

AMERICAN VANGUARD CORP

Form 10-Q

August 06, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2013

.. **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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Delaware
(State or other jurisdiction of
Incorporation or organization)

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

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

92660
(Zip Code)

(949) 260-1200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer 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 Exchange Act). Yes No

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

Common Stock, \$.10 Par Value 28,664,462 shares as of July 29, 2013.

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AMERICAN VANGUARD CORPORATION

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

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Net sales	\$ 86,761	\$ 84,837	\$ 208,298	\$ 172,092
Cost of sales	44,695	46,491	112,451	96,368
Gross profit	42,066	38,346	95,847	75,724
Operating expenses	29,169	24,104	56,798	47,080
Operating income	12,897	14,242	39,049	28,644
Interest expense	701	721	1,248	1,456
Interest capitalized	(31)	(112)	(225)	(148)
Income before provision for income taxes	12,227	13,633	38,026	27,336
Income tax expense	3,961	4,889	12,941	9,858
Net income	8,266	8,744	25,085	17,478
Net loss attributable to non-controlling interest	120		216	
Net income attributable to American Vanguard	8,386	8,744	25,301	17,478
Change in fair value of interest rate swap	174	24	352	46
Foreign currency translation adjustment	(476)	(420)	(69)	122
Comprehensive income	\$ 8,084	\$ 8,348	\$ 25,584	\$ 17,646
Earnings per common share basic	\$.29	\$.31	\$.89	\$.63
Earnings per common share assuming dilution	\$.29	\$.30	\$.88	\$.61
Weighted average shares outstanding basic	28,295	27,858	28,280	27,740
Weighted average shares outstanding assuming dilution	28,886	28,737	28,884	28,544

See notes to consolidated financial statements.

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

(In thousands, except per share data)

	June 30, 2013 (Unaudited)	Dec. 31, 2012 (Note)
ASSETS		
Current assets:		
Cash	\$ 32,414	\$ 38,476
Receivables:		
Trade, net of allowance for doubtful accounts of \$557 and \$623, respectively	67,376	76,073
Income taxes receivable	148	
Other	1,414	1,230
	68,938	77,303
Inventories	127,150	87,951
Prepaid expenses	13,411	13,710
Deferred income tax assets	4,877	4,877
Total current assets	246,790	222,317
Property, plant and equipment, net	49,828	45,701
Intangible assets	110,247	113,521
Other assets	30,372	18,351
	\$ 437,237	\$ 399,890
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 70	\$ 16,247
Current installments of other liabilities	1,524	1,839
Accounts payable	23,953	32,838
Deferred revenue	278	20,427
Accrued program costs	88,508	32,335
Accrued expenses and other payables	8,793	8,671
Income taxes payable		1,313
Total current liabilities	123,126	113,670
Long-term debt, excluding current installments	40,911	36,196
Other liabilities, excluding current installments	4,291	5,425
Deferred income taxes	19,163	19,163
Total liabilities	187,491	174,454
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock, \$.10 par value per share; authorized 400,000 shares; none issued		
Common stock, \$.10 par value per share; authorized 40,000,000 shares; issued 30,972,048 shares at June 30, 2013 and 30,766,730 shares at December 31, 2012	3,099	3,077
Additional paid-in capital	56,632	54,323
Accumulated other comprehensive loss	(1,479)	(1,762)

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Retained earnings	196,155	174,243
	254,407	229,881
Less treasury stock, at cost, 2,310,634 shares at both June 30, 2013 and December 31, 2012	(4,804)	(4,804)
American Vanguard stockholders' equity	249,603	225,077
Non-controlling interest	143	359
Total stockholders' equity	249,746	225,436
	\$ 437,237	\$ 399,890

Note: The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date.

See notes to consolidated financial statements.

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****(In thousands, except per share data)****For The Three Months Ended March 31, 2013 and June 30, 2013****(Unaudited)**

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total
	Shares	Amount	Additional Paid-in Capital		Non-Controlling Interest	Shares	Amount		
Balance, December 31, 2012	30,766,730	\$ 3,077	\$ 54,323	\$ 174,243	\$ (1,762)	\$ 359	2,310,634	\$ (4,804)	\$ 225,436
Stocks issued under ESPP	12,263	2	376						378
Cash dividends on common stock (\$0.07 per share)				(1,976)					(1,976)
Foreign currency translation adjustment, net					407				407
Stock based compensation			688						688
Change in fair value of interest rate swaps					178				178
Stock options exercised and grants of restricted stock units	144,550	15	34						49
Excess tax benefits from share based payment arrangements			57						57
Net income (loss)				16,915		(96)			16,819
Balance, March 31, 2013	30,923,543	\$ 3,094	\$ 55,478	\$ 189,182	\$ (1,177)	263	2,310,634	\$ (4,804)	\$ 242,036
Cash dividends on common stock (\$0.05 per share)				(1,413)					(1,413)
Foreign currency translation adjustment, net					(476)				(476)
Stock based compensation			1,058						1,058
Change in fair value of interest rate swaps					174				174
Stock options exercised and grants of restricted stock units	48,505	5	96						101
Net income (loss)				8,386		(120)			8,266
Balance, June 30, 2013	30,972,048	\$ 3,099	\$ 56,632	\$ 196,155	\$ (1,479)	143	2,310,634	\$ (4,804)	\$ 249,746

Table of Contents**AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****For The Six Months Ended June 30, 2013 and 2012****(Unaudited)**

Increase (decrease) in cash	2013	2012
Cash flows from operating activities:		
Net income	\$ 25,085	\$ 17,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed and intangible assets	7,461	7,046
Amortization of other long term assets	1,802	1,574
Amortization of discounted liabilities	86	396
Stock-based compensation	1,747	1,031
Tax benefit from exercise of stock options	(57)	(160)
Changes in assets and liabilities associated with operations:		
Decrease (increase) in net receivables	8,513	(3,862)
Increase in inventories	(39,199)	(8,854)
Increase in prepaid expenses and other assets	(9,837)	(2,555)
(Decrease) increase in income tax receivable/payable, net	(1,404)	393
(Decrease) increase in accounts payable	(8,532)	668
Decrease in deferred revenue	(20,149)	(7,370)
Increase in other payables and accrued expenses	54,529	30,883
Net cash provided by operating activities	20,045	36,668
Cash flows from investing activities:		
Capital expenditures	(8,360)	(13,061)
Investment	(3,687)	
Net cash used in investing activities	(12,047)	(13,061)
Cash flows from financing activities:		
Net borrowings under line of credit agreement	40,750	
Payments on long-term debt	(46,000)	(4,000)
Payments on other long-term liabilities	(1,238)	
Tax benefit from exercise of stock options	57	160
Decrease in other notes payable	(6,154)	(6,827)
Payment of cash dividends	(1,976)	(1,380)
Proceeds from the issuance of common stock (sale of stock under ESPP and exercise of stock option)	527	1,285
Net cash used in by financing activities	(14,034)	(10,762)
Net (decrease) increase in cash	(6,036)	12,845
Cash and cash equivalents at beginning of year	38,476	35,085
Effect of exchange rate changes on cash	(26)	118
Cash and cash equivalents as of June 30	\$ 32,414	\$ 48,048

See notes to consolidated financial statements

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

1. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation, have been included. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

2. Property, plant and equipment at June 30, 2013 and December 31, 2012 consists of the following:

	June 30, 2013	December 31, 2012
Land	\$ 2,458	\$ 2,458
Buildings and improvements	12,768	12,537
Machinery and equipment	91,364	89,089
Office furniture, fixtures and equipment	9,108	8,400
Automotive equipment	278	312
Construction in progress	8,543	3,363
	124,519	116,159
Less accumulated depreciation	(74,691)	(70,458)
	\$ 49,828	\$ 45,701

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

	June 30, 2013	December 31, 2012
Finished products	\$ 115,472	\$ 74,900
Raw materials	11,678	13,051
	\$ 127,150	\$ 87,951

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net sales:				
Insecticides	\$ 39,218	\$ 45,432	\$ 118,085	\$ 101,266
Herbicides	24,699	13,656	57,685	33,332
Other	13,228	16,204	16,919	20,583
	77,145	75,292	192,689	155,181
Non-crop	9,616	9,545	15,609	16,911
	\$ 86,761	\$ 84,837	\$ 208,298	\$ 172,092

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net Sales:				
US sales	\$ 67,837	\$ 65,792	\$ 170,942	\$ 135,335
International sales	18,924	19,045	37,356	36,757
	\$ 86,761	\$ 84,837	\$ 208,298	\$ 172,092

5. On June 10, 2013, the Board of Directors declared a cash dividend of \$0.05 per share. At that time, the Board of Directors also resolved to change the frequency of making cash dividends from semi-annual to quarterly payments. The first quarterly dividend was distributed on July 19, 2013 to stockholders of record at the close of business on July 5, 2013. Cash dividends paid July 19, 2013 totaled \$1,413.

