures (typically India and China). These competitors typically operate at thinner gross margins and, with low costs of goods, drive pricing and profitability of subject product lines downward. Further, such competitors typically spend little on product stewardship and employ few personnel within the United States. In effect, they tend to commoditize all products which they distribute; that is, they operate by offering the lowest price goods. There is no guarantee that the Company will maintain market share over generic competitors or that such competitors will not offer generic versions of the Company's products in the future.

*The Company's key customers typically carry competing product lines and may be influenced by the Company's larger competitors.*

A significant portion of the Company's products are sold to national distributors who also carry product lines of competitors that are much larger than the Company. Typically, revenues from the sales of these competing product lines and related program incentives constitute a greater part of our distributors' income than do revenues from sales and program incentives arising from the Company's product lines. Further, these distributors are often under pressure to market competing product lines in favor of the Company's. In light of these facts, there is no assurance that such customers will market or continue to market our products aggressively or successfully or that the Company will be able to influence such customers to purchase our products in favor of those of our competitors.

*To the extent that capacity utilization is not fully realized at its manufacturing facilities, the Company may experience lower profitability.*

The Company has pursued a business strategy of acquiring manufacturing facilities at a steep discount to their replacement value. These acquisitions have enabled the Company to be more independent of overseas manufacturers than some of our competitors. While the Company endeavors continuously to maximize utilization of these several facilities, our success in these endeavors is dependent upon many factors beyond our control, including fluctuating market conditions, product life cycles, weather conditions, availability of raw materials and regulatory constraints, among other things. There can be no assurance that the Company will be able to maximize its utilization of capacity at its manufacturing facilities. To the extent that the Company experiences excess manufacturing capacity, it may experience lower profitability.

*Reduced availability and higher prices of raw materials may reduce the Company's profitability and could threaten the viability of some of its products.*

In the recent past, there has been a material reduction in the number of suppliers of certain important raw materials used by the Company in many of its products. Certain of these raw materials are available solely from sources overseas or from single sources domestically. In the recent past, the price of these raw materials has fluctuated sharply. There can be no assurance that the Company will be able to source some or all of these materials indefinitely or that it will be able to do so at a level of cost that will enable it to maintain its profit margin on its products.

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***Foreign currency and interest rate risk and the use of derivative instruments and hedging activities.***

The Company engages in global business transactions. Where possible, the Company does business in its functional currency. However, there are certain situations in which the Company is unable to transact in its functional currency and engages in agreements that require settlement in a different currency. The Company has in place one fixed interest rate swap with the objective of reducing the Company's exposure to movements in the LIBOR rate over time. The hedges are evaluated at the end of each quarter and the effective portions of gains and losses are recorded in other comprehensive income, while the ineffective portions are recorded in current earnings.

***Quarterly variability in factors affecting the Company's business may mean that an individual quarter's result may not provide a realistic picture of the Company's overall performance.***

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

***Dependence on the Company's banking relationship.***

The Company's main bank is Bank of the West, a wholly-owned subsidiary of the French bank, BNP Paribas. Bank of the West has been the Company's primary bank for more than 30 years. Bank of the West is the syndication manager for the Company's loans and acts as the counterparty on the Company's derivative transactions. The Company reviews the creditworthiness of its banks on a quarterly basis via both credit agencies and face-to-face meetings with senior management of the banks. Management believes that the Company has an excellent working relationship with Bank of the West and the other financial institutions in the Company's lender group. There is no guarantee, however, that the Company's lenders will be either willing or able to continue lending to the Company at such rates and in such amounts as may be necessary to meet the Company's working capital needs.

***The distribution and sale of the Company's products are subject to prior governmental approvals and thereafter ongoing governmental regulation.***

The Company's products are subject to laws administered by federal, state and foreign governments, including regulations requiring registration, approval and labeling of its products. The labeling requirements restrict the use of and type of application for our products. More stringent restrictions could make our products less desirable, which would adversely affect our revenues and profitability. Substantially all of the Company's products are subject to the USEPA registration and re-registration requirements, and are conditionally registered in accordance with FIFRA. Such registration requirements are based, among other things, on data demonstrating that the product will not cause unreasonable adverse effects on human health or the environment when used according to approved label directions. All states where any of the Company's products are used also require registration before they can be marketed or used in that state. Governmental regulatory authorities have required, and may require in the future, that certain scientific data requirements be performed on the Company's products. The Company, on its behalf and in joint efforts with other registrants, have and are currently furnishing certain required data relative to its products. There can be no assurance, however, the EPA will not request certain tests or studies be repeated or that more stringent legislation or requirements will not be imposed in the future. The Company can provide no assurance that any testing approvals or registrations will be granted on a timely basis, if at all, or that its resources will be adequate to meet the costs of regulatory compliance.

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***The Company may be unable to integrate product line acquisitions successfully***

As part of its growth strategy, the Company has acquired established product lines from other registrants. The Company made four such acquisitions in 2010 alone; these new product lines span markets in dozens of countries. While the Company has done considerable due diligence on these assets, there is no guarantee that the Company will be able to fully integrate these products into their enterprise, nor is there any guarantee that the Company will realize the same kind of revenues or profits that had historically been derived from these product lines by predecessor owners.

***The manufacturing of the Company's products is subject to governmental regulations.***

The Company currently operates three manufacturing facilities in Los Angeles, California; Axis, Alabama; and Marsing, Idaho and owns and has manufacturing services provided in a fourth facility in Hannibal, Missouri (the Facilities). The Facilities operate under the terms and conditions imposed by required licenses and permits by state and local authorities. The manufacturing of key ingredients for certain of the Company's products occurs at the Facilities. An inability to renew or maintain a license or permit or a significant increase in the fees for such licenses or permits could impede the Company's access to key ingredients and increase the cost of production, which, in turn, would materially and adversely affect the Company's ability to provide its products in a timely and affordable manner.

***Adverse results in pending legal and regulatory proceedings could have adverse effects on the Company's business.***

The Company is currently, and may from time to time, be involved in legal and regulatory proceedings, (including, for example, product liability claims). A successful claim that is not insured may require the Company to pay substantial amounts in damages. Such a liability could have a material adverse effect upon the Company's financial and operating results. For discussion on pending legal claims, please see Item 3 Legal Proceedings below.

***The Company relies on intellectual property that it may be unable to protect, or may be found to infringe the rights of others.***

The Company's proprietary product formulations are protected, to the extent possible, as trade secrets, and, to a lesser extent, by patents and trademarks. Most of the established products that the Company has acquired that were patented are currently off patent because the patents have expired. The Company can provide no assurance that the way it protects its proprietary rights will be adequate or that its competitors will not independently develop similar or competing products. Further, the Company can provide no assurance that it is not infringing other parties' rights. Any claims could require the Company to spend significant sums in litigation, pay damages, develop non-infringing intellectual property, or acquire licenses to the intellectual property that is the subject of asserted infringement.

***The Company relies on key executives in large part for its success.***

The Company's success is highly dependent upon the efforts and abilities of its executive officers. The loss of the services of one or more key executive officers could have a material adverse effect upon the Company's financial and operating results. Further, there is no guarantee that the Company will be able to retain or to continue to attract qualified executives.

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*The Company is dependent on a limited number of customers, which makes us vulnerable to the continued relationship with and financial health of those customers.*

In 2010, three customers accounted for 55% of the Company's sales. The Company's future prospects will depend on the continued business of such customers and on our continued status as a qualified supplier to such customers. The Company cannot guarantee that our current significant customers will continue to buy products from us at current levels. The loss of a key customer could have a material adverse effect on the Company.

*The Company's business may be adversely affected by terrorist activities.*

The Company's business depends on the free flow of products and services through the channels of commerce. Recently, in response to terrorists activities and threats aimed at the United States, transportation, mail, financial and other services have been slowed or stopped altogether. Further delays or stoppages in transportation, mail, financial or other services could have a material adverse effect on the business, results of operations and financial condition. Furthermore, the Company may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the activities and potential activities. The Company may also experience delays in receiving payments from counterparties that may have been affected by the terrorist activities and potential activities. The U.S. economy in general is being adversely affected by the terrorist activities and potential activities and any economic downturn could adversely impact results of operations, impair the ability to raise capital or otherwise adversely affect the ability to grow the business.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2 PROPERTIES**

The Company's corporate headquarters are located in Newport Beach, California. This facility is leased. See PART IV, Item 15 of this report for further information.

AMVAC owns in fee the Facility constituting approximately 152,000 square feet of improved land in Commerce, California (Commerce) on which its West Coast manufacturing and some of its warehouse facilities and offices are located.

DAVIE owns in fee approximately 72,000 square feet of warehouse, office and laboratory space on approximately 118,000 square feet of land in Commerce, California, which is leased to AMVAC.

In 2001, AMVAC completed the acquisition of a manufacturing facility from E.I. DuPont de Nemours and Company (DuPont). The facility is one of three such units located on DuPont's 510 acre complex in Axis, Alabama. The acquisition consisted of a long-term ground lease of 25 acres and the purchase of all improvements thereon. The facility is a multi-purpose plant designed primarily to manufacture pyrethroids and organophosphates. (Refer to PART II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation of this Annual Report.)

On December 28, 2007, AMVAC, pursuant to the provisions of the definitive Sale and Purchase Agreement (the Agreement) dated as of November 27, 2006 between AMVAC and BASF, through which AMVAC purchased the global Counter product line from BASF. AMVAC purchased certain manufacturing assets relating to the production of Counter and Thimet and located at BASF's multi-plant facility situated in Hannibal, Missouri (the Hannibal Site). Subject to the terms and conditions of the Agreement, AMVAC purchased certain buildings, manufacturing equipment, office equipment, fixtures, supplies, records, raw materials, intermediates and packaging constituting the T/C Unit of

the Hannibal Site. The parties entered into a ground

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lease and a manufacturing and shared services agreement, under which BASF continues to supply various shared services to AMVAC from the Hannibal Site.

On March 7, 2008, AMVAC acquired from BCS LP a facility (the Marsing Facility) located in Marsing, ID, which consists of approximately 17 acres of improved real property, 15 of which are owned by AMVAC and two of which AMVAC leases from the City of Marsing for a term of 25 years. The Marsing Facility is engaged in the blending of liquid and powder raw materials and the packaging of finished liquid products in the agricultural chemical field. With this acquisition, AMVAC acquired the ability to formulate flowable materials. In connection with the acquisition, AMVAC and BCS agreed to enter into a master processor agreement under which AMVAC provides certain tolling services to BCS on an ongoing basis through 2012.

The production areas of AMVAC's facilities are designed to run on a continuous 24 hour per day basis. AMVAC regularly adds chemical processing equipment to enhance its production capabilities. AMVAC believes its facilities are in good operating condition and are suitable and adequate for AMVAC's foreseeable needs, have flexibility to change products, and can produce at greater rates as required. Facilities and equipment are insured against losses from fire as well as other usual business risks. The Company knows of no material defects in title to, or encumbrances on, any of its properties except that substantially all of the Company's assets are pledged as collateral under the Company's loan agreements with its primary lender group. For further information, refer to note 2 of the Notes to the Consolidated Financial Statements in PART IV, Item 15 of this Annual Report.

AMVAC owns approximately 42 acres of unimproved land in Texas for possible future expansion.

GemChem's, Chemical UK's, Quimica AMVAC's, AMVAC Costa Rica's and AMVAC Switzerland GmGH's facilities consist of administration and sales offices which are leased.

**ITEM 3 LEGAL PROCEEDINGS**

**PCNB Matters.**

On or about April 6, 2010, the Pest Management Regulatory Agency (PMRA) notified the Company of its intention to cancel the Canadian registration for the compound, pentachloronitrobenzene (PCNB) in that country, citing as a reason the Company's failure to provide certain manufacturing data to the agency in a timely fashion. The Company subsequently provided the agency with the required data, and PMRA extended its notice to permit continued registration through at least the end of the calendar year. Further, in June 2010, PMRA issued a re-evaluation of PCNB and concluded that turf uses should be cancelled as of the end of calendar year 2010. In August 2010, the Company filed a notice of objection to the re-evaluation and sought a hearing on the matter at which to present technical data in support of that use. PMRA failed to respond to the notice of objection and has not set a hearing. As of December 31, 2010, then, the turf use for PCNB was discontinued in Canada. The Company has challenged this action on the ground that, among other things, PMRA abused its discretion in failing to set a hearing on the Company's objection. In late February 2011, PMRA responded to the Company's request for relief against cancellation and indicated that it was unwilling to reverse the cancellation informally. Accordingly, the Company intends to take formal action to have the registration reinstated. There is approximately \$1,300 worth of PCNB inventory in the Canadian distribution channel for which the Company has not been paid. In light of PMRA's current position, it is possible that some or all of that material may be returned. It is uncertain whether such goods will be returned. Further, it is unclear to what extent the goods can be repackaged and resold. These questions may be dependent in part upon the outcome of the Company's negotiations with USEPA as per the following section. The Company believes that a loss is probable within the range of \$500 to \$1,000 and has set up a loss contingency of \$500. We will revisit this reserve as negotiations with PMRA and USEPA develop further.

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In August 2010, the USEPA issued a Stop Sale, Use and Removal Order ( SSURO ) relating to the Company s USEPA-registered 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 are not listed on the CSF. The SSURO was issued by the agency without either i) a specific finding of risk, ii) providing the Company an opportunity to present a technical case, or iii) any forewarning. Despite its efforts, the Company was unable to obtain informal resolution of the matter with the agency and, in an effort to protect its business, filed an action against USEPA with the United States District Court for the District of Columbia in late August in which it sought emergency and permanent injunctive relief.

On September 2, 2010, that court denied the Company s motion for emergency relief, finding in effect that while it was concerned about unfairness in USEPA s actions, the agency was empowered to take those actions. Following the court s denial, the Company filed an amended CSF with the agency and is currently in discussion with USEPA on technical matters relating to the CSF. Just prior to the statutory deadline ( PRIA deadline ), USEPA stated that it needed more time to complete its risk assessment, and the Company granted a 30 day extension (until March 10, 2011) and the parties held a meeting between their technical teams on March 3, 2011. At that meeting, the agency presented preliminary results of its health effects and impact of the impurity in certain PCNB products in light of the amended CSF. It should be noted that the agency s technical team is still working on the environmental fate effects analysis. While it is too early to predict the agency s final position on the amended CSF, the Company is encouraged by the agency s preliminary health effects analysis as it relates to certain major uses. At present, the parties are discussing a further extension of the PRIA deadline to facilitate further analysis and discussion between the technical teams. The Company continues to pursue a preliminary injunction through the litigation pending against USEPA; no hearing has yet been set, but the court has been briefed by both sides. At December 31, 2010, the Company held inventories in the amount of \$17,415 and associated intangible assets of \$5,241 relating to this product line. It is too early in the process to predict with any certainty how long the review at USEPA may take, or what the agency s final conclusions will likely be with respect to either the CSF or the SSURO. Accordingly, the Company cannot conclude that a loss is probable and has not set up a loss contingency. However, if the registration were to be cancelled, and the Company were required to write off its inventory and intangible assets, such losses would be in the range of \$22,656, not including inventory disposal and equipment cleanup and decommissioning costs. It is possible that an inventory writeoff, if any, would be less than the then current value of inventory, as the Company may be able to sell some or all of these goods outside of the United States over time.

***A. DBCP Cases***

Over the course of the past 30 years, AMVAC and/or the Company have been named or otherwise implicated in a number of lawsuits concerning injuries allegedly arising from either contamination of water supplies or personal exposure to 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 EPA suspension was partially based on 1977 studies by other manufacturers that indicated a link between male sterility and exposure to DBCP among their factory production workers producing the product.

At present, 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 have been filed in Nicaragua. Three of these domestic suits were brought by citizens of Nicaragua while the other domestic suits have been brought by citizens of other

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countries. These claims are all in various stages and allege injury from exposure to DBCP, including claims for sterility. Only two of the suits (*Suazo* and *Castillo*, indicated below) filed in Nicaragua have been served on AMVAC.

Over the course of 2009, two actions that had been filed in the Los Angeles County Superior Court (named *Mejia* and *Rivera*) involving claims for personal injury to Nicaraguan banana plantation workers allegedly arising from exposure to DBCP, were dismissed with prejudice by the court on its own motion with a finding of fraud on the court and blatant extortion of the defendants. We believe that the court's findings in these cases has diminished the viability of the pending Nicaraguan cases. Further, we believe that *Mejia* and *Rivera* have had an effect upon other cases involving exposure to foreign residents, most notably the several cases alleging injury to 668 residents of the Ivory Coast (pineapple plantation workers) which were dismissed in 2009 by the Los Angeles Superior Court without prejudice, as plaintiffs' counsel withdrew from the case and none other came forward to prosecute the action. As described more fully below, of the cases that were still pending domestically in 2010, *Patrickson* has been dismissed and is on appeal; the Mississippi and Louisiana cases have lain dormant for many years, and *Adams* and *Mendez*, while early in litigation, appear to involve claims that largely do not concern AMVAC.

#### A. *Hawaii Matters*

##### *Patrickson, et. al. v. Dole Food Co., et. al*

In October 1997, AMVAC was served with a Complaint(s) in which it was named as a defendant, filed in the Circuit Court, First Circuit, State of Hawaii and in the Circuit Court of the Second Circuit, State of Hawaii (two identical suits) entitled *Patrickson, et. al. v. Dole Food Co., et. al* ( *Patrickson Case* ) alleging damages sustained from injuries caused by plaintiffs' exposure to DBCP while applying the product in their native countries. Other named defendants include: Dole Food Co., Shell Oil Company, and Dow Chemical Company. The ten named plaintiffs are citizens of four countries: Guatemala, Costa Rica, Panama, and Ecuador. Punitive damages are sought against each defendant. The plaintiffs were banana workers and allege that they were exposed to DBCP in applying the product in their native countries. The case was also filed as a class action on behalf of other workers so exposed in these four countries. The plaintiffs allege sterility and other injuries.

After several years of law and motion activity, Dow filed a motion for summary adjudication as to the remaining plaintiffs based on the statute of limitations, as they had filed suit in Florida in 1995. All defendants joined in this motion. The court granted this motion on June 9, 2009. Plaintiffs' counsel unsuccessfully argued that their claims were tolled by prior class action cases. On November 30, 2009, the court denied a motion for reconsideration. Judgment in favor of the defendants was entered on July 28, 2010. On August 24, 2010, the plaintiffs filed a notice of appeal. This appeal is presently pending. The Company believes that the appeal filed by plaintiffs has no merit and intends to oppose the appeal. The Company does not believe that a loss is either probable or reasonably estimable and, accordingly, has not set up a loss contingency with respect thereto.

##### *Adams v. Dole Food Co. et al*

On approximately November 23, 2007, AMVAC was served with a suit filed by two former Hawaiian pineapple workers and their spouses, alleging testicular cancer due to DBCP exposure: *Adams v. Dole Food Co. et al* in the First Circuit for the State of Hawaii. The complaint was filed on June 29, 2007 and names Dole Food Co., Standard Fruit and Steamship Company, Dole Fresh Food, Pineapple Growers Association, AMVAC, Shell Oil Co., Dow Chemical Co. and Occidental Corporation. Plaintiff Mark Adams alleges he was exposed to DBCP in 1974 and 1975 while working on Dole's plantation on Oahu. Plaintiff Nelson Ng alleges he was exposed between 1971 and 1973 while working in Lanai City, Lanai. AMVAC answered the complaint on or about

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December 14, 2007. While little discovery has taken place, AMVAC denies that any of its product could have been used at the times and locations alleged by these plaintiffs. Dole Food Co. was dismissed on the basis of the exclusive remedy of worker's compensation benefits as it was the employer of plaintiffs. However, plaintiffs have been granted relief to seek an interim appeal as to the dismissal of Dole. A stay has been placed on discovery other than to obtain written records. This appeal as to Dole is pending. The Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

#### Mendez et al. v. The Dow Chemical Company et al.

On June 4, 2010, nine complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii, a representative one of which is captioned *Mendez et al. v. Dow Chemical Company et al.* These complaints were filed by the same attorneys representing the Patrickson and Adams plaintiffs. A total of 60 individual workers (50 of whom are from Panama, six from Ecuador and four from Costa Rica) seek damages for physical injuries allegedly arising from exposure to DBCP in the 1970's. Other defendants named in the lawsuits include Shell Oil Company, Occidental Petroleum Corporation, Dole Food Company, and Amvac Chemical Corporation.

AMVAC was served with the complaints on November 30, 2010 and answered on January 19, 2011. There has been no discovery to date. AMVAC intends to defend these matters vigorously citing, among other things, the fact that, to its best knowledge, it has never sold DBCP to certain of the countries identified in the complaints. Thus, it is unknown as to how many of the plaintiffs claim exposure to AMVAC's product, what are the actual injuries, and whether their claims are barred by applicable statutes of limitation or other defenses. The Company believes that a loss is neither probable nor reasonably estimable and has not accrued a loss contingency.

