AMERICAN VANGUARD CORP
Form 10-K/A
January 28, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For The Year Ended December 31, 2002

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 0-6354

AMERICAN VANGUARD CORPORATION

Delaware	**95-2588080**
(State or other jurisdiction of	**(I.R.S. Employer**

Incorporation or organization)	Identification Number)
4695 MacArthur Court, Newport Beach, California	**92660**
(Address of principal executive offices)	**(Zip Code)**

(949) 260-1200

(Registrant s telephone number, including area code)

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

Title of each class:	Name of each exchange on which registered:
Common Stock, $.10 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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 x 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. x

The number of shares of $.10 par value Common Stock outstanding as of March 21, 2003, was 5,817,201. The aggregate market value of the voting stock of the registrant held by non-affiliates at March 21, 2003, was $64,160,800. 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 affiliates.

Indicate by checkmark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Securities and Exchange Act of 1934 Yes ¨ No x

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AMERICAN VANGUARD CORPORATION

ANNUAL REPORT ON FORM 10-K

December 31, 2002

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Explanatory Note:

Items 1, 6 and 7 listed above are each hereby amended by deleting the Item in its entirety and replacing it with the corresponding Item attached hereto and filed herewith. Item 15 listed above is hereby amended by replacing the specified portions indicated herein.

The purpose of this Amendment is to make certain changes to the above referenced Items in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 that was originally filed on March 31, 2003 (the Original Filing). We are filing this amended Annual Report on Form 10-K/A in response to comments received from the Securities and Exchange Commission (the SEC) in connection with our Registration Statement on Form S-3 filed on September 30, 2003. This report continues to speak as of the date of the Original Filing and we have not updated the disclosure in this report to speak to any later date. While this report primarily relates to the historical period covered, events may have taken place since the date of the Original Filing that might have been reflected in this report if they had taken place prior to the Original Filing.

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

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PART I

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) (Refer to Export Operations), and Environmental Mediation, Inc.

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, molluscicides, growth regulators, and soil fumigants, are marketed in liquid, powder, and granular forms. AMVAC s business is continually undergoing an evolutionary change. 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.

In February 2003, AMVAC acquired certain assets associated with the global Pre-Harvest Protection business from Pace International, L.L.C. (Pace). Pace s global Pre-Harvest Protection business encompasses five product lines:

- Deadline® a line of snail and slug control products used in agriculture and by commercial landscapers;
- Hivol®44 a plant growth regulator used primarily in citrus;
- Hinder a deer and rabbit repellant;
- Bac-Master streptomycin antibiotic used primarily to control Fire Blight (a bacterial disease of apples and pears that kills blossoms, shoots, limbs, and sometimes, entire trees; and
- Leffingwell® Supreme 415 Oil a horticultural oil insecticide for aphids, mites and scale.

Pace will continue to manufacture Deadline and Hinder under a multi-year supply agreement with AMVAC. Additionally, AMVAC has an option to acquire Pace s Deadline manufacturing facility in Yakima County, Washington.

In January 2003, AMVAC acquired certain assets associated with the Evital 5G cranberry herbicide business conducted in the United States from Syngenta Crop Protection, Inc.

In July 2002, AMVAC acquired from Flowserve U.S. Inc. (Flowserve), all of its assets associated with the SmartBox closed delivery system. The SmartBox system electronically dispenses granular crop protection products, replacing older technology that utilizes mechanically driven sprockets and chains. The state-of-the-art SmartBox technology allows farmers to apply crop protection products accurately and efficiently while avoiding contact with the product. The computer controller enables farmers to monitor and change application rates while planting and provides the farmer with a permanent record of application. Initially the SmartBox system was developed by Flowserve in partnership with DuPont and Zeneca, Inc. which partnership commenced in 1995. At the same time it acquired certain assets associated with the Fortress® corn soil insecticide business from DuPont in 2000, AMVAC assumed DuPont s SmartBox partnership interest. Thereafter, Zeneca, Inc. abandoned its SmartBox partnership interest. In 2000 AMVAC sold its Fortress 5G (5% active ingredient chlorethoxyfoxs) corn soil insecticide to the American farmer in the SmartBox system. Later that year, AMVAC secured exclusive marketing rights in the U.S. Bayer CropScience s Aztec® 4.67G corn soil insecticide which also can be applied through the SmartBox system. By offering both products, AMVAC provides farmers a choice of two different chemistries to apply through the SmartBox system. This allows farmers to rotate products from year to year, thereby preventing insects from building resistance to any one specific product. AMVAC is currently looking at utilizing this system for other crops where the safety features of the system would provide an important benefit.

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In July 2002, AMVAC acquired from Syngenta Crop Protection, Inc. (Syngenta) all U.S. EPA end-use product registrations and data support as well as a license to the Ambush 25WP trademark (wettable powder formulation) in the United States. Syngenta will continue to own the rights and assets of the liquid formulation (Ambush 2EC) in the United States.

In June 2002, AMVAC acquired certain assets associated with the Folex cotton defoliant business conducted in the United States by Aventis CropScience USA prior to Bayer AG s acquisition of Aventis CropScience S.A. The purchase included the U.S. EPA end-use product registration for Folex as well as the Folex trademark and product inventories. In addition, an existing supply agreement with Bayer Corporation providing for the supply of active ingredient and access to data in support of the end-use product registration has been assigned to AMVAC, allowing AMVAC to purchase the active ingredient in Folex from Bayer. Bayer markets a product under its trademark Def® which is similar to Folex, and continues to sell Def following its acquisition of Aventis.

In August 2001, AMVAC acquired certain assets associated with the Phosdrin® international insecticide business from BASF Agro B.V. The purchase included all active registrations, access to the underlying data for the registrations and trademarks in 55 countries. AMVAC has manufactured and formulated Phosdrin® for the international market at its Los Angeles facility since 1985. Additionally, AMVAC has been the primary data generator and data holder for the product since 1989.

In May 2000, AMVAC acquired certain assets associated with the worldwide Dacthal® (DCPA) herbicide business from GB Biosciences Corporation. The purchase included the worldwide rights, including U.S. Environmental Protection Agency (EPA) registration rights and similar regulatory entities in other countries, manufacturing and process technology, trademarks and all product related intellectual property. Dacthal has been sold for weed control in crops such as onions, garlic, cauliflower, cotton and strawberries for approximately thirty years.

In February 2000, AMVAC acquired certain assets associated with the Fortress® soil insecticide business from DuPont. The Company acquired all U.S. EPA and state registrations, manufacturing and process technology, trademarks and all product related intellectual property. The acquisition included certain rights and obligations to a closed (SmartBox) delivery system as well as DuPont s existing finished and semi-finished inventory including the closed delivery system containers. Fortress insecticide provides control of the corn rootworm, a devastating pest in corn.

In addition to the product line acquisitions disclosed above, in November 1998, AMVAC acquired certain assets associated with the U.S. Dibrom® insecticide business from Valent USA Corporation (Valent), a wholly-owned subsidiary of Sumitomo Chemical Company, Limited. The purchase included all EPA registration rights issued under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) and state registrations of the product line, an extensive data package, inventory, trademarks and all product related intellectual property. AMVAC had manufactured and formulated Dibrom® prior to its acquisition, dating back to 1981, for Valent and formerly for Chevron, which had held the U.S. rights to Dibrom® prior to Valent. AMVAC has owned the international rights to the Dibrom® product line since 1991. In 1997 AMVAC purchased the rights, title and interest to Vapam® (Metam Sodium), a soil fumigant, from Zeneca, Inc. The purchase included inventories of Vapam®, EPA registration rights issued under FIFRA and certain other assets. AMVAC has manufactured Metam Sodium at its Los Angeles facility since 1988. In 1993 AMVAC purchased from E.I. du Pont de Nemours & Company (Du Pont) the rights, title and interest (including Du Pont s EPA registration rights) in Bidrin®, an insecticide for cotton crops, and in 1991 AMVAC purchased from Rhone-Poulenc AG Company its Napthalene Acetic Acid (NAA) plant growth regulator product line including Rhone-Poulenc s EPA registration rights.

The agricultural chemical industry in general is cyclical in nature. The demand for AMVAC s products tends to be slightly 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.

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

ConAgra, Inc., Agriliance and Helena Chemical Company accounted for 22%, 12% and 10%, respectively of the Company s sales in 2002. ConAgra, Inc. accounted for 23% of the Company s sales in 2001. ConAgra, Inc., Tenkoz and Helena Chemical accounted for 24%, 13% and 11%, respectively, of the Company s sales in 2000. ConAgra, Agriliance and Helena are distributors of the Company s products. Tenkoz is a buying cooperative of various companies.

Competition

AMVAC faces competition from many domestic and foreign manufacturers in its marketplaces. Competition in AMVAC s marketplace is based primarily on efficacy, price, safety and ease of application. Many of such 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 price, the quality of its products and the technical service and support given to its customers. The

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inability of AMVAC to effectively compete in several of AMVAC s principal products would have a material adverse effect on AMVAC s results of operations.

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. As previously mentioned, the Company has attempted to position AMVAC in smaller niche markets which are no longer of strong focus to larger companies. These markets are small by nature, require significant and intensive management input, ongoing product research, and are near product maturity. These types of markets tend not to attract larger chemical companies due to the smaller volume demand, and larger chemical companies have been divesting themselves of products that fall into such niches as is evidenced by AMVAC s successful acquisitions of Dacthal®, Fortress®, Dibrom®, Vapam®, Bidrin® and NAA.