On March 11, 2013, the Board of Directors declared a cash dividend of \$0.07 per share. The dividend was distributed on April 19, 2013 to stockholders of record at the close of business on April 5, 2013. Cash dividends paid April 19, 2013 totaled \$1,976.

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

6. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 260 *Earnings Per Share (EPS)* requires dual presentation of basic EPS and diluted EPS on the face of all income statements. Basic EPS is computed as net income divided by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects potential dilution that could occur if securities or other contracts, which, for the Company, consists of options to purchase shares of the Company's common stock, are exercised.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Numerator:				
Net income attributable to American Vanguard	\$ 8,386	\$ 8,744	\$ 25,301	\$ 17,478
Denominator:				
Weighted averages shares outstanding-basic	28,295	27,858	28,280	27,740

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Assumed exercise of stock options and restricted shares-fully diluted	591	879	604	804
	28,886	28,737	28,884	28,544

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

The Company has various loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet at June 30, 2013 and December 31, 2012. These are summarized in the following table:

Indebtedness \$000's	June 30, 2013			December 31, 2012		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Term loan	\$	\$	\$	\$ 36,000	\$ 10,000	\$ 46,000
Working capital revolver	40,750		40,750			
Notes payable on product acquisitions and asset purchase	161	70	231	196	6,247	6,443
Total indebtedness	\$ 40,911	\$ 70	\$ 40,981	\$ 36,196	\$ 16,247	\$ 52,443

As more fully reported in the Company's Form 8-K (filed with the SEC on June 20, 2013), on June 17, 2013, AMVAC Chemical Corporation (AMVAC), the Company's principal operating subsidiary, as borrower, and affiliates (including the Company), as guarantors and/or borrowers, entered into a Second 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 L/C issuer. The new facility also includes both AMVAC CV and AMVAC Netherlands BV (both Dutch subsidiaries) as borrowers. The New Credit Agreement supersedes the Amended and Restated Credit Agreement (First Amendment) dated as of January 10, 2011 and more fully described in the Company's Form 8-K filed on January 13, 2011. The New Credit Agreement is a senior secured lending facility with a five year term and consists of a revolving line of credit of \$200 million and an accordion feature for up to \$100 million. In connection with AMVAC's entering into the New Credit Agreement, all outstanding indebtedness under the First Amendment was rolled over into the New Credit Agreement, and term loans were converted into revolving debt.

At June 30, 2013, the Company had in place one interest rate swap contract with a notional amount of \$40,500 that is accounted for under FASB ASC 815 as a cash flow hedge. The effective portion of the gains or losses on the interest rate swap are reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. Losses in other comprehensive income expected to be reclassified to earnings in the coming 12 months are \$616. Amounts recorded in earnings for hedge ineffectiveness for the period ending June 2013 were immaterial.

The following tables illustrate the impact of derivatives on the Company's income statement for the three months and six months ended June 30, 2013.

The Effect of Derivative Instruments on the Statement of Financial Performance

For the Period Ended June 30

For the three months ended June 30

Derivatives in ASC 815	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2013	2012		2013	2012		2013	2012
Cash Flow								
Hedging Relationships								
Interest rate contracts	\$ (7)	\$ (159)	Interest Expense	\$ (181)	\$ (183)	Interest Expense	\$	\$
Total	\$ (7)	\$ (159)		\$ (181)	\$ (183)		\$	\$

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	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2013	2012
Derivatives Not Designated as Hedging Instruments under ASC 815			
Foreign Exchange contracts	Other income/(expense)	\$	\$ (337)
Total		\$	\$ (337)

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For the six months ended June 30

Derivatives in ASC 815 Cash Flow	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Recognized from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	2013	2012		2013	2012		2013	2012
Hedging Relationships								
Interest rate contracts	\$ (14)	\$ (322)	Interest Expense	\$ (366)	\$ (368)	Interest Expense	\$ (1)	\$ (1)
Total	\$ (14)	\$ (322)		\$ (366)	\$ (368)		\$ (1)	\$ (1)

Derivatives Not Designated as Hedging Instruments under ASC 815	Location of Gain or (Loss) Recognized in Income on Derivative		Amount of Gain or (Loss) Recognized in Income on Derivative	
	Other income/(expense)		2013	2012
Foreign Exchange contracts	Other income/(expense)		\$	\$ (192)
Total			\$	\$ (192)

The Company has three key covenants to its senior, secured credit facility with its banking syndicate. The covenants are as follows: (1) the Company must maintain its borrowings below a certain consolidated funded debt ratio, (2) the Company has a limitation on its annual spending on the acquisition of fixed asset capital additions, and (3) the Company must maintain a certain consolidated fixed charge coverage ratio. As of June 30, 2013 the Company met all covenants in that credit facility.

At June 30, 2013, based on its performance against the most restrictive covenants listed above, the Company had the capacity to increase its borrowings by up to \$159,250 under the credit facility agreement.

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

9. Total comprehensive income includes, in addition to net income, changes in equity that are excluded from the consolidated statements of operations and are recorded directly into a separate section of stockholders' equity on the consolidated balance sheets.

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

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Stock Options During the six months ended June 30, 2013, the Company did not grant any employees options to acquire shares of common stock.

Option activity within each plan is as follows:

	Incentive Stock Option Plans	Weighted Average Price Per Share	Exercisable Weighted Average Price Per Share
Balance outstanding, December 31, 2012	705,345	\$ 7.70	\$ 7.95
Options granted			
Options exercised, \$7.50	(6,666)	7.50	
Options expired or forfeited	(6,667)	7.50	
Balance outstanding, March 31, 2013	692,012	\$ 7.71	\$ 7.96
Options granted			
Options exercised, \$7.50	(13,333)	7.50	
Options expired or forfeited			
Balance outstanding, June 30, 2013	678,679	\$ 7.71	\$ 8.07

Information relating to stock options at June 30, 2013 summarized by exercise price is as follows:

Exercise Price Per Share	Outstanding Weighted Average Remaining			Exercisable Weighted Average	
	Shares	Life (Months)	Exercise Price	Shares	Exercise Price
Incentive Stock Option Plan:					
\$7.50	652,000	85	\$ 7.50	146,000	\$ 7.50
\$11.32 \$14.75	26,679	86	\$ 12.90	16,679	\$ 13.08
	678,679		\$ 7.71	162,679	\$ 8.07

The weighted average exercise prices for options granted and exercisable and the weighted average remaining contractual life for options outstanding as of June 30, 2013 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Months)	Intrinsic Value (thousands)
<i>As of June 30, 2013:</i>				
Incentive Stock Option Plans:				
Outstanding	678,679	\$ 7.71	85	\$ 10,633
Expected to Vest	674,823	\$ 7.71	85	\$ 10,573
Exercisable	162,679	\$ 8.07	72	\$ 2,490

During the six months ended June 30, 2013 and 2012, the Company recognized stock-based compensation expense, excluding expense associated with modifications, related to stock options of \$423 and \$432, respectively.