#### *B. Mississippi Matters*

In May 1996, AMVAC was served with five complaints in which it is named as a defendant. These complaints were filed by the same attorneys representing the Patrickson plaintiffs in Hawaii. The complaints are brought by plaintiffs Edgar Arroyo-Gonzalez, Eulogio Garzon-Larreategui, Valentin Valdez, Amilcar Belteton-Rivera, and Carlos Nicanor Espinola-E against a number of defendants, including Shell Oil Company, Dow Chemical Co., and Dole Food Company. The cases were filed in the Circuit Court of Harrison County, First Judicial District of Mississippi. Each case alleged damages sustained from injuries caused by plaintiffs (who are former banana workers and citizens of a Central American country) exposure to DBCP while applying the product in their native countries. These cases were removed to U.S. District Court for the Southern District of Mississippi, Southern Division. The federal court granted defense motions to dismiss in each case pursuant to the doctrine of *forum non conveniens* [inconvenient forum]. On January 19, 2001, the court issued an unpublished decision, finding that there was jurisdiction in federal court, but remanded just one case (*Espinola-E*) back to the trial court based on a stipulation which limited the plaintiff's recovery to fifty thousand dollars. No activity has taken place on this matter since 2001. Without discovery, it is unknown whether this plaintiff was exposed to the Company's product or what defenses may apply. AMVAC intends to contest the cases vigorously. The Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

#### *C. Louisiana Matters*

In November 1999, AMVAC was served with three complaints filed in the 29<sup>th</sup> Judicial District Court for the Parish of St. Charles, State of Louisiana entitled *Pedro Rodrigues et. al v. AMVAC Chemical Corporation et. al*, *Andres Puerto, et. al v. Amvac Chemical Corporation, et. al* and *Eduardo Soriano, et al v. Amvac Chemical Corporation et. al*. Other named defendants include Dow Chemical Company, Shell Oil Company, and Dole

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Food. These suits were filed in 1996, but they were not served until November 1999. Following a dismissal of most of the plaintiffs from the action (in light of the fact that they had previously settled their claims in other actions), the complaints, with *Soriano* as the lead case, allege personal injuries to about 314 persons (167 from Ecuador, 102 from Costa Rica, and 45 from Guatemala) from alleged exposure to DBCP (punitive damages are also sought). There has been no discovery in these cases to date and no procedural activity of any kind since February 2008. It is unknown as to how many of the plaintiffs claim exposure to AMVAC's product, what are the actual injuries, and whether their claims are barred by applicable statutes of limitation. AMVAC intends to vigorously contest these cases. The Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

#### *D. Nicaragua Matters* Suits filed in Nicaragua

A review of court filings in Chinandega, Nicaragua, by local counsel has found 85 suits filed pursuant to Public Law 364 that name AMVAC and include approximately 3,592 plaintiffs. However, only two cases, *Castillo* and *Suazo*, have been served on AMVAC. All but one of the suits in Nicaragua have been filed pursuant to Special Law 364, an October 2000 Nicaraguan statute that contains substantive and procedural provisions that Nicaragua's Attorney General previously expressed as unconstitutional. Each of the Nicaraguan plaintiffs claims \$1,000 in compensatory damages and \$5,000 in punitive damages. In all of these cases, AMVAC is a joint defendant with Dow Chemical and Dole Food Company, Inc. In the two cases pending before Nicaraguan courts in which AMVAC has been served, the court has denied AMVAC's objection to jurisdiction, which is being appealed.

In May 2005, two suits filed in Nicaragua in 2004 were received that name AMVAC, The Dow Chemical Company, Dole Food Co., Dole Fresh Fruit, and Standard Fruit Company. The two suits for personal injuries for sterility and reduced sperm counts have been filed on behalf of a total of 15 banana workers: *Flavio Apolinar Castillo et al. v. AMVAC Chemical Corporation et al.*, No. 535/04 and *Luis Cristobal Martinez Suazo et al. v. AMVAC Chemical Corporation et al.*, No. 679/04. In December 2005, AMVAC received six additional, similar lawsuits filed on behalf of a total of 30 plaintiffs. On January 25, 2006, AMVAC was served with the *Suazo* and *Castillo* suits, and in March 2006, counsel in Nicaragua filed objections to jurisdiction over AMVAC in these two cases. The court finally ruled on all the defendants' objections on March 20, 2007 by denying each objection to jurisdiction.

AMVAC contends that the Nicaragua courts do not have jurisdiction over it and that Public Law 364 violates international due process of law. AMVAC intends to contest personal jurisdiction and demand under Law 364 that the claims be litigated in the United States. Thus far, it appears that the Nicaraguan courts have denied all requests of other defendants under Law 364 that allow the defendants the option of consenting to jurisdiction in the United States. It is not presently known as to how many of these plaintiffs actually claim exposure to DBCP at the time AMVAC's product was allegedly used nor is there any verification of the claimed injuries. Based on the precedent of the earlier suits in Nicaragua, it would appear likely that the Nicaragua courts will, over the defendants' objections, enter multi-million dollar judgments for the plaintiffs and against all defendants in these cases.

However, to date, plaintiffs have not had success in enforcing Nicaraguan judgments against domestic companies before U.S. courts. One such judgment (not including the Company) was entered in August 2005 for \$97,000 for 150 plaintiffs against Dole Food and other entities. It has also been reported that on December 1, 2006, the Nicaraguan court rendered a judgment for \$802,000 against Dow, Shell, Occidental, and Standard Fruit for some 1200 plaintiffs. An enforcement action (entitled *Osorio*) against Dole and Dow for the \$97,000 judgment was filed in the U.S. District Court in Miami, Florida. In this enforcement action, on October 20, 2009,

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the federal court issued a lengthy decision refusing to enforce the judgment on the grounds that Law 364 violated due process of law and that the Nicaraguan courts were not impartial tribunals. The plaintiffs filed a notice of appeal to the Eleventh Circuit Court of Appeal on March 10, 2010. This appeal is still pending. While the dismissal is being appealed, this decision and the findings in the *Mejia* case may halt further attempts to enforce these foreign judgments.

#### ***B. Other Matters***

Archem Superfund Action. On July 20, 2009, the Texas Commission on Environmental Quality ( TCEQ ) issued an administrative order (the Order ) under which it identified parties that are potentially responsible for solid waste and/or hazardous substances at the Archem/Thames Chelsea State Superfund Site (the Site ). In that order, AMVAC was identified as one of 50 potentially responsible parties ( PRP s ) relating to TCEQ removal actions that were conducted at the Site in 1992 and 1993. The total cost of such removal actions for which that group of PRP s could be liable is approximately \$775. AMVAC s involvement in this matter purportedly arises from the single shipment of an intermediate compound sent to the Site for further synthesis in the late 1980 s. AMVAC has joined a group of PRP s which has challenged the Order by way of filing a petition with the District Court of Travis County, Texas in a matter captioned *Akzo Nobel etc. et al. v. Texas Commission on Environmental Quality, Cause No. D-1-6N-09-002820*. Petitioners challenged the Order on several grounds, including failure to provide PRP s with an evidentiary hearing and the fact that petitioners should not be liable as arrangers under CERCLA, as they sent useful product not waste to the Site. During the fourth quarter of 2010, petitioners and respondents have reached a settlement of the matter which, while subject to public comment and final approval, would require AMVAC to pay approximately \$50 in cash. Accordingly, the Company has set up a loss contingency of \$50.

Wilson v. Gemchem. On or about September 25, 2009, an action styled *Joseph K. Wilson v. Gemchem, Inc. etc.*, Civ. No. 02-CV-2009-901876.00, was filed in the Civil Court of Mobile, Alabama by a former employee who seeks compensation and medical expenses arising from physical injuries that he allegedly sustained when he tripped and fell at AMVAC s facility in Axis, Alabama. The Company does not believe that the claims have any merit and intends to defend the matter vigorously. Discovery has been taken on both sides. At this stage, the Company does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency therefor.

Brazilian Citation. On or about October 5, 2009, IBAMA (the Brazilian equivalent of the USEPA) served the Company s subsidiary, Amvac do Brasil, with a Notice of Violation alleging that two lots of Granutox 150 (formulated product having phorate as the active ingredient) stored at BASF S.A. (AMVAC s exclusive distributor in Brazil) and FMC Quimica do Brasil Ltda. (which formulates end-use product in that country) were not in compliance with the end-use registration on file with IBAMA. Specifically, IBAMA alleged that the color of the lots (gray) was inconsistent with the description in IBAMA s files (pink). IBAMA also indicated an intention to assess a fine of approximately \$285 against Amvac do Brasil. The Company has challenged the citation, among other reasons, on the ground that the change in color has to do with the removal of a coloring component and that such removal poses no environmental or toxicity risk. At this stage, the Company believes that a loss of \$100 is probable and has set up a loss contingency in the amount of \$100.

#### **ITEM 4 RESERVED**

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Effective March 6, 2006, the Company listed its \$0.10 par value common stock ( Common Stock ) on the New York Stock Exchange under the ticker symbol AVD. From January 1998 through March 6, 2006, the Common Stock was listed on the American Stock Exchange under the ticker symbol AVD. The Company's Common Stock traded on The NASDAQ Stock Market under the symbol AMGD from March 1987 through January 1998.

The following table sets forth the range of high and low sales prices as reported for the Company's Common Stock for the calendar quarters indicated (as adjusted for stock splits and stock dividends).

|                      | <b>High</b> | <b>Low</b> |
|----------------------|-------------|------------|
| <b>Calendar 2010</b> |             |            |
| First Quarter        | \$ 8.71     | \$ 6.28    |
| Second Quarter       | 9.65        | 7.37       |
| Third Quarter        | 9.60        | 5.93       |
| Fourth Quarter       | 9.17        | 6.18       |
| <b>Calendar 2009</b> |             |            |
| First Quarter        | \$ 15.85    | \$ 9.85    |
| Second Quarter       | 14.26       | 9.12       |
| Third Quarter        | 12.01       | 8.21       |
| Fourth Quarter       | 8.65        | 6.97       |

As of February 28, 2011, the number of stockholders of the Company's Common Stock was approximately 4,800, which includes beneficial owners with shares held in brokerage accounts under street name and nominees.

On September 14, 2010, the Board of Directors declared a cash dividend of \$0.02 per share. The dividend was distributed on October 14, 2010 to stockholders of record at the close of business on September 24, 2010.

On March 4, 2010, the Board of Directors declared a cash dividend of \$0.01 per share. The dividend was distributed on April 16, 2010 to stockholders of record at the close of business on April 2, 2010.

On September 14, 2009, the Board of Directors declared a cash dividend of \$0.01 per share. The dividend was distributed on October 7, 2009 to stockholders of record at the close of business on September 25, 2009.

On March 6, 2009, the Board of Directors declared a cash dividend of \$0.05 per share. The dividend was distributed on April 15, 2009 to stockholders of record at the close of business on March 31, 2009.

On September 15, 2008, the Board of Directors declared a cash dividend of \$0.03 per share. The dividend was distributed on October 10, 2008, to stockholders of record at the close of business on September 26, 2008.

On March 10, 2008, the Board of Directors declared a cash dividend of \$0.05 per share. The dividend was distributed on April 15, 2008, to stockholders of record at the close of business on March 31, 2008.

The Company has issued a cash dividend in each of the last fifteen years dating back to 1996.

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**Stock Performance Graph**

The following graph presents a comparison of the cumulative, five-year total return for the Company, the S&P 500 Stock Index, and a peer group (Chemical Specialty Industry). The graph assumes that the beginning values of the investments in the Company, the S&P 500 Stock Index, and the peer group of companies each was \$100. All calculations assume reinvestment of dividends. Returns over the indicated period should not be considered indicative of future returns.

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|                                                          | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net sales                                                | \$ 229,620  | \$ 209,329  | \$ 237,538  | \$ 216,662  | \$ 193,771  |
| Gross profit                                             | \$ 89,082   | \$ 60,426   | \$ 101,131  | \$ 95,730   | \$ 82,358   |
| Operating income (loss)                                  | \$ 19,191   | \$ (6,329)  | \$ 36,144   | \$ 36,013   | \$ 29,216   |
| Income (loss) before income tax (benefit) expense        | \$ 16,174   | \$ (9,538)  | \$ 32,173   | \$ 30,526   | \$ 26,522   |
| Net income (loss)                                        | \$ 10,984   | \$ (5,789)  | \$ 20,019   | \$ 18,728   | \$ 15,448   |
| Earnings (loss) per common share(1)                      | \$ 0.40     | \$ (0.21)   | \$ 0.75     | \$ 0.71     | \$ 0.60     |
| Earnings (loss) per common share assuming dilution(1)    | \$ 0.40     | \$ (0.21)   | \$ 0.73     | \$ 0.68     | \$ 0.57     |
| Total assets                                             | \$ 281,799  | \$ 255,268  | \$ 286,937  | \$ 248,581  | \$ 262,376  |
| Working capital                                          | \$ 67,459   | \$ 68,797   | \$ 96,357   | \$ 75,144   | \$ 99,233   |
| Long-term debt less current portion                      | \$ 53,712   | \$ 45,432   | \$ 75,748   | \$ 56,155   | \$ 93,761   |
| Stockholders' equity                                     | \$ 166,437  | \$ 153,087  | \$ 155,943  | \$ 139,739  | \$ 120,877  |
| Weighted average shares outstanding - basic(1)           | 27,385      | 27,120      | 26,638      | 26,307      | 25,934      |
| Weighted average shares outstanding assuming dilution(1) | 27,652      | 27,120      | 27,469      | 27,436      | 27,186      |
| Dividends per share of common stock(1)                   | \$ 0.030    | \$ 0.060    | \$ 0.080    | \$ 0.070    | \$ 0.083    |

The selected consolidated financial data set forth above with respect to each of the calendar years in the five-year period ended December 31, 2010 have been derived from the Company's consolidated financial statements and are qualified in their entirety by reference to the more detailed consolidated financial statements and the independent registered public accounting firm's reports thereon which are included elsewhere in this Report on Form 10-K for the three years in the period ended December 31, 2010. See ITEM 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

- (1) The basic and diluted weighted average number of shares outstanding, net income per share and dividend information for all periods presented have been restated to reflect the effects of stock splits and dividends.

**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****(Dollars in thousands, except per share data)****ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION  
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. Generally, may, could, will, would, expect, believe, estimate, anticipate, intend, continue and similar words are used in forward-looking statements. Forward-looking statements appearing in this Report are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on our current expectations and are subject to risks and uncertainties that can cause 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. We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this Report.

**Results of Operations*****2010 Compared with 2009:***

|               | 2010       | 2009       | Change    |
|---------------|------------|------------|-----------|
| Net sales:    |            |            |           |
| Insecticides  | \$ 88,519  | \$ 71,243  | \$ 17,276 |
| Herbicides    | 84,482     | 83,487     | 995       |
| Other         | 31,423     | 26,107     | 5,316     |
| Total Crop    | 204,424    | 180,837    | 23,587    |
| Non-Crop      | 25,196     | 28,492     | (3,296)   |
|               | \$ 229,620 | \$ 209,329 | \$ 20,291 |
| Gross profit: |            |            |           |
| Crop          | \$ 79,163  | \$ 53,371  | \$ 25,792 |
| Non-crop      | 9,919      | 7,055      | 2,864     |
|               | \$ 89,082  | \$ 60,426  | \$ 28,656 |

Overall financial performance (including net sales and net income) for the year ended December 31, 2010 improved as compared to the same period in 2009. Our net sales for the period are up approximately 10% to \$229,620, compared to \$209,329 for the 2009 year. Net sales of our crop business in 2010 are \$204,424 which constitutes an increase of about 13% over the net sales of \$180,837 in 2009. Net sales of non-crop products for the period are \$25,196, which constitutes a decrease of about 12% over the net sales of \$28,492 in 2009. A more detailed discussion of product groups and products having a material effect on net sales for each of the crop and non-crop segments appear below.

With respect to our crop products, over the course of 2010, market conditions were, for the most part, better than those of 2009. We entered 2010 with fairly lean inventory levels in the distribution channels, due to the



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rigorous procurement practices of 2009. Further, over the first half of 2010, we were able to sell most of our seasonal products into the channel effectively, and favorable Midwest weather conditions enabled us to sell product into both first and second quarters of 2010. While third quarter sales of our corn-related products declined over historical levels (as customers deferred their procurement activity for 2011 to take place closer to the growing season), we did see a resurgence in fourth quarter sales of those products. Further, in light of increased acres for both cotton and peanut crops (year over year), we recorded strong sales of certain products for use with those crops over the course of the entire year. We experienced a drop in sales of our fungicide product line over 2010, due to the SSURO issued by USEPA with respect to our domestic pentachloronitrobenzene product line, which, as noted below, caused us to miss the domestic 2010 turf season entirely. A more detailed discussion of sales performance by our crop and non-crop segments, further broken down by product group and product line, follows.

With respect to our crop segment, net sales of our insecticides in 2010 were up strongly by approximately 24% to \$88,519 as compared to \$71,243 for the comparable period in 2009. Within this segment, net sales of our granular soil insecticides were up approximately 16%, largely due to increased net sales of Counter in the first half of the year and fourth quarter; Counter has experienced a resurgence in use on corn for nematode control and is proving to be efficacious for sugar beets where seed treatments are unable to control heavy pest pressure. In addition, Thimet sales increased year-over-year due to both increased peanut acres in the southeast and increased use for nematicidal control sugar cane. Net sales of our cotton insecticides increased by about 67% over the prior year; this trend has resulted from an increase in cotton acres planted coupled with strong cotton prices.

Within the product group of herbicides/fungicides/fumigants, net sales in 2010 were up slightly (about 1%) over the 2009 year (\$84,482 v. \$83,487). Within this group, however, we had mixed results. Net sales of our herbicide products were up strongly (by approximately 35%), led by our post-emergent corn herbicide, Impact; due to both favorable weather conditions and a well-executed plan of distribution, we saw strong sales in the first two quarters, then a lag in the third quarter (as customers deferred procurement until closer to planting time) and a resurgence in the fourth quarter, as growers anticipate the 2011 season. Our fumigants enjoyed mild gains in net sales year-over-year (up by about 5%); in fact, fourth quarter sales in 2009, on an historical basis, were comparatively low, as adverse weather cut short the application season for this just-in-time product. With better weather conditions, fumigant sales in 2010 have trended toward more historical norms. Net sales of our fungicides, however, were down sharply (approximately 46%) during 2010 as compared to 2009, due largely to PCNB on crop uses, which experienced a decrease in net sales in the first half of the year arising from formulation issues, and in the second half of the year from the SSURO issued by USEPA for domestic product. As described more fully in the Legal Proceedings section below, the company continues to negotiate with USEPA to get the SSURO lifted and is also seeking a preliminary injunction from the federal district court.

Within the segment of other products (which includes plant growth regulators, molluscicides and tolling activity), we experienced a nearly 20% increase in net sales during 2010 as compared to 2009 (\$31,423 v. \$26,107). This increase is primarily due to strong sales of Folex, a compound used for cotton harvest management; not only did we benefit from increased cotton acres, but also from the fact that we completed the acquisition of the domestic Def (tribufos) product line from Bayer CropScience in late July 2010. Partially offsetting Folex's gains was a drop in net sales of NAA, a plant growth regulator used primarily for thinning apple blossoms; an early frost in late 2009 obviated the need for this product in 2010, as growers still had inventory from the prior year for use in the 2010 season. In addition, net sales of Dacthal were up slightly year-over-year; while we have benefited from the lessening of water restrictions in the western states, we have experienced curtailment of uses in Europe. Further, net sales of metaldehyde (a molluscicide) were up about 16%

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over the comparable period; this increase arose primarily from rainy conditions in the eastern and northern midwestern states and the attendant increase in slug and snail pressure. Tolling revenues decreased by approximately \$2,000 in 2010 as compared to 2009, as a result of one contract which occurred in 2009 and not in 2010. It should be noted that, included in sales were data compensation amounts of \$868 in 2010 and \$1,825 in 2009.

Within our non-crop segment, net sales were down by about 11% (\$25,196 v. 28,492) compared to 2009. This decline was due mostly to lost sales of PCNB on turf uses; the SSURO was issued in August 2010, just before normal sales into that market. On the positive side, Naled sales (our mosquito adulticide) were up by about 13%; despite persistent dry conditions in the South West. Net sales of pest strips more than tripled over the prior year, in light of the market's recognition that the active ingredient, DDVP, is one of the only compounds effective against bedbugs. These gains, however, were offset in part by reduced sales of Orthene, which due to heavy pricing pressure from generic competitors, continues to carry lower margins and less emphasis in our sales plans.