AMVAC s proprietary product formulations are protected, to the extent possible, as trade secrets and, to a lesser extent, by patents and trademarks. 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 or several trademarks, licenses, or patents. AMVAC s products also receive protection afforded by the effect of FIFRA legislation that makes it unlawful to sell any pesticide in the United States unless such pesticide has first been registered by the EPA as well as under similar state laws. Substantially all of AMVAC s products are subject to EPA registration and re-registration requirements and are conditionally registered in accordance with FIFRA. This licensing by EPA is based, among other things, on data demonstrating that the product will not cause unreasonable adverse 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. State registrations are renewed annually, as appropriate. The EPA 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, 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 $2,939,600, $2,433,300 and $2,555,200 during 2002, 2001 and 2000 respectively, related to gathering this information. Based on facts known today, AMVAC estimates it will spend approximately $3,300,000 in 2003. 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 EPA, there can be no assurance the EPA will not request certain tests/studies be repeated. AMVAC expenses these costs on an incurred basis. See also PART I, Item 7 of this Annual Report for discussions pertaining to research and development expenses.

Raw Materials

The Company utilizes numerous firms as well as internal sources to supply the various raw materials and components used by AMVAC 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, the Company seeks to secure its supply by either long-term arrangements or advance purchases from its suppliers. Recent increases in energy costs are expected to have an impact on the Company. The ultimate impact, of which, cannot be measured at this time. The Company believes that it is considered to be a valued customer to such sole-source suppliers.

Environmental

During 2002, AMVAC continued activities to address environmental issues associated with its facility (the Facility) in Commerce, California.

In March 1997, the California Environmental Protection Agency Department of Toxic Substances Control (DTSC) accepted the Facility into its Expedited Remedial Action Program (ERAP). Under this program, the Facility must prepare and implement an environmental investigation plan. Depending on the findings of the investigation, the Facility may also be required to develop and implement remedial measures to address any historical environmental impairment. The environmental investigation and any remediation activities related to ten underground storage tanks at the Facility, which had been closed in 1995, will also be addressed by AMVAC under ERAP.

Soil and groundwater characterization activities began in December 2002 in accordance with the Site Investigation Plan that was approved by the DTSC. Investigation and potential remediation activities are planned to be implemented in a phased approach over the next one to two years under the oversight of the DTSC. These investigation and potential remediation activities are required at all facilities that currently have, or in the past had, hazardous waste storage permits. Because AMVAC previously held a hazardous waste management permit, AMVAC is subject to these requirements. The cost associated with the potential remediation activities is not expected to have a material impact on the Company s financial statements.

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The Company is subject to numerous federal and state laws and governmental regulations concerning environmental matters and employee health and safety at the Commerce, California and Axis, Alabama facilities. The Company continually adapts its manufacturing process to the environmental control standards of the various regulatory agencies. The U.S. EPA and other federal and state agencies have the authority to promulgate regulations that could have an impact on the Company 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. Federal and state authorities may seek fines and penalties for violation of the various laws and governmental regulations. As part of its continuing environmental program, except as disclosed in PART I, Item 3, Legal Proceedings, of this Annual Report, the Company has been able to comply with such proceedings and orders without any materially adverse effect on its business.

Employees

As of March 21, 2003, the Company employed approximately 207 persons. 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 1998 in Mexico to conduct business in Mexico and related areas. 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 August 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, a city 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, 2002, 2001 and 2000.

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

	2002	2001	2000
Export Sales	$ 7,469,900	$ 6,086,600	$ 6,210,200

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. There can be no assurance, however, that such products liability coverage insurance will continue to be available to the Company, or if available, that it will be provided at an economical cost to the Company.

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.

ENVIRONMENTAL MEDIATION, INC.

EMI is an environmental consulting firm.

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PART II

AMERICAN VANGUARD CORPORATION AND SUBSIDIARIES

ITEM 6 SELECTED FINANCIAL DATA (in thousands, except for weighted average number of shares and per share data)

	2002	2001	2000	1999	1998
Operating revenues	$ 100,671	$ 83,128	$ 74,517	$ 66,200	$ 65,244
Operating income	$ 11,880	$ 10,367	$ 8,828	$ 6,878	$ 5,158
Income from operations before income tax expense	$ 11,278	$ 9,023	$ 7,185	$ 5,223	$ 3,263
Net income	$ 7,049	$ 5,640	$ 4,311	$ 3,236	$ 2,127
Earnings per common share(1)	$ 1.22	$ .98	$ .73	$ .54	$ .35
Earnings per common share assuming dilution(1)	$ 1.16	$ .95	$ .72	$ .54	$ .35
Total assets	$ 75,448	$ 68,565	$ 66,091	$ 55,579	$ 58,847
Long-term debt and capital lease obligations, less current portion	$ 17,765	$ 14,164	$ 18,647	$ 14,989	$ 16,458
Stockholders equity	$ 40,243	$ 33,958	$ 29,288	$ 25,969	$ 23,128
Weighted average shares outstanding(1)	5,780,201	5,736,876	5,918,064	5,990,592	6,056,414
Weighted average shares outstanding assuming dilution(1)	6,061,190	5,913,900	6,016,206	5,990,592	6,056,414
Dividends per share of common stock(1)	$ .103	$ .08	$ .076	$ .025	$ .029

The selected consolidated financial data set forth above with respect to each of the calendar years in the five-year period ended December 31, 2002 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 certified public accountants reports thereon which are included elsewhere in this Report on Form 10-K for the three years ended December 31, 2002. See ITEM 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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.

Presented below are the weighted average shares and earnings per share amounts for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, had the 3 for 2 stock split not occurred:

	2002	2001	2000	1999	1998
Earnings per common share	$ 1.83	$ 1.48	$ 1.09	$ .81	$ .53
Earnings per common share assuming dilution	$ 1.74	$ 1.43	$ 1.07	$ .81	$ .53
Weighted average shares outstanding	3,853,467	3,824,584	3,945,376	3,993,728	4,037,609
Weighted average shares outstanding assuming dilution	4,040,793	3,942,600	4,010,804	3,993,728	4,037,609

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

ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Results of Operations

2002 Compared with 2001:

The Company reported net income of $7,048,800 or $1.16 per diluted share in 2002 as compared to net income of $5,639,600 or $.95 per diluted share in 2001. (Net income per share data have been restated to reflect the effect of a 3 for 2 stock split that will be distributed on April 11, 2003.)

Net sales in 2002 increased by 21% or $17,543,500 to $100,671,400 from $83,127,900 in 2001. The record sales levels were as a result of increased sales of the Company s soil fumigants, defoliant and insecticides product lines which served to more than offset a decline in the Company s fungicide and plant growth regulators product lines. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impact net sales. There were no unusual or infrequent events or transactions outside of the ordinary course of business which materially impact net sales.

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Gross profits increased $5,944,100 to $43,875,600 in 2002 from $37,931,500 in 2001. Gross profit margins declined to 44% in 2002 from 46% in 2001. The reduction in gross profit margins was due to the changes in the sales mix of the Company s products.

Operating expenses, which are net of other income and expenses, increased by $3,670,100 to $31,996,100 in 2002 from $28,326,000 in 2001. Operating expenses as a percentage of sales were 32% in 2002 as compared to 34% in 2001. The differences in operating expenses by specific departmental costs are as follows:

Selling expenses increased by $1,406,000 to $10,675,700 in 2002 from $9,269,700 in 2001. The increase was due primarily to increased variable selling expenses that relate to both increased sales levels and the product mix of sales, as well as, increases in payroll and payroll related items.

General and administrative increased by $961,000 to $8,482,600 in 2002 as compared to $7,521,600 in 2001. The increase was due to increases in outside professional fees (primarily legal), coupled with the fact that the same period in 2001 realized the benefit of certain costs that were capitalized in the re-commissioning of the Company s Axis, Alabama facility.

Research and product development costs and regulatory registration expenses increased by $770,200 to $5,717,300 in 2002 from $4,947,100 in 2001. The increase was a result of increases in costs incurred to generate scientific data related to the registration and possible new uses of the Company s products.

Freight, delivery and warehousing costs increased $532,900 to $7,120,500 in 2002 as compared to $6,587,600 in 2001 due to the increased sales levels.

In 1986, the Company constructed an incinerator to destroy a waste gas that had been previously discharged to the atmosphere pursuant to an air permit. By reducing this emission, the Company was entitled to transfer a portion of its emission credits to others. The Company recognized a net gain before taxes of $465,500 in 2001 as a result of sales of a portion of its credits.

The Company settled negotiations with an insurance carrier related to the recovery of certain costs pertaining to the completed remediation work of a railroad siding which resulted in a net gain before taxes of $208,300 in 2001. The Company also settled a dispute over data compensation which resulted in a net gain before taxes of $88,100 in 2001.

Interest costs before capitalized interest and interest income were $972,800 in 2002 as compared to $1,363,000 in 2001. Lower effective interest rates coupled with lower overall debt levels resulted in the decline in interest costs. The Company capitalized $346,800 of interest costs related to the re-commissioning the Company s Axis, Alabama facility in 2002. (See note 3 to the Consolidated Financial Statements.)

Income tax expense increased by $845,600 to $4,229,300 in 2002 as compared to $3,383,700 in 2001. The Company s effective tax rate remained unchanged at 37.5%. (See note 4 to the Consolidated Financial Statements for additional analysis of the changes in income tax expense.)

Weather patterns can have an impact on the Company s operations. Weather conditions influence pest population by impacting gestation cycles for particular pests and the effectiveness of some of the Company s products, among other factors. The end user of some of the Company s

products may, because of weather patterns, delay or intermittently disrupt field work during the planting season which may result in a reduction of the use of some of the Company s products. During 2002, weather patterns did not have a material adverse effect on the Company s results of operations.

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

Effective January 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products* (EITF 01-9). Upon adoption of EITF 01-9, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified certain of these payments as operating expenses in the consolidated statement of income. The amounts reclassified resulted in a reduction of net sales (and an offsetting reduction of operating expenses) of $3,649,100 in 2002, $3,888,600 in 2001 and $3,462,300 in 2000. Additionally, the Company engages in various customer programs. The Company accounts for these

programs as operating expenses in accordance with EITF 01-9 as the Company receives an identifiable benefit in exchange for the consideration. Amounts charged to operating expenses were $2,222,000 in 2002, $1,760,500 in 2001 and $727,000 in 2000.