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As of June 30, 2013, the Company had approximately \$400 of unamortized stock-based compensation expenses related to unvested stock options outstanding. This amount will be recognized over the weighted-average period of 0.5 years. This projected expense will change if any stock options are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

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Restricted Shares A status summary of non-vested shares as of and for the six months ended June 30, 2013 is presented below:

	Number of Shares	Weighted Average Grant- Date Fair Value
Nonvested shares at December 31, 2012	245,817	\$ 20.23
Granted	145,884	\$ 31.27
Vested		\$
Forfeited	(8,000)	\$ 22.17
Nonvested shares at March 31, 2013	383,701	\$ 24.39
Granted	8,230	\$ 30.37
Vested	(8,230)	\$ 30.37
Forfeited		\$
Nonvested shares at June 30, 2013	383,701	\$ 24.39

Restricted stock grants During the six months ended June 30, 2013, the Company granted a total of 154,114 shares of common stock. Of these, 3,000 shares will vest one-third each year on the anniversaries of the employee's employment date, 8,230 shares vests immediately, and the balance will cliff vest after three years of service. The shares granted in 2013 were average fair valued at \$31.22 per share. The fair value was determined by using the publicly traded share price as of the date of grant. The Company is recognizing as expense the value of restricted shares over the required service period.

During the six months ended June 30, 2012, the Company granted a total of 207,184 of common stock. Of these, 12,204 shares vest immediately and the balance will cliff vest after three years of service. The shares granted in 2012 were average fair valued at \$20.45 per share. The fair value was determined by using the publicly traded share price as of the date of grant. The Company is recognizing as expense the value of restricted shares over the required service period. During the six months ended June 30, 2012, there were 82,640 restricted shares that vested, which had an average grant-date value of \$11.73 per share and an average vest-date value of \$17.58 per share. During the six months ended June 30, 2012, there were 1,367 restricted shares that were forfeited, which had an average grant date value of \$20.47 per share.

During the six months ended June 30, 2013 and 2012, the Company recognized stock-based compensation expense related to restricted shares of \$1,297 and \$599, respectively.

As of June 30, 2013, the Company had approximately \$7,132 of unamortized stock-based compensation expenses related to unvested restricted shares. This amount will be recognized over the weighted-average period of 2.3 years. This projected expense will change if any restricted shares are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

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Performance Based Shares A status summary of non-vested performance based shares as of and for the six months ended June 30, 2013 is presented below:

	Number of Shares	Weighted Average Grant- Date Fair Value
Nonvested shares at March 31, 2013		\$
Granted	26,942	\$ 30.13
Vested		\$
Forfeited		\$
Nonvested shares at June 30, 2013	26,942	\$ 30.13

Performance Based Shares During the six months ended June 30, 2013, the Company granted a total of 26,942 performance based shares that will cliff vest after three years of service. 80% of these performance based shares are based upon net income and net sales for the period commencing April 1, 2013 and ending December 31, 2015; the remaining 20% of performance based shares are based upon AVD stock price appreciation over the course of the period commencing June 6, 2013 and ending on December 31, 2015. Both parts of these awards vest in three years, but are subject to reduction to a minimum (or even zero) for meeting less than the targeted performance and to increase to a maximum of 200% for meeting in excess of the targeted performance.

The performance based shares related to net income and net sales were average fair valued at \$30.13 per share. The fair value was determined by using the publicly traded share price as of the date of grant. The performance based shares related to AVD stock price were average fair valued at \$15.31 per share. The fair value was determined by using the Monte Carlo valuation method. The Company is recognizing as expense the value of these shares over the required service period of three years.

During the six months ended June 30, 2013, the Company recognized stock-based compensation expense related to performance based shares of \$26. There were no performance based shares issued by the Company prior to those issued during the quarter ended June 30, 2013.

As of June 30, 2013, the Company had approximately \$716 of unamortized stock-based compensation expenses related to unvested performance based shares. This amount will be recognized over the weighted-average period of 2.9 years. This projected expense will change if any performance based shares are granted or cancelled prior to the respective reporting periods or if there are any changes required to be made for estimated forfeitures.

11. Legal Proceedings Summarized below are litigation matters in which there has been material activity or developments during the three month period ended June 30, 2013.

A. DBCP Cases Delaware

On or about July 21, 2011, an action encaptioned, *Blanco v. AMVAC Chemical Corporation et al.*, was filed with the Superior Court of the State of Delaware in and for New Castle County (No. N11C-07-149 JOH) on behalf of an individual plaintiff, residing in Costa Rica, against several defendants, including, among others, AMVAC, The Dow Chemical Company, Occidental Chemical Corporation, and Dole Food Company. In the action, plaintiff claims personal injury (sterility) arising from the alleged exposure to DBCP between 1979 and 1980 while working as a contract laborer in a banana plantation in Costa Rica. Defendant Dow filed a motion to dismiss the action as being barred under the applicable statute of limitations, as this same plaintiff filed the same claim in Florida in 1995 and subsequently withdrew the matter. Plaintiff contends that the statute of limitations was tolled by a prior motion for class certification, which was denied. AMVAC contends that the plaintiff could not have been exposed to any DBCP supplied by AMVAC in Costa Rica. On August 8, 2012, the court denied Dow's motion to dismiss based upon applicable statutes of limitation. In response to that denial, on

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August 20, 2012, defendants filed a motion for interlocutory appeal and, on September 18, 2012, the Delaware Supreme Court granted interlocutory appeal on the question of whether the State of Delaware will recognize cross jurisdictional tolling (that is, whether it is proper for a Delaware court to follow the class action tolling of another jurisdiction, in this case, Texas, rather than its own two year statute of limitations). Pending the ruling on appeal, the *Blanco* matter was stayed. A similar case (referred to as *Chaverri* in the Company's Form 10-K for the period ended December 31, 2012) involving claims for personal injury allegedly arising from exposure to DBCP on behalf of 235 banana workers from Costa Rica, Ecuador and Panama was also stayed pending the ruling. The Delaware Supreme Court heard oral argument on April 10, 2013 and on June 10, 2013, denied the appeal and upheld the lower court ruling in *Blanco*, holding that it was proper to extend the class action tolling exception to cross-jurisdictional class action cases. With that ruling, both the *Blanco* and *Chaverri* matters remain pending. AMVAC intends to defend both of these matters vigorously and, at this early stage of litigation, does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency for either matter.

12. Recently Issued Accounting Guidance In February 2013, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, establishes new requirements for disclosing reclassifications of items out of accumulated other comprehensive income (OCI). Specifically, (1) disclosure is required of the changes in components of accumulated OCI, (2) disclosure is required of the effects on individual line items in net income for each item of accumulated OCI that is reclassified in its entirety to net income, and (3) cross references are required to other disclosures that provide additional details for OCI items that are not reclassified in their entirety to net income. The requirements of ASU 2013-02 apply to all entities (i.e., both public and nonpublic) that report items of OCI in any period presented. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012.

In October 2012, FASB issued ASU No. 2012-04, Technical Corrections and Improvements. This update primarily makes amendments to various Codifications to (1) conform the format and writing style of certain guidance carried forward without modification from pre-Codification pronouncements, (2) to correct references and provide clarification through updated language, and (3) to relocate guidance within the Codification to a more appropriate location. In addition, ASU No. 2012-4 conforms the use of the term *fair value* throughout the Codification to reflect fully the measurement and disclosure requirements of FASB ASC Topic 820, *Fair Value Measurement and Disclosures* (e.g. to replace the terms market value and mark-to-market with fair value and subsequently measure at fair value, respectively). The majority of the amendments do not change the accounting practice. However, where applicable, the Company will apply the updates.

13. Fair Value of Financial Instruments The carrying values of cash, receivables and accounts payable approximate their fair values because of the short maturity of these instruments. The fair value of the Company's long-term debt and note payable to the 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 the bank.