Our cost of sales for 2010 was \$140,538 or 61% of net sales. This compared to \$148,903 or 71% of net sales for 2009. The decline in cost of sales as a percentage of net sales in 2010 arose primarily from three factors, first, in the fourth quarter of 2009, the Company recorded a one time non-cash charge in the amount of \$13,509 relating to adjusting inventory values to net realizable value (impacting our crop segment cost of sales by \$10,853 and our non-crop segment cost of sales by \$2,656). There was no such charge in 2010. Second, plant capacity utilization improved in 2010 as compared to 2009; underutilization costs declined from approximately \$9,439 in 2009 to \$7,621 in 2010. Third, the mix of products sold in 2010 included a greater emphasis on higher-margin SKUs, a reduction in sales of products that are subject to pricing pressure from generic competition (e.g., Orthene and bifenthrin), and a drop in tolling activity for third parties, which also carries lower margins.

Gross profit ended at 89,082 or 39% of net sales in 2010 as compared to \$60,426 or 29% of net sales in 2009. This increase is due to the non-cash charge taken in the fourth quarter of 2009 and the other factors described in the immediately preceding paragraph.

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

Operating expenses in 2010 increased by \$3,136 to \$69,891 or 30% of sales as compared to \$66,755 or 32% in 2009. The differences in operating expenses by department are as follows:

|                                              | <b>2010</b>      | <b>2009</b>      | <b>Change</b>   |
|----------------------------------------------|------------------|------------------|-----------------|
| Selling                                      | \$ 22,414        | \$ 22,193        | \$ 221          |
| General and administrative                   | 17,881           | 17,998           | (117)           |
| Research, product development and regulatory | 12,635           | 11,142           | 1,493           |
| Freight, delivery and warehousing            | 16,961           | 15,422           | 1,539           |
|                                              | <b>\$ 69,891</b> | <b>\$ 66,755</b> | <b>\$ 3,136</b> |

Selling expenses in 2010 increased by \$221 to end at \$22,414 as compared to \$22,193 for the same period of 2009. This increased cost included \$500 associated with possible product complaints related to sales of PCNB in Canada. In addition, we incurred expenses associated with international sales as we boosted regional product stewardship activities. The costs were offset in part by reduced program expenses as a result of lower PCNB sales caused by the issuance of the SSURO in the fall of 2010.



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General and administrative expenses decreased by \$117 to end at \$17,881 in 2010 compared to \$17,998 in 2009. The decrease was primarily the result of expenses incurred in 2009 on a potential acquisition which the Company decided not to complete. These costs did not recur in 2010. Furthermore, legal expenses and bad debt expense decreased by \$118 and \$353 respectively. These reductions were offset by the increase in incentive compensation expense of \$1,448, resulting from the improved financial performance in 2010. In addition, payroll expenses increased by \$365 from additional headcount and a reinstatement of senior executives and board members voluntary compensation reductions that occurred in 2009.

Research, product development costs and regulatory registration expenses increased by \$1,493 to \$12,635 for 2010, as compared to \$11,142 for the same period of 2009. The main driver was increased product defense costs relating to both recently acquired product lines and established product lines.

Freight, delivery and warehousing costs for 2010 increased by \$1,539 to \$16,961 or 7% of sales as compared to \$15,422 or 7% of sales for the same period of 2009. The increased cost is primarily volume related. However, underlying this flat performance as a percentage, we experienced increased fuel surcharges offset by reduced logistics costs as we work to improve the efficiency of our supply chain.

Interest expense including capitalized interest and interest income were \$3,017 in 2010 compared to \$3,209 in 2009. Interest costs are summarized in the following table:

| Average Indebtedness and Interest expense                  | Average Debt | 2010<br>Interest<br>Expense | Interest Rate | Average Debt | 2009<br>Interest<br>Expense | Interest Rate |
|------------------------------------------------------------|--------------|-----------------------------|---------------|--------------|-----------------------------|---------------|
| Term loan                                                  | \$ 44,000    | \$ 2,474                    | 5.6%          | \$ 50,000    | \$ 2,321                    | 4.6%          |
| Real estate                                                | 1,995        | 117                         | 5.9%          | 2,101        | 122                         | 5.8%          |
| Working capital revolver                                   | 14,388       | 580                         | 3.8%          | 39,104       | 810                         | 2.1%          |
| Average                                                    | 60,383       | 3,171                       | 5.2%          | 91,205       | 3,253                       | 3.6%          |
| Notes payable on product acquisitions and asset purchases  | 1,767        |                             |               | 3,175        |                             |               |
| Other adjustments (capitalized interest & interest income) |              | (154)                       |               |              | (44)                        |               |
| Adjusted average                                           | \$ 62,150    | \$ 3,017                    | 4.8%          | \$ 94,380    | \$ 3,209                    | 3.4%          |

The Company's average overall indebtedness for 2010 dropped by \$32,230 to end at \$62,150 as compared to \$94,380 for 2009. We reduced the revolver debt mainly as a result of continued focus on inventory control throughout the year. We have maintained a strong control on receivables and controlled our capital spending levels. We have paid out the majority of our program liabilities in the final quarter of 2010. In 2009 these payments were predominantly deferred until the first quarter of 2010. In the final three weeks of the fiscal year we made substantial initial payments for product line acquisitions. As an offset, we implemented an early pay program with customers that generated approximately \$20,000 in cash, albeit for the most part against product sales in the final quarter of the year. Overall interest expense was lower in 2010 than in 2009, as we continued to make scheduled payments on our term loans and maintained tight control of our revolver take up. As can be seen from the table above, our effective interest rate was 4.8% in 2010 as compared to 3.4% in 2009. This was mainly as a result of the increased interest

rates we have paid during the year following negotiating an extension to our credit facility in March of 2010.

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Income tax expense for 2010 amounted to \$5,190 as compared to an income tax benefit of \$3,749 for 2009. The 2010 effective tax rate is at 32.1%, as compared to an effective rate of 39% for 2009. The decrease in the effective income tax rate is primarily due to the Domestic Manufacturing Deduction (section 199), federal and California R&D credits, change in future effective state income tax rate, recognition of previously unrecognized tax benefits, and the reclassification of expenses related to incentive stock options and stock grants.

Net income ended at \$10,984 or \$.40 per share in 2010 as compared to a net loss of \$5,789 or \$.21 per diluted share in 2009.

**Contractual Obligations and Off-Balance Sheet Arrangements**

We believe that our cash flows from operations and cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements and provide us with adequate liquidity to meet our anticipated operating needs for at least the next 12 months. Although operating activities are expected to provide cash, to the extent of significant growth in the future, our operating and investing activities may use cash and, consequently, this growth may require us to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to us on commercially reasonable terms, if at all.

The following summarizes our contractual obligations at December 31, 2010, and the effects such obligations are expected to have on liquidity and cash flow in future periods:

|                                                          | Total     | Payments Due by Period |              |              |                  |
|----------------------------------------------------------|-----------|------------------------|--------------|--------------|------------------|
|                                                          |           | Less than<br>1 Year    | 1 3<br>Years | 4 5<br>Years | After<br>5 Years |
| Long-term debt                                           | \$ 41,941 | \$ 8,004               | \$ 5,978     | \$ 20,000    | \$ 7,959         |
| Note payable on product acquisitions and asset purchases | 12,898    | 423                    | 12,467       | 8            |                  |
| Working capital revolver credit line                     | 7,300     |                        |              |              | 7,300            |
| Sub total long-term debt                                 | 62,139    | 8,427                  | 18,445       | 20,008       | 15,259           |
| Estimated interest liability(1)                          | 10,759    | 2,750                  | 5,104        | 2,905        |                  |
| Accrued royalty obligations                              | 68        | 68                     |              |              |                  |
| Employment agreements                                    | 2,100     | 525                    | 1,050        | 525          |                  |
| Operating leases                                         | 5,054     | 542                    | 1,277        | 1,371        | 1,864            |
|                                                          | \$ 80,120 | \$ 12,312              | \$ 25,876    | \$ 24,809    | \$ 17,123        |

- (1) Estimated Interest Liability has been calculated using the effective rate for each category of debt over the remaining term of the debt and taking into account scheduled repayments. The working capital revolving line has been assumed to be constant throughout the remaining term. As noted above in this Report, all of our debt is linked to LIBOR rates.

There were no off-balance sheet arrangements as of December 31, 2010.

Under the terms of the new credit facility, all debt outstanding is due when the agreement expires on January 10, 2016.

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- (2) Under the terms of the new credit facility, the deferred payments on product acquisitions made in December 2010 and payable in equal parts in January 2012 and January 2013, will be paid using delayed draw facility with the term debt.

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In addition to the above contractual obligations, \$124 of unrecognized tax liabilities have recorded as liabilities as of December 31, 2010 and we are uncertain as to if or when such amounts may be settled. Related to the unrecognized tax benefits not included in the table above, we have also recorded a liability for potential penalties and interest of \$10 as of December 31, 2010.

**Results of Operations (in Thousands)*****2009 Compared with 2008:***

|               | <b>2009</b> | <b>2008</b> | <b>Change</b> |
|---------------|-------------|-------------|---------------|
| Net sales:    |             |             |               |
| Crop          | \$ 180,837  | 194,886     | (14,049)      |
| Non-Crop      | 28,492      | 42,652      | (14,160)      |
|               | \$ 209,329  | \$ 237,538  | \$ (28,209)   |
| Gross profit: |             |             |               |
| Crop          | \$ 53,371   | \$ 87,815   | \$ (34,444)   |
| Non-crop      | 7,055       | 13,316      | (6,261)       |
|               | \$ 60,426   | \$ 101,131  | \$ (40,705)   |

Our overall financial performance (including net sales and net income) for the 2009 year is down compared to the 2008 year. Our net sales for 2009 decreased 12% to \$209,329 as compared to \$237,538 for the same period in 2008. Year-over-year, net sales for the crop business are down 7%, while net sales of our non-crop segment are down 33%.

There are four major factors that contributed to the Company's financial performance in 2009. First, in the wake of the global credit crisis that has persisted for the past several quarters, many of our customers implemented policies of inventory reduction and procurement on a just-in-time basis. As a result, customers deferred, and/or placed limits upon, purchase orders for the Company's goods. Based upon Electronic Data Interchange (EDI) data (which measures actual on-the-ground use of our products), although the Company found that sales to our customers (who are primarily distributors) are below 2008 levels, growers appear to be applying volumes similar to those applied in 2008. Second, weather conditions, particularly rain in the midwest (at corn planting season), a lack of precipitation in the south and southwest (in the Spring), a late soybean harvest and an early frost in potato planting regions (in the fourth quarter), reduced demand for some of our key, higher margin products. Third, for much of 2009, the Company was engaged in an initiative to improve its balance sheet by, among other things, reducing inventory and scaling down its manufacturing activity in the face of short-term demand reduction. In the course of this initiative, the Company sold lower-margin goods and incurred unabsorbed manufacturing costs. Fourth, as more fully explained below, the Company took a one time non-cash charge in the amount of \$13,509 in the fourth quarter of 2009 relating to inventory cost reductions arising primarily from our assessment of net realizable value. These factors as they relate to specific product lines are further discussed in the following section.

In spite of adverse weather conditions in the midwest—namely, persistent precipitation that delayed planting—sales of our granular soil insecticides were down slightly (approximately 3%) year-over-year. Led by our Aztec product line, we experienced comparatively stronger sales of granular soil insecticides in the first half of 2009 versus 2008. However, this sales trend was offset by a decline late in the second half of 2009, due in part to reduced use of our Counter product line in sugar beets and to high levels of inventory in the channels. Net



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sales of our leading product line, soil fumigants, were down about 9% in 2009 as compared to 2008. This decline was due largely to a shortened application season caused by two factors: first, a delayed harvest in the midwest prevented growers from applying the product as early as they historically do; and second, an earlier than usual onset of freezing and snow conditions in potato planting regions in the fourth quarter effectively cut the application season short. Net sales of our herbicides for 2009 were about 25% lower than those of 2008, due primarily to the sales performance of our post-emergent corn herbicide, Impact. While the year started at or above targeted sales levels, in the second quarter, sales of Impact declined significantly in part due to rainy conditions in the midwest delaying the corn planting season (thereby affecting the use of post-emergent herbicides generally) and in part to customers electing to reduce their inventory. During the fourth quarter of 2009, sales of Impact were also down compared to the same period of 2008, as customers increasingly elected to defer product purchases until closer to the time of application in late winter or spring.

Net sales of our insecticide product lines for 2009 were about 22% lower than 2008. After a good start in 2009, sales of our insecticides dropped in the second quarter of 2009 due to reduced acres in cotton (on which Bidrin® is used) and peanuts (on which Thimet is used) and a decrease in pest pressure on cotton and other crops. In the third quarter, sales of broad spectrum insecticide, Orthene®, increased. However, that trend trailed off in the fourth quarter, as our product line faced generic pricing pressure and high inventory levels in the channel of trade. In addition, a lack of precipitation and pest pressure in our primary markets resulted in a drop in sales of our mosquito adulticide, Dibrom®, during both third and fourth quarters of 2009. The decline in sales of this higher-margin product negatively impacted both top and bottom line performance. As noted in the 2008 vs. 2007 comparison below, Dibrom had record sales in 2008 in the face of a heavy hurricane season. Also declining in net sales year-over-year were our fungicides, which experienced a drop of 17% in that period. This decline resulted primarily from reduced international demand for our PCNB product line, as an international customer had ordered a multi-year supply in 2008 and declined to order product in 2009.

Our plant growth regulators ( PGRs ) generated consistently strong sales performance all year; led by our NAA product line, net sales of PGRs for 2009 were up approximately 13% over those of 2008. Also we saw solid performances from our two main foreign subsidiaries (i.e. Mexico and Costa Rica). However, international sales as a whole performed 8% below the levels achieved in the same period of 2008. This includes some impact from tight regional credit control, some large transactions in 2008 that have not repeated in the current year, and regulatory pressure in Brazil and the European Union.

Our cost of sales for 2009 was \$148,903 or 71% of net sales. This compared to \$136,407 or 57% of net sales for the same period in 2008. There are two primary reasons for this result. First, in the fourth quarter of 2009, the Company recorded a one time non-cash charge in the amount of \$13,509 relating to adjusting inventory values to net realizable value; these adjustments include identifying obsolete and slow moving items in the amounts of \$855 and \$6,519 respectively, adjusting standards in the amount of \$3,470 to reflect under utilized capacity due to significantly below normal output levels in two of our manufacturing sites, and \$2,665 in annual adjustments to ensure all standard costs closely reflect actual costs. The charge impacts our crop segment cost of sales by \$10,853 and our non-crop segment cost of sales by \$2,656.

In arriving at its inventory valuation, the Company took into account, among other things, recent and current market conditions (including pricing, demand, distribution and competitive products) as well as cost of goods (including the burden of unabsorbed manufacturing costs). A material portion of the charge related to the product, Fortress, and the balance related to Counter, Thimet and PCNB (specifically relating to unabsorbed manufacturing overhead costs) as well as certain slow-moving and obsolete SKUs.

Beyond the non-cash charge, the cost of goods was also adversely affected by trading performance over the course of 2009, which, in turn, was driven by several factors. First, gross profit as a percentage of sales was

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reduced by tolling activities which benefited plant utilization but served to lower gross profit levels. Second, we experienced some price erosion on international sales made in order to maintain our market share in the face of heavy competitive pressure. Third, as part of our initiative to reduce inventory, we reduced factory throughput, thereby reducing the absorption of fixed costs. Furthermore, in the first quarter we experienced significant environmental cost overruns on the start up of a new product in production.

Gross profit ended at \$60,426 or 29% of net sales in 2009 as compared to \$101,131 and 43% of net sales for 2008. This decline is predominantly due to the non-cash charge taken in the fourth quarter and the increased cost of goods as described in the immediately preceding paragraph.

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

Operating expenses in 2009 increased by \$1,768 to \$66,755 or 32% of sales as compared to \$64,987 or 27% in 2008. The differences in operating expenses by specific departmental costs are as follows:

|                                              | 2009      | 2008      | Change   |
|----------------------------------------------|-----------|-----------|----------|
| Selling                                      | \$ 22,193 | \$ 19,516 | \$ 2,677 |
| General and administrative                   | 17,998    | 17,274    | 724      |
| Research, product development and regulatory | 11,142    | 8,631     | 2,511    |
| Freight, delivery and warehousing            | 15,422    | 19,566    | (4,144)  |
|                                              | \$ 66,755 | \$ 64,987 | \$ 1,768 |

Selling expenses increased by \$2,677 to \$22,193 as compared to \$19,516 for the same period of 2008. The increase predominately relates to program expenses, which were up \$2,296 due to delayed sales of granular soil insecticides from Q4 of 2008 to Q1 of 2009. In addition, we have had a full year of operations for our Costa Rica subsidiary which increased overall costs by \$494. We increased field staff in order to focus on product stewardship, sales and marketing at a cost of \$458. Offsetting these costs, we reduced some advertising, promotional and other paid marketing costs by \$637.

General and administrative expenses increased by \$724 to end at \$17,998 for year ended December 31, 2009. This includes spending of \$1,625, reported in the first quarter of 2009, relating to a major potential acquisition, which was not completed. Legal expenses were up \$594 as compared to the prior year arising primarily from costs incurred in arbitrations to collect data compensation. Furthermore, we have made some selective key recruitments during the year which have overall increased costs by \$348. We have spent \$106 on tax consulting that has driven benefits in our tax rate during the year. Finally, we had some currency gains in 2008 which did not recur in 2009 generating an increase in expense of \$712. These costs were offset by reduced accruals for incentive compensation of \$2,331 reflecting the 2009 financial performance and other cost savings including officer and director voluntary compensation reductions.

Research, product development costs and regulatory registration expenses increased by \$2,511 to \$11,142 for 2009, as compared to \$8,631 for the same period of 2008. The main drivers were increased product defense costs up \$798 relating to both recently acquired product lines and established product lines. Also, research and development spending was up \$613, as we have increased our resources aimed at developing new products and different formulations to improve our range of product offerings.



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Freight, delivery and warehousing costs for 2009 decreased by \$4,144 to \$15,422 or 7% of sales as compared to \$19,566 or 8% of sales for the same period of 2008. This reduction as a percentage of sales reflects continued effort to control these expenses by careful distribution in the supply chain and savings related to urgent shipments coupled with lower sales levels. Specifically, in the three months ended September 30, 2009, lower sales of our mosquito products drove significantly lower freight costs.

Interest costs including capitalized interest and interest income were \$3,209 in 2009 as compared to \$3,971 in 2008. Interest costs are summarized in the following table:

| Average Indebtedness and Interest expense                  | Average Debt | 2009<br>Interest<br>Expense | Interest Rate | Average Debt | 2008<br>Interest<br>Expense | Interest Rate |
|------------------------------------------------------------|--------------|-----------------------------|---------------|--------------|-----------------------------|---------------|
| Term loan                                                  | \$ 50,000    | \$ 2,321                    | 4.6%          | \$ 54,000    | \$ 3,048                    | 5.6%          |
| Real estate                                                | 2,101        | 122                         | 5.8%          | 2,208        | 109                         | 4.9%          |
| Working capital revolver                                   | 39,104       | 810                         | 2.1%          | 26,269       | 1,143                       | 4.4%          |
| Average                                                    | 91,205       | 3,253                       | 3.6%          | 82,477       | 4,300                       | 5.2%          |
| Notes Payable on product acquisitions and asset purchases  | 3,175        |                             |               | 3,131        |                             |               |
| Other adjustments (capitalized interest & interest income) |              | (44)                        |               |              | (329)                       |               |
| Adjusted average indebtedness                              | \$ 94,380    | \$ 3,209                    | 3.4%          | \$ 85,608    | \$ 3,971                    | 4.6%          |

The Company's average overall indebtedness increased by \$8,772 to \$94,380 in 2009, as compared to \$85,608 for 2008. Revolver debt increased as Inventory increased at the start of the year. However, we maintained a strong control on receivables, including being willing to sacrifice some international sales when credit checks did not meet our criteria, and controlled our capital spending levels. We have also made the decision to pay customer programs in the first weeks of 2010. Our results have been favorably impacted by movement in the LIBOR rate during 2009. LIBOR is the base for our syndicated borrowings and, as can be seen from the table above, our effective interest rate was 3.4% in 2009 as compared to 4.6% in 2008.

Income tax benefit for 2009 ended at \$3,749 as compared to an income tax expense of \$12,154 for 2008. Our effective tax rate was at 39%, as compared to an effective rate of 38% for 2008.

Net income ended at a loss of \$5,789 or a loss of \$.21 per share in 2009 as compared to a net income of \$20,019 or \$.73 per diluted share in 2008.