2001 Compared with 2000:

The Company reported net income of $5,639,600 or $.95 per dilutive share in 2001 as compared to net income of $4,311,200 or $.72 per dilutive share in 2000. (Net income per share data have been restated to reflect the effect of stock splits.

Net sales in 2001 increased by 12% or $8,610,500 to $83,127,900 from $74,517,400 in 2000. The record sales levels were as a result of increased sales of the Company s insecticides, herbicides and fungicides product lines which served to more than offset a decline in the Company s soil fumigants product line.

Gross profits increased $4,820,500 to $37,931,500 in 2001 from $33,111,000 in 2000. Gross profit margins increased to 46% in 2001 from 44% in 2000. The improvement in gross profit margins was due to the changes in the sales mix of the Company s products.

Operating expenses, which are net of other income and expenses, increased by $3,830,400 to $28,326,000 in 2001 from $24,495,600 in 2000. The differences in operating expenses by specific departmental costs are as follows:

Selling expenses increased by $2,011,600 to $9,269,700 in 2001 from $7,258,100 in 2000. The increase was due to increased variable selling expenses that included (i) cooperative advertising, (ii) potential product complaints and (iii) other selling related programs.

General and administrative increased by $1,264,800 to $7,521,600 in 2001 as compared to $6,256,800 in 2000. The increase was due primarily to higher outside professional fees (which includes a contingent liability for remediation costs), payroll and payroll related costs and an increase in the amortization of intangible assets in the connection with the acquisition of a herbicide product line which was acquired in May 2000.

Research and product development costs and regulatory registration expenses declined by $173,100 to $4,947,100 in 2001 from $5,120,200 in 2000. The decline was due to a decrease in costs incurred to generate scientific data related to the registration and possible new uses of the Company s products.

Freight, delivery and warehousing costs increased $727,100 to $6,587,600 in 2001 as compared to $5,860,500 in 2000 due to the increased sales levels.

In 1986, the Company constructed an incinerator to destroy a waste gas that had been previously discharged to the atmosphere pursuant to an air permit. By reducing this emission, the Company was entitled to transfer a portion of its emission credits to others. The Company recognized a net gain before taxes of $465,500 in 2001 and $212,800 in 2000 as a result of sales of a portion of its credits.

The Company settled negotiations with an insurance carrier related to the recovery of certain costs pertaining to the completed remediation work of a railroad siding which resulted in a net gain before taxes of $208,300 in 2001. The Company also settled a dispute over data compensation which resulted in a net gain before taxes of $88,100 in 2001.

Interest costs declined by $318,500 to $1,363,000 in 2001 as compared to $1,681,500 in 2000. Lower effective interest rates accounted for the decrease. (See note 3 to the Consolidated Financial Statements.)

Income tax expense increased by $509,600 to $3,383,700 in 2001 as compared to $2,874,100 in 2000. The Company s effective tax rate was 37.5% for 2001 as compared to the 40.0% effective tax rate for 2000. (See note 4 to the Consolidated Financial Statements for additional analysis of the changes in income tax expense.)

Liquidity and Capital Resources

Operating activities provided $8,158,500 of cash during the year ended December 31, 2002. Net income of $7,048,800, non-cash depreciation and amortization of $2,337,400, a decline of $1,108,200, $2,802,100 and $275,600 of deferred income taxes, inventories and prepaid expenses, respectively, provided $13,572,100 of cash for operations. Increases in receivables, of $79,600 and a decline of $5,334,000 on payables and accrued expenses used $5,413,600 of cash for operating activities.

The Company used $9,821,300 in investing activities in 2002. It invested $7,977,900 in capital expenditures a majority of which relates to the re-commissioning of its facility located in Axis, Alabama. The Company also increased intangible and other noncurrent assets by $1,843,400.

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Financing activities provided $4,356,700 during 2002. The Company received proceeds from long-term debt of $10,000,000. The Company s net borrowings under its fully-secured revolving line of credit declined by $4,200,000 and the Company made payments of $951,800 related to its long-term debt. The Company also paid $598,800 in cash dividends, purchased treasury stock for $393,800 and received $501,100 from the issuance of common stock.

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

In May 2002, the Company entered into a new $45,000,000 fully-secured long-term credit agreement. The Company s primary bank (the Bank) acted as sole administrative agent arranger and syndication agent. The Bank syndicated the new credit facility with another bank. The $45,000,000 credit facility consists of a senior secured revolving line of credit of $35,000,000 and a $10,000,000 senior secured term loan. The borrowings under the credit agreement bear interest at the prime rate (Referenced Loans), or at the Company s option, a fixed rate of interest offered by the Bank (Fixed Loans) for terms of one, two, three, six, nine or twelve months. Interest on the Referenced Loans are payable quarterly, in arrears, on the last day of each March, June, September, and December, and on the maturity date of such loan in the amount of interest then accrued but unpaid. Interest on the Fixed Loans are payable on the last day of the interest period, provided that, with an interest period longer than three months, interest is payable on the last day of each three-month period after the commencement of such interest period. The senior secured revolving line of credit matures on May 31, 2005. The term loan matures on May 31, 2007. The principal payments of the term loan are payable in equal quarterly installments of $625,000 each, on or before the last business day of each February, May, August and November, commencing May 31, 2003 and in one final installment in the amount necessary to repay the remaining outstanding principal balance of the term loan in full on the maturity date.

Management continues to believe, to continue to improve its working capital position, and maintain flexibility in financing interim needs, it is prudent to explore all available sources of financing.

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Contractual Obligations and Off-Balance Sheet Arrangements

The following summarizes our contractual obligations at December 31, 2002 and the effects such obligations are expected to have on liquidity and cash flow in future periods:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$ 11,713,900	$ 1,948,500	$ 6,640,400	$ 3,125,000	$
Note payable to bank	8,000,000		8,000,000		
Accrued royalty obligations	1,214,500	1,214,500			
Employment agreement	2,175,000	435,000	870,000	870,000	
Product acquisition obligations	250,000	250,000			
Operating leases	606,900	338,000	268,900		
	$ 23,960,300	$ 4,186,000	$ 15,779,300	$ 3,995,000	$

Recent Accounting Pronouncements

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

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

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

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

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

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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 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.

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CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

Programs

Effective January 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products* (EITF 01-9). Upon adoption of EITF 01-9, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified certain of these payments as operating expenses in the consolidated statement of income. The amounts reclassified resulted in a reduction of net sales (and an offsetting reduction of operating expenses) of $3,649,100 in 2002, $3,888,600 in 2001 and $3,462,300 in 2000. Additionally, the Company engages in various customer programs. The Company accounts for these programs as operating expenses in accordance with EITF 01-9 as the Company receives an identifiable benefit in exchange for the consideration. Amounts charged to operating expenses were $2,222,000 in 2002, $1,760,500 in 2001 and $727,000 in 2000.

Advertising Expense

The Company expenses advertising costs in the period incurred. Advertising expenses, which include promotional costs, is recognized in operating costs (specifically in selling expenses) in the consolidated statements of income and was $570,000 in 2002, $503,000 in 2001 and $324,000 in 2000.

Freight, Delivery and Warehousing Expense

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

Inventories

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

Long-lived Assets

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

Property, Plant and Equipment and Depreciation

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

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Foreign Currency Translation

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

The effect of foreign currency exchange gains and losses on transactions that are denominated in currencies other that the entity s functional currency are remeasured into the functional currency using the end of the period exchange rates. The effects of remeasurement related to foreign currency transactions are included in current profit and loss accounts.

Fair Value of Financial Instruments

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

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

Income Taxes

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

Goodwill and Other Intangible Assets

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

value of the asset. As of January 1, 2002, the Company had an immaterial amount of goodwill and amortization related to the goodwill. As such, the adoption of SFAS 142, did not have a material impact on the Company s financial statements.

Risk Factors

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 slightly 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 reduce our revenues and profitability. There can be no assurance that the Company will adequately address any adverse seasonal effects. The inability to effectively address adverse seasonal effects could have a material adverse effect on the Company s financial and operating results.

The industry in which the Company does business is extremely competitive and its business may suffer if the Company is unable to compete effectively.

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. The Company faces competition from many domestic and foreign manufacturers, marketers and distributors participating in its marketplace. Competition in the marketplace is based primarily on efficacy, price, safety and ease of application. Many of the Company s competitors are larger and have substantially greater financial and technical resources. The Company s ability to compete depends on its ability to develop additional applications for its current

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products, and to expand its product lines and customer base. The Company competes principally on the basis of the quality of its products, and the technical service and support given to its customers. There can be no assurance that the Company will compete successfully with existing competitors or with any new competitors.

If the Company is unable to successfully position itself in smaller niche markets, its business may be adversely affected.

The Company has attempted to position itself in smaller niche markets that have been or are being abandoned by larger chemical companies. These types of markets tend not to attract larger chemical companies due to the smaller volume demand. As a result, larger chemical companies have been divesting themselves of products that fall into such smaller niche markets. These smaller niche markets require significant and intensive management input and ongoing product research and are near product maturity. There can be no assurance that the Company will be successful in these smaller niche markets or, if it is successful in one or more niche markets, that it will continue to be successful in such niche markets.