The Company's cash flow hedge related to a variable debt instrument and outstanding foreign currency derivatives used to hedge foreign currency balances are measured at fair value on a recurring basis, and the balances as of June 30, 2013 and December 31, 2012 (which are included in other assets, net and accrued and other liabilities in the consolidated balance sheets) were as follows:

	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Level 3
As of June 30, 2013:			
Liability:			
Foreign currency derivative financial instrument	\$	\$	\$
Interest rate derivative financial instruments (1)	\$	\$ 848	\$
As of December 31, 2012:			
Liability:			
Foreign currency derivative financial instrument	\$	\$ 160	\$
Interest rate derivative financial instruments (1)	\$	\$ 1,201	\$

(1) Includes accrued interest expense

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

14. Accumulated Other Comprehensive Income

The following table lists the beginning balance, annual activity and ending balance of each component of accumulated other comprehensive income:

	Interest Rate Swap	FX Translation	Total
Balance, December 31, 2012	\$ (728)	\$ (1,034)	\$ (1,762)
Current period, other comprehensive income	178	407	585
Balance, March 31, 2013	\$ (550)	\$ (627)	\$ (1,177)
Current period, other comprehensive income	174	(476)	(302)
Balance, June 30, 2013	\$ (376)	\$ (1,103)	\$ (1,479)

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(Numbers in thousands)**FORWARD-LOOKING STATEMENTS/RISK FACTORS:**

The Company, from time-to-time, may discuss forward-looking statements including assumptions concerning the Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to a number of risks, uncertainties and other factors. In connection with the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statements identifying important factors which, among other things, could cause the actual results and events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions contained in the entire Report. Such factors include, but are not limited to: product demand and market acceptance risks; the effect of economic conditions; weather conditions; changes in regulatory policy; the impact of competitive products and pricing; changes in foreign exchange rates; product development and commercialization difficulties; capacity and supply constraints or difficulties; availability of capital resources; general business regulations, including taxes and other risks as detailed from time-to-time in the Company's reports and filings filed with the U.S. Securities and Exchange Commission (the "SEC"). It is not possible to foresee or identify all such factors. For more detailed information, refer to Item 1A., Risk factors and Item 7A., Quantitative and Qualitative Disclosures about Market Risk, in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

RESULTS OF OPERATIONS**Quarter Ended June 30:**

	2013	2012	Change
Net sales:			
Insecticides	\$ 39,218	\$ 45,432	\$ (6,214)
Herbicides	24,699	13,656	11,043
Other	13,228	16,204	(2,976)
Total Crop	77,145	75,292	1,853
Non-crop	9,616	9,545	71
	\$ 86,761	\$ 84,837	\$ 1,924
Cost of sales:			
Insecticides	\$ 21,386	\$ 24,697	\$ (3,311)
Herbicides	11,958	8,988	2,970
Other	6,910	8,045	(1,135)
Total crop	40,254	41,730	(1,476)
Non-crop	4,441	4,761	(320)
	\$ 44,695	\$ 46,491	\$ (1,796)
Gross margin:			
Insecticides	\$ 17,832	\$ 20,735	\$ (2,903)
Herbicides	12,741	4,668	8,073
Other	6,318	8,159	(1,841)
Gross margin crop	36,891	33,562	3,329
Gross margin non-crop	5,175	4,784	391
	\$ 42,066	\$ 38,346	\$ 3,720
Gross margin crop	48%	45%	
Gross margin non-crop	55%	50%	

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Total gross margin 49% 45%

	2013	2012	Change
Net sales:			
US sales	\$ 67,837	\$ 65,792	\$ 2,045
International sales	18,924	19,045	(121)
	\$ 86,761	\$ 84,837	\$ 1,924

Financial performance for the quarter ended June 30, 2013 included net sales that were up 2.3% to \$87,761 compared to \$84,837 for the second quarter of 2012. This revenue performance is now the highest second quarter sales performance recorded by the Company. Our gross profit performance improved and ended at \$42,066 or 48% of sales as compared \$38,346 or 45% of sales last year. Our operating costs for the period increased as a percentage of sales primarily because these are substantially fixed costs which have been put in place to support long-term development and growth of the business, and also included some significant one-time costs as more fully described in our discussion of operating expenses. Our tax rate improved and our net income attributed to American Vanguard, which was down 4% from the prior year, was nevertheless at our target rate of 10% of net sales. Net sales for our crop business were up by approximately 2.5%, while net sales for non-crop products were up by about 1% for the comparable period of the prior year. A more detailed discussion of general market conditions and sales performance by category of products appears below.

Second quarter financial performance was significantly influenced by weather in the United States. Continuous rainfall in the Midwest created considerable difficulties in the planting of the 2013 corn crop. In some areas of northern Iowa and southern Minnesota, field flooding made it impossible to get the crop planted. In other areas of the Corn Belt, persistent rainy weather minimized the days available to plant, causing many growers to bypass some crop defense applications at the time of planting, in order to focus exclusively on getting their seed into the ground. While wet conditions did not adversely affect the sales of either our corn insecticides or corn herbicide for the reporting period, they did affect the use of these products, leaving higher than normal stocks in customers' inventories. Similar conditions in the Southern U.S. had the effect of shortening the necessary growing season, prompted some cotton growers to switch their acres to soybeans and, in turn, led to a drop in the sale of our cotton products. In addition to persistent wet conditions, our sales performance was affected by a drop in peanut acres.

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Net sales of our total insecticide group were down about 13%, at \$39,218 as compared to \$45,432 during the second quarter of 2012. Net sales of our granular soil insecticides (GSIs) were up approximately 1% over that of the comparable quarter in 2012, led by our four products for corn (Aztec, SmartChoice, Counter and Force) offset by a more than 50% decline in Thimet sales attributable to fewer peanut acres being planted in 2013. Our non-GSI insecticides posted lower sales during the second quarter (down about 40%) primarily due to lighter purchases of our cotton product Bidrin a direct consequence of the wet weather induced shift from cotton to soybeans plantings as discussed above.

Within the group of herbicides/fungicides/fumigants, net sales for the second quarter of 2013 increased by approximately 81% to \$24,699 from \$13,656 in the comparable period of 2012. Net sales of our herbicide products nearly tripled, due primarily to strong sales of our post-emergent corn herbicide, Impact. We benefitted from our continuing co-marketing agreement with Monsanto and the greater supply availability that we secured this year. Our fumigant sales were lower as a result of some localized irrigation restrictions in California. Our fungicide PCNB continued to recapture business, roughly doubling its prior year quarterly sales level.

Within the group of other products (which includes plant growth regulators, molluscicides and tolling activity), our net sales dropped by about 20% as compared to those in the second quarter of 2012. This decrease was due largely to a decline in sales of our cotton harvest defoliant, Folex, as lower cotton plantings caused a slowdown in purchases during the spring before subsequent use of the product in the autumn.

Our non-crop sales ended the second quarter of 2013 at \$9,616 as compared to \$9,545 for the same period of the prior year. This slight increase resulted from sales of our mosquito adulticide Dibrom[®], which was up 25% as a result of wet conditions discussed above and in preparation for the potential of autumn Gulf Coast hurricane activity, offset by declines in tolling revenues.

Our cost of sales for the second quarter of 2013 was \$44,695 or 51% of net sales. This compared to \$46,491 or 55% of net sales for 2012. The Company aggregates a number of key variable, semi-variable and fixed cost components within reported cost of sales. The two major components are raw materials (including sub contract costs) and factory operating costs. As a result of a change in the sales mix and volume, our absolute expense for raw materials reduced by 4% in the quarter ended June 30, 2013, as compared to the same period of the prior year. Within this change, our actual purchasing cost for raw material increased by 0.8%. Furthermore, with increased demand for plant capacity relating to the production of our own products, we continued to reduce volume manufacturing activity for third parties. Typically, these activities included some raw materials supplied by the customer and, as such, tend to have lower raw material cost (as a percentage of sales) reported by the Company. Our factory operating costs (which include fixed and semi-variable costs) increased by 22%, supporting the forecasted increase in sales revenue for the second quarter and for the balance of the year. Some production ended in inventory because of the unexpected prolonged adverse weather conditions in our key markets. Costs also increased by approximately 3% for inflation. The changes in selling price, volume, product mix and cost of sales resulted overall in a 4% improvement in gross margin to 49% in 2013 as compared to 45% for the same period of the prior year.

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

Operating expenses increased by \$5,065 to \$29,169 for the three months ended June 30, 2013 as compared to the same period in 2012. The differences in operating expenses by department are as follows:

	2013	2012	Change
Selling	\$ 8,451	\$ 6,401	\$ 2,050
General and administrative	9,958	7,776	2,182
Research, product development and regulatory	5,068	4,967	101
Freight, delivery and warehousing	5,692	4,960	732
	\$ 29,169	\$ 24,104	\$ 5,065

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Selling expenses increased by approximately 32% over the same quarter of the prior year. The main drivers for increased overall expenses were costs associated with servicing our growing business including an expanded sales force, field stewardship activities and advertising and promotion expenses.

General and administrative expenses increased by 28% to \$9,958 as compared to \$7,776 for the same period of the prior year. The main drivers for the increase are primarily related to higher legal costs associated with a data compensation matter, which concluded in July, other outside consulting services associated with business development including our international structure and extra personnel costs in support of our expanding business.