**Liquidity and Capital Resources**

As of December 31, 2010, we had working capital of \$67,459 as compared to \$68,797 as of December 31, 2009. The Company recorded net income of \$10,984 as compared to a net loss of \$5,789 (including a non-cash charge related to inventory write downs and adjustments in the amount of \$13,509 in 2009), non-cash depreciation and amortization of \$14,381 and stock based compensation expense of \$1,122. Cash provided by operating activities in 2010 was \$33,190, as compared to \$31,951 in 2009. The cash provided by operating activities consists of a decrease in receivables of \$6,967, an increase in inventory of \$1,542, a decrease in deferred income taxes of \$5,342, an increase in prepaid expenses and other current assets of \$2,235, an increase



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in accounts payables of \$3,095, an increase in deferred revenue of \$5,568 and a decrease in other payables and accrued expenses of \$7,909.

The Company has continued to focus on inventory management during 2010. In the final month of the year we completed three product line acquisitions and recorded a total payment for associated inventory in the amount of \$2,206. This amount has been recorded as an addition to inventory and will be adjusted when the final inventories are counted as part of the purchase agreements.

The Company continues to focus on controlling capital spending, however, this year we have made a significant investment in our Axis facility in order to start up production of one of the new product lines acquired the year. Capital spending for the year amounts to \$8,004. As noted earlier in this document, we have completed 4 product line acquisitions during 2010, spending a total of \$32,677. During the twelve months ended December 31, 2010, the Company used \$40,681 in investing activities as compared to \$4,322 for the same period of 2009.

Our financing activities provided net cash of \$8,128 in 2010, including the increase in notes payable and revolver debt offset by scheduled term loan amortization payments to provide a net of \$8,179. This was further offset by proceeds from the exercise of stock options in the amount of \$768 and payment of dividends of \$819. In 2009, our financing activities used net cash of \$28,585 consisting of scheduled payments on term debt, other long term debt, reduced revolver financing, proceeds from the exercise of stock options offset by the payment of dividends.

The Company has various different loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet as at December 31, 2010 and December 31, 2009. These are summarized in the following table:

| Indebtedness<br>\$000 s                                   | At December 31, 2010 |            |           | At December 31, 2009 |            |           |
|-----------------------------------------------------------|----------------------|------------|-----------|----------------------|------------|-----------|
|                                                           | Long-term            | Short-term | Total     | Long-term            | Short-term | Total     |
| Term loan                                                 | \$ 32,000            | \$ 8,000   | \$ 40,000 | \$ 40,000            | \$ 8,000   | \$ 48,000 |
| Real estate                                               | 1,937                | 4          | 1,941     | 1,942                | 106        | 2,048     |
| Working capital revolver                                  | 7,300                |            | 7,300     | 2,600                |            | 2,600     |
| Notes Payable on product acquisitions and asset purchases | 12,475               | 423        | 12,898    | 890                  | 422        | 1,312     |
| Total indebtedness                                        | \$ 53,712            | \$ 8,427   | \$ 62,139 | \$ 45,432            | \$ 8,528   | \$ 53,960 |

On January 10, 2011, AMVAC Chemical Corporation ( AMVAC ), one of our subsidiaries, as borrower, and affiliates (including registrant), as guarantors, entered into an Amended and Restated Credit Agreement (the New Credit Agreement ) with a group of commercial lenders led by Bank of the West (AMVAC s primary bank) as agent, swing line lender and letter of credit issuer. The New Credit Agreement supersedes the First Amendment to Credit Agreement ( First Amendment ) dated as of March 5, 2010 and more fully described in the Company s Form 8-K filed on March 8, 2010. The New Credit Agreement is a \$137,000 senior secured lending facility consisting of a revolving line of credit of \$75,000 and term loan commitments of \$62,000. Also included in the facility is an additional accordion feature for up to \$50,000. In connection with retiring the entire outstanding balance of the term loans and revolving credit facility (plus accrued interest) of the First Amendment upon termination thereof, on January 10, 2011, AMVAC borrowed approximately \$62,000 under the New Credit Facility consisting of approximately \$62,000 in term loans. These loans bear interest at a variable rate of interest based on LIBOR and the Eurodollar Reserve of the Federal Reserve ( Eurodollar Rate Loan ), or, at AMVAC s

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option, a variable rate of interest based upon the prime rate, the Federal Funds rate, and LIBOR ( Alternative Base Rate Loan ). The principal payments of the term loans are payable (a) in equal quarterly installments on or before the last business day of each March, June, September and December (i) through 2012 in the amount of \$2,000, and (ii) thereafter through December 2015 in the amount of \$2,500, and (b) the remainder, if any, not later than January 10, 2016. Interest accruing on the Eurodollar Rate Loans is payable on the last day of the interest period, which may be one, three or six months, as per borrower's election. Interest accruing on the Alternate Base Rate Loans is payable monthly, in arrears, on the last day of the month and on the maturity date of any such loan in the amount of interest then accrued but unpaid. Both the senior secured revolving line of credit and the term loans mature on January 10, 2016.

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 December 31, 2010 total indebtedness is \$62,139 as compared to \$53,960 at December 31, 2009. At December 31, 2010, based on its performance against the most restrictive covenants listed above, the Company has the capacity to increase its borrowings by up to \$38,132 under the credit facility agreement.

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

The Company's main bank is Bank of the West, a wholly-owned subsidiary of the French bank, BNP Paribas. Bank of the West has been the Company's bank for more than 30 years. Bank of the West is the syndication manager for the Company's loans and acts as the counterparty on the Company's derivative transactions. The Company reviews the creditworthiness of its banks on a quarterly basis via both credit agencies and face-to-face meetings with senior management of the banks. Management believes that the Company has an excellent working relationship with Bank of the West and the other financial institutions in the Company's lender group.

#### **Recently Issued Accounting Guidance**

In December 2010, Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-29, Business Combinations (Topic 805), *Disclosure of Supplementary Pro Forma Information for Business Combination* . The objective of this update is to address the different interpretation of the pro forma disclosure requirements of revenue and earnings for a business combination. The update specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt this standard to account for business combination when applicable.

In December 2010, FASB issued ASU 2010-28, Intangibles – Goodwill and Other (Topic 350), *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* . This update modifies Step 1 of the two step process of the goodwill impairment test for reporting with zero or negative goodwill where step 2 of this two step process will have to be performed if it is more than likely than not that a goodwill impairment exists. This update is effective for fiscal year and interim periods beginning after December 15, 2010. The Company will adopt this standard for goodwill when applicable.

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In August 2010, Financial Accounting Standards Board (FASB) issued Update No. 21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies. Under SEC Regulation S-X Rule 3-04, Changes to Other Stockholders' Equity, companies are required to present an analysis of the changes to stockholders' equity in the notes or in a separate statement. This amendment now requires changes in noncontrolling interests be included in the analysis of changes to stockholders' equity. Currently, the Company does not have any noncontrolling interests but will adopt this amendment when applicable.

**Foreign Exchange**

Management does not believe that the fluctuation in the value of the dollar in relation to the currencies of its customers in the last three fiscal years has adversely affected the Company's ability to sell products at agreed upon prices denominated in U.S. dollars. No assurance can be given, however, that adverse currency exchange rate fluctuations will not occur in the future. Should adverse currency exchange rate fluctuations occur in geographies where the Company sells/exports its products, management is not certain such fluctuations will or will not materially impact the Company's operating results.

**Inflation**

Management believes inflation has not had a significant impact on the Company's operations during the past three years. However, raw material prices have been increasing since late 4<sup>th</sup> Quarter 2010 and will continue to increase in 2011 due to the growth in global economies, particularly in China and India. This growth will put further pressure on supply demands of raw materials and will cause inflationary pressures to develop throughout 2011 and 2012.

**CRITICAL ACCOUNTING POLICIES**

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

The Company's critical accounting policies and estimates include:

***Revenue Recognition and Allowance for Doubtful Accounts*** Revenue from sales is recognized at the time title and the risks of ownership pass. This is when the customer has made the fixed commitment to purchase the goods, the products are shipped per the customer's instructions, the sales price is fixed and determinable, and collection is reasonably assured. The Company has in place procedures to ensure that revenue is recognized when earned. The procedures are subject to management's review and from time to time certain sales are excluded until it is clear that the title has passed and there is no further recourse to the Company. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed using standard quantitative measures based on historical losses, adjusted for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss.

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**Accrued Program Costs** In accordance with ASC 605 [Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration given by a Vendor to a Customer or Reseller of the Vendor's Products ( EITF 01-9 )*], the Company classifies certain payments to its customers as a reduction of sales revenues and other payments as operating expenses. The Company describes these costs overall as Programs. Programs are a critical part of doing business in the agricultural chemicals business place. For accounting purposes, programs fall into two categories. The first type of program is treated as a reduction in gross sales and includes market pricing adjustments, volume take up or other key performance indicator driven payments made to distributors or retailers at the end of a growing season. The second type of program is treated as operating expenses and is effectively re-imbursement of costs such as advertising, training, and other product stewardship type costs that we would otherwise spend ourselves (and report as operating expenses.). Each quarter management compares each sale transaction with published programs to determine what program liability has been incurred. Once this initial calculation is made for the specific quarter, sales and marketing management along with executive and financial management review the accumulated program balance and make assessments of whether or not customers are tracking in a manner that indicates that they will meet the requirements set out in the terms and conditions attached to each program. This includes, for example, annual volume take up, product line advertising and stewardship activities. If management believes that customers are falling short of their annual goals then periodic adjustments will be made to the accumulated accrual to properly reflect the Company's best estimate of the liability at the balance sheet date. Programs are paid out predominantly on an annual basis, usually in the first quarter of the financial year, though significant payments can also occur in the final quarter of a financial year.

**Long-lived Asset** The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Management considers the carrying value of long-lived assets to be reasonable. Generally, the 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, construction projects and significant improvements to existing plant and equipment. Interest costs related to significant construction projects are capitalized at the Company's weighted average cost of capital. Expenditures for maintenance and minor repairs are expensed as incurred. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss realized on disposition is reflected in earnings. All plant and equipment is depreciated using the straight-line method, utilizing the 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. The agricultural chemicals business involves complex manufacturing processes that drive high capital cost plant.

**Foreign Currency Translation** Assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, have been translated at period end exchange rates and profit and loss accounts have been translated using weighted average yearly exchange rates. Adjustments resulting from translation have been recorded in the equity section of the balance sheet as cumulative translation adjustments in other comprehensive income (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 to 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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***Derivative financial instruments and hedge activities*** In accordance with FASB ASC 815 [SFAS 133], *Accounting for Derivative Instruments and Hedging Activities*, the Company recognizes all derivative instruments as either other assets or other liabilities at fair market value on the balance sheet. In accordance with the hierarchy contained in FASB ASC 820 [SFAS 157], *Fair Value Measurements*, the Company calculated fair value using observable inputs other than Level 1 quoted prices (Level 2). At December 31, 2010, and 2009, the Company had no hedges in place related to foreign currency exposure. The Company did enter into one foreign currency hedge during 2010 and was settled in 2010. During 2009, there were no such hedges utilized. At December 31, 2010, the Company had in place one interest rate swap contract that is accounted for under FASB ASC 815. At December 31, 2009, the Company had in place two such swap contracts. The Company qualifies for the short cut method for these swaps and performs quarterly re-evaluations to determine continued qualification for this method. Any gains or losses on derivative instruments that are deemed effective are taken as an adjustment to other comprehensive income (loss). If any contracts are deemed ineffective, then gains and losses in those contracts are taken as an adjustment to operating income. As at December 31, 2010 and 2009, the Company's derivative instruments have been tested and no charge has been taken to income in both years.

***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 FASB ASC 320 [SFAS No. 142], *Goodwill and Other Intangible Assets*. Under the provisions of FASB ASC 320, 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 re-evaluates whether these intangible assets are impaired 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 consisting of a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss, if any, is recognized for the amount by which the carrying value exceeds the fair value of the asset. Fair value is typically estimated using a discounted cash flow analysis, which requires the Company to estimate the future cash flows anticipated to be generated by the particular asset(s) being tested for impairment as well as selecting a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, the Company considers historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by the Company, in such areas as: future economic conditions, industry-specific conditions, product pricing and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets, goodwill and identifiable intangible assets. The Company has performed an impairment review for the year ending December 2010 and there were no impairment losses recorded.

**ITEM 7A 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. 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 (originally the term loan was \$60,000) at any given time.

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

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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. A 10% change in the value of all foreign currencies would have an immaterial effect on the Company's financial position and cash flows. As part of an on going process of assessing business risk, management has identified risk factors which are disclosed in Item 1A. Risk Factors of this Report.

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements and Supplementary Data required by this item are listed at PART IV, Item 15, Exhibits, Financial Statement Schedules.

**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

As of December 31, 2010, management, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures are effective in ensuring that the information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported on a timely basis, and (ii) accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***Management's Report on Internal Control over Financial Reporting***

Management of the Company is responsible for the establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934 for American Vanguard Corporation and its subsidiaries (the Company). The Company's internal control system over financial reporting is designed to provide reasonable assurance to management and the Board of Directors as to the fair, reliable and timely preparation and presentation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America filed with the SEC.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even processes determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

Management conducted an evaluation of the Company's internal controls over financial reporting based on a framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the effectiveness of controls and a conclusion on the evaluation. Based on this evaluation, management believes that as of December 31, 2010, the Company's internal control over financial reporting is effective.



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**(Dollars in thousands, except per share data)**

BDO USA, LLP, the independent registered public accounting firm that audited the consolidated financial statements included in the Annual Report on Form 10-K, was engaged to attest to and report on the effectiveness of the American Vanguard's internal control over financial reporting as of December 31, 2010. Its report is included herein.

***Changes in Internal Controls over Financial Reporting***

There were no changes in internal controls over financial reporting during the quarter ended and year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting

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**AMERICAN VANGUARD CORPORATION  
AND SUBSIDIARIES**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders

American Vanguard Corporation

Newport Beach, California

We have audited American Vanguard Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). American Vanguard Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Vanguard Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Vanguard Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010 and our report dated March 10, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, California

March 10, 2011



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**AMERICAN VANGUARD CORPORATION  
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**ITEM 9B OTHER INFORMATION**

None.

**PART III**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information set forth under the captions Executive Officers of the Registrant, Election of Directors, Information About the Board of Directors and Committees of the Board and Transactions with Management and Others Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for our Annual Meeting of Stockholders to be held in 2011 (the Proxy Statement), which will be filed with the SEC within 120 days of the end of our fiscal year ended December 31, 2010, is incorporated herein by reference.

**ITEM 11 EXECUTIVE COMPENSATION**

Except specifically provided, the information set forth under the captions Compensation of Executive Officers and Information About the Board of Directors and Committees of the Board Compensation of Directors in the Proxy Statement is incorporated herein by reference.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The disclosure contained in Part II, Item 5 under Equity Compensation Plan Information is incorporated herein by reference. Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information set forth under the captions Transactions with Management and Others and Information About the Board of Directors and Committees of the Board in the Proxy Statement is incorporated herein by reference.

**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding principal accountant fees and services is incorporated by reference to the information set forth under the caption Ratification of the Selection of Independent Registered Public Accounting Firm Relationship of the Company with Independent Registered Public Accounting Firm in the Proxy Statement.

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**REPORT OF THE AUDIT COMMITTEE**

The responsibilities of the Audit Committee, which are set forth in the Audit Committee Charter, include providing oversight to the Company's financial reporting process through periodic meetings with the Company's independent registered public accounting firm and management to review accounting, auditing, internal controls and financial reporting matters. The management of the Company is responsible for the preparation and integrity of the financial reporting information and related systems of internal controls. The Audit Committee, in carrying out its role, relies on the Company's senior management, including senior financial management, and its independent auditors.

We have reviewed and discussed with senior management the Company's audited financial statements included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission. Management has confirmed to us that such financial statements (i) have been prepared with integrity and objectivity and are the responsibility of management and (ii) have been prepared in conformity with generally accepted accounting principles.

We have discussed with BDO USA, LLP, the Company's independent registered public accounting firm, the matters required to be discussed by ASC 380 [SAS 61] (Communications with Audit Committee). ASC 380 requires our independent auditors to provide us with additional information regarding the scope and results of their audit of the Company's financial statements, including with respect to (i) their responsibility under generally accepted auditing standards, (ii) significant accounting policies, (iii) management judgments and estimates, (iv) any significant audit adjustments, (v) any disagreements with management, and (vi) any difficulties encountered in performing the audit.

We have received from BDO USA, LLP, a letter providing the disclosures required by Independence Standards Board Standard No. 1. (Independence Discussions with Audit Committees) with respect to any relationships between BDO USA, LLP and the Company that in their professional judgment may reasonably be thought to bear on independence. BDO USA, LLP has discussed its independence with us, and has confirmed in such letter that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws.

Based on the review and discussions described above with respect to the Company's audited financial statements, we have recommended to the Board of Directors that such financial statements be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

As specified in the Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. That is the responsibility of management and the Company's independent auditors. In addition, it is not the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditors, or to assure compliance with laws and regulations and the Company's Code of Conduct and Ethics. In giving our recommendation to the Board of Directors, we have relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent registered public accounting firm with respect to such financial statements.

**AUDIT COMMITTEE**

Irving J. Thau, Chair

Carl R. Soderlind

Lawrence S. Clark

Alfred Ingulli

March 10, 2011



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**AMERICAN VANGUARD CORPORATION**  
**AND SUBSIDIARIES**

**PART IV**

**ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:  
Index to Consolidated Financial Statements and Supplementary Data:

| Description                                                                                                                                 | Page No. |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Financial Statements:                                                                                                                       |          |
| <u>Report of Independent Registered Public Accounting Firm</u>                                                                              | 43       |
| <u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>                                                                         | 44       |
| <u>Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009, and 2008</u>                                          | 45       |
| <u>Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2010, 2009 and 2008</u> | 46       |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009, and 2008</u>                                          | 47       |
| <u>Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements</u>                                            | 49       |

(b) Exhibits:  
The exhibits listed on the accompanying Index To Exhibits, page 101 are filed as part of this annual report.

(c) Valuation and qualifying accounts:

**Schedule II-A Valuation and Qualifying Accounts**

Allowance for Doubtful Accounts Receivable (in thousands)

| Fiscal Year Ended | Balance<br>at<br>Beginning<br>of<br>Period | Additions Charged to<br>Costs<br>and<br>Expenses | Other | Deductions | Balance at<br>End of<br>Period |
|-------------------|--------------------------------------------|--------------------------------------------------|-------|------------|--------------------------------|
| December 31, 2010 | \$ 636                                     | (189)                                            |       |            | \$ 447                         |
| December 31, 2009 | 472                                        | 164                                              |       |            | 636                            |
| December 31, 2008 | 418                                        | 54                                               |       |            | 472                            |

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**AMERICAN VANGUARD CORPORATION**

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, American Vanguard Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**AMERICAN VANGUARD CORPORATION**

**(Registrant)**

By: /s/ ERIC G. WINTEMUTE  
**Eric G. Wintemute**  
**President, Chief Executive Officer**

**and Director**

March 10, 2011

By: /s/ DAVID T. JOHNSON  
**David T. Johnson**  
**Chief Financial Officer & Principal Accounting Officer**

March 10, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

By: /s/ HERBERT A. KRAFT  
**Herbert A. Kraft**  
**Co-Chairman**

March 10, 2011

By: /s/ JOHN L. KILLMER  
**John L. Killmer**  
**Director**

March 10, 2011

By: /s/ LAWRENCE S. CLARK  
**Lawrence S. Clark**  
**Director**

March 10, 2011

By: /s/ CARL R. SODERLIND  
**Carl R. Soderlind**  
**Director**

March 10, 2011

By: /s/ JOHN B. MILES  
**John B. Miles**  
**Director**

March 10, 2011

By: /s/ ALFRED INGULLI  
**Alfred Ingulli**  
**Director**

March 10, 2011

By: /s/ IRVING J. THAU  
**Irving J. Thau**  
**Director**

March 10, 2011

/s/ ESMAIL ZIRAKPARVAR  
**Esmail Zirakparvar**  
**Director**

March 10, 2011

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**AMERICAN VANGUARD CORPORATION  
AND SUBSIDIARIES**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

American Vanguard Corporation

Newport Beach, California

We have audited the accompanying consolidated balance sheets of American Vanguard Corporation as of December 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index under Item 15(c). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Vanguard Corporation at December 31, 2010 and 2009, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Vanguard Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, California

March 10, 2011

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**AMERICAN VANGUARD CORPORATION**  
**AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**December 31, 2010 and 2009**

**(Dollars in thousands, except per share data)**

|                                                                                                                                       | 2010       | 2009       |
|---------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| <b>Assets</b>                                                                                                                         |            |            |
| Current assets:                                                                                                                       |            |            |
| Cash                                                                                                                                  | \$ 1,158   | \$ 383     |
| Receivables:                                                                                                                          |            |            |
| Trade, net of allowance for doubtful accounts of \$447 and \$636, respectively                                                        | 33,833     | 40,681     |
| Other                                                                                                                                 | 263        | 382        |
|                                                                                                                                       | 34,096     | 41,063     |
| Inventories                                                                                                                           | 74,054     | 72,512     |
| Prepaid expenses                                                                                                                      | 2,622      | 2,143      |
| Income taxes receivable                                                                                                               | 6,715      | 4,132      |
| Total current assets                                                                                                                  | 118,645    | 120,233    |
| Property, plant and equipment, net                                                                                                    | 40,541     | 39,196     |
| Intangible assets, net                                                                                                                | 115,249    | 86,973     |
| Other assets                                                                                                                          | 7,364      | 8,866      |
|                                                                                                                                       | \$ 281,799 | \$ 255,268 |
| <b>Liabilities and Stockholders' Equity</b>                                                                                           |            |            |
| Current liabilities:                                                                                                                  |            |            |
| Current installments of long-term debt                                                                                                | \$ 8,427   | \$ 8,528   |
| Accounts payable                                                                                                                      | 13,961     | 11,958     |
| Deferred revenue                                                                                                                      | 5,568      |            |
| Accrued program costs                                                                                                                 | 18,596     | 27,188     |
| Accrued expenses and other payables                                                                                                   | 4,634      | 3,762      |
| Total current liabilities                                                                                                             | 51,186     | 51,436     |
| Long-term debt, excluding current installments                                                                                        | 53,712     | 45,432     |
| Other long-term liabilities                                                                                                           | 3          | 192        |
| Deferred income taxes                                                                                                                 | 10,461     | 5,121      |
| Total liabilities                                                                                                                     | 115,362    | 102,181    |
| 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 29,735,928 shares in 2010 and 29,575,562 shares in 2009 | 2,974      | 2,958      |
| Additional paid-in capital                                                                                                            | 43,403     | 41,529     |

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|                                                                      |            |            |
|----------------------------------------------------------------------|------------|------------|
| Accumulated other comprehensive loss                                 | (448)      | (1,743)    |
| Retained earnings                                                    | 123,661    | 113,496    |
|                                                                      | 169,590    | 156,240    |
| Less treasury stock, at cost, 2,260,996 shares in both 2010 and 2009 | (3,153)    | (3,153)    |
| Total stockholders' equity                                           | 166,437    | 153,087    |
|                                                                      | \$ 281,799 | \$ 255,268 |

See summary of significant accounting policies and notes to consolidated financial statements.