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 United States Environmental Protection Agency (U.S. EPA) registration and re-registration requirements, and are conditionally registered in accordance with the Federal Insecticide, Fungicide and Rodenticide Act (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. Under FIFRA, the federal government requires registrants to submit a wide range of scientific data to support U.S. registrations. This requirement has significantly increased the Company s operating expenses in such areas as testing and the production of new products. The Company expects such increases to continue in the future. Because scientific analyses are constantly improving, it cannot be determined with certainty whether or not new or additional tests may be required by regulatory authorities. Responding to such requirements may cause delays in the sales of our products which delays would adversely affect our profitability. 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 U.S. EPA, there can be no assurance the EPA will not request certain tests or studies be repeated. In addition, more stringent legislation or requirements may 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.

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 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. EPA and other federal and state agencies have the authority to promulgate regulations that could have a material adverse impact on the Company s operations. The Company expends substantial funds to minimize the discharge of materials in the environment and to comply with governmental regulations relating to protection of the environment. 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. The Company s

inability to comply with such laws and regulations or a claim for environmental liability could have a material adverse effect on its financial and operating results.

The Company s use of hazardous materials exposes it to potential liabilities.

The Company s development and manufacturing of chemical products involve the controlled use of hazardous materials. 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.

The Company s business may give rise to product liability claims not covered by insurance or indemnity agreements.

The manufacturing, marketing, distribution and use of chemical products involve substantial risk of product liability claims. A successful product liability claim which is not insured may require the Company to pay substantial amounts of damages. In the event that such damages are paid, it could have a material adverse effect on the Company s financial and operating results.

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

The Company is currently involved in certain legal and regulatory proceedings, as described above. The Company has and will continue to expend resources and incur expenses in connection with these proceedings. There can be no assurance that the Company will be successful in these proceedings. An adverse determination in one or more of these proceedings could subject the Company to significant liabilities, which could have a material adverse effect on its financial and operating results.

The Company s future success will depend on its ability to develop additional applications for its products, and to expand its product lines and customer base.

The Company s success will depend, in part, on its ability to develop additional applications for its products, and to expand its product lines and customer base in a highly competitive market. There can be no assurance that the Company will be successful in adequately addressing these development needs on a timely basis or that, if these developments are addressed, the Company will be successful in the marketplace. In addition, there can be no assurance that products or technologies (e.g., genetic engineering) developed by others will not render the Company s products noncompetitive or obsolete. The Company s failure to address these developments could have a material adverse effect on its financial and operating results.

The Company faces risks related to acquisitions of businesses and product lines.

The Company has expanded and intends to continue to expand its operations through the acquisition of additional businesses and product lines. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or product lines, or successfully integrate any acquired businesses or product lines without substantial expenses, delays or other operational or financial problems. There is an increasing trend in selling mature product lines through a competitive bid process. As a result, we may not be the successful bidder for a desirable product, or, if successful, we may pay a higher price for such product than if there was no competitive bid process. Further, acquisitions may involve a number of special risks or effects, including diversion of management s attention, failure to retain key acquired personnel, unanticipated events or circumstances, minimum purchase quantities, legal liabilities and amortization of acquired intangible assets and other one-time or ongoing acquisition related expenses. Some or all of these special risks or effects could have a material adverse effect on the Company s financial and operating results. Client satisfaction or performance problems associated with a business or product line could have a material adverse impact on the Company s reputation. In addition, there can be no assurance that acquired businesses or product lines, if any, will achieve anticipated revenues and earnings. The Company s failure to manage its acquisition strategy successfully could have a material adverse effect on its financial and operating results.

The Company relies on intellectual property which 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. 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. The Company s inability to protect its proprietary rights could have a material adverse effect on its financial and operating results.

Further, the Company can provide no assurance that its 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 which is the subject of asserted infringement. Any such claims could have a material adverse effect on the Company s financial and operating results.

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, particularly Eric G. Wintemute, its President and Chief Executive Officer. Although Mr. Wintemute has entered into an employment agreement with the Company, this does not guarantee that he will continue his employment. The loss of the services of Mr. Wintemute or other executive officers could have a material adverse effect upon its financial and operating results.

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Concentration of ownership among the Company s Co-Chairmen of the Board of Directors may prevent new investors from influencing significant corporate decisions.

As of March 21, 2003, Herbert A. Kraft and Glenn A. Wintemute, the Company s Co-Chairmen of the Board of Directors, beneficially owned approximately 17% and 12%, respectively, of the Company s common stock. These stockholders as a group will be able to influence substantially the Company s Board of Directors and thus its management and affairs. If acting together, they would be able to influence most matters requiring the approval by the Company s stockholders, including the election of directors, any merger, consolidation or sale of all or substantially all of the Company s assets and any other significant corporate transaction. The concentration of ownership may also delay or prevent a change in control if opposed by these stockholders irrespective of whether the proposed transaction is at a premium price or otherwise beneficial to the Company s stockholders as a whole.

The Company s stock price may be volatile and an investment in the Company s stock could decline in value.

The market prices for securities of companies in the Company s industries have been highly volatile and may continue to be highly volatile in the future. Often this volatility is unrelated to operating performance of a company.

Other.

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 payers that 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.

This prospectus and the documents it incorporates by reference contain forward-looking statements. Forward-looking statements relate to future periods and include descriptions of our plans, objectives, and underlying assumptions for future operations, our market opportunities, our acquisition opportunities, and our ability to compete. Generally, may, could, will, would, expect, believe, estimate, anticipate, inte and similar words identify forward-looking statements. Forward-looking statements are based on our current expectations and are subject to risks and uncertainties that can cause actual results to differ materially. For information on these risks and uncertainties, see the Risk Factors beginning on page 4. We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this prospectus. Forward-looking statements are made only as of the date of this prospectus. We do not intend, and undertake no obligation, to update these forward-looking statements.

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PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Index to Consolidated Financial Statements and Supplementary Data:

Description	Page No.
Report of Independent Certified Public Accountants	20
Financial Statements:	
Consolidated Balance Sheets as of December 31, 2002 and 2001	21
Consolidated Statements of Income for the Years Ended December 31, 2002, 2001, and 2000	22
Consolidated Statements of Stockholders Equity and Comprehensive Income for the Years Ended December 31, 2002, 2001 and 2000	23
Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001, and 2000	24
Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements	26

(2) Exhibits:

The exhibits listed on the accompanying Index To Exhibits, page __ are filed as part of this annual report.

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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	By:	/s/ JAMES A. BARRY
	Eric G. Wintemute		James A. Barry
	President, Chief Executive Officer		Senior Vice President, Chief Financial Officer,
	and Director		Secretary/Treasurer and Director
	January 27, 2004		January 27, 2004

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

	2002	2001
Assets (note 3)		
Current assets:		
Cash	$ 3,274,600	$ 853,000
Receivables:		
Trade	16,975,000	16,885,400
Other	219,200	229,200
	17,194,200	17,114,600
Inventories	21,227,700	24,029,800
Prepaid expenses	870,300	1,145,900
Deferred tax asset (note 4)	289,200	1,231,700
Income tax benefit (note 4)	918,400	-0-
Total current assets	43,774,400	44,375,000
Property, plant and equipment, net (note 1)	19,983,700	13,398,000
Land held for development	210,800	210,800
Intangible assets	10,877,900	10,049,500
Other assets	601,400	531,600
	$ 75,448,200	$ 68,564,900
Liabilities and Stockholders Equity		
Current liabilities:		
Current installments of long-term debt (note 2)	$ 1,948,500	$ 701,800
Accounts payable	5,159,100	9,400,300
Accrued program costs	4,875,100	4,187,000
Accrued expenses and other payables	2,714,400	3,111,700
Accrued royalty obligations (note 9 and 10)	1,214,500	873,300
Income taxes payable	-0-	723,100
Total current liabilities	15,911,600	18,997,200
Long-term debt, excluding current installments (note 2)	9,765,400	1,963,900
Note payable to bank (note 3)	8,000,000	12,200,000
Other long-term liabilities		83,300
Deferred income taxes (note 4)	1,527,900	1,362,200
Total liabilities	35,204,900	34,606,600
Commitments and contingent liabilities (notes 2, 3, 5, 6, 9 and 11)		

Stockholders equity: (note 15)		
Preferred stock, $.10 par value per share; authorized 400,000 shares; none issued		
Common stock, $.10 par value per share; authorized 10,000,000 shares; issued 6,357,034 shares in 2002 and 6,240,000 shares in 2001	635,700	624,000
Additional paid-in capital	9,494,800	9,005,400
Accumulated other comprehensive income	(272,300)	
Retained earnings	32,621,500	26,171,500
	42,479,700	35,800,900
Less treasury stock, at cost, 539,833 shares in 2002 and 508,963 shares in 2001	2,236,400	1,842,600
Total stockholders equity	40,243,300	33,958,300
	$ 75,448,200	$ 68,564,900

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

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Net sales (note 8)	$ 100,671,400	$ 83,127,900	$ 74,517,400
Cost of sales	56,795,800	45,196,400	41,406,400
Gross profit	43,875,600	37,931,500	33,111,000
Operating expenses (note 12)	31,996,100	28,326,000	24,495,600
Settlement (income)/expense (notes 6 & 13)		(296,400)	
Gain on sale of emission credits (note 14)		(465,500)	(212,800)
Operating income	11,879,500	10,367,400	8,828,200
Interest expense	972,800	1,363,000	1,681,500
Interest income	(24,600)	(18,900)	(38,600)
Interest capitalized	(346,800)		
Income before income taxes	11,278,100	9,023,300	7,185,300
Income taxes (note 4)	4,229,300	3,383,700	2,874,100
Net income	$ 7,048,800	$ 5,639,600	$ 4,311,200
Earnings per common share (note 16)	$ 1.22	$ .98	$ .73
Earnings per common share assuming dilution (note 16)	$ 1.16	$ .95	$ .72
Weighted average shares outstanding (note 16)	5,780,201	5,736,876	5,918,064
Weighted average shares outstanding assuming dilution	6,061,190	5,913,900	6,016,206

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

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years ended December 31, 2002, 2001 and 2000