Research, product development costs and regulatory expenses increased by about 2% over the comparable three month period of the prior year, driven by timing and mix on external regulatory projects.

Freight, delivery and warehousing costs increased by about 15%, which was driven primarily by mix of products and markets. We continue to focus on managing logistics expenses throughout our supply chain. As a percentage of sales, freight ended at 6.6% of sales for the three months ended June 30, 2013 as compare to 5.8% for the same period of the prior year.

Interest costs net of capitalized interest, were \$670 in the three months ended June 30, 2013, as compared to \$609 in the same period of 2012. Interest costs are summarized in the following table:

Average Indebtedness and Interest expense

	Average Debt	Q2 2013 Interest Expense	Interest Rate	Average Debt	Q2 2012 Interest Expense	Interest Rate
Term loan	\$ 42,054	\$ 407	3.9%	\$ 51,956	\$ 477	3.7%
Working capital revolver	33,725	189	2.2%			
Average	75,779	596	3.1%	51,956	477	3.7%
Other notes payable	242	2	3.3%	6,223	54	12.8%
Capitalized interest		(31)			(112)	
Amortization of deferred loan fees		38			32	
Amortization of other deferred liabilities		56			143	
Other interest expense		9			15	
Adjusted average indebtedness	\$ 76,021	\$ 670	3.5%	\$ 58,179	\$ 609	4.2%

The Company's average overall debt for the three months ended June 30, 2013 was \$76,021 as compared to \$58,179 for the three months ended June 30, 2012. Furthermore, during the three months to June 30, 2013, we incurred non-cash costs related to amortization of discounting of deferred payments and other interest expense in the amount of \$74 as compared to \$132 for the same period of the prior year. As can be seen from the table above, the effective rate on our bank borrowings was 3.1% for the period to June 30, 2013 as compared to 3.7% for the same period of the prior year. Our overall effective interest rate was 3.5% for the three months ended June 30, 2013 as compared to 4.2% at June 30, 2012.

Income tax expense has decreased by \$928 to end at \$3,961 for the three months ended June 30, 2013 as compared to \$4,889 for the comparable period in 2012. The effective tax rate for the quarter was 32.40% as compared to 35.86% in the same period of the prior year. The reduction in the rate is primarily driven by the increased benefit from domestic production activities, Alabama income tax capital credit, and higher foreign income.

Our overall net income attributed to American Vanguard for the three months ended June 30, 2013 was \$8,386 or \$0.29 per share (diluted) as compared to \$8,744 or \$0.30 per share (diluted) in the same quarter of 2012.

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	2013	2012	Change
Net sales:			
Insecticides	\$ 118,085	\$ 101,266	\$ 16,819
Herbicides	57,685	33,332	24,353
Other	16,919	20,583	(3,664)
Total crop	192,689	155,181	37,508
Non-crop	15,609	16,911	(1,302)
	\$ 208,298	\$ 172,092	\$ 36,206
Cost of goods sold:			
Insecticides	\$ 65,677	\$ 52,760	\$ 12,917
Herbicides	29,948	21,774	8,174
Other	8,300	13,082	(4,782)
Total crop	103,925	87,616	16,309
Non-crop	8,526	8,752	(226)
	\$ 112,451	\$ 96,368	\$ 16,083
Gross margin:			
Insecticides	\$ 52,408	\$ 48,506	\$ 3,902
Herbicides	27,737	11,558	16,179
Other	8,619	7,501	1,118
Gross margin crop	88,764	67,565	21,199
Gross margin non-crop	7,083	8,159	(1,076)
	\$ 95,847	\$ 75,724	\$ 20,123
Gross margin crop	46%	44%	
Gross margin non-crop	46%	48%	
Total gross margin	46%	44%	
	2013	2012	Change
Net sales:			
US sales	\$ 170,942	\$ 135,335	\$ 35,607
International sales	37,356	36,757	599
	\$ 208,298	\$ 172,092	\$ 36,206

Overall financial performance including net sales and net income for the six month period ended June 30, 2013 showed considerable improvement as compared to the same period in 2012. Net sales for the period were up approximately 21% to \$208,298 compared to \$172,092 for the first half of 2012. Our gross profit performance improved to \$95,847 or 46% of net sales, as compared to \$75,724 or 44% of net sales. Our operating expenses remained flat as a percentage of net sales at 27%, despite our continuing investment in resources aimed at growing, developing and maintaining our business for the long-term. Our tax rate improved from 36% of taxable income to 34%. Further, net income attributed to American Vanguard was up approximately 45% to \$25,301 (or 12.1% of net sales) as compared to \$17,478 (or 10.2% of net sales) for the same period in 2012. Net sales for our crop business were up by approximately 24%, while net sales for non-crop products were down by about 8% for the comparable period of the prior year. A more detailed discussion of general market conditions and sales performance by category of products appears below.

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Over the course of the first half of 2013, the Company experienced strong fundamental demand despite unfavorable weather conditions in many of its prime crop markets. Extremely wet conditions across the Central and Southern regions of the continental United States delayed corn and cotton planting, shortened the growing season and caused many growers to plant their crops without taking the time to perform various crop protection measures or, alternatively, to forgo corn in favor of planting soybeans which requires a shorter growing period. As a result, AVD's first half performance was characterized by robust first quarter sales on strong demand, and second quarter sales roughly flat with the prior year. This culminated in higher than normal in channel inventories at the end of the planting season. Despite these recent planting difficulties, growers continue to embrace the importance of conventional chemistry solutions for yield enhancement as part of integrated pest management practices.

Half year net sales of our insecticides group were up about 17% to \$118,085 as compared to \$101,266 during the first half of 2012. Within this segment, net sales of our granular soil insecticides (GSIs) were up approximately 28% over that of the comparable period in 2012. Our premier corn soil insecticide Aztec increased nearly 93% and our SmartChoice product tripled in sales to lead this surge. Thimet sales declined due to decreased peanut acres being planted in 2013. Net sales of our non-GSI insecticides were approximately 36% lower during the first half of 2013 as compared to the same period of the prior year, largely because sales of our foliar cotton insecticide Bidrin were reduced due to lower cotton plantings.

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Within the group of herbicides/fungicides/fumigants, net sales for the first half of 2013 were 73% higher as compared to the first half of 2012. Net sales of our herbicide products tripled, led by our post-emergent corn herbicide Impact. AVD continues to benefit from the co-marketing program with Monsanto's Roundup herbicide brands and from increased supply availability. Partially offsetting this gain, we experienced a modest decline in net sales of our herbicide Dacthal[®] used in high value vegetable crop applications and a slight sales decline for our soil fumigants in the first half of 2013, as compared to the same period of the prior year.

Within the group of other products (which includes plant growth regulators, molluscicides and tolling activity), our net sales dropped by about 18% as compared to those in the first half of 2012. Contributing to this decrease were lower sales of our cotton harvest aid, Folex, due to a drop in cotton acres planted and declines in toll manufacturing revenues and pharmaceutical sales.

Our non-crop sales for the first half of 2012 were \$15,609 as compared to \$16,911 for the same period of the prior year. Sales of our mosquito adulticide Dibrom[®], were essentially flat, while we saw a decline in net sales of our Pest Strip business driven by timing of customer orders.

Our cost of sales for first six months of 2013 was \$112,451 or 54% of net sales. This compared to \$96,368 or 56% of net sales for 2012. The Company aggregates a number of key variable, semi-variable and fixed cost components within reported cost of sales. The two major components are raw materials (including sub contract costs) and factory operating costs. As a result of significantly higher sales volumes and a different mix of products sold, our absolute total cost of raw materials increased by approximately 14%, driven by sales up 21%. Within this increased cost, our actual purchasing costs for raw materials increased by 1.1%. During 2013 the Company continued to focus on selling higher margin and higher cost products and de-emphasized lower margin, lower cost products facing generic competition. Our factory operating costs (which include fixed and semi-variable costs) increased by 28%, supporting the forecast increase in sales revenue referenced and approximately a 3% increase in inflation. The changes in selling price, volume, product mix and cost of sales resulted overall in a 2% improvement in gross margin to 46% in 2013 as compared to 44% for the same period of the prior year.