**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Years ended December 31, 2010, 2009 and 2008****(Dollars in thousands, except per share data)**

|                                                       | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|-------------------------------------------------------|-------------|-------------|-------------|
| Net sales                                             | \$ 229,620  | \$ 209,329  | \$ 237,538  |
| Cost of sales                                         | 140,538     | 148,903     | 136,407     |
| Gross profit                                          | 89,082      | 60,426      | 101,131     |
| Operating expenses                                    | 69,891      | 66,755      | 64,987      |
| Operating income (loss)                               | 19,191      | (6,329)     | 36,144      |
| Interest expense                                      | 3,171       | 3,253       | 4,300       |
| Interest income                                       |             |             | (75)        |
| Interest capitalized                                  | (154)       | (44)        | (254)       |
| Income (loss) before provision for income taxes       | 16,174      | (9,538)     | 32,173      |
| Income taxes expense (benefit)                        | 5,190       | (3,749)     | 12,154      |
| Net income (loss)                                     | \$ 10,984   | \$ (5,789)  | \$ 20,019   |
| Earnings (loss) per common share basic                | \$ 0.40     | \$ (0.21)   | \$ 0.75     |
| Earnings (loss) per common share assuming dilution    | \$ 0.40     | \$ (0.21)   | \$ 0.73     |
| Weighted average shares outstanding basic             | 27,385      | 27,120      | 26,638      |
| Weighted average shares outstanding assuming dilution | 27,652      | 27,120      | 27,469      |

See summary of significant accounting policies and notes to consolidated financial statements.

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**AMERICAN VANGUARD CORPORATION**  
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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**

**Years ended December 31, 2010, 2009 and 2008**

**(Dollars in thousands, except per share data)**

|                                                                 | Common Stock |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(loss) |                         | Treasury Stock |            | Total      |
|-----------------------------------------------------------------|--------------|----------|----------------------------------|----------------------|--------------------------------------------------------|-------------------------|----------------|------------|------------|
|                                                                 | Shares       | Amount   |                                  |                      | Income                                                 | Comprehensive<br>Income | Shares         | Amount     |            |
| <b>Balance, December 31, 2007</b>                               | 28,650,829   | \$ 2,865 | \$ 36,551                        | \$ 103,004           | \$ 64                                                  | \$                      | 2,226,796      | \$ (2,745) | \$ 139,739 |
| Stocks issued under ESPP                                        | 42,215       | 4        | 559                              |                      |                                                        |                         |                |            | 563        |
| Cash dividends on common stock<br>(\$0.08 per share)            |              |          |                                  | (2,127)              |                                                        |                         |                |            | (2,127)    |
| Foreign currency translation<br>adjustment, net                 |              |          |                                  |                      | (1,137)                                                | (1,137)                 |                |            | (1,137)    |
| Unrealized loss on currency<br>forward cover contracts          |              |          |                                  |                      | (539)                                                  | (539)                   |                |            | (539)      |
| Changes in fair value of interest<br>swap                       |              |          |                                  |                      | (1,981)                                                | (1,981)                 |                |            | (1,981)    |
| Stock based compensation                                        |              |          | 822                              |                      |                                                        |                         |                |            | 822        |
| Treasury stock acquired                                         |              |          |                                  |                      |                                                        |                         | 34,200         | (408)      | (408)      |
| Stock options exercised and grants<br>of restricted stock units | 516,819      | 51       | 941                              |                      |                                                        |                         |                |            | 992        |
| Net income                                                      |              |          |                                  | 20,019               |                                                        | 20,019                  |                |            | 20,019     |
| <b>Total comprehensive income</b>                               |              |          |                                  |                      |                                                        | \$ 16,362               |                |            |            |
| <b>Balance, December 31, 2008</b>                               | 29,209,863   | 2,920    | 38,873                           | 120,896              | (3,593)                                                |                         | 2,260,996      | (3,153)    | 155,943    |
| Stocks issued under ESPP                                        | 48,492       | 5        | 496                              |                      |                                                        |                         |                |            | 501        |
| Cash dividends on common stock<br>(\$0.06 per share)            |              |          |                                  | (1,611)              |                                                        |                         |                |            | (1,611)    |
| Foreign currency translation<br>adjustment, net                 |              |          |                                  |                      | 441                                                    | 441                     |                |            | 441        |
| Unrealized loss on currency<br>forward cover contracts          |              |          |                                  |                      | 539                                                    | 539                     |                |            | 539        |
| Stock based compensation                                        |              |          | 1,223                            |                      |                                                        |                         |                |            | 1,223      |
| Changes in fair value of interest<br>swap                       |              |          |                                  |                      | 870                                                    | 870                     |                |            | 870        |
| Stock options exercised and grants<br>of restricted stock units | 317,207      | 33       | 937                              |                      |                                                        |                         |                |            | 970        |
| Net loss                                                        |              |          |                                  | (5,789)              |                                                        | (5,789)                 |                |            | (5,789)    |
| <b>Total comprehensive loss</b>                                 |              |          |                                  |                      |                                                        | \$ (3,939)              |                |            |            |
| <b>Balance, December 31, 2009</b>                               | 29,575,562   | 2,958    | 41,529                           | 113,496              | (1,743)                                                |                         | 2,260,996      | (3,153)    | 153,087    |
| Stocks issued under ESPP                                        | 60,047       | 6        | 480                              |                      |                                                        |                         |                |            | 486        |
| Cash dividends on common stock<br>(\$0.03 per share)            |              |          |                                  | (819)                |                                                        |                         |                |            | (819)      |
| Foreign currency translation<br>adjustment, net                 |              |          |                                  |                      | 201                                                    | 201                     |                |            | 201        |
| Stock based compensation                                        |              |          | 1,122                            |                      |                                                        |                         |                |            | 1,122      |

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|                                                              |            |          |           |            |          |           |           |                       |
|--------------------------------------------------------------|------------|----------|-----------|------------|----------|-----------|-----------|-----------------------|
| Changes in fair value of interest swap                       |            |          |           |            | 1,094    | 1,094     |           | 1,094                 |
| Stock options exercised and grants of restricted stock units | 100,319    | 10       | 272       |            |          |           |           | 282                   |
| Net Income                                                   |            |          |           | 10,984     |          | 10,984    |           | 10,984                |
| Total comprehensive loss                                     |            |          |           |            |          | \$ 12,279 |           |                       |
| <b>Balance, December 31, 2010</b>                            | 29,735,928 | \$ 2,974 | \$ 43,403 | \$ 123,661 | \$ (448) |           | 2,260,996 | \$ (3,153) \$ 166,437 |

See summary of significant accounting policies and notes to consolidated financial statements

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**AMERICAN VANGUARD CORPORATION**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended December 31, 2010, 2009 and 2008**

**(Dollars in thousands, except per share data)**

|                                                                                                         | 2010      | 2009       | 2008      |
|---------------------------------------------------------------------------------------------------------|-----------|------------|-----------|
| <b>Increase (decrease) in cash</b>                                                                      |           |            |           |
| Cash flows from operating activities:                                                                   |           |            |           |
| Net income (loss)                                                                                       | \$ 10,984 | \$ (5,789) | \$ 20,019 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:                |           |            |           |
| Depreciation and amortization                                                                           | 9,917     | 9,050      | 7,271     |
| Amortization of intangibles                                                                             | 4,464     | 4,437      | 4,342     |
| Loss from foreign currency contracts                                                                    |           |            | 174       |
| Stock-based compensation expense related to stock options, employee stock purchases and directors' fees | 1,122     | 1,223      | 822       |
| (Increase) decrease in deferred income taxes                                                            | 5,342     | (778)      | 3,700     |
| Changes in assets and liabilities associated with operations:                                           |           |            |           |
| Decrease in net receivables                                                                             | 6,967     | 10,905     | 4,602     |
| (Increase) decrease in inventories                                                                      | (1,542)   | 18,114     | (27,171)  |
| Increase in income tax receivable                                                                       | (2,583)   | (4,132)    |           |
| Increase in prepaid expenses and other assets                                                           | (2,235)   | (2,898)    | (4,913)   |
| Increase (decrease) in accounts payable                                                                 | 3,095     | (2,828)    | (1,871)   |
| Increase in deferred revenue                                                                            | 5,568     |            |           |
| (Decrease) Increase in other payables and accrued expenses                                              | (7,909)   | 4,647      | (6,091)   |
| Net cash provided by operating activities                                                               | 33,190    | 31,951     | 884       |
| Cash flows from investing activities:                                                                   |           |            |           |
| Capital expenditures                                                                                    | (8,004)   | (4,322)    | (14,444)  |
| Acquisitions of intangible assets                                                                       | (32,677)  |            | (10,439)  |
| Net cash used in investing activities                                                                   | (40,681)  | (4,322)    | (24,883)  |
| Cash flows from financing activities:                                                                   |           |            |           |
| Net borrowings (repayments) under line of credit agreement                                              | 4,700     | (21,900)   | 24,500    |
| Payments on long-term debt                                                                              | (8,107)   | (4,106)    | (4,106)   |
| Increase (decrease) in other notes payable                                                              | 11,586    | (2,438)    | 3,750     |
| Proceeds from the issuance of common stock                                                              | 768       | 1,470      | 1,555     |
| Acquisition of treasury stock                                                                           |           |            | (408)     |
| Payment of cash dividends                                                                               | (819)     | (1,611)    | (2,127)   |
| Net cash provided (used in) by financing activities                                                     | 8,128     | (28,585)   | 23,164    |
| Net increase (decrease) in cash                                                                         | 637       | (956)      | (835)     |
| Cash at beginning of year                                                                               | 383       | 1,229      | 3,201     |
| Effect of exchange rate changes on cash                                                                 | 138       | 110        | (1,137)   |

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|                     |          |        |          |
|---------------------|----------|--------|----------|
| Cash at end of year | \$ 1,158 | \$ 383 | \$ 1,229 |
|---------------------|----------|--------|----------|

## Supplemental cash flow information:

Cash paid during the year for:

|          |          |          |          |
|----------|----------|----------|----------|
| Interest | \$ 3,661 | \$ 3,279 | \$ 4,135 |
|----------|----------|----------|----------|

|              |          |          |          |
|--------------|----------|----------|----------|
| Income taxes | \$ 2,452 | \$ 3,361 | \$ 6,785 |
|--------------|----------|----------|----------|

See summary of significant accounting policies and notes to the consolidated financial statements

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

During 2010, the Company completed the acquisition of product lines and recorded intangible assets in the amount of \$32,677 of which \$20,655 was paid during the period. Furthermore, the Company made payments in the amount of \$400 associated with product line acquisitions completed in 2008.

During 2009, the Company made payments in the amount of \$2,400 associated with product line acquisitions completed in 2007 and 2008. Furthermore, the Company made a payment in the amount of \$150 associated with a fixed asset purchase made in 2008.

During 2008, the Company completed the acquisitions of product lines and recorded intangible assets in the amount of \$10,439 of which \$8,839 was paid in cash during the period. Also during 2008, the Company completed an asset purchase and recorded assets in the amount of \$350 of which \$200 was paid in cash during the year. At December 31, 2009, \$1,200 remains outstanding related to these transactions.

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The Company is primarily a specialty chemical manufacturer that develops and markets safe and effective products for agricultural and commercial uses. The Company manufactures and formulates chemicals for crops, human and animal protection. The consolidated financial statements include the accounts of American Vanguard Corporation ( Company ) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company operates within a single operating segment.

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

|               | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---------------|-------------|-------------|-------------|
| Net sales:    |             |             |             |
| Crop          | 204,424     | 180,837     | 194,886     |
| Non-Crop      | 25,196      | 28,492      | 42,652      |
|               | \$ 229,620  | \$ 209,329  | \$ 237,538  |
| Gross profit: |             |             |             |
| Crop          | \$ 79,163   | \$ 53,371   | \$ 87,815   |
| Non-crop      | 9,919       | 7,055       | 13,316      |
|               | \$ 89,082   | \$ 60,426   | \$ 101,131  |

The Company's subsidiary, GemChem, Inc., procures certain raw materials used in the Company's manufacturing operations and is also a distributor of various pharmaceutical and nutritional supplement products.

Due to elements inherent to the Company's business, such as differing and unpredictable weather patterns, crop growing cycles, changes in product mix of sales and ordering patterns that may vary in timing, 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 good an indicator as full-year comparisons.

**Cost of Goods Sold** In addition to normal centers (i.e., direct labor, raw materials) of cost of goods sold, the Company includes such cost centers as Health and Safety, Environmental, Maintenance and Quality Control in cost of goods sold.

**Other Than Cost of Goods Sold Operating Expenses** Operating expenses include such cost centers as Selling, General and Administrative, Research and Product Development, Regulatory/Registration, Freight, Delivery and Warehousing.

**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. Freight, delivery and warehousing costs were \$16,961 in 2010, \$15,422 in 2009 and \$19,566 in 2008.

**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 operations and were \$2,418 in 2010, \$2,632 in 2009 and \$3,267 in 2008.

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## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND

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(Dollars in thousands, except per share data)

**Inventories** The Company values its inventories at lower of cost or market. Cost is determined by the first-in, first-out ( FIFO ) method, including material, labor and factory overhead. The Company writes down and makes adjustments to its inventory carry values as a result of the effects of unutilized capacity, net realizable value assessments of slow moving and obsolete inventory and other annual adjustments to ensure that our standard costs continue to closely reflect manufacturing cost.

The components of inventories consist of the following:

|                   | 2010      | 2009      |
|-------------------|-----------|-----------|
| Finished products | \$ 67,316 | \$ 66,116 |
| Raw materials     | 6,738     | 6,396     |
|                   | \$ 74,054 | \$ 72,512 |

**Revenue Recognition and Allowance for Doubtful Accounts** Revenue from sales is recognized at the time title and the risks of ownership pass. This is when the customer has made the fixed commitment to purchase the goods, the products are shipped per the customer's instructions, the sales price is fixed and determinable, and collection is reasonably assured. The Company has in place procedures to ensure that revenue is recognized when earned. The procedures are subject to management's review and from time to time certain sales are excluded until it is clear that the title has passed and there is no further recourse to the Company. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed using standard quantitative measures based on historical losses, adjusted for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss.

**Accrued Program Costs** In accordance with ASC 605 [Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration given by a Vendor to a Customer or Reseller of the Vendor's Products ( EITF 01-9 )*], the Company classifies certain payments to its customers as a reduction of sales revenues and other payments as operating expenses. The Company describes these costs overall as Programs. Programs are a critical part of doing business in the agricultural chemicals business place. For accounting purposes, programs fall into two categories. The first type of program is treated as a reduction in gross sales and includes market pricing adjustments, volume take up or other key performance indicator driven payments made to distributors or retailers at the end of a growing season. The second type of program is treated as operating expenses and is effectively re-imbursement of costs such as advertising, training, and other product stewardship type costs that we would otherwise spend ourselves (and report as operating expenses.). Each quarter management compares each sale transaction with published programs to determine what program liability has been incurred. Once this initial calculation is made for the specific quarter, sales and marketing management along with executive and financial management review the accumulated program balance and make assessments of whether or not customers are tracking in a manner that indicates that they will meet the requirements set out in the terms and conditions attached to each program. This includes, for example, annual volume take up, product line advertising and stewardship activities. If management believes that customers are falling short of their annual goals then periodic adjustments will be made to the accumulated accrual to properly reflect the Company's best estimate of the liability at the balance sheet date. Programs are paid out predominantly on an annual basis, usually in the first quarter of the financial year, though significant payments can also occur in the final quarter of a financial year.

**Long-lived Assets** The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of



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the impairment loss is based on the fair value of the asset. Management considers the carrying value of long-lived assets to be reasonable. Generally, the 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, construction projects and significant improvements to existing plant and equipment. Interest costs related to significant construction projects are capitalized at the Company's weighted average cost of capital. Expenditures for maintenance and minor repairs are expensed as incurred. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss realized on disposition is reflected in earnings. All plant and equipment is depreciated using the straight-line method, utilizing the 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. The agricultural chemicals business involves complex manufacturing processes that drive high capital cost plant.

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

***Derivative financial instruments and hedge activities*** In accordance with FASB ASC 815 [SFAS 133], *Accounting for Derivative Instruments and Hedging Activities*, the Company recognizes all derivative instruments as either other assets or other liabilities at fair or market value on the balance sheet. In accordance with the hierarchy contained in FASB ASC 820 [SFAS 157], *Fair Value Measurements*, the Company calculated fair value using observable inputs other than Level 1 quoted prices (Level 2). At December 31, 2010, and 2009, the Company had no hedges in place related to foreign currency exposure. The Company did enter into one foreign currency hedge during 2010 and was settled in 2010. During 2009, there were no such hedges utilized. At December 31, 2010, the Company had in place one interest rate swap contract that is accounted for under FASB ASC 815. At December 31, 2009, the Company had in place two such swap contracts. The Company qualifies for the short cut method for these swaps and performs quarterly re-evaluations to determine continued qualification for this method. Any gains or losses on derivative instruments that are deemed effective are taken as an adjustment to other comprehensive income (loss). If any contracts are deemed ineffective, then gains and losses in those contracts are taken as an adjustment to operating income. As at December 31, 2010 and 2009, the Company's derivative instruments have been tested and no charge has been taken to income in both years.

***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 FASB ASC 350 [SFAS No. 142], *Goodwill and Other Intangible Assets*. Under the provisions of FASB ASC 350, 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

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demand, competition, and expected changes in the marketability of the Company's products. The Company re-evaluates whether these intangible assets are impaired 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, consisting of a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss, if any, is recognized for the amount by which the carrying value exceeds the fair value of the asset. Fair value is typically estimated using a discounted cash flow analysis, which requires the Company to estimate the future cash flows anticipated to be generated by the particular asset(s) being tested for impairment as well as selecting a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, the Company considers historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by the Company, in such areas as; future economic conditions, industry-specific conditions, product pricing and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets, goodwill and identifiable intangible assets. The Company has performed an impairment review for the year ending December 2010 and there were no impairment losses recorded.