	Common Stock				Accumulated		Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Comprehensive Income	Shares	Amount	Total
Balance, January 1, 2000	5,128,000	$ 512,800	$ 3,622,600	$ 22,520,200	$	$	256,500	$ (686,700)	$ 25,968,900
Common stock dividend	514,000	51,400	1,971,300	(2,022,700)					
Cash dividends on common stock ($0.076 per share)				(454,100)					(454,100)
Treasury stock acquired							146,727	(569,600)	(569,600)
Stock options exercised	12,000	1,200	30,000						31,200
Net income				4,311,200		4,311,200			4,311,200
Total comprehensive income						4,311,200			
Balance, December 31, 2000	5,654,000	565,400	5,623,900	24,354,600			403,227	(1,256,300)	29,287,600
Common stock dividend 10%	566,000	56,600	3,306,700	(3,363,300)					
Cash dividends on common stock ($0.08 per share)				(459,400)					(459,400)
Treasury stock acquired							105,736	(586,300)	(586,300)
Stock options exercised	20,000	2,000	74,800						76,800
Net income				5,639,600		5,639,600			5,639,600
Total comprehensive income						5,639,600			
Balance, December 31, 2001	6,240,000	624,000	9,005,400	26,171,500			508,963	(1,842,600)	33,958,300
Stocks issued under ESPP	24,441	2,400	171,200						173,600
Cash dividends on common stock ($0.103 per share)				(598,800)					(598,800)
Foreign currency translation adjustment, net					(272,300)	(272,300)			(272,300)
Treasury stock acquired							30,870	(393,800)	(393,800)
Stock options exercised	92,593	9,300	318,200						327,500
Net income				7,048,800		7,048,800			7,048,800
Total comprehensive income						$ 6,776,500			

Balance, December 31, 2002	6,357,034	$ 635,700	$ 9,494,800	$ 32,621,500	$ (272,300)		539,833	$ (2,236,400)	$ 40,243,300

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, 2002, 2001 and 2000

	2002	2001	2000
Increase (decrease) in cash			
Cash flows from operating activities:			
Net income	$ 7,048,800	$ 5,639,600	4,311,200
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization of property, plant and equipment	1,392,200	1,209,100	2,022,900
Amortization of other assets	945,200	934,700	926,300
Deferred income taxes	1,108,200	(715,200)	(731,000)
Changes in assets and liabilities associated with operations:			
(Increase) decrease in receivables	(79,600)	5,735,100	(6,896,700)
Decrease (increase) in inventories	2,802,100	(2,827,000)	(4,452,900)
(Increase) decrease in prepaid expenses	275,600	(381,700)	55,400
Increase (decrease) in accounts payable	(4,241,200)	2,486,700	3,967,300
Increase (decrease) in other payables and accrued expenses	(1,092,800)	2,725,900	(567,100)
Net cash provided by used in operating activities	8,158,500	14,807,200	(1,364,600)
Cash flows from investing activities:			
Capital expenditures	(7,977,900)	(5,594,300)	(521,500)
Increase in intangible assets	(1,773,600)	(268,700)	(1,450,000)
Other noncurrent assets	(69,800)	(126,300)	184,500
Net cash used in investing activities	(9,821,300)	(5,989,300)	(1,787,000)

(Continued)

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	2002	2001	2000
Increase (decrease) in cash			
Cash flows from financing activities:			
Net (repayments) borrowings under line of credit agreement	$ (4,200,000)	$ (3,600,000)	$ 5,700,000
Proceeds from issuance of long-term debt	10,000,000		
Payments on long-term debt and capital lease obligations	(951,800)	(3,757,000)	(1,745,100)
Exercise of common stock options	501,100	76,800	31,200
Purchase of treasury stock	(393,800)	(586,300)	(569,400)
Payment of cash dividends	(598,800)	(459,400)	(454,300)
Net cash provided by (used in) financing activities	4,356,700	(8,325,900)	2,962,400
Net increase (decrease) in cash	2,693,900	492,000	(189,200)
Cash at beginning of year	853,000	361,000	550,200
Effect of exchange rate changes on cash	(272,300)		
Cash at end of year	$ 3,274,600	$ 853,000	$ 361,000
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 878,600	$ 1,334,300	$ 1,380,100
Income taxes	$ 4,730,900	$ 4,491,800	$ 3,590,000

Supplemental schedule of non-cash investing and financing activities:

On April 12, 2002, the Company distributed 957,008 shares of common stock in connection with a 4 for 3 stock split to stockholders of record as of March 29, 2002.

On April 13, 2001, the Company distributed 377,156 shares of Common Stock in connection with a 10% Common Stock dividend to stockholders of record as of March 30, 2001.

On April 14, 2000, the Company distributed 342,476 shares of Common Stock in connection with a 10% Common Stock dividend to stockholders of record as of March 31, 2000.

During the year ended December 31, 2000, the Company completed the acquisition of two established product lines from two large chemical manufacturers. In connection with these acquisitions, the Company recorded intangible assets in the amount of $1,450,000 and a corresponding debt obligation in the same amount (See note 10).

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

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Consolidation

The Company is primarily a specialty chemical manufacturer that develops and markets safe and effective products for agricultural and commercial uses. The Company manufacturers and formulates chemicals for crops, human and animal protection. The consolidated financial statements include the accounts of American Vanguard Corporation (Company) and its subsidiaries AMVAC Chemical Corporation (AMVAC), GemChem, Inc. (GemChem), 2110 Davie Corporation (DAVIE), AMVAC Chemical UK Ltd., (Chemical UK) and Quimica Amvac de Mexico S.A. de C.V. (Quimica Amvac), and Environmental Mediation, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company operates within a single operating segment.

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.

Because of elements inherent to the Company s business, such as differing and unpredictable weather patterns, crop growing cycles, changes in product mix of sales 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.

Advertising Expense

The Company expenses advertising costs in the period incurred. Advertising expenses, which include promotional costs, is recognized in operating costs (specifically in selling expenses) in the consolidated statements of income and was $570,000 in 2002, $503,000 in 2001 and $324,000 in 2000.

Freight, Delivery and Warehousing Expense

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

Inventories

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

The components of inventories consist of the following:

	2002	2001
Finished products	$ 18,589,100	$ 19,404,900
Raw materials	2,638,600	4,624,900
	$ 21,227,700	$ 24,029,800

Long-lived Assets

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

Revenue Recognition

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

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Programs

Effective January 1, 2002, the Company adopted Emerging Issues Task Force Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products* (EITF 01-9). Upon adoption of EITF 01-9, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified certain of these payments as operating expenses in the consolidated statement of income. The amounts reclassified resulted in a reduction of net sales (and an offsetting reduction of operating expenses) of $3,649,100 in 2002, $3,888,600 in 2001 and $3,462,300 in 2000. Additionally, the Company engages in various customer programs. The Company accounts for these programs as operating expenses in accordance with EITF 01-9 as the Company receives an identifiable benefit in exchange for the consideration. Amounts charged to operating expenses were $2,222,000 in 2002, $1,760,500 in 2001 and $727,000 in 2000.

Property, Plant and Equipment and Depreciation

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

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

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

The effect of foreign currency exchange gains and losses on transactions that are denominated in currencies other than the entity s functional currency are remeasured into the functional currency using the end of the period exchange rates. The effects remeasurement related to foreign currency transactions are included in current profit and loss accounts.

The Company had total comprehensive income of $6,776,500, $5,639,600 and $4,311,200, for the years ended December 31, 2002, 2001 and 2000, respectively, which include foreign currency losses of $272,300, $0 and $0, for the years ended December 31, 2002, 2001 and 2000, respectively.

Fair Value of Financial Instruments

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

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

Income Taxes

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

Per Share Information

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

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

	2002	2001	2000
Numerator:			
Net income	$ 7,048,800	$ 5,639,600	$ 4,311,200
Denominator:			
Weighted averages shares outstanding	5,780,201	5,736,876	5,918,064
Assumed exercise of stock options	280,989	177,024	98,142
	6,061,190	5,913,900	6,016,206

The effect of options to purchase 56,250, 207,000, and 30,250 shares for the years ended December 31, 2002, 2001, and 2000, were excluded from the computation of earnings per dilutive share. The impact of such common stock equivalents are excluded from the calculation of net income per share on a diluted basis as their effect is anti-dilutive.

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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.

Goodwill and Other Intangible Assets

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

Recent Accounting Pronouncements

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

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

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock Based Compensation an Amendment of SFAS No. 123* (SFAS 148). This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company will retain the intrinsic method of accounting for stock based awards granted to employees.

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

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

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AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2002, 2001 and 2000

(1) Property, Plant and Equipment

Property, plant and equipment at December 31, 2002 and 2001 consists of the following:

	2002	2001	Estimated useful lives
Land	$ 2,441,400	$ 2,441,400	
Buildings and improvements	4,791,700	4,776,700	10 to 30 years
Machinery and equipment	25,922,200	24,626,600	3 to 15 years
Office furniture, fixtures and equipment	2,537,500	2,295,900	3 to 10 years
Automotive equipment	124,000	150,900	3 to 6 years
Construction in progress	11,154,600	4,892,500	
	46,971,400	39,184,000	
Less accumulated depreciation	26,987,700	25,786,000	
	$ 19,983,700	$ 13,398,000	

The Company began the re-commissioning phase during the third quarter of 2001 of the Axis, Alabama manufacturing facility it acquired in May 2001 from E.I. Du Pont de Nemours. Most of the re-commissioning was completed during the latter part of 2002 with the final re-commissioning expected to take place in the early part of 2003. As of December 31, 2002, $10, 150,200 of the $11,154,600 appearing in Construction in progress relates to the re-commissioning of the Axis, Alabama manufacturing facility.