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

Operating expenses increased by \$9,718 to \$56,798 for the six months ended June 30, 2013, as compared to the same period in 2012. The differences in operating expenses by department are as follows:

	2013	2012	Change
Selling	\$ 15,682	\$ 12,115	\$ 3,567
General and administrative	20,171	13,828	6,343
Research, product development and regulatory	9,612	10,472	(860)
Freight, delivery and warehousing	11,333	10,665	668
	\$ 56,798	\$ 47,080	\$ 9,718

Selling expenses for the period increased by about 29% over the comparable period. This increase is driven by higher costs associated with advertising and promotions, field stewardship costs and an expanded sales force.

General and administrative expenses increased by about 46% over the same period of 2012. The main drivers are the increased size and cost of our support organization, higher incentive compensation as a result of our business performance, and additional legal costs on a data compensation matter that concluded in July 2013.

Research, product development costs and regulatory expenses decreased by about 8% when compared to the same period of 2012. This is as a result of timing and mix of external regulatory studies.

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Freight, delivery and warehousing costs for the six months ended June 30, 2013 were \$11,333 or 5.4% of sales as compared to \$10,665 or 6.2% of sales for the same period in 2012. This reflects sales which were up 21% including significantly higher sales of our Impact product which, because of packaging and concentration, has lower freight costs.

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Interest costs net of capitalized interest, were \$1,023 in the six months of 2013 as compared to \$1,308 in the same period of 2012. Interest costs are summarized in the following table:

Average Indebtedness and Interest expense

	Six months ended June 30, 2013			Six months ended June 30, 2012		
	Average Debt	Interest Expense	Interest Rate	Average Debt	Interest Expense	Interest Rate
Term loan	\$ 47,023	\$ 880	3.7%	\$ 52,956	\$ 973	3.7%
Working capital revolver	16,956	189	2.2%			
Average	63,979	1,069	3.3%	52,956	973	3.7%
Other notes payable	327	4	2.4%	6,453	110	3.4%
Interest income						
Capitalized interest		(225)			(148)	
Amortization of deferred loan fees		70			64	
Amortization of other deferred liabilities		86			284	
Other interest expense		19			25	
Adjusted average indebtedness	\$ 64,306	\$ 1,023	3.2%	\$ 59,409	\$ 1,308	4.4%

The Company's average overall debt for the six months ended June 30, 2013 was \$64,306 as compared to \$59,409 for the same period of 2012. Furthermore, during the six months to June 30, 2013, we incurred non-cash costs related to amortization of discounting of deferred payments and other interest income in the amount of \$46 as compared to interest expense of \$335 for the same period of the prior year. As can be seen from the table above, the effective rate on our bank borrowings was 3.3% for the period to June 30, 2013 as compared to 3.7% for the same period of the prior year. Our overall effective interest rate was 3.2% for the six months ended June 30, 2013 as compared to 4.4% in the same period of 2012.

During the three months ended June 30, 2013, the Company borrowed under its revolving credit line to fund working capital needs (principally inventory) until the main accounts receivable payments became due on June 15, 2013. During the period beginning on April 15 and ending on June 7 2013, the Company borrowed up to \$53,000 before paying the revolving credit line down following receiving payments from customers on accounts receivable.

Income tax expense has increased by \$3,083 to end at \$12,941 for the six months ended June 30, 2013 as compared to \$9,858 for the comparable period in 2012. The effective tax rate for the six months is 34.03% as compared to 36.06% in the same period of the prior year. The reduction in the rate is primarily driven by the increased benefit from domestic production activities, Alabama income tax capital credit, and higher foreign income.

Our overall net income attributed to American Vanguard for the six months of 2013 was \$25,301 or \$0.88 per share (diluted) as compared to \$17,478 or \$0.61 per share (diluted) in the same period of 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company generated \$20,045 of cash in operating activities during the six months ended June 30, 2013. This compared to \$36,668 in the same period of last year. Net income of \$25,085, the sum of non-cash depreciation, amortization of intangibles, other assets and discounted future liabilities equaled \$9,349 and stock based compensation expense of \$1,747 provided a net cash inflow \$36,121 compared to \$27,365 for the same period last year.

During the six months ended June 30, 2013, the Company had very strong sales of its key corn products during the first three months, followed by a flattening of sales during the second three-month period. Sales of our Herbicide products have gone well throughout the period. As a result of the strong early sales, our accounts receivable outstanding grew to a very high level in the middle of the period, followed by substantial collections in June (as expected). With slower sales in the final part of the period, we ended with a substantially lower accounts receivable balance of \$67,376 at June 30, 2013. Further, we have been able to reduce our accrual for potential problem accounts to \$557 from \$623 at

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March 31, 2013.

Inventory levels have increased significantly during the period as a result of the continued adverse weather conditions in our key corn markets. Inventory ended at \$127,150 as compared to \$87,591 at December 31, 2012.

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The Company accrues programs in line with the growing season upon which specific products are targeted. Typically crop products have a growing season that ends on September 30 each year. During the six months ended June 30, 2013, the Company made accruals in the amount of \$65,842. Programs are paid out to customers either in the final quarter of the fiscal year or the first quarter of the next fiscal year. During the six months ending June 30, 2013, the Company made payments in the amount of \$8,179. Payments are not generally significant in the second and third quarters of each financial year. During the six months to the end of June 30, 2012, the Company accrued \$37,252 and made payments in the amount of \$4,372.

Finally, as the Company was building momentum for the 2013 growing season, prepaid expenses and other assets increased by \$8,885. At the same time, accounts payable decreased \$8,532.

The Company utilized \$12,047 in investing activities during the six months ended June 30, 2013. This compares to \$13,061 for the same period of the prior year. The business is spending primarily to expand manufacturing capacity in response to demand for certain core products. Furthermore, during the six months ended June 30, 2013, the Company made a \$3,687 equity investment in TyraTech Inc., a natural life science company that utilizes its proprietary technology to develop solutions to address the unmet and increasing global demand for effective, safe, and non-toxic insect and parasite technologies for human and animal health.

Financing activities used \$14,034 during the six months ended June 30, 2013, compared to providing \$10,762 in the same period of the prior year. This included the net debt reduction achieved following the refinancing of our senior credit facility at the end of June 2013 and deferred payments on notes related to product acquisitions. The Company made dividend payments in the amount of \$1,976 as compared to \$1,380 in the same period of last year. Finally, the Company received \$527 from the exercise of stock options and the sale of common stock under its Employee Stock Purchase Plan (including associated tax benefits) as compared to \$1,285 for the same period last year.

The Company has various different loans in place that together constitute the short-term and long-term loan balances shown in the balance sheet at June 30, 2013 and December 31, 2012. These are summarized in the following table:

Indebtedness \$000 s	June 30, 2013			December 31, 2012		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Term Loan	\$	\$	\$	\$ 36,000	\$ 10,000	\$ 46,000
Working capital revolver	40,750		40,750			
Notes payable on product acquisitions and asset purchase	161	70	231	196	6,247	6,443
Total Indebtedness	\$ 40,911	\$ 70	\$ 40,981	\$ 36,196	\$ 16,247	\$ 52,443

As more fully reported in the Company's Form 8-K (filed with the SEC on June 20, 2013), on June 17, 2013, AMVAC Chemical Corporation (AMVAC), the Company's principal operating subsidiary, as borrower, and affiliates (including the Company), as guarantors and/or borrowers, entered into a Second 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 L/C issuer. The new facility also includes both AMVAC CV and AMVAC Netherlands BV (both Dutch subsidiaries) as borrowers. The New Credit Agreement supersedes the Amended and Restated Credit Agreement (First Amendment) dated as of January 10, 2011 and more fully described in the Company's Form 8-K filed on January 13, 2011. The New Credit Agreement is a senior secured lending facility with a five year term and consists of a revolving line of credit of \$200 million and an accordion feature for up to \$100 million. In connection with AMVAC's entering into the New Credit Agreement, all outstanding indebtedness under the First Amendment was rolled over into the New Credit Agreement, and term loans were converted into revolving debt.

The Company has three 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, and (3) maintain a certain consolidated fixed charge coverage ratio.