***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 utilizes the liability method of accounting for income taxes as set forth in ASC 740. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances, the Company considers projected future taxable income and the availability of tax planning strategies. If in the future the Company determines that it would not be able to realize its recorded deferred tax assets, an increase in the valuation allowance would be recorded, decreasing earnings in the period in which such determination is made.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon the Company's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

***Per Share Information*** FASB ASC 260 [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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The components of basic and diluted earnings per share were as follows:

|                                                  | 2010      | 2009       | 2008      |
|--------------------------------------------------|-----------|------------|-----------|
| <b>Numerator:</b>                                |           |            |           |
| Net (loss) income                                | \$ 10,984 | \$ (5,789) | \$ 20,019 |
| <b>Denominator:</b>                              |           |            |           |
| Weighted average shares outstanding basic        | 27,385    | 27,120     | 26,638    |
| Assumed exercise of stock options fully dilutive | 267       |            | 831       |
|                                                  | 27,652    | 27,120     | 27,469    |

The assumed exercise of 1,145 stock options has been excluded from fully diluted earnings per share for the year ended December 31, 2009 because to do so would be anti-dilutive.

**Accounting Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses at the date that the financial statements are prepared. Actual results could differ from those estimates.

**Reclassifications** Certain prior years amounts have been reclassified to conform to the current year's presentation.

**Stock-Based Compensation** The Company accounts for stock-based awards to employees and directors using FASB ASC 718 [SFAS No. 123 (revised 2004)], Share-Based Payment. When applying the provisions of FASB ASC 718, the Company also applies the provisions of Staff Accounting Bulletin (SAB) No. 107 and SAB No. 110.

FASB ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statement of Operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's Consolidated Statement of Operations included compensation expense for the share-based payment awards granted subsequent to December 31, 2005. In conjunction with the adoption of FASB ASC 718 in 2006, the Company changed its method of attributing the value of stock-based compensation to expense from the accelerated multiple-option approach to the straight-line single option method. Stock-based compensation expense recognized in the Consolidated Statement of Operations for periods subsequent to December 31, 2005 has been reduced for forfeiture as required by FASB ASC 718. Estimated forfeitures recognized in the Company's Consolidated Statement of Operations reduced compensation expense at December 31, 2010 by \$148. The Company estimates that 4.5 percent of all restricted stock grants that are currently vesting will be forfeited. Estimated forfeitures for option awards are immaterial.

As of December 31, 2010, the Company had approximately \$2,706 of unamortized stock-based compensation expenses related to unvested options, which will be recognized over the weighted-average period of 2.9 years. As of December 31, 2010, the Company had approximately

\$703 of unamortized stock-based

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compensation expenses related to unvested restricted stock, which will be recognized over the weighted-average period of 1.1 years. This projected expense will change if any stock options and restricted stock are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

The Company uses the Black-Scholes option-pricing model ( Black-Scholes model ) to value option grants using the following weighted average assumptions:

|                               | <b>2010</b> | <b>2008</b> |
|-------------------------------|-------------|-------------|
| Risk free interest rate       | 2.70%       | 2.45%       |
| Dividend yield                | 0.30%       | 0.50%       |
| Volatility factor             | 54.00%      | 50.00%      |
| Weighted average life (years) | 6.7 years   | 5 years     |

The weighted average grant-date fair values of options granted during 2010 and 2008 were \$3.78 and \$7.11, respectively. There were no option shares granted during 2009.

The expected volatility and expected life assumptions are highly complex and uses subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company estimates expected term using the safe harbor provisions of SAB 107 and SAB 110. The Company used historical volatility as a proxy for estimating expected volatility.

The Company values restricted stock grants using the Company's traded stock price on the date of grant.

**Recently Issued Accounting Guidance**

In December 2010, Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-29, Business Combinations (Topic 805), *Disclosure of Supplementary Pro Forma Information for Business Combination* . The objective of this update is to address the different interpretation of the pro forma disclosure requirements of revenue and earnings for a business combination. The update specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt this standard to account for business combination when applicable.

In December 2010, FASB issued ASU 2010-28, Intangibles—Goodwill and Other (Topic 350), *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* . This update modifies Step 1 of the two step process of the goodwill impairment test for reporting with zero or negative goodwill where step 2 of this two step process will have to be performed if it is more than likely than not that a goodwill impairment exists. This update is effective for fiscal year and interim periods beginning after December 15, 2010. The Company will adopt this standard for goodwill when applicable.

In August 2010, Financial Accounting Standards Board (FASB) issued Update No. 21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs



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pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies. Under SEC Regulation S-X Rule 3-04, Changes to Other Stockholders' Equity, companies are required to present an analysis of the changes to stockholders' equity in the notes or in a separate statement. This amendment now requires changes in noncontrolling interests be included in the analysis of changes to stockholders' equity. Currently, the Company does not have any noncontrolling interests but will adopt this amendment when applicable.

**(1) Property, Plant and Equipment**

Property, plant and equipment at December 31, 2010 and 2009 consists of the following:

|                                          | 2010      | 2009      | Estimated<br>useful lives |
|------------------------------------------|-----------|-----------|---------------------------|
| Land                                     | \$ 2,458  | \$ 2,458  |                           |
| Buildings and improvements               | 8,131     | 7,368     | 10 to 30 years            |
| Machinery and equipment                  | 77,140    | 75,170    | 3 to 15 years             |
| Office furniture, fixtures and equipment | 6,710     | 5,848     | 3 to 10 years             |
| Automotive equipment                     | 284       | 245       | 3 to 6 years              |
| Construction in progress                 | 5,474     | 1,104     |                           |
|                                          | 100,197   | 92,193    |                           |
| Less accumulated depreciation            | (59,656)  | (52,997)  |                           |
|                                          | \$ 40,541 | \$ 39,196 |                           |

**(2) Long-Term Debt**

Long-term debt of the Company at December 31, 2010 and 2009 is summarized as follows:

|                                                                                                                                                                                                                                                                                                                             | 2010     | 2009     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Note payable, secured by certain real property, (interest 5.75% as of December 31, 2010)(a)                                                                                                                                                                                                                                 | \$ 1,941 | \$ 2,048 |
| Term loan, secured by personal property, payable in quarterly principal installments of \$2,000 plus interest (2.782% as of December 31, 2010) through December 31, 2009 and \$2,000 plus interest thereafter with remaining unpaid principal due December 15, 2013, at which time the remaining unpaid principal is due(a) | 40,000   | 48,000   |
| Notes payable on product acquisitions and asset purchases(b)                                                                                                                                                                                                                                                                | 12,898   | 1,312    |
| Revolving line of credit (interest rate of 5.75% at December 31, 2010)(a)                                                                                                                                                                                                                                                   | 7,300    | 2,600    |
|                                                                                                                                                                                                                                                                                                                             | 62,139   | 53,960   |

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|                           |           |           |
|---------------------------|-----------|-----------|
| Less current installments | 8,427     | 8,528     |
|                           | \$ 53,712 | \$ 45,432 |

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Approximate principal payments on long-term debt mature as follows:

|            |                  |
|------------|------------------|
| 2011       | \$ 8,427         |
| 2012       | 8,423            |
| 2013       | 10,022           |
| 2014       | 10,008           |
| 2015       | 10,000           |
| Thereafter | 15,259           |
|            | <b>\$ 62,139</b> |

- (a) On January 10, 2011, AMVAC Chemical Corporation ( AMVAC ), one of our subsidiaries, as borrower, and affiliates (including registrant), as guarantors, entered into an Amended and Restated Credit Agreement (the New Credit Agreement ) with a group of commercial lender led by Bank of the West (AMVAC's primary bank) as agent, swing line lender and L/C issuer. The New Credit Agreement supersedes the First Amendment to Credit Agreement ( First Amendment ) dated as of March 5, 2010 and more fully described in the Company's Form 8-K filed on March 8, 2010. The New Credit Agreement is a \$137,000 senior secured lending facility consisting of a revolving line of credit of \$75,000 and term loan commitments of \$62,000. Also included in the facility is an additional accordion feature for up to \$50,000. In connection with retiring the entire outstanding balance of the term loans and revolving credit facility (plus accrued interest) of the First Amendment upon termination thereof, on January 10, 2011, AMVAC borrowed approximately \$62,000 under the New Credit Facility consisting of approximately \$62,000 in term loans. These loans bear interest at a variable rate of interest based on LIBOR and the Eurodollar Reserve of the Federal Reserve ( Eurodollar Rate Loan ), or, at Amvac's option, a variable rate of interest based upon the prime rate, the Federal Funds rate, and LIBOR ( Alternative Base Rate Loan ). The principal payments of the term loans are payable (a) in equal quarterly installments on or before the last business day of each March, June, September and December (i) through 2012 in the amount of \$2,000, and (ii) thereafter through December 2015 in the amount of \$2,500, and (b) the remainder, if any, not later than January 10, 2016. Interest accruing on the Eurodollar Rate Loans is payable on the last day of the interest period, which may be one, three or six months, as per borrower's election. Interest accruing on the Alternate Base Rate Loans is payable monthly, in arrears, on the last day of the month and on the maturity date of any such loan in the amount of interest then accrued but unpaid. Both the senior secured revolving line of credit and the term loans mature on January 10, 2016.

The note payable, secured by certain real property reported above, was consolidated with the term debt into one term loan as part of the new credit facility agreement. The remaining unpaid principal was paid in January 2011.

- (b) Notes payable on product acquisitions and asset purchases, with two remaining payments of \$400 each due in May of 2011 and 2012; two equal payments of \$6,011 due on January 1, 2012 and 2013; term payments on an asset purchase in the total amount of \$76.

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.



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At December 31, 2010 total indebtedness is \$62,139 as compared to \$53,960 at December 31, 2009. At December 31, 2010, based on its performance against the most restrictive covenants listed above, the Company has the capacity to increase its borrowings by up to \$38,132 under the credit facility agreement.

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

The Company's main bank is Bank of the West, a wholly-owned subsidiary of the French bank, BNP Paribas. Bank of the West has been the Company's bank for more than 30 years. Bank of the West is the syndication manager for the Company's loans and acts as the counterparty on the Company's derivative transactions. The Company reviews the creditworthiness of its banks on a quarterly basis via both credit agencies and face-to-face meetings with senior management of the banks. Management believes that the Company has an excellent working relationship with Bank of the West and the other financial institutions in the Company's lender group.

The Company has various loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet at December 31, 2010 and December 31, 2009. These are summarized in the following table:

| Indebtedness<br>\$000's                                   | December 31, 2010 |                 |                  | December 31, 2009 |                 |                  |
|-----------------------------------------------------------|-------------------|-----------------|------------------|-------------------|-----------------|------------------|
|                                                           | Long-term         | Short-term      | Total            | Long-term         | Short-term      | Total            |
| Term loan                                                 | \$ 32,000         | \$ 8,000        | \$ 40,000        | \$ 40,000         | \$ 8,000        | \$ 48,000        |
| Real estate                                               | 1,937             | 4               | 1,941            | 1,942             | 106             | 2,048            |
| Working capital revolver                                  | 7,300             |                 | 7,300            | 2,600             |                 | 2,600            |
| Notes payable on product acquisitions and asset purchases | 12,475            | 423             | 12,898           | 890               | 422             | 1,312            |
| <b>Total indebtedness</b>                                 | <b>\$ 53,712</b>  | <b>\$ 8,427</b> | <b>\$ 62,139</b> | <b>\$ 45,432</b>  | <b>\$ 8,528</b> | <b>\$ 53,960</b> |

The average amount outstanding of the senior secured revolving line of credit during the years ended December 31, 2010 and 2009 was \$14,388 and \$39,104. The weighted average interest rate on the revolving credit line during the years ended December 31, 2010 and 2009 was 3.8% and 2.1% respectively.

**(3) Income Taxes**

The components of income tax expense (benefit) are:

|          | 2010     | 2009       | 2008     |
|----------|----------|------------|----------|
| Current: |          |            |          |
| Federal  | \$ (615) | \$ (2,091) | \$ 5,638 |
| State    | 61       | (981)      | 1,971    |
| Foreign  | 402      | 293        | 845      |

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|           |          |            |           |
|-----------|----------|------------|-----------|
| Deferred: |          |            |           |
| Federal   | 4,389    | (72)       | 3,411     |
| State     | 953      | (898)      | 289       |
|           | \$ 5,190 | \$ (3,749) | \$ 12,154 |

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Total income tax expense (benefit) differed from the amounts computed by applying the U.S. Federal income tax rate of 35.0% to income before income tax expense as a result of the following:

|                                                           | 2010     | 2009       | 2008      |
|-----------------------------------------------------------|----------|------------|-----------|
| Computed tax expense (benefit) at statutory federal rates | \$ 5,660 | \$ (3,339) | \$ 11,261 |
| Increase (decrease) in taxes resulting from:              |          |            |           |
| State taxes, net of federal income tax benefit            | 742      | (431)      | 1,544     |
| Domestic production deduction                             | (345)    |            | (412)     |
| Income tax credits                                        | (315)    | (616)      | (239)     |
| Other expenses                                            | (552)    | 637        |           |
|                                                           | \$ 5,190 | \$ (3,749) | \$ 12,154 |

The components of income (loss) before provision (benefit) for income taxes are as follows:

|          | 2010      | 2009        | 2008      |
|----------|-----------|-------------|-----------|
| Domestic | \$ 14,811 | \$ (10,841) | \$ 29,170 |
| Foreign  | 1,363     | 1,303       | 3,003     |
|          | \$ 16,174 | \$ (9,538)  | \$ 32,173 |

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the net deferred tax liability at December 31, 2010 and 2009 relate to the following:

|                        | 2010     | 2009     |
|------------------------|----------|----------|
| Current:               |          |          |
| Inventories            | \$ 2,395 | \$ 7,128 |
| State income taxes     | (387)    | (515)    |
| Vacation pay accrual   | 253      | 215      |
| Accrued bonuses        | 730      | (126)    |
| Bad Debt               | 79       | 150      |
| Tax Credit             |          | 209      |
| Prepaid expenses       | (1,179)  | (1,163)  |
| Other                  | 900      | 40       |
| Net deferred tax asset | 2,791    | 5,938    |

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|                                                                                              |             |            |
|----------------------------------------------------------------------------------------------|-------------|------------|
| Non-Current:                                                                                 |             |            |
| Plant and equipment, principally due to differences in depreciation and capitalized interest | (13,518)    | (11,202)   |
| NOL Carry Forward                                                                            | 266         | 143        |
| Net deferred tax liability                                                                   | (13,252)    | (11,059)   |
| Total net deferred tax liability                                                             | \$ (10,461) | \$ (5,121) |

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The following is a rollforward of the Company's total gross unrecognized tax liabilities, not including interest and penalties, for the fiscal year ended December 31, 2010:

|                                                         | <b>Gross<br/>Unrecognized Tax<br/>Liabilities</b> |
|---------------------------------------------------------|---------------------------------------------------|
| Balance at December 31, 2009                            | \$ 181                                            |
| Additions for tax positions related to the current year | 63                                                |
| Additions for tax positions related to the prior year   | 9                                                 |
| Deletions for tax positions related to the prior year   | (129)                                             |
| Balance at December 31, 2010                            | \$ 124                                            |

The Company recognizes accrued interest and penalties related to contingent tax liabilities in provision for income taxes in the Company's consolidated financial statements. As of December 31, 2010, the Company had approximately \$100 in interest and penalties related to recognized tax benefits accrued. It is not expected that the amounts of unrecognized tax benefits will change in the next 12 months.

The Company has state net operating tax loss carry forwards of approximately \$4,070 which expires on 2031. The net operating loss carry forward is related to a state in which the utilization of the net operating loss carryover is temporarily suspended under tax law.

In June 2010, the Internal Revenue Service concluded its examination of the Company's tax returns for the 2006, 2007, and 2008 tax years. The examination was concluded with no adjustments. The Company upheld its uncertain tax positions related to the Federal tax returns and as a result, the amount of gross unrealized tax was reduced by \$113. The removal of accrued uncertain tax positions and interest and penalties previously recorded resulted in a \$120 increase in net income for the year ended December 31, 2010.

The Company is subject to U.S. federal income tax as well as to income tax in multiple state jurisdictions. Federal income tax returns of the Company are subject to IRS examination for the 2007 through 2009 tax years. State income tax returns are subject to examination for the 2006 through 2009 tax years.

**(4) Litigation and Environmental****PCNB Matters.**

On or about April 6, 2010, the Pest Management Regulatory Agency (PMRA) notified the Company of its intention to cancel the Canadian registration for the compound, pentachloronitrobenzene (PCNB) in that country, citing as a reason the Company's failure to provide certain manufacturing data to the agency in a timely fashion. The Company subsequently provided the agency with the required data, and PMRA extended its notice to permit continued registration through at least the end of the calendar year. Further, in June 2010, PMRA issued a re-evaluation of PCNB and concluded that turf uses should be cancelled as of the end of calendar year 2010. In August 2010, the Company filed a notice of objection to the re-evaluation and sought a hearing on the matter at which to present technical data in support of that use. PMRA failed to respond to the notice of objection and has not set a hearing. As of December 31, 2010, then, the turf use for PCNB was discontinued in Canada. The Company has challenged this action on the ground that, among other things, PMRA abused its discretion in failing to set a hearing

on the Company's objection. In late February 2011, PMRA responded to the Company's

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request for relief against cancellation and indicated that it was unwilling to reverse the cancellation informally. Accordingly, the Company intends to take formal action to have the registration reinstated. There is approximately \$1,300 worth of PCNB inventory in the Canadian distribution channel for which the Company has not been paid. In light of PMRA's current position, it is possible that some or all of that material may be returned. It is uncertain whether such goods will be returned. Further, it is unclear to what extent the goods can be repackaged and resold. These questions may be dependent in part upon the outcome of the Company's negotiations with USEPA as per the following section. The Company believes that a loss is probable within the range of \$500 to \$1,000 and has set up a loss contingency of \$500. We will revisit this reserve as negotiations with PMRA and USEPA develop further.

In August 2010, the USEPA issued a Stop Sale, Use and Removal Order (SSURO) relating to the Company's USEPA-registered 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 are not listed on the CSF. The SSURO was issued by the agency without either i) a specific finding of risk, ii) providing the Company an opportunity to present a technical case, or iii) any forewarning. Despite its efforts, the Company was unable to obtain informal resolution of the matter with the agency and, in an effort to protect its business, filed an action against USEPA with the United States District Court for the District of Columbia in late August in which it sought emergency and permanent injunctive relief.

On September 2, 2010, that court denied the Company's motion for emergency relief, finding in effect that while it was concerned about unfairness in USEPA's actions, the agency was empowered to take those actions. Following the court's denial, the Company filed an amended CSF with the agency and is currently in discussion with USEPA on technical matters relating to the CSF. Just prior to the statutory deadline (PRIA deadline), USEPA stated that it needed more time to complete its risk assessment, and the Company granted a 30 day extension (until March 10, 2011) and the parties held a meeting between their technical teams on March 3, 2011. At that meeting, the agency presented preliminary results of its health effects and impact of the impurity in certain PCNB products in light of the amended CSF. It should be noted that the agency's technical team is still working on the environmental fate effects analysis. While it is too early to predict the agency's final position on the amended CSF, the Company is encouraged by the agency's preliminary health effects analysis as it relates to certain major uses. At present, the parties are discussing a further extension of the PRIA deadline to facilitate further analysis and discussion between the technical teams. The Company continues to pursue a preliminary injunction through the litigation pending against USEPA; no hearing has yet been set, but the court has been briefed by both sides. At December 31, 2010, the Company held inventories in the amount of \$17,415 and associated intangible assets of \$5,241 relating to this product line. It is too early in the process to predict with any certainty how long the review at USEPA may take, or what the agency's final conclusions will likely be with respect to either the CSF or the SSURO. Accordingly, the Company cannot conclude that a loss is probable and has not set up a loss contingency. However, if the registration were to be cancelled, and the Company were required to write off its inventory and intangible assets, such losses would be in the range of \$22,656, not including inventory disposal and equipment cleanup and decommissioning costs. It is possible that an inventory writeoff would be less than the then current value of inventory, as the Company may be able to sell some or all of these goods outside of the United States over time.

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***A. DBCP Cases***

Over the course of the past 30 years, AMVAC and/or the Company have been named or otherwise implicated in a number of lawsuits concerning injuries allegedly arising from either contamination of water supplies or personal exposure to 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 U.S. EPA to control nematodes. DBCP was also applied on banana farms in Latin America. The U.S. EPA suspended registrations of DBCP in October 1979, except for use on pineapples in Hawaii. The EPA suspension was partially based on 1977 studies by other manufacturers that indicated a link between male sterility and exposure to DBCP among their factory production workers producing the product.

At present, 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 have been filed in Nicaragua. Three of these domestic suits were brought by citizens of Nicaragua while the other domestic suits have been brought by citizens of other countries. These claims are all in various stages and allege injury from exposure to DBCP, including claims for sterility. Only two of the suits (*Suazo* and *Castillo*, indicated below) filed in Nicaragua have been served on AMVAC.