(2) Long-Term Debt

Long-term debt of the Company at December 31, 2002 and 2001 is summarized as follows:

	2002	2001
Note payable, secured by certain real property, payable in monthly installments of $6,125, plus interest at prime (4.25% as of December 31, 2002) plus 2% with remaining unpaid principal	$ 1,463,900	$ 1,537,400

due October 15, 2004		
Term loan, secured by personal property, payable in quarterly installments of $625,000 plus interest at prime (4.25% as of December 31, 2002) with remaining unpaid principal due May 31, 2007 (see note 3)	10,000,000	
Obligations under product acquisition agreements (see note 10)	250,000	900,000
Obligations under capitalized leases (see note 5)		228,300
	11,713,900	2,665,700
Less current installments	1,948,500	701,800
	$ 9,765,400	$ 1,963,900

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

2003	$ 1,948,500
2004	4,140,400
2005	2,500,000
2006	2,500,000
2007	625,000
	$ 11,713,900

AMERICAN VANGUARD CORPORATION

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Note Payable to Bank

In May 2002, the Company entered into a new $45,000,000 fully-secured long-term credit agreement. The Company s primary bank (the Bank) acted as sole administrative agent arranger and syndication agent. The bank syndicated the new credit facility with another bank. The $45,000,000 credit facility consists of a senior secured revolving line of credit of $35,000,000 and a $10,000,000 senior secured term loan (see note 2). The borrowings under the credit agreement bear interest at the prime (4.25% as of December 31, 2002) rate (Referenced Loans), or at the Company s option, at a fixed rate of interest offered by the bank (Fixed Loans) for terms of one, two, three, six, nine or twelve months. Interest on the referenced loans is payable quarterly, in arrears, on the last day of each March, June, September, and December, and on the maturity date of such loan, in the amount of interest then accrued but unpaid. The senior secured revolving line of credit matures on May 31, 2005.

Interest on the fixed loans is payable on the last day of the interest period, provided that, with an interest period longer than three months, interest is payable on the last day of each three-month period after the commencement of such interest period. The term loan matures on May 31, 2007. The principal payments of the term loan are payable in equal quarterly installments of $625,000 each, on or before the last business day of each February, May, August and November, commencing May 31, 2003 and in one final installment in the amount necessary to repay the remaining outstanding principal balance of the term loan in full on the maturity date. (see note 2)

Substantially all of the Company s assets not otherwise specifically pledged as collateral on existing loans and capital leases are pledged as collateral under the credit agreement.

The credit agreement, among other financial covenants, limits payments of cash dividends to a maximum of 25% of net income. The Company was in compliance with the financial covenants as of December 31, 2002.

The balance outstanding at December 31, 2002 and 2001 was $8,000,000 and $12,200,000 respectively. The average amount outstanding during the years ended December 31, 2002 and 2001 was $14,023,000 and $16,118,600. The weighted average interest rate during the years ended December 31, 2002 and 2001 was 4.11% and 6.89%.

(4) Income Taxes

The components of income tax expense are:

	2002	2001	2000
Current:			
Federal	$ 2,845,800	$ 3,758,200	$ 3,132,500
State	282,400	340,700	472,600
Deferred:			
Federal	963,600	(617,600)	(650,700)
State	137,500	(97,600)	(80,300)
	$ 4,229,300	$ 3,383,700	$ 2,874,100

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before income tax expense as a result of the following:

	2002	2001	2000
Computed tax provision at statutory Federal rates	$ 3,834,600	$ 3,067,900	$ 2,443,400
Increase (decrease) in taxes resulting from:			
State taxes, net of Federal income tax benefit	491,300	372,900	348,800
Nondeductible and other expenses	(6,400)	(9,800)	85,900
Benefit of tax credits	(90,200)	(47,300)	(4,000)
	$ 4,229,300	$ 3,383,700	$ 2,874,100

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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, 2002 and 2001 relate to the following:

	2002	2001
Current:		
Inventories	$ 289,200	$ 575,400
State income taxes	(235,200)	(66,300)
Accrued bonus		419,500
Vacation pay accrual	112,300	102,900
Imputed interest on royalty obligation	(113,500)	(125,400)
Accrued sales programs	230,000	230,000
Other	6,400	95,600
Net deferred tax asset	289,200	1,231,700
Non-Current:		
Plant and equipment, principally due to differences in depreciation and capitalized interest	(1,527,900)	(1,362,200)
Net deferred tax liability	(1,527,900)	(1,362,200)
Total net deferred tax liability	$ (1,238,700)	$ (130,500)

The Company believes it is more likely than not that the deferred tax assets above will be realized in the normal course of business.

The income tax benefit of $918,400 primarily relates to income taxes receivable from the state of California as a result of filing amended tax returns for the years ended December 31, 1995 through 1998. It is expected that the receivable will be received sometime during 2003.

(5) Leases

From time to time the Company leases certain manufacturing equipment, and office furniture, fixtures and equipment under long-term capital lease agreements.

Property, plant and equipment at December 31, 2002 and 2001 include the following leased property under capital leases by major classes:

	2002	2001
Machinery and equipment	$	$ 47,300
Office furniture, fixtures and equipment		1,237,500

		1,284,800
Less accumulated depreciation		847,600
	$	$ 437,200

As of December 31, 2002, the Company fulfilled all obligations under capital leases.

(6) Litigation and Environmental

DBCP LAWSUITS

A. Hawaii Matters

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 are: Dole Food Co., Dole Fresh Fruit, Dole Fresh Fruit International, Pineapple Growers Association of Hawaii, Shell Oil Company, Dow Chemical Company, Occidental Chemical Corporation, Standard Fruit Company, Standard Fruit & Steamship, Standard Fruit Company De Costa Rica, Standard Fruit company De Honduras, Chiquita Brands, Chiquita Brands International, Martrop Trading Corporation, and Del Monte Fresh Produce. The ten named Plaintiffs are citizens of four countries Guatemala, Costa Rica, Panama, and Equador. 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. For the last five years, the focus of the case has been on procedural issues. The defendants moved to dismiss under the doctrine of *forum non conveniens*. Under this doctrine, the foreign Plaintiffs would have to sue in their own countries rather than using the United States courts. The

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Plaintiffs wish to keep the cases in the United States and have them remanded to state court. The Plaintiffs also contend that the federal court does not have jurisdiction. In September 1998, the court granted defendants motion to dismiss based on the grounds of *forum non conveniens*. A number of conditions were imposed including consent to jurisdiction in the four foreign countries for the ten named Plaintiffs, use of discovery taken in the United States, the requirement that the Plaintiffs file suits in their home countries by December 9, 1998, and the agreement by defendants to pay any judgment, if any, that might be entered in the foreign countries. The court order also provided that the Plaintiffs could return to the United States if the foreign countries refused to accept jurisdiction. The court then dismissed the case on March 8, 1999. The Plaintiffs subsequently appealed to the Ninth Circuit Court of Appeal. Oral arguments were heard in the Ninth Circuit on August 9, 2000. The Ninth Circuit issued its decision on May 30, 2001, holding that the federal court did not have jurisdiction. A petition for writ of certiorari (a writ of a superior court to call up the records of an inferior court or quasi-judicial body) was filed in United States Supreme Court on October 5, 2001. As of December 31, 2002 and up to the present, the case is pending before the U.S. Supreme Court. Oral argument was held on January 22, 2003. A decision will not likely be issued for several months.

The Plaintiffs attorneys reported that the ten Plaintiffs filed suit in their home countries by December 9, 1998. The suit in Guatemala was served on AMVAC in March 2001, however no defendant has been required to answer. Suits in the other countries have not been served. No discovery has taken place on the individual claims of the Plaintiffs. However, AMVAC product did not reach two of the four countries involved. It is too early to provide any evaluation of the likelihood of an unfavorable outcome at this time. Likewise, it is too early to determine whether the Plaintiffs attorneys will attempt to include other banana workers as Plaintiffs in this case or somewhere else. Without such discovery, it is unknown whether any of the Plaintiffs was exposed to AMVAC s product or what statute of limitation defense may apply. The Company intends to continue to vigorously contest the cases.

B. Mississippi Matters

In May 1996, AMVAC was served with five complaints in which it is named as a Defendant. The complaints are entitled Edgar *Arroyo-Gonzalez v. Coahoma Chemical Co., In., et al, Amilcar Belteton-Rivera v. Coahoma Chemical Co., Inc., et al, Eulogio Garzon-Larreategui v. Coahoma Chemical Co., Inc., et al, Valentin Valdez v. Coahoma Chemical Co., Inc., et al and Carlos Nicanor Espinola-E v. Coahoma Chemical Co., Inc., et al*. Other named defendants are: Coahoma Chemical Co. Inc., Shell Oil Company, Dow Chemical Co., Occidental Chemical Co., Standard Fruit Co., Standard Fruit and Steamship Co., Dole Food Co., Inc., Dole Fresh Fruit Co., Chiquita Brands, Inc., Chiquita Brands International, Inc. and Del Monte Fresh Produce, N.A. 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 various Central American countries) exposure to DBCP while applying the product in their native countries. These cases have been 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 back to the trial court to determine if a stipulation which limited the Plaintiff s recovery to fifty thousand dollars was binding. If the stipulation is binding, that case will be remanded to state court. If the stipulation is not binding, that case will be dismissed along with the others, requiring the Plaintiffs to litigate in their native countries. No discovery has taken place on the individual claims of these Plaintiffs. However, AMVAC product was not used in at least two of the countries involved. Without discovery, it is unknown whether any of the Plaintiffs was exposed to the Company s product or what statute of limitation defense may apply. AMVAC intends to contest the cases vigorously. It is too early to provide an evaluation of the likelihood of an unfavorable outcome at this time.