At June 30, 2013, based on its performance against the most restrictive covenants listed above, the Company had the capacity to increase its borrowings by up to \$159,250 under the credit facility agreement.

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In February 2013, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which establishes new requirements for disclosing reclassifications of items out of accumulated other comprehensive income (OCI). Specifically, (1) disclosure is required of the changes in components of accumulated OCI, (2) disclosure is required of the effects on individual line items in net income for each item of accumulated OCI that is reclassified in its entirety to net income, and (3) cross references are required to other disclosures that provide additional details for OCI items that are not reclassified in their entirety to net income. The requirements of ASU 2013-02 apply to all entities (i.e., both public and nonpublic) that report items of OCI in any period presented. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012.

In October 2012, FASB issued ASU No. 2012-04, Technical Corrections and Improvements. This update primarily makes amendments to various Codifications to (1) conform the format and writing style of certain guidance carried forward without modification from pre-Codification pronouncements, (2) to correct references and provide clarification through updated language, and (3) to relocate guidance within the Codification to a more appropriate location. In addition, ASU No. 2012-4 conforms the use of the term *fair value* throughout the Codification to reflect fully the measurement and disclosure requirements of FASB ASC Topic 820, *Fair Value Measurement and Disclosures* (e.g. to replace the terms market value and mark-to-market with fair value and subsequently measure at fair value, respectively). The majority of the amendments do not change the accounting practice. However, where applicable, the Company will apply the updates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company continually re-assesses the critical accounting policies used in preparing its financial statements for inclusion in the American Vanguard published financial statements. In the Company's statement 10-K for the financial year ended December 31, 2012, the Company provided a comprehensive statement of critical accounting policies. These policies have been reviewed in detail as part of the preparation work for this 10-Q statement. All the policies listed in the Company's Form 10-K for the year ended December 31, 2012 remain valid and is hereby incorporated by reference.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to changes in interest rates, primarily from its borrowing activities. The Company's indebtedness to its primary lender is evidenced by a line of credit with a variable rate of interest, which fluctuates with changes in the lender's reference rate. For more information, please refer to the applicable disclosures in the Company's Form 10-K filed with the SEC for the year ended December 31, 2012. The Company uses derivative financial instruments for trading purposes to protect trading performance from exchange rate fluctuations on material contracts; also, as a condition of the Company's credit agreement with its banks, the Company is required to maintain in effect interest rate swap agreement(s) for a notional amount not less than one-half of the principal amount of its term loan.

The Company conducts business in various foreign currencies, primarily in Europe, Mexico, Central and South America. Therefore changes in the value of the currencies of such countries or regions affect the Company's financial position and cash flows when translated into U.S. Dollars. The Company has mitigated and will continue to mitigate a portion of its currency exchange exposure through natural hedges based on the operation of decentralized foreign operating companies in which the majority of all costs are local-currency based. Furthermore, the Company has established a procedure for covering forward exchange rates on specific purchase orders when appropriate. A 10% change in the value of all foreign currencies would have an immaterial effect on the Company's financial position and cash flows.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2013, the Company has established a comprehensive set of disclosure controls and procedures designed to ensure that all information required to be disclosed in our filings under the Securities Exchange Act (1934) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As at June 30, 2013, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has concluded, based on their evaluation, that the Company's disclosure controls and procedures are effective to provide reasonable assurance of the achievement of the objectives described above.

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

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PART II. OTHER INFORMATION

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

Item 1. Legal Proceedings

Legal Proceedings Summarized below are litigation matters in which there has been material activity or developments since the filing of the Company's Form 10-Q for the period ended March 31, 2013.

A. DBCP Cases Delaware

On or about July 21, 2011, an action captioned, *Blanco v. AMVAC Chemical Corporation et al.*, was filed with the Superior Court of the State of Delaware in and for New Castle County (No. N11C-07-149 JOH) on behalf of an individual plaintiff, residing in Costa Rica, against several defendants, including, among others, AMVAC, The Dow Chemical Company, Occidental Chemical Corporation, and Dole Food Company. In the action, plaintiff claims personal injury (sterility) arising from the alleged exposure to DBCP between 1979 and 1980 while working as a contract laborer in a banana plantation in Costa Rica. Defendant Dow filed a motion to dismiss the action as being barred under the applicable statute of limitations, as this same plaintiff filed the same claim in Florida in 1995 and subsequently withdrew the matter. Plaintiff contends that the statute of limitations was tolled by a prior motion for class certification, which was denied. AMVAC contends that the plaintiff could not have been exposed to any DBCP supplied by AMVAC in Costa Rica. On August 8, 2012, the court denied Dow's motion to dismiss based upon applicable statutes of limitation. In response to that denial, on August 20, 2012, defendants filed a motion for interlocutory appeal and, on September 18, 2012, the Delaware Supreme Court granted interlocutory appeal on the question of whether the State of Delaware will recognize cross jurisdictional tolling (that is, whether it is proper for a Delaware court to follow the class action tolling of another jurisdiction, in this case, Texas, rather than its own two year statute of limitations). Pending the ruling on appeal, the *Blanco* matter was stayed. A similar case (referred to as *Chaverri* in the Company's Form 10-K for the period ended December 31, 2012) involving claims for personal injury allegedly arising from exposure to DBCP on behalf of 235 banana workers from Costa Rica, Ecuador and Panama was also stayed pending the ruling. The Delaware Supreme Court heard oral argument on April 10, 2013 and, on June 10, 2013, denied the appeal and upheld the lower court ruling in *Blanco*, holding that it was proper to extend the class action tolling exception to cross-jurisdictional class action cases. With that ruling, both the *Blanco* and *Chaverri* matters remain pending. AMVAC intends to defend both of these matters vigorously and, at this early stage of litigation, does not believe that a loss is either probable or reasonably estimable and has not set up a loss contingency for either matter.

The balance sheet at June 30, 2013 includes loss contingencies relating to certain legal proceedings more fully described in Item 3 of the Company's Form 10-K for the period ended December 31, 2012 (the 2012 10-K). To the extent that there has been no material change in any such proceeding or in the contingency related thereto since the filing of the 2012 10-K, no additional disclosure about such matter is included in this Form 10-Q.

Item 1A. Risk Factors

The Company continually re-assesses the business risks, and as part of that process detailed a range of risk factors in the disclosures in American Vanguard's Report on Form 10-K for the fiscal year ended December 31, 2012, filed on March 1, 2013. In preparing this document, we have reviewed all the risk factors included in that document and find that there are no material changes to those risk factors.

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Item 6. Exhibits

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

Exhibit

No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
101	The following materials from American Vanguard Corp s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Cash Flows; (iv) Condensed Consolidated Statements of Shareholders Equity; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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SIGNATURES

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

AMERICAN VANGUARD CORPORATION

Dated: August 5, 2013

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

Chief Executive Officer and Chairman of the Board

Dated: August 5, 2013

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

Chief Financial Officer & Principal Accounting Officer

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nt-size:10pt;"> for the six months ended May 31, 2010. The following table presents the estimated future amortization expense related to intangible assets held as of May 31, 2011:

Year	Amount (in thousands)
Remainder of 2011	\$31,587
2012	63,004
2013	57,696
2014	48,120
2015	44,900

Changes in our goodwill and gross intangible assets from November 30, 2010 to May 31, 2011 were primarily the result of our recent acquisition activities, in addition to foreign currency translation. Net intangibles increased primarily because of the addition of intangible assets associated with the acquisitions.

15. Segment Information

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We prepare our financial reports and analyze our business results within our three reportable geographic segments: Americas, EMEA, and APAC. We evaluate segment performance primarily at the revenue and operating profit level for each of these three segments. We also evaluate revenues by transaction type and information domain.

As our APAC operations have evolved, the management structure of the region has also evolved and now includes responsibility for overseeing India. Accordingly, we have included India's 2011 results in the APAC geographic segment, and we have reclassified India's 2010 results from EMEA to APAC.

Information about the operations of our three segments is set forth below. No single customer accounted for 10% or more of our total revenue for the three and six months ended May 31, 2011 and 2010. There are no material inter-segment revenues for any period presented. Certain corporate transactions are not allocated to the reportable segments, including such items as stock-based compensation expense, net periodic pension and post-retirement expense (income), corporate-level impairments, and gain (loss) on sale of corporate assets.