Over the course of 2009, two actions that had been filed in the Los Angeles County Superior Court (named *Mejia* and *Rivera*) involving claims for personal injury to Nicaraguan banana plantation workers allegedly arising from exposure to DBCP, were dismissed with prejudice by the court on its own motion with a finding of fraud on the court and blatant extortion of the defendants. We believe that the court's findings in these cases has diminished the viability of the pending Nicaraguan cases generally. Further, we believe that *Mejia* and *Rivera* have had an effect upon other cases involving exposure to foreign residents, most notably the several cases alleging injury to 668 residents of the Ivory Coast (pineapple plantation workers) which were dismissed in 2009 by the Los Angeles Superior Court without prejudice, as plaintiffs' counsel withdrew from the case and none other came forward to prosecute the action. As described more fully below, of the cases that are still pending domestically in 2010, *Patrickson* has been dismissed and is on appeal; the Mississippi and Louisiana cases have lain dormant for many years, and *Adams* and *Mendez*, while early in litigation, appear to involve claims that largely do not concern AMVAC.

***A. Hawaii Matters***

***Patrickson, et. al. v. Dole Food Co., et. al***

In October 1997, AMVAC was served with a Complaint(s) in which it was named as a defendant, filed in the Circuit Court, First Circuit, State of Hawaii and in the Circuit Court of the Second Circuit, State of Hawaii (two identical suits) entitled *Patrickson, et. al. v. Dole Food Co., et. al* ( Patrickson Case ) alleging damages sustained from injuries caused by plaintiffs' exposure to DBCP while applying the product in their native countries. Other named defendants include: Dole Food Co., Shell Oil Company, and Dow Chemical Company. The ten named plaintiffs are citizens of four countries Guatemala, Costa Rica, Panama, and Ecuador. Punitive damages are sought against each defendant. The plaintiffs were banana workers and allege that they were exposed to DBCP in applying the product in their native countries. The case was also filed as a class action on behalf of other workers so exposed in these four countries. The plaintiffs allege sterility and other injuries.

After several years of law and motion activity, Dow filed a motion for summary adjudication as to the remaining plaintiffs based on the statute of limitations, as they had filed suit in Florida in 1995. All defendants



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joined in this motion. The court granted this motion on June 9, 2009. Plaintiffs' counsel unsuccessfully argued that their claims were tolled by prior class action cases. On November 30, 2009, the court denied a motion for reconsideration. Judgment in favor of the defendants was entered on July 28, 2010. On August 24, 2010, the plaintiffs filed a notice of appeal. This appeal is presently pending. The Company believes that the appeal filed by plaintiffs has no merit and intends to oppose the appeal. The Company does not believe that a loss is either probable or reasonably estimable and, accordingly, has not set up a loss contingency with respect thereto.

**Adams v. Dole Food Co. et al**

On approximately November 23, 2007, AMVAC was served with a suit filed by two former Hawaiian pineapple workers and their spouses, alleging testicular cancer due to DBCP exposure: *Adams v. Dole Food Co. et al* in the First Circuit for the State of Hawaii. The complaint was filed on June 29, 2007 and names Dole Food Co., Standard Fruit and Steamship Company, Dole Fresh Food, Pineapple Growers Association, AMVAC, Shell Oil Co., Dow Chemical Co. and Occidental Corporation. Plaintiff Mark Adams alleges he was exposed to DBCP in 1974 and 1975 while working on Dole's plantation on Oahu. Plaintiff Nelson Ng alleges he was exposed between 1971 and 1973 while working in Lanai City, Lanai. AMVAC answered the complaint on or about December 14, 2007. While little discovery has taken place, AMVAC denies that any of its product could have been used at the times and locations alleged by these plaintiffs. Dole Food Co. was dismissed on the basis of the exclusive remedy of worker's compensation benefits as it was the employer of plaintiffs. However, plaintiffs have been granted relief to seek an interim appeal as to the dismissal of Dole. A stay has been placed on discovery other than to obtain written records. This appeal as to Dole is pending. The Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

**Mendez et al. v. The Dow Chemical Company et al.**

On June 4, 2010, nine complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii, a representative one of which is captioned *Mendez et al. v. Dow Chemical Company et al.* These complaints were filed by the same attorneys representing the Patrickson and Adams plaintiffs. A total of 60 individual workers (50 of whom are from Panama, six from Ecuador and four from Costa Rica) seek damages for physical injuries allegedly arising from exposure to DBCP in the 1970's. Other defendants named in the lawsuits include Shell Oil Company, Occidental Petroleum Corporation, Dole Food Company, and Amvac Chemical Corporation.

AMVAC was served with the complaints on November 30, 2010 and answered on January 19, 2011. There has been no discovery to date. AMVAC intends to defend these matters vigorously citing, among other things, the fact that, to its best knowledge, it has never sold DBCP to certain of the countries identified in the complaints. Thus, it is unknown as to how many of the plaintiffs claim exposure to AMVAC's product, what are the actual injuries, and whether their claims are barred by applicable statutes of limitation or other defenses. At this stage, then, the Company believes that a loss is neither probable nor reasonably estimable and has not accrued a loss contingency.

***B. Mississippi Matters***

In May 1996, AMVAC was served with five complaints in which it is named as a defendant. (These complaints were filed by the same attorneys representing the *Patrickson* plaintiffs in Hawaii.) The complaints are brought by plaintiffs Edgar Arroyo-Gonzalez, Eulogio Garzon-Larreategui, Valentin Valdez, Amilcar Belteton-Rivera, and Carlos Nicanor Espinola-E against a number of defendants, including Shell Oil Company, Dow

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Chemical Co., and Dole Food Company. The cases were filed in the Circuit Court of Harrison County, First Judicial District of Mississippi. Each case alleged damages sustained from injuries caused by plaintiffs (who are former banana workers and citizens of a Central American country) exposure to DBCP while applying the product in their native countries. These cases were removed to U.S. District Court for the Southern District of Mississippi, Southern Division. The federal court granted defense motions to dismiss in each case pursuant to the doctrine of *forum non conveniens*. On January 19, 2001, the court issued an unpublished decision, finding that there was jurisdiction in federal court, but remanded just one case (*Espinola-E*) back to the trial court based on a stipulation which limited the plaintiff's recovery to fifty thousand dollars. No activity has taken place on this matter since 2001. Without discovery, it is unknown whether this plaintiff was exposed to the Company's product or what defenses may apply. AMVAC intends to contest the cases vigorously. At this stage, the Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

*C. Louisiana Matters*

In November 1999, AMVAC was served with three complaints filed in the 29<sup>th</sup> Judicial District Court for the Parish of St. Charles, State of Louisiana entitled *Pedro Rodrigues et. al v. AMVAC Chemical Corporation et. al*, *Andres Puerto, et. al v. Amvac Chemical Corporation, et. al* and *Eduardo Soriano, et al v. Amvac Chemical Corporation et. al*. Other named defendants include Dow Chemical Company, Shell Oil Company, and Dole Food. These suits were filed in 1996, but they were not served until November 1999. Following a dismissal of most of the plaintiffs from the action (in light of the fact that they had previously settled their claims in other actions), the complaints, with *Soriano* as the lead case, allege personal injuries to about 314 persons (167 from Ecuador, 102 from Costa Rica, and 45 from Guatemala) from alleged exposure to DBCP (punitive damages are also sought). There has been no discovery in these cases to date and no procedural activity of any kind since February 2008. It is unknown as to how many of the plaintiffs claim exposure to AMVAC's product, what are the actual injuries, and whether their claims are barred by applicable statutes of limitation. AMVAC intends to vigorously contest these cases. At this stage, the Company does not believe that a loss is either probable or reasonably estimable and has not accrued a loss contingency.

*D. Nicaragua Matters*

*Suits filed in Nicaragua*

A review of court filings in Chinandega, Nicaragua, by local counsel has found 85 suits filed pursuant to Public Law 364 that name AMVAC and include approximately 3,592 plaintiffs. However, only two cases, *Castillo* and *Suazo*, have been served on AMVAC. All but one of the suits in Nicaragua have been filed pursuant to Special Law 364, an October 2000 Nicaraguan statute that contains substantive and procedural provisions that Nicaragua's Attorney General previously expressed as unconstitutional. Each of the Nicaraguan plaintiffs claims \$1,000 in compensatory damages and \$5,000 in punitive damages. In all of these cases, AMVAC is a joint defendant with Dow Chemical and Dole Food Company, Inc. In the two cases pending before Nicaraguan courts in which AMVAC has been served, the court has denied AMVAC's objection to jurisdiction, which is being appealed.

In May 2005, two suits filed in Nicaragua in 2004 were received that name AMVAC, The Dow Chemical Company, Dole Food Co., Dole Fresh Fruit, and Standard Fruit Company. The two suits for personal injuries for sterility and reduced sperm counts have been filed on behalf of a total of 15 banana workers: *Flavio Apolinar Castillo et al. v. AMVAC Chemical Corporation et al.*, No. 535/04 and *Luis Cristobal Martinez Suazo et al. v. AMVAC Chemical Corporation et al.*, No. 679/04. In December 2005, AMVAC received six additional, similar lawsuits filed on behalf of a total of 30 plaintiffs. On January 25, 2006, AMVAC was served with the *Suazo* and



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*Castillo* suits, and in March 2006, counsel in Nicaragua filed objections to jurisdiction over AMVAC in these two cases. The court finally ruled on all the defendants' objections on March 20, 2007 by denying each objection to jurisdiction.

AMVAC contends that the Nicaragua courts do not have jurisdiction over it and that Public Law 364 violates international due process of law. AMVAC intends to contest personal jurisdiction and demand under Law 364 that the claims be litigated in the United States. Thus far, it appears that the Nicaraguan courts have denied all requests of other defendants under Law 364 that allow the defendants the option of consenting to jurisdiction in the United States. It is not presently known as to how many of these plaintiffs actually claim exposure to DBCP at the time AMVAC's product was allegedly used nor is there any verification of the claimed injuries. Based on the precedent of the earlier suits in Nicaragua, it would appear likely that the Nicaragua courts will, over the defendants' objections, enter multi-million dollar judgments for the plaintiffs and against all defendants in these cases.

However, to date, plaintiffs have not had success in enforcing Nicaraguan judgments against domestic companies before U.S. courts. One such judgment (not including the Company) was entered in August 2005 for \$97,000 for 150 plaintiffs against Dole Food and other entities. It has also been reported that on December 1, 2006, the Nicaraguan court rendered a judgment for \$802,000 against Dow, Shell, Occidental, and Standard Fruit for some 1200 plaintiffs. An enforcement action (entitled *Osoorio*) against Dole and Dow for the \$97,000 judgment was filed in the U.S. District Court in Miami, Florida. In this enforcement action, on October 20, 2009, the federal court issued a lengthy decision refusing to enforce the judgment on the grounds that Law 364 violated due process of law and that the Nicaraguan courts were not impartial tribunals. The plaintiffs filed a notice of appeal to the Eleventh Circuit Court of Appeal on March 10, 2010. This appeal is still pending. While the dismissal is being appealed, this decision and the findings in the *Mejia* case may halt further attempts to enforce these foreign judgments.

***B. Other Matters***

**Archem Superfund Action.** On July 20, 2009, the Texas Commission on Environmental Quality (TCEQ) issued an administrative order (the Order) under which it identified parties that are potentially responsible for solid waste and/or hazardous substances at the ArChem/Thames Chelsea State Superfund Site (the Site). In that order, AMVAC was identified as one of 50 potentially responsible parties (PRP's) relating to TCEQ removal actions that were conducted at the Site in 1992 and 1993. The total cost of such removal actions for which that group of PRP's could be liable is approximately \$775. AMVAC's involvement in this matter purportedly arises from the single shipment of an intermediate compound sent to the Site for further synthesis in the late 1980's. Amvac has joined a group of PRP's which has challenged the Order by way of filing a petition with the District Court of Travis County, Texas in a matter captioned *Akzo Nobel etc. et al. v. Texas Commission on Environmental Quality, Cause No. D-1-6N-09-002820*. Petitioners challenged the Order on several grounds, including failure to provide PRP's with an evidentiary hearing and the fact that petitioners should not be liable as arrangers under CERCLA, as they sent useful product, not waste, to the Site. During the fourth quarter of 2010, petitioners and respondents have reached a settlement of the matter which, while subject to public comment and final approval, would require AMVAC to pay approximately \$50 in cash. Accordingly, the Company has set up a loss contingency of \$50.

**Wilson v. Gemchem.** On or about September 25, 2009, an action styled *Joseph K. Wilson v. Gemchem, Inc. etc.*, Civ. No. 02-CV-2009-901876.00, was filed in the Civil Court of Mobile, Alabama by a former employee who seeks compensation and medical expenses arising from physical injuries that he allegedly sustained when he tripped and fell at AMVAC's facility in Axis, Alabama. The Company does not believe that the claims have any

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merit and intends to defend the matter vigorously. Discovery has been taken on both sides. At this stage, the Company does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency therefor.

**Brazilian Citation.** On or about October 5, 2009, IBAMA (the Brazilian equivalent of the EPA) served the Company's subsidiary, Amvac do Brasil, with a Notice of Violation alleging that two lots of Granutox 150 (formulated product having phorate as the active ingredient) stored at BASF S.A. (AMVAC's exclusive distributor in Brazil) and FMC Quimica do Brasil Ltda. (which formulates end-use product in that country) were not in compliance with the end-use registration on file with IBAMA. Specifically, IBAMA alleged that the color of the lots (gray) was inconsistent with the description in IBAMA's files (pink). IBAMA also indicated an intention to assess a fine of approximately \$285 against Amvac do Brasil. The Company has challenged the citation, among other reasons, on the ground that the change in color has to do with the removal of a coloring component and that such removal poses no environmental or toxicity risk. At this stage, the Company believes that a loss of \$100 is probable and has set up a loss contingency in the amount of \$100.

**(5) Employee Deferred Compensation Plan and Employee Stock Purchase Plan**

The Company maintains a deferred compensation plan (the Plan) for all eligible employees. The Plan calls for each eligible employee, at the employee's election, to participate in an income deferral arrangement under Internal Revenue Code Section 401(k). The plan allows eligible employees to make contributions which cannot exceed 100% of compensation, or the annual dollar limit set by the Internal Revenue Code. The Company matches the first 5% of employee contributions. The Company's contributions to the Plan amounted to \$792, \$690 and \$761 in 2010, 2009 and 2008.

During 2001, the Company's Board of Directors adopted the American Vanguard Corporation Employee Stock Purchase Plan (the Plan). The Plan allows eligible employees to purchase shares of common stock through payroll deductions at a discounted price. An aggregate of 200,000 shares of the Company's Common Stock, par value \$.10 per share (subject to adjustment for any stock dividend, stock split or other relevant changes in the Company's capitalization) may be sold pursuant to the Plan which is intended to qualify under Section 423 of the Internal Revenue Code. The Plan allows for purchases in a series of offering periods, each six months in duration, with new offering periods (other than the initial offering period) commencing on January 1 and July 1 of each year. The initial offering period commenced on July 1, 2001. Pursuant to action taken by the Company's Board of Directors in December 10, 2010, the expiration of the Plan was extended to December 31, 2013.

Shares of common stock purchased through the Plan for 2010, 2009 and 2008 were 60,047, 48,492 and 44,215, respectively.

**(6) Major Customers and Export Sales**

In 2010, there were three companies that accounted for 23%, 19%, and 13% of the Company's consolidated sales. In 2009, there were three companies that accounted for 21%, 20% and 8% of the Company's consolidated sales. In 2008, there were three companies that accounted for 18%, 19%, and 9% of the Company's consolidated sales. These companies are distributors of the Company's products.

The Company primarily sells its products to large distributors and buying cooperatives and extends credit based on an evaluation of the customer's financial condition. The Company had three significant customers who

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each accounted for approximately 15%, 12% and 8% of the Company's receivables as of December 31, 2010. The Company had three significant customers who each accounted for approximately 13%, 13% and 9% of the Company's receivables as of December 31, 2009. The Company has long-standing relationships with its customers and the Company considers the credit risk to be low.

Worldwide export sales for 2010, 2009 and 2008 were as follows:

|                         | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|-------------------------|-------------|-------------|-------------|
| Mexico                  | \$ 13,887   | \$ 11,423   | \$ 12,319   |
| South & Central America | 7,541       | 6,604       | 7,599       |
| Asia                    | 5,485       | 5,214       | 3,582       |
| Canada                  | 5,100       | 7,378       | 10,918      |
| Africa                  | 2,575       | 2,399       | 2,727       |
| Europe                  | 2,275       | 3,134       | 2,725       |
| Other international     | 2,186       | 1,812       | 1,380       |
|                         | \$ 39,049   | \$ 37,964   | \$ 41,250   |

**(7) Royalties**

The Company had various royalty agreements in place extending through December 2010. These agreements relate to the acquisition of certain products as well as licensing arrangements. No agreement contains a minimum royalty provision. Certain royalty agreements contain confidentiality covenants. Royalty expenses were \$38, \$37 and \$95, respectively, for 2010, 2009 and 2008.

**(8) Product Acquisitions**

All product acquisitions made after January 1, 2009 have been accounted pursuant to FASB ASC 805 [FASB 141R].

On December 20, 2010 AMVAC completed the acquisition of a global product line relating to the active ingredient Tebupirimfos from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, and the trademarks Aztec®, Azteca® and Capinda®. When combined in a mixture with another active ingredient Cyfluthrin, the resulting dual AI product is a leading insecticide that is registered in the United States as Aztec and Mexico as Azteca, where it is used to combat such soil borne insects as rootworm, cutworm, wireworm, seed corn maggots/beetles and white grub in a variety of corn crops. Additionally, it is also registered in South Korea (and sold under the trade name Capinda) for use primarily in vegetable crops such as Chinese cabbage and ginseng.

On December 13, 2010 AMVAC completed the acquisition of a global insecticide product line relating to the active ingredient Ethoprophos (sold under the trade name Mocap®) from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, the Ultima® packaging system and the trademarks Mocap and Ultima. Mocap is a leading soil insecticide that is registered in 50 countries where it is used to combat nematode species in wide range of crops.



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**AMERICAN VANGUARD CORPORATION**

**AND SUBSIDIARIES**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share data)**

On December 7, 2010 AMVAC completed the acquisition of a global (except for Europe and Argentina) insecticide product line relating to the active ingredient Fenamiphos (sold under the trade name Nemacur®) from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories and the trademark Nemacur. Nemacur is a leading soil insecticide that is registered in 30 countries for use primarily as a nematicide with additional efficacy against above ground sucking insects.

On October 14, 2010 AMVAC and Kanesho Soil Treatment completed agreements with Certis-USA regarding the crop protection product Basamid® (dazomet) under which AMVAC will become the exclusive distributor and registration holder for this granular soil fumigant in the United States. Certis-USA, will continue to market Basamid into non-food crop applications under a distribution agreement with AMVAC. Basamid complements the strong market position of AMVAC's Vapa® & K-Pam® soil fumigant brands. The Company will be developing the use of Basamid for high-valued crop segments such as strawberries, tomatoes, lettuce & spinach and will be responsible for the re-registration of dazomet in the United States.

On July 21, 2010 AMVAC completed the acquisition of the U.S. cotton defoliant product Tribufos (sold under the trade name Def®) from BCS AG. The acquired assets include registrations and data rights, rights relating to manufacturing and formulation know-how, inventories, and the trademark Def. Def complements AMVAC's existing cotton defoliant product Fole®, which it has marketed since 2002. Both are fast and effective cotton defoliants that facilitate the removal of leaves surrounding the cotton boll and in combination with other products function as a harvest aid.

On May 16, 2008, AMVAC completed the acquisition of the Thimet insecticide product line from Aceto Agricultural Chemicals Corporation (Aceto Ag). Thimet is used on agricultural crops, mainly potatoes, corn, cotton, rice, sugarcane and peanuts, to protect against chewing and piercing-sucking insects. Purchased assets included registrations, data, know-how and certain inventories. The acquisition was made in connection with the settlement of litigation between AMVAC and Aceto Ag.

On March 7, 2008, AMVAC acquired from Bayer Cropscience LP (BCS LP) certain assets at BCS's facility located in Marsing, ID, (the Marsing Facility). The Marsing Facility consists of approximately 17 acres of improved real property, 15 of which are now owned by AMVAC and two of which are leased by AMVAC from the City of Marsing for a term of 25 years. The acquired assets, primarily include real property, buildings and manufacturing equipment. In connection with the acquisition, AMVAC and BCS agreed to enter into a master processor agreement under which AMVAC is providing certain tolling services to BCS for a period of four years.