C. Louisiana Matters

In November 1999, AMVAC was served with three complaints filed in the 29th 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 are: Dow Chemical Company, Occidental Chemical Corporation, Shell Oil Company, Standard Fruit, Dole Food, Chiquita Brands, Tela Railroad Company, Compania Palma Tica, and Del Monte Fresh Produce. These suits were filed in 1996, they were not served until November 1999. The complaints allege personal injuries from alleged

exposure to DBCP (punitive damages are also sought). The Plaintiffs are primarily from the countries of the Philippines, Costa Rica, Honduras, and Equador. In November 1999, the cases were removed to the United States District Court for the Eastern District of Louisiana. The Plaintiffs filed a motion to remand the cases back to the state court in December 1999. In February 2000, the Plaintiffs attorneys withdrew their motion to remand the cases to state court without prejudice, stating that they would wait for an appellate court determination on similar issues in the Mississippi and Texas cases. The cases remain in a holding pattern, pending resolution of various jurisdictional issues in the other banana workers suits. The early focus of these cases will be on procedural issues. Dow Chemical Company, Shell Oil Company and Occidental Chemical Corporation contend that the vast majority of these Plaintiffs were included in the settlement of some fifteen thousand Plaintiffs mentioned in *Delgado/Carcamo* below. In January 2002, the court requested clarification from the parties of the number of claims that have not been settle. In September 2002, the plaintiffs

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attorneys finally evaluated their list of plaintiffs who had settled previously. They agreed that the plaintiffs who settle with Dow, Shell, and Occidental were now only proceeding against the grower defendants. The plaintiffs who had not settled previously would continue with the suit against all defendants, including AMVAC. This process is currently pending. No discovery has taken place on the individual claims of the Plaintiffs. It is unknown whether any of the Plaintiffs claim exposure to AMVAC s product and whether their claims are barred by applicable statutes of limitation. AMVAC intends to contest the cases vigorously. It is too early to provide an evaluation of the likelihood of an unfavorable outcome at this time.

D. Texas Matters

These matters involve an earlier round of litigation by foreign banana workers. The complaints filed in the United States Court of Appeals, Fifth Circuit entitled *Franklin Rodriquez Delgado, et al., Jorge Colindres Carcamo, individually and on behalf of all other similarly situated, et al., Juan Ramon Valdez, et al., and Isae Carcamo v. Shell Oil Company, et al*. The complaints are for personal injuries from alleged exposure to DBCP. AMVAC was not sued by the Plaintiffs but was sued on a third party complaint by Dow Chemical Company. These cases were originally filed in various state courts in Texas and removed by the defendants to federal court. By order dated July 11, 1995, the United States District Court granted defendants motion to dismiss pursuant to the doctrine of *forum non conveniens*, requiring the Plaintiffs to sue in their native countries. The court required the defendants to consent to jurisdiction in the foreign countries along with other conditions. As AMVAC had not been sued by the Plaintiffs directly, it refused to consent to jurisdiction in the foreign countries for these Plaintiffs. In 1995, Dow Chemical Company dismissed its third party complaint against AMVAC without prejudice. Subsequently, Dow Chemical Company settled with these Plaintiffs as well as with about fifteen thousand other banana workers represented by the Plaintiffs law firm. Dow Chemical Company was then dismissed by the Plaintiffs with prejudice in September 1997. Two intervenors have filed a motion in opposition to this dismissal. The Plaintiffs appealed to the Fifth Circuit on the order of dismissal under *forum non conveniens*. In October 2000, the Fifth Circuit found federal court jurisdiction and affirmed the dismissals based on *forum non conveniens*. The United States Supreme Court refused to accept a hearing at that time. The Plaintiffs want the court to hear this case if it decides to hear the Patrickson Case. While AMVAC is not presently a party in this lawsuit having been dismissed without prejudice, the case is still pending, with the focus now shifted to the jurisdiction in the foreign countries.

E. Other Matters

The Company may be, from time to time, involved in other legal proceedings arising in the ordinary course of its business. The results of litigation cannot be predicted with certainty. The Company has and will continue to expend resources and incur expenses in connection with these proceedings. There can be no assurance that the Company will be successful in these proceedings. While the Company continually evaluates insurance levels for product liability, property damage and other potential areas of risk, an adverse determination in one or more of these proceedings could subject the Company to significant liabilities, which could have a material adverse effect on its financial condition and operating results.

Environmental

During 2002, AMVAC continued activities to address environmental issues associated with its facility (the Facility) in Commerce, California.

In March 1997, the California Environmental Protection Agency Department of Toxic Substances Control (DTSC) accepted the Facility into its Expedited Remedial Action Program (ERAP). Under this program, the Facility must prepare and implement an environmental investigation plan. Depending on the findings of the investigation, the Facility may also be required to develop and implement remedial measures to address any historical environmental impairment. The environmental investigation and any remediation activities related to ten underground storage

tanks at the Facility, which had been closed in 1995, will also be addressed by AMVAC under ERAP.

Soil and groundwater characterization activities began in December 2002 in accordance with the Site Investigation Plan that was approved by the DTSC. Investigation and potential remediation activities are planned to be implemented in a phased approach over the next one to two years under the oversight of the DTSC. These investigation and potential remediation activities are required at all facilities that currently have, or in the past had, hazardous waste storage permits. Because AMVAC previously held a hazardous waste management permit, AMVAC is subject to these requirements.

The Company is subject to numerous federal and state laws and governmental regulations concerning environmental matters and employee health and safety at the Commerce, California and Axis, Alabama facilities. The Company continually adapts its manufacturing process to the environmental control standards of the various regulatory agencies. The U.S. EPA and other federal and state agencies have the authority to promulgate regulations that could have an impact on the Company s operations.

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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. Federal and state authorities may seek fines and penalties for violation of the various laws and governmental regulations. As part of its continuing environmental program, except as disclosed in PART I, Item 3, Legal Proceedings, of this Annual Report, the Company has been able to comply with such proceedings and orders without any materially adverse effect on its business.

(7) Employee Deferred Compensation 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) whereby the Company will match the first $5.00 of weekly employee contributions. The Plan also permits employees to contribute up to an additional 15% of their salaries of which the company will match 50% of the first 6% of the additional contribution. The Company s contributions to the Plan amounted to $300,900, $295,400 and $300,800 in 2002, 2001 and 2000.

(8) Major Customers and Export Sales

In 2002 there were three companies that accounted for 22%, 12% and 10% of the Company s consolidated sales. In 2001 one company accounted for 23% of the Company s consolidated sales. In 2000 there were three companies that accounted for 24%, 13% and 11% of the Company s consolidated sales. These companies are distributors or buying cooperatives.

Worldwide export sales were $7,469,900, $6,086,600 and $6,210,200 for 2002, 2001 and 2000. Of total foreign sales, sales to Mexico and Canada accounted for more than 10% individually. For the years ended December 31, 2002, 2001 and 2000 sales to Mexico were $2,148,900, $1,445,200, and $849,600. Sales to Canada for the same periods were $1,210,200, $1,398,800 and $1,480,700.

(9) Royalties

The Company has various royalty agreements in place extending through December 2007, some of which relate to the Company s acquisition of certain products. Royalty expenses were $1,751,800, $1,293,200 and $1,069,300 for 2002, 2001 and 2000.

(10) Product Acquisitions

In 2002, the Company acquired certain assets associated with a domestic product line from a chemical company. The Company acquired all U.S. EPA end-use product registrations and data in support of such registrations as well as a license to the trademark.

Also in 2002, the Company acquired certain assets associated with a domestic product line from a chemical company. The Company acquired the U.S. EPA end-use product registrations as well as the trademark and product inventories. In addition, the Company negotiated a supply agreement providing for the supply of active ingredient. Access to data in support of the end-use product registration has been assigned to the Company.

In 2001, the Company acquired an international product line from a chemical company. The purchase included all active registrations, access to the underlying data for the registrations and trademarks in 55 countries. The Company has manufactured and formulated the product for the international market since 1985. Additionally, the Company has been the primary data generator and data holder for the product since 1989. The acquisition was for a fixed amount which was paid in 2001.

In 2000, the Company completed the acquisition of a product line from a wholly-owned subsidiary of a large chemical company. The purchase included the worldwide rights including U. S. Environmental Protection Agency (EPA) registrations rights and similar regulatory entities in other countries worldwide, manufacturing and process technology, trademarks and all product related intellectual property. In addition, the Company entered into a royalty obligation commencing on or about May 2002 to continue for five years from May 2002.

Additionally in 2000, the Company completed the acquisition of a product line from a large chemical company. The Company acquired all U.S. EPA and state registrations, manufacturing and process technology, trademarks and all product related

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intellectual property. The acquisition included all rights and obligations to a closed delivery system as well as the seller s existing finished and semi-finished inventory including the closed delivery system containers.