	Americas	EMEA	APAC	Shared Services	Consolidated Total
	(In thousands)				
Three Months Ended May 31, 2011					
Revenue	\$ 196,559	\$ 95,628	\$ 32,930	\$—	\$ 325,117
Operating income	54,786	19,614	9,865	(33,295)) 50,970
Depreciation and amortization	15,319	4,798	47	550	20,714
Three Months Ended May 31, 2010					
Revenue	\$ 168,054	\$ 75,248	\$ 23,178	\$—	\$ 266,480
Operating income	54,430	17,312	7,875	(30,286)) 49,331
Depreciation and amortization	9,955	3,758	25	531	14,269

	Americas	EMEA	APAC	Shared Services	Consolidated Total
	(In thousands)				
Six Months Ended May 31, 2011					
Revenue	\$ 377,750	\$ 180,066	\$ 62,303	\$—	\$ 620,119
Operating income	104,105	36,111	18,126	(67,070)) 91,272
Depreciation and amortization	29,428	8,290	86	1,111	38,915
Six Months Ended May 31, 2010					
Revenue	\$ 320,022	\$ 143,444	\$ 43,749	\$—	\$ 507,215
Operating income	101,098	29,993	14,176	(59,198)) 86,069
Depreciation and amortization	19,171	7,818	50	1,060	28,099

Revenue by transaction type was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2011	2010	2011	2010
	(In thousands)			
Subscription revenue	\$ 250,541	\$ 205,722	\$ 484,313	\$ 401,208
Consulting revenue	18,953	15,085	35,469	26,970
Transaction revenue	14,327	12,235	27,665	23,625
Other revenue	41,296	33,438	72,672	55,412
Total revenue	\$ 325,117	\$ 266,480	\$ 620,119	\$ 507,215

Revenue by information domain was as follows:

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	Three Months Ended May 31,		Six Months Ended May 31,	
	2011	2010	2011	2010
	(In thousands)			
Energy revenue	\$139,445	\$123,114	\$261,096	\$233,049
Product Lifecycle (PLC) revenue	108,493	83,175	210,273	157,909
Security revenue	30,111	26,953	56,931	52,352
Environment revenue	22,568	13,391	43,543	24,598
Macroeconomic Forecasting and Intersection revenue	24,500	19,847	48,276	39,307
Total revenue	\$325,117	\$266,480	\$620,119	\$507,215

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, this quarterly report on Form 10-Q contains forward-looking statements. These forward-looking statements generally are identified by the use of the words "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of these terms, and other similar expressions. Forward-looking statements are based on current expectations, assumptions, and projections that are subject to risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is outlined under the "Risk Factors" section of our 2010 annual report on Form 10-K. We are under no obligation to update or publicly revise these forward-looking statements, whether as a result of new information, future events, or otherwise.

Management's discussion and analysis is intended to help the reader understand the financial condition and results of operations for IHS Inc. The following discussion should be read in conjunction with our annual report on Form 10-K for the year ended November 30, 2010, the Condensed Consolidated Financial Statements and accompanying notes included in this quarterly report on Form 10-Q, and important information and disclosure that we routinely post to our website (www.ihs.com).

Executive Summary

Business Overview

IHS is a leading source of information and insight in critical areas that shape today's business landscape, including energy and power; design and supply chain; defense, risk and security; environmental, health and safety (EHS) and sustainability; country and industry forecasting; and commodities, pricing and cost. Businesses and governments around the globe rely on the comprehensive content, expert independent analysis and flexible delivery methods of IHS to make high-impact decisions and develop strategies with speed and confidence. IHS has been in business since 1959 and became a publicly traded company on the New York Stock Exchange in 2005. Headquartered in Englewood, Colorado, USA, IHS employs more than 5,100 people in more than 30 countries around the world. We source raw data and transform it into information through a series of transformational steps that reduce the uncertainty that is inherent in unrefined data and enhances its usefulness.

Inherent in all of our strategies is a firm commitment to put our customers first in everything that we do. We believe that maintaining a disciplined "outside-in" approach will allow us to better serve our customers and our shareholders. To achieve that goal, we have organized our business around our customers and the geographies in which they reside: Americas, EMEA, and APAC. This structure allows us to tailor and expand the solutions we offer to meet the unique needs of our customers both globally and in local markets.

We sell our offerings primarily through subscriptions, which tend to generate recurring revenue and cash flow for us. Our subscriptions are usually for one-year periods, and we have historically seen high renewal rates. Subscriptions are generally paid in full within one or two months after the subscription period commences; as a result, the timing of our cash flows generally precedes the recognition of revenue and income.

Our business has seasonal aspects. For instance, our second quarter results benefit from the inclusion of revenue from CERAWEEK, an annual energy executive gathering. In addition, every three years, our third quarter benefits from the inclusion of revenue generated by the triennial release of the Boiler Pressure Vessel Code (BPVC) engineering standard. The BPVC benefit most recently occurred in the third quarter of 2010. Fourth quarter revenues and profits are modestly higher than the other three quarters; we attribute that trend to non-subscription revenue increases that tend to occur towards year-end.

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Global Operations

Approximately 50% of our revenue is transacted outside of the United States; however, only about 30% of our revenue is transacted in currencies other than the U.S. dollar. As a result, a strengthening U.S. dollar relative to certain currencies has a negative impact on our revenue; conversely, a weakening U.S. dollar has a positive impact on our revenue. However, the impact on operating income is diminished due to certain operating expenses denominated in currencies other than the U.S. dollar. Our largest foreign currency exposures, in order of magnitude, are the British Pound, the Canadian Dollar, and the Euro.

Key Performance Indicators

We believe that revenue growth, Adjusted EBITDA (both in dollars and margin), and free cash flow are the key measures of our success. Adjusted EBITDA and free cash flow are non-GAAP financial measures (as defined by the rules of the Securities and Exchange Commission) that are further discussed in the following paragraphs.

Revenue growth. We review year-over-year revenue growth in our segments as a key measure of our success in addressing customer needs in each region of the world. We measure revenue growth in terms of organic, acquisitive, and foreign currency impacts. We define these components as follows:

Organic – We define organic revenue growth as total revenue growth due to all factors other than acquisitions and foreign currency. We drive this type of revenue growth through value realization (pricing), expanding wallet share of existing customers through up-selling and cross-selling efforts, securing new customer business, and through the sale of new offerings.

Acquisitive – We define acquisition-related revenue as the revenue generated from acquired products and services from the date of acquisition to the first anniversary date of that acquisition. This type of growth comes as a result of our strategy to purchase, integrate, and leverage the value of assets we acquire.

Foreign currency – We define the foreign currency impact on revenue as the difference between current revenue at current exchange rates and current revenue at the corresponding prior period exchange rates. Due to the significance of revenue transacted in foreign currencies, we measure the impact of foreign currency movements on revenue.

Non-GAAP measures. We use non-GAAP measures such as Adjusted EBITDA and free cash flow in our operational and financial decision-making, believing that such measures allow us to focus on what we deem to be more reliable indicators of ongoing operating performance (Adjusted EBITDA) and our ability to generate cash flow from operations (free cash flow). We also believe that investors may find non-GAAP financial measures useful for the same reasons, although we caution readers that non-GAAP financial measures are not a substitute for GAAP financial measures or disclosures. None of these non-GAAP financial measures are recognized terms under GAAP and do not purport to be an alternative to net income or operating cash flow as an indicator of operating performance or any other GAAP measure. Throughout this section on management's discussion and analysis and on our IHS website, we provide reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

Adjusted EBITDA. EBITDA and Adjusted EBITDA are used by many of our investors, research analysts, investment bankers, and lenders to assess our operating performance. For example, a measure similar to EBITDA is required by the lenders under our term loan and revolving credit agreement. We define EBITDA as net income plus or minus net interest, plus provision for income taxes, depreciation, and amortization. Our definition of Adjusted EBITDA further excludes (i) non-cash items (e.g., stock-based compensation expense and non-cash pension and post-retirement expense) and (ii) items that management does not consider to be useful in assessing our operating performance (e.g.,

acquisition-related costs, restructuring charges, income or loss from discontinued operations, and gain or loss on sale of assets).

Free Cash Flow. We define free cash flow as net cash provided by operating activities less capital expenditures.