On January 16, 2008, AMVAC, pursuant to the provisions of a definitive Sale and Purchase Agreement (the Agreement), acquired from Valent U.S.A. Corporation the Orthene® insecticide product line. Orthene is used on agricultural crops, including beans, brussels sprouts, cauliflower, celery, cotton, cranberries, head lettuce, mint and others and ornamental and forests. Under the Agreement, AMVAC purchased the proprietary formulation information, registration rights, marketing materials, certain intellectual property rights and existing inventories of the agricultural and professional product lines.

The primary identifiable intangible assets of the Company relate to product rights associated with its product acquisitions. These rights, for the most part, consist of product registrations and related data filed with the United States Environmental Protection Agency and state regulatory agencies to support such registrations

**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share data)**

and other supporting data. As of December 31, 2009 all intangible assets were assigned to product rights. The preliminary allocation of the 2010 acquisitions was \$15,402 to product rights, \$12,479 to trademarks and \$4,796 to customer lists. The Company expects to finalize its allocation during the first quarter of 2011. The amount of goodwill allocated to the product acquisitions has not been material. Results of 2010 acquisitions were included in the Company's operations from the dates of the respective acquisitions and pro forma results are not provided since the amounts are not material to the consolidated results of operations. The following schedule represents intangible assets recognized in connection with product acquisitions (See Summary of Significant Accounting Policies Goodwill and Other Intangible Assets for the Company's accounting policy regarding intangible assets):

The following schedule represents intangible assets recognized in connection with product acquisitions (See description of Business, Basis of Consolidation and Significant Accounting Policies for the Company's accounting policy regarding intangible assets):

|                                                            | <b>Amount</b> |
|------------------------------------------------------------|---------------|
| Intangible assets at December 31, 2007                     | 85,318        |
| Acquisitions during fiscal 2008                            | 10,439        |
| Impact of movement in exchange rates and other adjustments | (336)         |
| Amortization expense                                       | (4,342)       |
| Intangible assets at December 31, 2008                     | 91,079        |
| Acquisitions during fiscal 2009                            |               |
| Impact of movement in exchange rates and other adjustments | 331           |
| Amortization expense                                       | (4,437)       |
| Intangible assets at December 31, 2009                     | 86,973        |
| Acquisitions during fiscal 2010                            | 32,677        |
| Impact of movement in exchange rates and other adjustments | 63            |
| Amortization expense                                       | (4,464)       |
| Intangible assets at December 31, 2010                     | \$ 115,249    |

The following schedule represents the gross carrying amount and accumulated amortization of the intangible assets. Product rights are amortized over their expected useful lives of 25 years. Customer lists will be amortized over their expected useful lives of ten years and trademarks will be amortized over their expected useful lives of 25 years. Accumulated amortization for trademarks and customer lists was zero as of December 31, 2010.

|                          | <b>2010</b> | <b>2009</b> |
|--------------------------|-------------|-------------|
| Gross carrying amount    | \$ 142,976  | \$ 110,236  |
| Accumulated amortization | (27,727)    | (23,263)    |
|                          | \$ 115,249  | \$ 86,973   |



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**AMERICAN VANGUARD CORPORATION**  
**AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Dollars in thousands, except per share data)**

The following schedule represents future amortization charges related to intangible assets:

| <b>Year ending December 31,</b> |                   |
|---------------------------------|-------------------|
| 2011                            | \$ 5,939          |
| 2012                            | 5,939             |
| 2013                            | 5,939             |
| 2014                            | 5,939             |
| 2015                            | 5,939             |
| Thereafter                      | 85,554            |
|                                 | <b>\$ 115,249</b> |

The following schedule represents the Company's obligations under product acquisition agreements:

|                                                               | <b>Amount</b> |
|---------------------------------------------------------------|---------------|
| Obligations under acquisition agreements at December 31, 2007 | 2,000         |
| Additional obligations acquired                               | 1,600         |
| Payments on existing obligations                              |               |
| Obligations under acquisition agreements at December 31, 2008 | 3,600         |
| Additional obligations acquired                               |               |
| Payments on existing obligations                              | 2,400         |
| Obligations under acquisition agreements at December 31, 2009 | 1,200         |
| Additional obligations acquired                               | 32,608        |
| Payments on existing obligations                              | 20,986        |
| Obligations under acquisition agreements at December 31, 2010 | \$ 12,822     |

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The Company has various lease agreements for offices as well as long-term ground leases for its facilities at Axis, AL, Hannibal, MO and Marsing, ID. The office leases contain provisions to pass through to the Company its pro-rata share of certain of the building's operating expenses. The long-term ground lease at Axis, AL is for twenty years (commencing May 2001) with up to five automatic renewals of three years each for a total of thirty-five years. The long-term ground lease at Hannibal, MO is for a period of 20 years (commencing December 2007) with automatic one year extensions thereafter, subject to termination with twelve-months notice. The long-term ground lease at Marsing is for a period of 25 years (commencing in May 2008) with automatic twenty-five year extensions thereafter. Rent expense for the years ended December 31, 2010, 2009 and 2008 was \$459, \$452 and \$399. Future minimum lease payments under the terms of the leases are as follows:

| <b>Year ending December 31,</b> |                 |
|---------------------------------|-----------------|
| 2011                            | \$ 542          |
| 2012                            | 629             |
| 2013                            | 648             |
| 2014                            | 673             |
| 2015                            | 698             |
| Thereafter                      | 1,864           |
|                                 | <b>\$ 5,054</b> |

**(10) Research and Development**

Research and development expenses which are included in operating expenses were \$5,874, \$4,714 and \$3,410 for the years ended December 31, 2010, 2009 and 2008.

**(11) Stock Options*****Incentive Stock Option Plans ( ISOP )***

Under the terms of the Company's ISOP, under which options to purchase 4,296,000 shares of common stock can be issued, all key employees are eligible to receive non-assignable and non-transferable options to purchase shares. The exercise price of any option may not be less than the fair market value of the shares on the date of grant; provided, however, that the exercise price of any option granted to an eligible employee owning more than 10% of the outstanding common stock may not be less than 110% of the fair market value of the shares underlying such option on the date of grant. No options granted may be exercisable more than ten years after the date of grant. The options granted generally vest evenly over a three to five year period, beginning on the date of the grant.

The Company granted incentive stock options to purchase 6,779 shares in 2008 of common stock to employees. The option granted in 2008 vests annually over three years. All options granted are non-assignable and non-transferable. No options were granted in 2009. In 2010, the Company granted incentive stock options to purchase 729,000 shares in 2010 of common stock to employees. The option granted in 2010 vests annually over three years. All options granted are non-assignable and non-transferable.



**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Dollars in thousands, except per share data)

**Nonstatutory Stock Options ( NSSO )**

The Company did not grant any non-statutory stock options during the three years ended December 31, 2010.

Option activity within each plan is as follows:

|                                             | Incentive<br>Stock Option<br>Plans | Non-Statutory<br>Stock Options<br>Plans | Weighted Average<br>Price Per Share | Exercisable<br>Weighted<br>Average<br>Price<br>Per Share |
|---------------------------------------------|------------------------------------|-----------------------------------------|-------------------------------------|----------------------------------------------------------|
| Balance outstanding, December 31, 2007      | 1,670,086                          | 90,840                                  | \$ 6.25                             | \$ 6.17                                                  |
| Options granted (\$14.75)                   | 6,779                              |                                         | 14.75                               |                                                          |
| Options exercised, range from \$1.76 \$8.10 | (324,134)                          | (42,440)                                | 1.25                                |                                                          |
| Options expired                             | (9,400)                            |                                         | (14.74)                             |                                                          |
| Balance outstanding, December 31, 2008      | 1,343,331                          | 48,400                                  | \$ 7.22                             | \$ 7.18                                                  |
| Options exercised, range from \$3.52 \$3.55 | (198,000)                          |                                         | 3.55                                |                                                          |
| Options expired                             |                                    | (48,400)                                | (14.45)                             |                                                          |
| Balance outstanding, December 31, 2009      | 1,145,331                          |                                         | \$ 7.55                             | \$ 7.52                                                  |
| Options granted (\$7.50)                    | 729,000                            |                                         | 7.50                                |                                                          |
| Options exercised (\$3.94)                  | (72,000)                           |                                         | 3.94                                |                                                          |
| Options expired                             | (315,000)                          |                                         | (7.80)                              |                                                          |
| Balance outstanding, December 31, 2010      | 1,487,331                          |                                         | \$ 7.65                             | \$ 7.77                                                  |

Information relating to stock options at December 31, 2010 summarized by exercise price is as follows:

| Exercise Price Per Share     | Shares  | Outstanding Weighted Average<br>Remaining<br>Life<br>(Months) | Exercise<br>Price | Exercisable Weighted<br>Average | Exercise<br>Price |
|------------------------------|---------|---------------------------------------------------------------|-------------------|---------------------------------|-------------------|
| Incentive Stock Option Plan: |         |                                                               |                   |                                 |                   |
| \$3.67 \$4.93                | 450,000 | 24                                                            | \$ 3.67           | 450,000                         | \$ 3.67           |

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|         |         |           |     |          |         |          |
|---------|---------|-----------|-----|----------|---------|----------|
| \$7.00  | \$8.10  | 768,999   | 113 | \$ 7.53  | 40,000  | \$ 8.10  |
| \$11.30 | \$14.74 | 268,332   | 12  | \$ 14.64 | 266,072 | \$ 14.64 |
|         |         | 1,487,331 |     | \$ 7.65  | 756,072 | \$ 7.77  |

**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share data)**

The weighted average exercise prices for options granted and exercisable and the weighted average remaining contractual life for options outstanding as of December 31, 2009 and 2010 was as follows:

|                                          | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life<br/>(Months)</b> | <b>Intrinsic<br/>Value<br/>(thousands)</b> |
|------------------------------------------|---------------------------------|----------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------|
| <i>As of December 31, 2009:</i>          |                                 |                                                    |                                                                                 |                                            |
| Incentive Stock Option Plans:            |                                 |                                                    |                                                                                 |                                            |
| Outstanding                              | 1,145,331                       | \$ 7.55                                            | 28                                                                              | \$ 2,562                                   |
| Expected to Vest                         | 1,145,331                       | \$ 7.55                                            | 28                                                                              | \$ 2,562                                   |
| Exercisable                              | 1,140,813                       | \$ 7.52                                            | 28                                                                              | \$ 2,562                                   |
| <i>Non-statutory Stock Option Plans:</i> |                                 |                                                    |                                                                                 |                                            |
| Options Outstanding                      |                                 | \$                                                 |                                                                                 | \$                                         |
| Expected to Vest                         |                                 | \$                                                 |                                                                                 | \$                                         |
| Options Exercisable                      |                                 | \$                                                 |                                                                                 | \$                                         |
| <i>As of December 31, 2010:</i>          |                                 |                                                    |                                                                                 |                                            |
| Incentive Stock Option Plans:            |                                 |                                                    |                                                                                 |                                            |
| Outstanding                              | 1,487,331                       | \$ 7.65                                            | 64                                                                              | \$ 2,966                                   |
| Expected to Vest                         | 1,454,376                       | \$ 7.65                                            | 63                                                                              | \$ 2,931                                   |
| Exercisable                              | 756,072                         | \$ 7.77                                            | 11                                                                              | \$ 2,208                                   |
| <i>Non-statutory Stock Option Plans:</i> |                                 |                                                    |                                                                                 |                                            |
| Options Outstanding                      |                                 | \$                                                 |                                                                                 | \$                                         |
| Expected to Vest                         |                                 | \$                                                 |                                                                                 | \$                                         |
| Options Exercisable                      |                                 | \$                                                 |                                                                                 | \$                                         |

The total intrinsic value of options exercised during 2010, 2009 and 2008 was \$260, \$895 and \$4,358, respectively. Cash received from stock options exercised during 2010, 2009 and 2008 was \$284, \$702 and \$920, respectively.

As of December 31, 2010, the Company had approximately \$2,706 of unamortized stock-based compensation expenses related to unvested incentive stock options outstanding. This amount will be recognized over the weighted-average period of 2.9 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.

***Stock Grants***

During 2010, the Company issued a total of 50,877 shares of common and restricted stock to certain employees and non-executive board members. Vesting ranges from immediate to three years from the date of grant. The values of the grants range from \$6.86 to \$8.32 per share based on the publicly traded share prices. The total value of \$401 will be recognized over the related service periods. During 2010, 22,558 shares of common stock granted to employees were forfeited.



**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share data)**

During 2009, the Company issued a total of 135,033 shares of common and restricted stock to certain employees and non-executive board members. Vesting ranges from immediate to three years from the date of the grant. The values of the grants range from \$11.73 to \$11.98 per share based on the publicly traded share prices. The total value of \$1,189 will be recognized over the related service periods. During 2009, 15,206 shares of common stock granted to employees were forfeited.

During 2008, the Company issued a total of 150,355 shares of common and restricted stock to certain employees and non-executive board members. Vesting ranges from immediate to three years from the date of the grant. The values of the grants range from \$12.19 to \$12.72 per share based on the publicly traded share prices. The total value of \$1,845 will be recognized over the related service periods. As of December 31, 2008, there remains an un-amortized balance of \$1,279. During 2008, 3,500 shares of common stock granted to employees were forfeited.

A status summary of nonvested shares as of and for the year ending December 31, 2010, is presented below:

|                                       | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|---------------------------------------|---------------------------------|-----------------------------------------------------------|
| Nonvested shares at January 1, 2010   | 255,437                         | \$ 12.17                                                  |
| Granted                               | 10,000                          | 7.59                                                      |
| Vested                                | (40,783)                        | 13.01                                                     |
| Forfeited                             | (22,558)                        | \$ 12.21                                                  |
| Nonvested shares at December 31, 2010 | 202,096                         | \$ 11.77                                                  |

As of December 31, 2010, there remains an un-amortized balance of \$703, which will be recognized over the remaining weighted-average period service period of 1.1 years. This projected expense will change if there are new stock grant or if existing grants are cancelled prior to the respective reporting period. The Company expects that approximately 95% of all nonvested stock grants will vest during 2011 and 2012.

**Table of Contents****AMERICAN VANGUARD CORPORATION****AND SUBSIDIARIES****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in thousands, except per share data)****(12) Quarterly Data Unaudited**

| <b>Quarterly Data 2010</b>          | <b>March 31</b> | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
|-------------------------------------|-----------------|----------------|---------------------|--------------------|
| Net sales                           | \$ 46,712       | \$ 52,172      | \$ 68,256           | \$ 62,480          |
| Gross profit                        | 18,924          | 19,233         | 25,376              | 25,549             |
| Net income (loss)                   | 1,827           | 1,643          | 3,611               | 3,903              |
| Basic net income (loss) per share   | .07             | .06            | .13                 | .14                |
| Diluted net income (loss) per share | .07             | .06            | .13                 | .14                |

| <b>Quarterly Data 2009</b>          |           |           |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Net sales                           | \$ 44,637 | \$ 47,485 | \$ 66,371 | \$ 50,836 |
| Gross profit                        | 18,556    | 16,419    | 21,364    | 4,087     |
| Net income (loss)                   | 699       | (4)       | 2,097     | (8,581)   |
| Basic net income (loss) per share   | .03       |           | .08       | (.32)     |
| Diluted net income (loss) per share | .03       |           | .08       | (.32)     |

Note: Totals may not agree with full year amounts due to rounding and separate calculations each quarter.

**Significant Fourth Quarter Adjustments**

The Company took a one time non-cash charge in the amount of \$13,509 in the fourth quarter of 2009 relating to inventory cost reductions arising primarily from our assessment of net realizable value. No such charge occurred in either 2010 or 2008.

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**EXHIBIT INDEX**

**ITEM 15**

**Exhibit**

| <b>Number</b> | <b>Description of Exhibit</b>                                                                                                                                                                                                                                                                                                                                            |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1           | Amended and Restated Certificate of Incorporation of American Vanguard Corporation (filed as Exhibit 3.1 to the Company's Form 10-K for the year ended December 31, 2003, which was filed on March 30, 2004 with the Securities Exchange Commission and incorporated herein by reference).                                                                               |
| 3.2           | Certificate of Amendment of Amended and Restated Certificate of Incorporation of American Vanguard Corporation (filed as Exhibit 3.2 to the Company's Form 10-Q/A for the period ended June 30, 2004, which was filed with the Securities Exchange Commission on February 23, 2005 and incorporated herein by reference).                                                |
| 3.3           | Amended and Restated Bylaws of American Vanguard Corporation (filed as Exhibit 3.1 to the Company's Form 10-Q for the period ended March 31, 2008, which was filed with the Securities Exchange Commission on May 12, 2008 and incorporated herein by reference.)                                                                                                        |
| 4             | Form of Indenture (filed as Exhibit 4 to the Company's Registration Statement on Form S-3 (File No. 333-122981) and incorporated herein by reference).                                                                                                                                                                                                                   |
| 10.1          | American Vanguard Corporation Employee Stock Purchase Plan (filed as Appendix B to the Company's Proxy Statement filed with the Securities and Exchange Commission on May 31, 2001 and incorporated herein by reference).                                                                                                                                                |
| 10.2          | American Vanguard Corporation Fourth Amended and Restated Stock Incentive Plan (filed as Appendix A to the Company's Proxy Statement filed with the Securities and Exchange Commission on May 11, 2004 and incorporated herein by reference).                                                                                                                            |
| 10.3          | Form of Incentive Stock Option Agreement under the American Vanguard Corporation Fourth Amended and Restated Stock Incentive Plan, (filed as Exhibit 10.3 with the Company's Annual Report on Form 10-K for the period ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 16, 2005 and incorporated herein by reference).     |
| 10.4          | Form of Non-Qualified Stock Option Agreement under the American Vanguard Corporation Fourth Amended and Restated Stock Incentive Plan, (filed as Exhibit 10.4 with the Company's Annual Report on Form 10-K for the period ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 16, 2005 and incorporated herein by reference). |
| 10.5          | Employment Agreement between American Vanguard Corporation and Eric G. Wintemute dated January 15, 2008 (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities Exchange Commission on March 17, 2008 and incorporated herein by reference).                                        |
| 10.8          | Form of Change of Control Severance Agreement, dated effective as of January 1, 2004, between American Vanguard Corporation and its executive and senior officers (filed as Exhibit 10.2 to the Company's Form 10-Q for the period ended March 31, 2004, which was filed with the Securities Exchange Commission on May 10, 2005 and incorporated herein by reference.)  |
| 10.9          | Form of Amendment of Change of Control Severance Agreement, dated effective as of July 11, 2008, between American Vanguard Corporation and named executive officers and senior officers (filed as Exhibit 99.1 to the Company's Form 8-K, which was filed on July 11, 2008 with the Securities and Exchange Commission and incorporated herein by reference).            |
| 10.10         | Form of Indemnification Agreement between American Vanguard Corporation and its Directors (filed with the Company's Annual Report on Form 10-K for the period ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 16, 2005 and incorporated herein by reference).                                                              |

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### **Exhibit**

| <b>Number</b> | <b>Description of Exhibit</b>                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.11         | Description of Compensatory Arrangements Applicable to Non-Employee Directors for 2005 (filed as Exhibit 10.1 to the Company's Form 8-K, which was filed with the Securities and Exchange Commission on June 15, 2005 and incorporated herein by reference).                                                                                                                                                |
| 10.12         | Employment Agreement dated as of January 5, 2008 between AMVAC Chemical Corporation and Trevor Thorley (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the period ended December 31, 2008 which was filed with the Securities Exchange Commission on March 13, 2009 and incorporated herein by reference).                                                                          |
| 10.13         | Form of Restricted Stock Agreement between American Vanguard Corporation and named executive officers (filed as Exhibit 99.1 to the Company's Form 8-K, which was filed with the Securities Exchange Commission on July 24, 2008 and incorporated herein by reference).                                                                                                                                     |
| 10.14         | Credit Agreement dated as of December 19, 2006 by and among AMVAC Chemical Corporation and certain affiliates and a syndicate of commercial lenders led by the Bank of the West (filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the period ended December 31, 2006 which was filed with the Securities Exchange Commission on March 14, 2007 and incorporated herein by reference). |
| 10.15         | First Amendment to Credit Agreement dated as of March 5, 2010 by and among AMVAC Chemical Corporation (and certain affiliates) and a syndicate of commercial lenders led by the Bank of the West (filed as Exhibit 10.1 to the Company's Form 8-K, which was filed with the Securities Exchange Commission on March 8, 2010 and incorporated herein by reference).                                          |
| 21            | List of Subsidiaries of the Company.*                                                                                                                                                                                                                                                                                                                                                                       |
| 23            | Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.*                                                                                                                                                                                                                                                                                                                                    |
| 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          | Certifications Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*                                                                                                                                                                                                                                                                                    |

\* Filed herewith.