The following schedule represents intangible assets recognized in connection with product acquisitions (See note 1 for the Company s accounting policy regarding intangible assets):

	Amount
Intangible assets at December 31, 1999	$ 10,086,400
Acquisitions during fiscal 2000	1,450,000
Amortization expense	(879,300)
Intangible assets at December 31, 2000	10,657,100
Acquisitions during fiscal 2001	268,700
Amortization expense	(876,300)
Intangible assets at December 31, 2001	10,049,500
Acquisitions during fiscal 2002	1,773,600
Amortization expense	(945,200)
Intangible assets at December 31, 2002	$ 10,877,900

The following schedule represents the gross carrying amount and accumulated amortization of the intangible assets recognized in connection with product acquisitions. Intangible assets are amortized over their expected useful lives of 15 years:

	2002	2001
Gross carrying amount	$ 14,064,400	$ 12,290,800
Accumulated amortization	(3,186,500)	(2,241,300)
	$ 10,877,900	$ 10,049,500

The following schedule represents future amortization charges related to intangible assets recognized in connection with product acquisitions:

Year ending December 31,	
2003	$ 994,500
2004	994,500
2005	994,500
2006	994,500
2007	994,500

Thereafter	5,905,400
	$ 10,877,900

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

	Amount
Obligations under acquisition agreements at December 31, 1999	$ 5,658,900
Additional obligations acquired	1,450,000
Payments on existing obligations	(2,905,800)
Obligations under acquisition agreements at December 31, 2000	4,203,100
Additional obligations acquired	421,900
Payments on existing obligations	(3,725,000)
Obligations under acquisition agreements at December 31, 2001	900,000
Additional obligations acquired	
Payments on existing obligations	(650,000)
Obligations under acquisition agreements at December 31, 2002	$ 250,000

Future commitments on obligations under product acquisition agreements are due as follows:

December 31	Amount
2004	$ 250,000

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(11) Commitments

The Company entered into an employment agreement with an officer which commenced January 15, 1999 with an original expiration date of January 15, 2003. The Company entered into a new employment agreement on January 15, 2003 which expires on December 31, 2007. The employment agreement provides for fixed minimum salary levels for each year of the agreement through January 15, 2007. The annual increases for the years ending January 15, 2005 and 2006 shall not be less than the increase in an agreed upon cost of living index. Amounts to be paid under the employment agreement are summarized as follows:

Year ending December 31,	
2003	$ 435,000
2004	435,000
2005	435,000
2006	435,000
2007	435,000
	$ 2,175,000

In November 1999, the Company entered into an operating lease for its corporate headquarters expiring October 2004. The Company also maintains a lease on a regional sales office expiring January 2004. These leases contain a provision to pass through to the Company the Company s pro-rata share of the building s operating expenses. Rent expense for the years ended December 31, 2002, 2001 and 2000 was $322,400 $298,100 and $273,400. Future minimum lease payments under the terms of the leases are as follows:

Year ending December 31,	
2003	$ 338,000
2004	268,900
	$ 606,900

In May 2001, the Company entered into a long term lease agreement with E.I. DuPont de Nemours and Company (DuPont) associated with the acquisition of a manufacturing facility from DuPont. The lease is a long term ground lease of twenty-five acres in Axis, Alabama. The lease term is twenty years beginning May 18, 2001, with up to five automatic renewals of three years each for a total of thirty-five years. The lease payment consists of a minimum annual payment of $10,000. The Company must also pay an additional amount based on production volume at the leased premises until December 31, 2007.

(12) Research and Development

Research and development expenses were $2,939,600, $2,433,300 and $2,555,200 for the years ended December 31, 2002, 2001 and 2000.

(13) Settlement(s)

The Company settled negotiations with an insurance carrier related to the recovery of certain costs pertaining to the completed remediation work of a railroad siding which resulted in a net gain before taxes of $208,300 in 2001. The Company also settled a dispute over date compensation which resulted in a net gain before taxes of $88,100 in 2001.

(14) Gain on Sale of Emission Credits

In 1986, the Company constructed an incinerator to destroy a waste gas that had been previously discharged into the atmosphere pursuant to an air permit. By reducing this emission, the Company was entitled to transfer a portion of its emission credits to others. The Company recognized a net gain before taxes of $465,500 in 2001 and $212,800 in 2000 as a result of sales of a portion of its credits.

(15) Stock Options

Incentive Stock Option Plans (ISOP)

Under the terms of the Company s ISOP, under which options to purchase 580,500 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 from the date of the grant.

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During 2002 and 2001, the Company granted incentive stock options to purchase an aggregate of 11,250 and 207,006 shares of common stock to key employees. These options are non-assignable and non-transferable, are exercisable over a seven-year period from the date of grant and vest in five equal annual installments commencing one year from the date of grant.

Nonstatutory Stock Options (NSSO)

During 2002 and 2001, the Company granted nonstatutory stock options to purchase an aggregate of 7,261 and 5,499 shares of common stock to three individuals. These options are non-assignable and non-transferable, are exercisable over a five year period from the date of grant and vested upon grant.

Option activity within each plan is as follows:

	Incentive Stock Option Plans	Non-Statutory Stock Options	Weighted Average Price Per Share
Balance outstanding, December 31, 1999	277,775	4,781	$ 2.71
Options granted, $3.69		14,300	$ 3.69
Balance outstanding, December 31, 2000	277,775	19,081	$ 2.73
Options granted, range from $6.88-$7.05	207,006	5,499	$ 7.05
Options exercised, range from $2.89-$6.88	(3,900)	(9,750)	$ (3.86)
Balance outstanding, December 31, 2001	480,881	14,830	$ 4.58
Options granted, range from $12.10-$12.77	11,250	7,261	$ 12.51
Options exercised, range from $3.05-$12.10	(86,231)	(6,362)	$ (3.22)
Balance outstanding, December 31, 2002	405,900	15,729	$ 5.22

Information relating to stock options at December 31, 2002 summarized by exercise price is as follows:

	Outstanding Weighted Average			Exercisable Weighted Average	
Exercise Price Per Share	Shares	Life (Months)	Exercise Price	Shares	Exercise Price
Incentive Stock Option Plan:					
$2.15-$3.33	37,929	34	$ 2.55	151,715	$ 2.55
$7.05	164,005	68	$ 7.05	41,001	$ 7.05
$12.77	11,250	79	$ 12.77		$

	213,184	63	$ 6.55	192,716	$ 3.51
Nonstatutory Stock Options:					
$2.58-$3.69			$	8,469	$ 2.90
$6.88			$	2,420	$ 6.88
$12.10			$	4,840	$ 12.10
			$	15,729	$ 6.34

All stock options issued to employees have an exercise price not less than the fair market value of the Company s common stock on the date of the grant, and in accordance with accounting for such options utilizing the intrinsic value method there is no related compensation expense recorded in the Company s consolidated financial statements. Had compensation cost for stock-based compensation been determined based on the fair value of the grant dates consistent with the method of FASB 123, the Company s net income and income per share for the years ended December 31, 2002, 2001 and 2000 would have been adjusted to the pro forma amounts presented:

	2002	2001	2000
Net income attributable to common stockholders	$ 7,048,800	$ 5,639,600	$ 4,311,200
Stock-based employee compensation expense included in reported net income, net of related tax effects	$ -0-	$ -0-	$ -0-
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (1,500)	$ (8,300)	
Pro forma	$ 7,047,300	$ 5,631,300	$ 4,311,200
Earnings per common share	$ 1.22	$ 0.98	$ 0.73
Pro forma	$ 1.22	$ 0.98	$ 0.73
Earnings per common share assuming dilution, as reported	$ 1.16	$ 0.95	$ 0.72
Pro forma	$ 1.16	$ 0.95	$ 0.72

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The fair value of option grants is estimated on the date of grant utilizing the Black-Scholes option-pricing model with the weighted average assumptions for grants in 2002, 2001 and 2000; expected life of options was one to five years, expected volatility of 7%, 6% and 12%, risk-free interest rate of 4.3%, 4.5% and 5.5% and a 0% dividend yield. The weighted average fair value on the date of grants for options granted during 2002 and 2001 was $5.22 and $4.58 per option, respectively.

(16) Subsequent Event Unaudited

In January 2003, the Company acquired all assets associated with a domestic product line from a chemical company. The Company acquired all U.S. EPA end-use product registrations, as well as the trademark and related intellectual property. In addition, the Company negotiated a supply agreement providing for the supply of active ingredient.

In February 2003, the Company acquired certain assets associated with five product lines from a competitor. The Company acquired all registrations and related intellectual property, inventories as well as an option to purchase real property related to the current manufacturing facility. In addition, the Company negotiated a supply agreement for the supply of finished product.

On March 19, 2003, the Company announced that the Board of Directors declared a cash dividend of $.13 per share ($.087 as adjusted for 3 for 2 stock split) as well as a 3 for 2 stock split. Both dividends will be distributed on April 11, 2003 to stockholders of record at the close of business on March 28, 2003. The cash dividend will be paid on the number of shares outstanding prior to the 3 for 2 stock split. Stockholders entitled to fractional shares resulting from the stock split will receive cash in lieu of such fractional share based on the closing price of the Company s stock on March 28, 2003. Accordingly, all weighted average share and per share amounts have been restated to reflect the stock split.

Presented below are the weighted average shares and earnings per share amounts for the years ended December 31, 2002, 2001 and 2000, had the 3 for 2 stock split not occurred:

	2002	2001	2000
Net income	$ 7,048,800	$ 5,639,600	$ 4,311,200
Earnings per common share	$ 1.83	$ 1.48	$ 1.09
Earnings per common share assuming dilution	$ 1.74	$ 1.43	$ 1.07
Weighted averages shares outstanding	3,853,467	3,824,584	3,945,376
Weighted averages shares outstanding assuming dilution	4,040,793	3,942,600	4,010,804

(17) Quarterly Data Unaudited

Quarterly Data 2002	March 31	June 30	September 30	December 31

Net sales	$ 19,018,000	$ 20,397,200	$ 29,841,400	$ 31,414,800
Gross profit	7,706,000	9,355,000	11,960,300	14,854,300
Net income	799,300	1,125,000	1,765,400	3,359,100
Basic net income per share	.14	.19	.31	.58
Diluted net income per share	.13	.18	.30	.55

Quarterly Data 2001

Net sales	$ 14,815,900	$ 18,556,600	$ 23,676,500	$ 26,078,900
Gross profit	5,753,500	7,895,400	10,436,800	13,845,800
Net income	597,700	818,900	1,484,500	2,738,500
Basic net income per share	.10	.14	.26	.48
Basic and diluted net income per share	.10	.14	.25	.46

INDEX TO EXHIBITS

ITEM 15

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23	Consent of BDO Seidman, LLP.	
31.1	Certifications Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certifications Pursuant to 18 U.S.C. Section 1350 as adopted 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.	